

COMPASS

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Knight Frank Research Compass Report

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

Portfolio Sales

SCA Property Group has purchased a portfolio of neighbourhood shopping centres in Tasmania from a private investor for \$145.7 million reflecting an overall capitalisation rate of 8.0% as part of its strategy to invest into larger, higher growth assets and increasing their focus on non-discretionary based centres with long term leases. The portfolio comprises seven neighbourhood shopping centres which are all located in strong catchment areas and anchored by Coles or Woolworths supermarkets. Six of the seven centres are located in or around Hobart, with one (Riverside) in Launceston.

The assets in the portfolio include:

- **Claremont Plaza (\$27.9 million, cap rate of 8.25%)** - 6,510m² of GLAR and 13.3 year WALE by income. Anchored by a Woolworths supermarket, which is currently undergoing expansion and due for completion in October 2014, the centre features 23 specialties including key tenants BWS, Woolworths Petrol Plus, Reject Shop and Claremont Village Medical Centre.
- **Sorell Plaza (\$20.5 million, cap rate of 7.75%)** – located 25 kilometres east of Hobart and has 5,447m² of GLAR and 13.3 year WALE by income. Anchored by a modern Coles (opened in 2011), the centre features 15 specialties including key tenants Shell Express, Commonwealth Bank, Australia Post, Bendigo Bank, and Sorrell Family Medical Practice.
- **Kingston Plaza (\$21.8 million, cap rate of 7.75%)** - 4,726m² of GLAR and 10.6 year WALE by income. Anchored by Coles, the centre features 14 specialties including key tenants Medical Centre, Bread Café, and My State Financial Services.
- **Greenpoint Plaza (\$12.5 million, cap rate of 8.75%)** - 5,958m² of GLAR and 6.2 year WALE by income. Anchored by Woolworths, the centre features seven specialties including key tenants Priceline and Government services.
- **Shoreline Plaza (\$27.0 million, cap rate of 8.00%)** - 6,241m² of GLAR and 3.6 year WALE by income. Anchored by a strong performing Woolworths, key tenants include Commonwealth Bank, AMCAL Pharmacy and a new Medical Centre.
- **Newtown Plaza (\$28.8 million, cap rate of 7.75%)** - located four kilometres from Hobart CBD and featuring on-grade parking for 487 vehicles, the centre has 11,382m² of GLAR and 7.2 year WALE by income. The centre is anchored by both Coles and 24 hours Kmart and has Chemist Warehouse as a key tenant.
- **Riverside Shopping Centre (\$7.2 million, cap rate of 8.50%)** - located four kilometres from Launceston CBD and featuring on-grade parking, has 3,108m² of GLAR and 6.6 year WALE by income. Anchored by Woolworths supermarket, key tenants include a pharmacy and liquor store.

Sydney

Listed Singapore group, Suntec REIT, has acquired the office development at 177 Pacific Highway, North Sydney from Leighton Properties on an initial yield of 6.89%. The project, which comprises 40,000m² of office NLA over 30 levels, will be developed by Leighton Properties, with the Leighton Group having agreed to a head lease over 76% of the NLA. Completion is scheduled for early 2016 and will be the first major new supply to the North Sydney office market since Coca-Cola Place at 40 Mount Street in 2010. Leighton has provided a rental guarantee for four years over any vacant space upon completion and will pay Suntec a 6.32% coupon during the construction phase. The land component of the sale was sold by Winten Property Group for \$42 million, which forms part of the total consideration.

AIMS AMP Capital Industrial REIT has purchased a 49% interest in the Optus Centre at 1 Lyonpark Road, Macquarie Park for \$184.4 million. The part share in the 84,194m² business space campus has been purchased from Stockland Direct Office Trust No.2. In addition, Stockland Trust (SGP) has increased their ownership in the asset from 31% to 51% by acquiring the 20% share owned by UniSuper for \$75 million. Stockland reported that the Optus Centre delivers a 7.8% yield and a WALE of almost nine years. Stockland funded their portion of the transaction with the proceeds of 78 Waterloo Rd, Macquarie Park, which they sold for \$72 million to CorVal in September. The Optus Centre comprises six low rise office buildings on a 7.5 hectare site.

The appetite for residential development opportunities in Sydney continues to build with a number of site acquisitions announced recently. In the CBD, an undisclosed Asian investor is finalising the purchase of 227 Elizabeth Street for approximately \$140 million. The 23-storey office building is being purchased from a Valad Property Group fund (V-Plus, managed by Blackstone Group) with the buyer intending a residential redevelopment. Outside of the CBD, an undisclosed overseas developer has purchased Global Business Park on Delhi Road, North Ryde from Goodman for \$73 million. The industrial estate has the potential for 600 to 700 apartments. In Glebe, a partnership comprising Denwol and Oakstand has purchased a development site at 87 Bay Street for around \$50 million with the 6,555m² site approved for a 200 unit residential complex. The bulk of residential site sale activity is concentrated within Sydney's Inner Ring (circa 10km radius from the CBD), however there is strong demand for any sites with good proximity to major transport hubs.

