JULY 2013 EDITION

Knight Frank Research Compass Report

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

National

The release of the PCA Office Market Report this morning, showed that nationally, all CBD markets and the majority of non-CBD markets have recorded negative net absorption over the past six months. An increase in sub-lease availability and tenant contraction, which has become more broad based across geographic and industry sectors over the period, drove this result. Net absorption recorded for the six months to July 2013 was negative 126,355m² for the CBD markets and negative 42,518m² for the non CBD markets, however the majority of space that has been shed over this period has been in the secondary market.

The total CBD vacancy rate has increased from 8.1% to 10.1% over the past six months, with prime grade vacancy now sitting at 9.2% compared with 11.2% in the secondary grade segment. In the non-CBD markets, the total vacancy is interestingly also exactly 10.1%, however when looking at this by grade of asset, the differential between the performance of prime grade and secondary grade properties is much wider, with prime vacancy at 7.2% and secondary vacancy at 12.1%. Sub-markets with limited prime options for tenants and a relatively benign supply pipeline include; Parramatta (2.4% prime vacancy), North Ryde/Macquarie Park (5.2%), Southbank (1.4%) and West Perth (2.7%), which is underpinning the fundamentals in these and other non-CBD markets.

Sydney

Investa Office Fund has purchased 99 Walker Street in North Sydney for $124.9 million. The 17,200m² A grade office tower has been purchased from GE Capital, generating a yield on cost of circa 7.9%. This is the first sale of a North Sydney prime asset in 2 years with recent sales largely comprising sub $50 million, secondary assets. Also to transact in the North Sydney market was 53 Berry Street. The asset has been purchased by Property Bank Australia from the Charter Hall Diversified Property Fund for $19.75 million. Property Bank Australia has been particularly active in the North Shore market with other acquisitions including 51 Berry Street and 75 Miller Street (both in partnership with Security Capital Corporation).

In the industrial sector, several unlisted funds have been actively acquiring assets in the Sydney market. DEXUS Wholesale Property Fund has purchased 4 Inglis Road, Ingleburn for $34.35 million. The 43,442m² distribution facility was acquired on a 9.0% capitalisation rate, with an initial yield of 13.5%. The sale reflected a relatively short WALE of 1.1 years with the vendor taking a short-term lease-back over the majority of the building. After several recent leasing successes in the South West region, DEXUS will be hoping for similar success with this asset and further value enhancement by re-leasing the facility on a longer term. In addition, Charter Hall's Core Plus Industrial Fund has purchased 15 Huntingwood Drive, Huntingwood for $16.2 million. The property is subject to a 10-year lease to Home Timber and Hardware, with the lease guaranteed by Woolworths. The transaction reflected a core capitalisation rate of 7.9%.

Melbourne

Growthpoint Properties Australia has acquired three Melbourne industrial properties to be developed by Australand for $60.2 million, reflecting a weighted average initial yield of 8.0%. The first building is a 12,800m² facility at Lot 45, Atlantic Drive, Keysborough for $17.3 million reflecting an initial yield of 7.5%. The building is scheduled for completion in February 2014 and will be 100% leased by Symbion for 15 years. The second asset is a 25,728m² development located in the Access Altona Industrial Estate at 9-11 Drake Boulevard, Altona comprising three tenancy areas currently under construction and scheduled for completion in December 2013, sold for $24.1 million. Lastly, a 17,834m² development located in the Key Industrial Park at 19 & 20 Southern Court, Keysborough comprising two buildings to be constructed (expected to be competed in February 2014) sold for $18.8 million. Of the two speculative developments, Australand will provide a five-year guarantee on vacant areas from practical completion, thereby reflecting an initial yield of 8.25% on both developments.

