MAY 2013

Knight Frank Research Compass Report

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

Australia - Portfolio Sale

Mirvac has announced the acquisition of a select portfolio of office assets (seven in total) from GE Real Estate for a combined purchase price of $584 million (pre-costs), largely funded by a fully underwritten $400 million equity raising. Five of the assets are located within the "Alfred, Pitt, Dalley and George Streets (APDG)" precinct in the Sydney CBD ($183 million apportionment). 51 Pitt, 37 Pitt and 6-8 Underwood Streets are all part of the APDG Scheme, which benefits from alternative planning controls, particularly relating to massing, height and the transfer of floor space, which Mirvac will seek to benefit from. The other two Sydney assets (210 and 220 George Street) are adjacent to Mirvac's 190 George Street development. The remaining two assets in the portfolio are A-grade buildings in the Perth and Melbourne CBD's (Allendale Square, Perth and 90 Collins Street, Melbourne). 90 Collins Street ($170 million apportionment) includes a two year vendor rental guarantee on the current vacancy of 45%, while Allendale Square ($231 million apportionment) is arguably the best asset, albeit likely to need significant capex over the next few years. The total portfolio traded on an initial passing yield of 7.8% and a fully leased passing yield of 8.4%, with a WALE of 3.8 years (4.8 years excluding the Sydney development assets).

Sydney

Cromwell Property Group has agreed to purchase a portfolio of seven office assets from the NSW State Government for $405 million. The sale reflected an initial yield of 9.0% and an overall portfolio WALE of 10 years with 68% of the portfolio being leased to the NSW State Government. Three of the seven assets are located within the Sydney CBD, including Symantec House (207 Kent Street), Bligh House (4-6 Bligh Street) and the McKell Building (2-24 Rawson Place), and amount to a combined value of $316 million. The remaining four assets are located in the suburban/regional areas of Penrith, Wollongong, Queanbeyan and Newcastle, all sold with 15 year leasebacks. The purchase will be partly funded by an underwritten $250 million equity raising. The NSW Government will continue to look for opportunities to divest further assets.

National Pension Service (NPS) of South Korea has acquired GPT's 50% share in Erina Fair for $397.1 million. The 113,500m^2 Regional shopping centre is located on the NSW Central Coast and had an occupancy rate of 99.9% as at the end of 2012. The remaining stake in the asset is owned by Australian Prime Property Fund Retail (APPF) with the asset managed by Lend Lease. The divestment reduces GPT's retail weighting from 61% to 54% with the listed trust continuing to look at acquisition opportunities in the office, logistics and business park sectors.

Altis Property Partners has purchased the Norwest Quay building in Norwest Business Park for $32.5 million. The 10,780m^2 office building has been purchased on a reported passing yield of 10.7%. The sale is indicative of steadily improving sales volumes in suburban markets as a lack of suitable opportunities in core locations is resulting in improved buyer demand in non-CBD locations. Other suburban sales to occur include Quintessential Equity purchasing 166 Epping Road, Lane Cove for $12.7 million from BlackRock and an undisclosed offshore syndicate purchasing 414 Elizabeth Street, Surry Hills for $17.1 million from W Property. Unlike in the CBD and North Sydney, suburban office markets are yet to demonstrate material yield tightening, which has presented opportunities for investors prepared to look beyond traditional CBD boundaries.

Melbourne

Melbourne based PGA Group has purchased 99 William Street in the Melbourne CBD for $28.5 million from an offshore private investor, reflecting a passing yield of 7.35%. The 13-level office building comprises 6,987m^2 of net lettable area and 11 underground parking bays and is occupied by a range of tenants including McKenzie Group Consulting, CIMA and John Hopkins Group. The asset sold with a WALE of 3.23 years and was 94% leased at the time of sale. Formerly the HSBC Building, 99 William Street was completed in 1985, with the foyer most recently refurbished in 1998.

A Melbourne private investor has purchased 600 Chapel Street, South Yarra for $12.825 million on a passing yield of 4.6%. The 2-storey building is located on the corner of Chapel Street and Toorak Road and has been occupied by the National Australia Bank (NAB) since 1951. On the ground floor, NAB are entering their second year of an initial five-year term (5+5 year lease) with the first floor commercial office leased until 2014. The property possesses frontage of 38 metres to Chapel Street and Toorak Road, with a site area of 332m², which is zoned Business 1. The property was bought from NAB for $3.585 million in 1997 on a lease-back arrangement, equating to a compound annual growth rate of 8.3% to the vendor.

Brisbane

The Brisbane Fringe office market has continued to attract strong investment with the confirmation of two major transactions. Following completion of construction at 825 Ann Street, Fortitude Valley, Hines Global REIT have confirmed settlement on their turn-key purchase of the building. The newly completed 18,724m² building has been purchased for $124.67 million by the global fund. The building was sold with the office component fully leased with the major occupants being Ergon, Macquarie Bank and Laing O'Rourke (who was also the developer of the project). The building was sold with a WALE of 9.5 years and reflected a core market yield of 7.94%. Tenants such as Macquarie Bank and Laing O'Rourke have relocated from the Brisbane CBD to the Fringe market, and this trend is also visible in the other major transaction (refer below).

Following a pre-commitment by the Bank of Queensland to approximately 59% of the Gasometer 2 project at Newstead, this project has been sold by the developer FKP. The site has been purchased by a consortium of Charter Hall Core Plus Office Fund (CPOF) and Canadian based PSP Investments. Unlike the 825 Ann Street sale which was a turn-key arrangement with guarantees, Charter Hall will take on all development and leasing risk to complete the project. Construction of the 24,800m² Gasometer 2 is well underway with completion expected in late 2014.