Melbourne

The Mirvac Group (MGR) has acquired 367 Collins Street and 477 Collins Street in Melbourne and a retail centre in Sydney for a total of \$552 million, reflecting a total passing yield of 6.9%. 367 Collins Street was acquired from Colonial's Direct Property Investment Fund for \$228 million on a passing yield of 7.8%, however after accounting for the rental guarantee from the vendor; reflects a yield (ex-guarantee) of 6.9%. The 37-storey A-grade office building has 37,600m² of lettable area with a WALE of 3.5 years. 477 Collins Street was acquired from Aviva Investors for \$72 million with the passing yield of 5% reflective of the building's 37.5% vacancy at the time of sale and had a WALE of 3.3 years. Currently the office building contains a total lettable area of 12,077m² made up of 11,275m² office space and 802m² retail space, plus a 598 bay car park which underpins the current income. The property offers a redevelopment opportunity, subject to planning approval, with a proposed A-grade, 51,000m² redevelopment that will retain the heritage listed Olderfleet Building as a façade for a new 36-level tower. Aviva have a 10-year call option over a 50% interest in the development, on a fund through basis on a 6.5% cap rate in the next two years, or at market thereafter. As part of the latest acquisition, Mirvac has also completed its purchase of Harbourside Shopping Centre in Sydney's Darling Harbour precinct for \$252 million, reflecting a fully let yield of 7.1%.

In addition to the recent round of acquisitions, AGL Energy has increased its commitment to Mirvac's new Docklands development at 699 Bourke Street, Melbourne, now taking the entire building (19,300m²) up from the initial commitment of 15,000m². The 10-level office building in the Docklands precinct is scheduled to be completed in 2015.

Charter Hall Retail REIT (CQR) has purchased the Rosebud Plaza for \$100 million from CFS Retail Property Trust Group (CFX), reflecting a passing yield of 7.8%. The sub-regional shopping centre, located 85 km southeast of the Melbourne CBD, comprises a gross lettable retail area of 24,582m² set on a 6.28 hectare site with 1,070 car spaces. The centre includes both a Safeway and a Coles supermarket, alongside other major tenants including Kmart, Target and a further 60 specialities. 70% of the centre's gross income is derived from national retailers and it was sold with a WALE of 6.5 years.

Cbus Property has acquired 447 Collins Street, a 27-level 30,737m² vacant office building, for \$91 million from ISPT. The property at 447 Collins Street has frontage on four streets and the site potentially has the capacity to contain two towers spanning 50,000m² with a number of significant tenant requirements currently in the market. In April, ISPT applied for a demolition permit for the 1965 built building as the former anchor tenant, Suncorp, prepared to leave. In June, it was among a handful of CBD buildings rejected by the state government for heritage protection with some regarding the building as an example of post-war International style. As part of the transaction, ISPT has a first right of refusal to buy back into the development, through a fund-through or take-out arrangement. ISPT purchased 447 Collins Street for \$81 million in late-2004.

Brisbane

The GPT Group has acquired a modern office building at 15 Green Square Close, Fortitude Valley for \$110 million. The building is to be the seed asset for a new unlisted metropolitan office fund for GPT. The 12 level building was developed by CBIC, completed in mid-2013, and was sold 99% leased with tenants such as Qld Urban Utilities, Optus, Oil Search and serviced office operator Regus. At the time of sale the 16,302m² building had a WALE of 8.3 years and the transaction reflects a core market yield of 7.65%. This follows CBIC's divestment of 157 Ann Street last month for \$39 million. 15 Green Square Close (also known as G2) was the third building constructed within the precinct, with the first two developed by Leightons in 2008 and purchased by the ISPT Core Fund (although the Brisbane City Council has a leasehold interest over the north tower until 2027). There remains a further development pad in the enclave which has approval for an office building of circa 20,000m².

GPT has also purchased an industrial facility at 18-28 Quarry Street, Stapylton for the listed fund for \$44.5 million. The 40,782m² facility is leased to Woolworths (20,391m² to 2017) and Caterpillar (18,291m² to 2014) and Securedoc (2,100m² to 2014), resulting in a WALE of 2.4 years at the time of sale. Sold by a private investor, the transaction represented a core market yield of 9.52%.

Listed travel group, Flight Centre, has signed an agreement for lease over 20,000m² of space at Southpoint, South Brisbane to be developed by the Anthony John Group. The commitment covers the whole of one of the proposed towers in the development, with completion to be achieved in mid-2016. A campaign to pre-sell the asset is currently underway with second round bidding in progress. Shortlisted parties are understood to include Singapore based Mapletree and Ascendas as well as local groups.

The Queensland Government and Brisbane City Council have announced an Underground Bus and Train Tunnel as a replacement for the previously mooted Cross River Rail project to allow for duplicated train access to the Brisbane CBD. The current rail network is facing a capacity overload for the single north/south Brisbane River crossing at the existing Merivale Bridge by 2020. The new proposal allows for a 5km double decker tunnel with trains and buses running over different levels. Stations will be located at Woolloongabba, George Street and the existing Roma Street train station. Apart from the introduction of a bus tunnel to expand the public transport cross-river capacity, this scheme moves the new CBD train station from Albert Street to George Street and facilitates the State Government sponsored rejuvenation of that area of the CBD. With the proposal still in the initial stages, construction would not begin until at least 2015.