CFS Retail Property Trust (CFX), has entered into conditional agreements to sell four Victorian sub-regional shopping centres to Pacific Retail REIT, a newly formed fund that will seek listing on the Australian Securities Exchange (ASX), for $446.5 million. The centres to be divested are Altona Gate, Brimbank, Corio and Rosebud Plaza shopping centres. The agreed contract price is in line with CFX's book value while CFX will retain ownership of development land at Altona Gate (book value of $4.5 million); this land will be subject to a 12 month put and call option. Assuming that the IPO is successful, it is anticipated that the transaction will settle in early September 2013. The weighted average capitalisation rate of the centres being divested is 7.95%, which compares to CFX's total shopping centre portfolio weighted average capitalisation rate of 6.43% at 30 June 2013.

Brisbane

GPT has completed its divestment of Brisbane bulky retail assets with the sale of the Fortitude Valley Homemaker Centre for $103.2 million. The centre was purchased by Altis Property Partners as a direct mandate from an institutional client. The centre, which is housed in two separate properties on either side of Wickham Terrace, Fortitude Valley comprises a total of 38,298m². Major tenants include Harvey Norman, Nick Scali, Oz Design Furniture, Snooze, Sleep City, Everyday Living, Singways, Howards Storage World, Domayne, Freedom, Trade Secret, Far Pavillions, Goodlife Health Club and Aldi. The purchase reflects a core market yield of 9.0%.

Bulky retail assets have been finding increasing favour of late with private investors and syndicators increasingly willing to take a position in that sector in return for the relatively attractive yields on offer. The Logan MegaCentre has also recently sold for $52 million with Mirvac divesting the asset in an off-market transaction. The 26,992m² enclosed bulky retail centre is located adjacent to Ikea and shares access points and base parking. Major tenants include Spotlight, Anaconda, Freedom, Bay Leather Republic, Oz Design Furniture, RT Edwards, Snooze, Mountain Designs and Early Settler. There are also a further 28 specialty stores. The centre was purchased by Blackstone as part of a number of bulky retail asset purchases within Australia and reflects a core market yield of 9.5%.

Brookfield Asset Management has divested the Great Western Super Centre at Keperra in suburban Brisbane for $62.9 million. The sub-regional centre has been purchased by Charter Hall in tandem with an institutional partner, understood to be Telstra Super, and will be held within a new unlisted wholesale trust. The 15,378m² property is anchored by Woolworths and Aldi plus 25 specialty stores and a further six bulky goods tenants, located on a site of 6.49ha which provides scope for future expansion. The purchase reflects a capitalisation rate of 7.75%.

Within the Brisbane fringe commercial market, 121 Wharf Street has been divested by GE Capital Real Estate for $24 million, reflecting a passing yield of 8.85%. The 4,443m² property has been purchased by the Zupp Property Group, an investment group aligned with the successful car dealership Zupp family. The asset contains two adjoining buildings of three and four stories which underwent refurbishment in 2012. Sold with a WALE of 6.2 years major tenants included APT Pipelines and Bridgepoint Communications.

Perth

Specialist property Fund Management Group, CorVal Partners, has acquired 80 Stirling Street, Perth which is located 1km north east of the Perth CBD, for $72.15 million. The building comprises eight levels of office space with a net lettable area of 19,775m² and basement parking for 31 vehicles. The building is currently at 100% occupancy and reflects a passing net income of $8.97 million per annum. Telstra Corporate Services occupy 87% of NLA while Roy Hill Holdings occupies the remaining 13%. The sale represents a passing yield of 12.43% and a core market yield of 11.47%.

Trout Holdings and BR3 have purchased 15-17 Altona Road, West Perth for $11.5 million from the Western Australian Local Government Association (WALGA) on a yield reflecting 9.94%. The property comprises a five level building; three levels of office space plus three residential apartments on the upper two floors and includes basement parking for 60 vehicles. The 2,290m² building has an estimated net income of $1.14 million per annum and reflects a passing rent of $450/m² net. Fully occupied until early 2014 and leased by WALGA and Jardine Lloyd Thompson, the building then becomes completely vacant offering flexibility for the new owners.

