
# JUNE 2013

# Knight Frank Research Compass Report

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

## Australia – Major Portfolio Sales

**Federations Centres (ex Centro) and associated syndicates have announced another major co-ownership transaction for the sale of 50% interests in a portfolio of six shopping centres it owns and/or manages, via a $602 million partnership with Challenger.** The retail portfolio, consisting of two regional centres in NSW, three sub-regional centres in NSW, WA and Victoria and a neighbourhood centre in NSW, has reportedly been acquired by Challenger on behalf of the Abu Dhabi Investment Corporation, transacting on an overall passing yield of 7.42%. The assets are:

- Centro Bankstown in Sydney, a 85,799$m^2$ regional shopping centre, purchased from FDC;
- Centro Toormina on the NSW North Coast, a 21,331$m^2$ sub-regional shopping centre, purchased from FDC;
- Centro Roselands in Sydney, a 61,482$m^2$ regional shopping centre, purchased from Retail Direct Property (RDP) 21;
- Centro Karratha in north west WA, a 23,992$m^2$ sub-regional shopping centre, purchased from RDP 25;
- The Lennox Centre, Emu Plains in Sydney, a 9,759$m^2$ neighbourhood shopping centre, purchased from RDP 10; and
- Sunshine Marketplace in Melbourne, a 33,864$m^2$ sub-regional shopping centre, purchased from RDP 27.

This is the third major co-ownership agreement entered into over the past 12-13 months, following the $690.4 million joint venture announced in mid-2012 with Perron Group (three regional centres in WA, Victoria and SA) and the $371.4 million joint venture with ISPT announced early this year (four sub-regional centres in WA, Victoria and NSW and a convenience centre in WA). These transactions alone have released almost $1.7 billion worth of capital that FDC will use to retire further debt, as well as fund future re-development and acquisition opportunities.

**Denison Diversified Property Fund, an unlisted property fund managed by Denison Funds Management, has acquired a portfolio of six properties, being the remaining assets in the Aspen Diversified Property Fund for a total price of $76.5 million** The proceeds will be used to repay a senior debt facility with NAB of $45.7 million, a subordinated loan from Aspen Group of $8.6 million, with the balance returned to preference unitholders. The six assets are a mix of office, industrial and retail assets in NSW, Victoria and Queensland and the sale price equated to an 8.90% passing initial yield. The assets are:

- 80 Mount Street, North Sydney - office (6,289$m^2$);
- 2 Apollo Place, Lane Cove, NSW - office (3,995$m^2$);
- 3 Apollo Place, Lane Cove, NSW - office (3,471$m^2$);
- 5 Burra Place, Shellharbour, NSW- office/retail (2,988$m^2$);
- 60 Grindle Road, Wacol, QLD - industrial (9,020$m^2$); and
- 677 Springvale Road, Mulgrave, Victoria - industrial (12,409$m^2$)

## Sydney

**DLA Piper has leased 6,000$m^2$ of space at 1 Martin Place in the CBD from Charter Hall for a 10 year term. DLA Piper will relocate from 201 Elizabeth Street where they currently occupy approximately 8,000$m^2$.** Bartier Perry was another legal firm to sign a major new lease in the CBD, with the firm leasing 2,500$m^2$ of space at Westfield's recently completed development at 77 Castlereagh Street. The office space has also been leased for a 10 year term. Bartier Perry currently occupies around 1,900$m^2$ in the Piccadilly Tower at 133-145 Castlereagh Street.

**The 360 Capital Industrial Fund has purchased 457 Waterloo Road, Chullora for $17.2 million.** The refurbished office and warehouse facility has a lettable area of 6,051$m^2$ and is 100% leased to Elite Logistics Pty Limited on a 9.7 year lease expiring in February 2023. To help fund the acquisition, 360 Capital have launched a fully underwritten institutional placement to raise a minimum of $24.3 million. The funds will also be used to fund an additional acquisition in Victoria.

**The NSW 2013/14 state budget was handed down during the month and included funding strategies for a variety of state infrastructure projects.** Following the decision to privatise Port Botany and Port Kembla, which were sold to Industry Funds Management in April for $5.07 billion, the Government announced plans to also privatise Newcastle Port, with hopes of raising circa $340 million. Superannuation consortiums will be the likely buyers, while proceeds of the sale will be used to revitalise the Newcastle city centre, including the provision of light rail. The Government also plans to release further capital from its property portfolio to support major transport projects including light rail, the North West Rail Link and WestConnex.