Perth

Offshore investor, Far East Organisation, is finalising the purchase of Harbour Town Shopping Centre at 840 Wellington Street in West Perth for \$205 million, reflecting an initial passing yield of 6.63%, a land rate of \$10,332/m² and a building rate of \$9,652/m². The 21,238m² retail complex is being purchased from the Australian Prime Property Fund (APPF) and the Future Fund. Harbour Town is one of only 18 brand direct outlet shopping centres across Australia and the only outlet centre within Western Australia. The complex, which was developed in 2003 by the Lewis Land Group in joint venture with ING Real Estate Development Australia, sits on a 1.9 hectare site in a high profile location which is located just one kilometre from the western end of the Perth CBD. The centre comprises 120 tenancies which includes nine mini-major tenants, four kiosks, seven ATM's and 107 specialty stores such as Esprit, Adidas, Cotton On, Jeans West, and Rip Curl. Total centre MAT was recorded at approx. \$135.9 million in the 12 months to June 2013 which reflects 4.2% annual growth from the previous year. A three level decked car park comprising 1,181 bays lies to the east of the complex of which Harbour Town owns 980 bays and leases the remaining 201 bays off RACWA on weekends for casual parking.

Charter Hall's Core Plus Industrial Fund (CPIF) has purchased an 83,136m² industrial facility at 2 Bannister Road, Canning Vale for \$70.5 million. The complex, which is situated on 16.2 hectares of land, is fully leased until October 2016 to Wesfarmers-owned, Coles Group, who utilise the property as a distribution centre. The sale reflects a passing yield of 10.7% which, with a WALE of only three years, is indicative of the risk associated with re-leasing a building of this scale, as well as, the difficulty involved in partitioning this particular building to accommodate smaller tenants in the event of not securing another large, long term, single tenant. The sale reflects a land rate of \$435/m² and a building rate of \$848/m². This acquisition comes not long after Charter Hall's Direct Industrial Fund No. 2 (DIF2) purchased a 15,697m² industrial facility at 1 Howson Way, Bibra Lake for \$22.59 million.

Offshore investor, Sunshine Adventure Pty Ltd has purchased the freehold of the Sebel Residence at 60 Royal Street in East Perth for \$19.2 million, reflecting a passing yield of 8.7%. The 4.5 Star, AAA Tourism Star rated hotel has 3,711m² of strata area (rate of \$5,174/m²). The Sebel residence occupies part of two interlinked buildings of a larger mixed-use development, known as South Cove which contains residential apartments, offices, restaurants and bars. The property opened in October 2003 and is contained on levels two to five of two interconnected buildings known as Blocks A and B. In addition to its 57 rooms, the Sebel Residence encompasses a conference room for up to approx. 32 people, a gymnasium, a guest laundry, a swimming pool and spa, a barbeque area and 17 car bays. Room occupancy as at July 2013 was 77% while the average room rate was \$258 per day. The sale reflects a rate per room of \$336,842 and an IRR of 10.75%.

Adelaide

A private investor has purchased Burbridge Shopping Centre, a Neighbourhood shopping centre located at 693-709A Burbridge Road, West Beach at auction for \$6.54 million reflecting an initial yield of 6.38% and a capital rate of \$2,836/m². The shopping centre is located approx. 10 km West of Adelaide's CBD and is anchored by Drake Supermarkets which accounts for 45% of the centre's base rent. There are 12 specialty retailers, a GLA of 2,306m² and the centre had a WALE of 4.3 years at the time of sale.

A group of Adelaide private investors have purchased the historic Epworth Building, 33 Pirie Street, Adelaide CBD, for \$6.1 million, reflecting a low initial yield of 4.6% due to its current occupancy of only 50%. The building has a GLA of 5,497m² and of the 50% of the building that is occupied, the leases comprise a range of short term and hold-over tenants, attracting an annual net income of \$280,000. The building is set to undergo a significant refurbishment, with future development potential for a 40,000m² high rise tower.

A private investor has purchased the Trims site located at 322-336 King William Street, Adelaide for approximately \$6 million. The property is a corner allotment in a prime location with a site area of 1,488m², and the potential for a mixed use development. The site was owner occupied for over 70 years by a family based local retailer. The site has a maximum building height of 53 metres, however there may be scope to increase the allowable building height due to its size and location.

Canberra

The ACT government has recently auctioned 8,000m² of land holdings in Amaroo, which is 12 km north of Canberra Civic, including three sites which were purchased by Oriental Companion Property for a total of \$5.925 million. The group intends to build up to 35 residential units and 23 town houses on the sites. A fourth site was sold for \$882,000 which will be developed into a childcare centre. A fifth site of 5,000m² was passed in and is under negotiation with the highest bidder.

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