Perth's largest residential land developer, The Satterley Property Group, has purchased a 44.9 hectare site bounded by Lyon Road and the Kwinana Freeway at Wandi (27km south of the Perth CBD) for $27 million. The land parcel is expected to encompass 400 home sites when completed and lies just south of the Group's existing Honeywood estate. The 45 hectares will ultimately become part of the Honeywood estate which has been a strong sales performer since its beginning two years ago. Wandi is situated in Perth's developing southern suburbs, considered a growth area, which is attributable to improved transport options, better shopping facilities and major employment hubs such as Fiona Stanley and Murdoch Hospitals. The Satterley Property Group is planning an acquisition program, worth approximately $500 million, centred on the Perth and Melbourne corridors, and has recently acquired a land parcel at Point Cook in Melbourne for $100 million.

Developer, Oracle Projects, has purchased 893 Canning Highway & 19 Ogilvie Road, located in the Applecross/Mount Pleasant commercial precinct, for $13 million. The dual address includes two sites of 1,884m² and 3,720m² (total 5,604m²) and a current zoning allowing for up to six storeys. However, as the site is situated within the proposed Canning Bridge precinct, it has the potential for a 10 to 20 storey development. The larger site comprises seven retail shops fronting Canning Highway with a passing net income of approximately $305,000 per annum, reflecting a small passing yield of circa 2.35%.

Adelaide

Development approval has been granted for a new high rise A Grade office tower development located at 50 Flinders Street, with an NLA of 21,431m². The project was recently acquired by Cbus Property for $140 million from Commercial and General, with an expected completion in October 2015. The building will comprise ground floor retail, first floor crèche and car parking, second floor car parking and 12 upper levels of office accommodation with a roof top plant room. A combined 74% of the office space is pre-committed to People's Choice Credit Union and Santos.

Darwin

A private investor from Perth has bought 71 Marjorie Street, Pinelands in one of Darwin's key industrial areas, for $6.0525 million, was sold under instructions from PPB Advisory out of Perth. The property was leased to AL Logistics, a Darwin and Perth based logistics company, for a term of 5 years commencing on January 1st, 2013, at a net income of $565,000. Improvements were around three years old and consisted of a large warehouse and canopy of 4,140m², supplementary workshop of 383m² and offices of 443m². The property was contracted after a five week EOI campaign and sold on a passing yield of 9.33%.

A local owner occupier has purchased 5 Swan Crescent in Winnellie at auction for $1.2 million following a five week marketing period. The property consisted of a partially complete tilt panel warehouse and office of 793m² on a 1,480m² General Industry zoned site. Over 50 people attended the auction with 16 registered bidders and sold under the hammer.

The future of the East Farnham Land town of Nhulunbuy, a town of around 4,000 people, has been put into doubt, after the Chief Minister of the Northern Territory, Adam Giles announced on Friday that only 195 petajoules of the 300 petajoules requested by Pacific Aluminium would now be supplied to the refinery. Residents and the business community of Nhulunbuy largely depend on the operations at the refinery to drive the local economy and the latest announcement was unexpected, as it was understood that the gas was secured and it was just a matter of the pipeline being finalised. With the election looming, both sides of federal politics will now need to decide how much capital they will inject to underwrite the construction of this pipeline to ensure a sustainable future for Nhulunbuy.

Auckland

A 10,402m², brand new office warehouse and yard at 9 Manu Street Otahuhu in Auckland has leased to an Australasian company. The property comprises two levels of offices and a 10m high stud warehouse with a circa 3,000m² yard component. A long term lease was negotiated with rentals settling around the current market rate of NZ$100/m² for warehouse and NZ$200/m² for office. A fit-out of the office will be provided by the landlord. The lease reflected the ongoing demand in existing industrial buildings and will put pressure on land holders and developers to consider speculative building in the short term, as high quality industrial stock continues to be absorbed. This lease will be the last of its size in the development for the Kirkpatrick Property Group who will now begin a new industrial development in Auckland.

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