## Melbourne

**Singapore listed Keppel REIT has acquired a 50% stake in the Ernst & Young building at 8 Exhibition Street in the Melbourne CBD for $160.2 million from Cbus Property.** The 35-storey prime office building comprises 44,034m² of lettable 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 transaction was initiated through Commonwealth Property Office Fund (CPA), which acquired a call option as part of an earlier deal when Cbus Property bought into the 5 Martin Place project in Sydney. The other half interest in the Ernst & Young tower was acquired by the GPT Wholesale Office Fund (GWOF) in March 2013, on a core market yield of 6.50%.

**Listed AREIT Abacus Property Group has purchased the Bacchus Marsh Village Shopping Centre for $31.6 million from a private investor, reflecting a passing yield of 7.85%, or a fully leased yield of 9.00%.** The sub-regional shopping centre, located 50 km west of the CBD, comprises a gross lettable retail area of 15,147m² set on a 4.4 hectare site with 585 car spaces. The centre is anchored by Coles, alongside other major tenants including Aldi, Target Country and a further 43 specialities, delivering a current net passing income of approximately $2.5 million. In addition, the site comprises 8,400m² of vacant land zoned business 1 providing further scope for development.

**The 360 Capital Industrial Fund has acquired 69 Studley Court, Derrimut for $20 million from a private developer, reflecting a core market yield of 8.00%.** The property, completed in 2009, comprises a modern freestanding office and warehouse facility of 27,171m² and a 7,000m² container-rated hardstand area. The facility is leased to Deliver Australia on a 10.3 year lease expiring September 2023.

**The SCA Property Group has acquired seven neighbourhood shopping centres for $135.8 million from private developer, Lascorp, reflecting a core market yield of 7.80%.** Of the seven centre portfolio, six are located in Victoria, with the remaining property in Queensland. The portfolio comprised of Langwarrin Plaza, Alfred Square, Drouin Central, Ocean Grove Marketplace, Target Central Warrnambool and Wyndham Vale Square in Victoria and Burdekin Plaza in Queensland. The portfolio reflected a weighted average lease expiry of 10.3 years with an average occupancy rate (by GLAR) of 98%.

## Brisbane

**Investment activity within the Brisbane CBD has continued to build, despite the softer leasing conditions currently being experienced. The most recent major transaction has been the $173 million purchase of 259 Queen Street by the unlisted Investa Commercial Property Fund (ICPF).** The A grade building, located in a strong pedestrian location at the base of the Queen Street Mall, has 24,789m² of commercial space and title to 142 car parking bays. The building is facing some short term vacancy, with Peabody (4,500m² in 2014) and Bank of Queensland (7,960m² in 2015), both intending to relocate from the building. The purchase by ICPF represents a passing yield of 8.50%.

**Elsewhere in the Brisbane CBD, Cromwell Property Group has purchased the two building complex of Health House and Forestry House at 147-163 Charlotte Street & 146-160 Mary Street for $65 million.** The two buildings encompass 26,651m² on a site of 3,449m², and are connected by air bridges on levels 13, 15 and 17. Fully leased to the Queensland State Government, Health House (13,395m²) has an expiry in July 2015, while the 13,256m² Forestry House has a lease which runs to November 2017 and within the current State Government climate, it is considered unlikely that the leases will be renewed. The buildings have floor plates which average 778m² and there is a shared basement carpark for 276 cars. The property, to be held by the Cromwell Diversified Property Trust, is showing an initial yield of 20.77%. Another secondary building, 116 Adelaide Street, Brisbane CBD, has also changed hands. The 6,944m² building was purchased for $34.6 million by HCK Assets, representing a reported passing yield of 7.87%.

**After a relatively slow second quarter, the industrial investment market has shown some improving activity, with demand still greatest for modern assets with longer WALEs. It has been reported that GIC has purchased a newly completed property at 77 Logistics Place, Larapinta for $21.03 million.** The property, constructed by McPhee Transport and offered on a 10 year vendor leaseback, contains 13,848m² of warehouse space and a 528m² office component. The passing rent is $114/m² net with the tenant to pay all outgoings, including land tax, which represents a passing yield of 7.82%.