Commercial purchasing activity has also continued outside of the major hubs with Benlee Property Trust No. 6 purchasing four suburban office assets in Eight Mile Plains, Brisbane for a combined $22.59 million. The four buildings encompass 10 Brandl Street, 36 Brandl Street, 69 Brandl Street and 7 Hi-Tech Court with a total net lettable area of 8,516m². The reported initial yield over the combined buildings was 10.13%. At the Gold Coast Alceon Group has purchased the Austar Building at 35 Robina Town Centre Drive, Robina from BlackRock Investment Management for $33 million. The 9,800m² modern office building is fully leased to Austar (a subsidiary of Foxtel) with 3.5 years remaining on the lease.

Perth

Perth based, Hawaiian Property Group has purchased the Melville Plaza Neighbourhood Shopping Centre at 380 Canning Highway, Bicton in the southern suburbs of Perth for $29 million. Purchased from Federation Centres (formerly Centro) as part of the wind-up of one of its property syndicates, the 8,964m² centre is anchored by a Coles Supermarket with 26 specialties, a "Plus Fitness" gym and approximately 500 car bays.

Chinese based Narada Hotel Group has acquired the Esplanade River Suites serviced apartments at 112 Melville Parade, Como in Perth's southern suburbs for $30.93 million. The four star hotel has been purchased from an interest associated with heiress Ms Marilyn New. This has continued the trend of Asian based hotel groups deploying capital into Australia, with recent examples including the Palazzo Versace Hotel on the Gold Coast (sold for $68.5 million) and Sydney's Shangri-La (sold for $352 million) acquired by Asian groups.

Global oil and gas company, Chevron Australia has signed a new lease over 28,500m² of space in the QV1 office tower at 250 St Georges Terrace in the Perth CBD for a 10-year term, commencing 1 January 2017. The office space has been leased from joint owners Investa Property Group and the Commonwealth Superannuation Corporation (managed by Eureka Funds Management) and will consolidate their occupation into one direct lease covering almost half of the total building NLA, after expanding into previously sub-let space in the building. This deal comes on the back of law firms Clayton Utz and Herbert Smith Freehills also signing new lease agreements, for seven and ten years respectively. The renewal by Chevron counters the previously rumoured move to the Elizabeth Quay development.

Adelaide

Specialist property fund manager, CorVal has purchased 45 Pirie Street in the Adelaide CBD for $87 million (settlement expected in June) from the Commonwealth Property Office Fund (CPA), reflecting a passing initial yield of 8.27%. The 18-level A-Grade office tower is located in the Core precinct of the Adelaide CBD, with a net lettable area of 19,857m² and a typical floor plate of 1,110m². Major tenants include the South Australian Government occupying 76% of the building (expiry August 2017) and Norman Waterhouse Lawyers occupying 11% (expiry September 2019). The building was 97% occupied, with a WALE of 4.2 years and after accounting for vacancies, capex and surplus land worth $2 million, the sale reflected an analysed core market yield of 8.76%.

A private syndicate has purchased 227-235 Unley Road, Malvern in Adelaide's southern suburbs for $5.085 million, reflecting an approximate passing yield of 8.2%. The architecturally designed 2-level retail and office building is located along one of Adelaide's premier commercial and retail precincts. With a net lettable area of 1,349m², the property is 100% leased to nine separate tenants, with on-site car parking for 22 vehicles.

Canberra

In a recent lease deal in Canberra Civic, Telstra has signed a new 12 year lease at 16-18 Mort Street at an undisclosed rent. The property, owned by the Investa Office Fund, will be refurbished before the 13,250m² is occupied, with commencement in September 2013. The property, known as Times Square, was previously home to the Australian Government Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE) which is relocating to three buildings on short term leases, namely SAP House, Bunda Street (5,879m²), 4 Mort Street (5,339m²) and 14 Mort Street (4,942m²).

The ACT Government, Land Development Agency has recently disposed of a number of land parcels across Canberra. These have included a 1,772m² mixed-use site at Block 67, Section 51 in Holt, which sold post auction to a local developer. The property sold conditional to offsite works being required by the purchaser to the value of $680,000. In Conder, Block 13, Section 229, a 3,842m² site sold to an owner occupier for $530,000. The permitted use for the site includes (but not limited to) child care, education, health function, indoor recreation and office. A former preschool facility (leasehold) on the corner of Coyne and Carson Streets, Macarthur changed hands at auction for $910,000 to a childcare operator. The property at Block 9 Section 398, was on a 4,741m² site and under the lease had a permitted use as a child care facility for not less than 60 places.

Auckland

Oracle New Zealand has signed an agreement to lease 1,720m² on the top floor of 162 Victoria Street West, in the western precinct of the Auckland CBD, from developer Mansons TCLM. The Oracle lease in the new four Green Star rated building follows the commitment by electronics payment provider Paymark, who are relocating from the ASB Building in Wellesley Street to level two of the building. The lease underlines the emergence of the western precinct as a high tech hub with multinational Information Technology companies such as Microsoft, IBM and HP also located in the precinct.

Christchurch

The Belfast Freezing Works, located on the northern fringe of Christchurch City, has sold to an Auckland based developer for NZ$10 million. Belfast sits adjacent to the main North Highway and the property was one of the original meat processing plants in the Canterbury region. Demolition will be undertaken over the next 12 months and the 24-hectare property will be re-positioned as Belfast Business Park. The new owners will complete a new subdivision, renovate existing cool-stores and market the land to developers or owner occupiers. It will be suitable for slightly heavier industrial uses and can expect to be well supported given the extent of new residential property coming on stream in the region.

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, New Zealand
+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

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

South Australia
Penny Davidson
Research Assistant
+61 8 8233 5246
Penny.Davidson@sa.knightfrankval.com

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