## Perth

**Listed AREIT Charter Hall, has formed a partnership with its Core Plus Office Fund (CPOF), Telstra Super and Canadian pension fund PSP to purchase the $458 million Bankwest Place and Raine Square Shopping Centre, located in Perth's CBD.** KordaMentha, acting as receivers for Westgem, sold the property at a passing yield of 6.4% and a core market yield of 7.60%. The asset incorporates 61,490m² of lettable space on a 12,316m² city block, with four street frontages including William, Murray and Wellington Streets. Bankwest, a division of the Commonwealth Bank of Australia, lease all 22 floors of Bankwest Place, occupying 43,500m² of prime office space for an initial term of 12 years. Additionally, the Raine Square shopping centre includes 9,748m² of lettable space over four levels and is anchored by a 15 year lease to Coles Supermarkets. The complex also includes the Wentworth and Royal Hotels and two small commercial/retail buildings.

**Charter Hall Retail REIT, has purchased the Secret Harbour Shopping Centre and adjoining vacant land, located 50 kilometres south of Perth's CBD for $33.2 million, reflecting an initial yield of 7.8%**. The neighbourhood centre comprises 5,574m² of GLA on a large 6.16 hectare site. Anchored by a long term lease to Woolworths, which is due to expire in December 2026, the space also includes 16 specialities, one kiosk, four ATM's, one freestanding Caltex service station and 312 car bays. The property includes an additional 31,000m² of adjoining vacant development land, valued at $274/m². This offers an opportunity for future expansion, considering the area's forecasted population growth rate is 4.6% per annum between 2013 and 2018. In another retail transaction, Australian Pacific Hotels (Kelmscott) Pty Ltd has purchased the Kelmscott Plaza Neighbourhood Shopping Centre at 2883 Albany Highway for $15 million on a passing initial yield of 8.50%. Located in Perth's high growth south-eastern metropolitan area, the centre comprises 5,079m² of GLA, which is anchored by a 2,917m² Woolworths supermarket, in addition to 14 specialities, one kiosk, one external free standing and 362 open car bays.

**Legal Aid has pre-committed to a 15 year lease of approximately 6,000m² of office space at 32 St Georges Terrace in the Perth CBD.** The previously known May Holman Centre, is currently undergoing redevelopment, which is scheduled to be completed in March 2015. Legal Aid's occupancy begins four months post practical completion, allowing for office fit-out. The office space has been leased from the Golden Group at a rent of $650/m² net with fixed increases of 4% per annum.

## Adelaide

**Located in Unley Road's "high street" retail precinct, 268 Unley Road, Hyde Park sold at auction for $2.105 million reflecting an initial yield of 7.50%.** The building, which was purpose built for high end fashion retailer Xile, recently renewed its lease for a further term of 7 years at a rate of $623/m². This sale highlights there is still a market for local investors to purchase well located retail premises with long lease terms.

**Property fund manager Quintessential Equity purchased a prime industrial asset located at 13 Webb Street, Port Adelaide for $9.4 million.** The property, with a GLA of 15,520m², comprises a large office factory/warehouse facility with high clearance accommodation and is 100% leased to OneSteel Trading P/L for a further 12 years, reflecting an initial yield of 9.60%.

## Canberra

**The ACT State Budget for 2013/14 was announced this month with some positive results for the property market. A stimulus for investment into the commercial market, is the reduction in stamp duty for commercial property valued over $1.65 million from 7.25% to 5.50%.** This incentive also extends to the residential market with an increase in the threshold for the stamp duty concession scheme for first home buyers to $425,000, while the first home buyer grant is to increase from $7,000 to $12,500. To fund these cuts, property rates are expected to increase between 4.5% and 14.0% per annum (average 9.0%) and government-owned Civic parking rates are to increase from $12.00 to $13.50 per day as at January 2014. Encouragingly, there is $1.27 billion to be invested over four years in infrastructure projects, including the $18.7 million Capital Metro light rail project and $800,000 for planning works to tunnel heavy traffic under Parkes Way as part of the Government's plan to connect the CBD with the lake.

**Supabarn committed to a 1,500m² Supabarn Express store in the growing northern suburb of Crace, in a small 2,505m² neighbourhood centre to be known as Crace Central.** The supermarket will be the first Express centre in the ACT, with Supabarn having some success with the smaller format in NSW, and will be joined by a café and other specialty stores. The property is currently under construction, with completion anticipated by the end of 2013 and will service the local Crace community in addition to the neighbouring suburbs of Palmerston and Nicholls.

## 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

### Western Australia
**Gabriel Payne**
Research Analyst
+61 8 9225 2412
Gabriel.Payne@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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