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Knight Frank Research Compass Report

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

Portfolio Sales

Woolworths has reportedly sold six new neighbourhood retail centres for a total of \$152 million to two Singapore based clients of Rockworth Capital Partners, reflecting a yield of 7.62% across the portfolio. All centres are anchored by a Woolworths Supermarket on a long term leaseback plus between two and 22 specialty retailers. Five of the centres, accounting for \$133 million, will be placed into a new fund launched by the Sim Lian Group to be managed by Rockworth. These were Lake Munmorah, NSW Central Coast; Jordan Springs, western Sydney; Lucas, Ballarat Vic; Tarneit Gardens, western Melbourne and Rothwell, northern Brisbane (under construction with completion expected in April 2014) with 71% of the area in the portfolio leased to Woolworths. The remaining centre at Schofields, western Sydney, is under construction and sold to an undisclosed Singapore based investor.

Australian Industrial REIT (managed by Fife Capital) has contracted six industrial assets across Melbourne and Perth for a total value of \$81.2 million, showing a portfolio wide initial yield of 9.3% and a weighted average lease expiry (WALE) of 3.1 years. The properties were sold by WA based syndicator Primewest with settlement scheduled in March 2014, the individual properties were:

Vic:

- 324-332 Frankston-Dandenong Rd, Dandenong South \$24.6 million, passing yield of 9.4% and WALE of 3.0 yrs
- 49 Temple Drive, Thomastown \$13.0 million, passing yield of 9.0% and WALE of 2.5 yrs
- 2 Keon Parade, Keon Park \$9.3 million, passing yield of 10.2% and WALE of 3.0 yrs
- 9 Fellowes Court, Tullamarine \$3.1 million, passing yield 8.0% and WALE of 3.0 yrs

WA:

- 23 Selkis Road, Bibra Lake \$15.8 million, passing yield of 9.6% and WALE of 3.5 yrs
- 99 Quill Way, Henderson \$15.5 million, passing yield of 9.0% and WALE of 4.2 yrs

Sydney

The Investa Office Fund has entered into a contract to acquire 50% of the Piccadilly Complex in Sydney for \$194.25 million.

The asset has been purchased from Stockland, who will retain a 50% share in the asset. The Piccadilly Complex is 93% occupied, reflecting a 5.3 year WALE and was sold in line with the December 2013 book value. The complex comprises two office towers of 32 and 14 storeys respectively, amounting to 39,396m² of net lettable area (NLA), as well as a two level retail mall of 5,252m² GLAR. The joint venture between the two groups is the second in recent months following Investa Commercial Property Fund acquiring a 50% share in 135 King Street from the Colonial First State managed PPS Fund in December 2013. The 50% share was acquired for approximately \$140 million via pre-emptive rights to Stockland, who own the other 50%.

Bridgehill has purchased the Kimberley Clark building at 52 Alfred Street, Milsons Point (North Sydney) for approximately \$80 million. The 13 storey 9,910m² office building has been purchased from Leda Holdings with the intention for residential redevelopment. The Chinese group had previously acquired the TAL Building at 80 Alfred Street in late 2012 for \$49 million, where construction will imminently commence for a sold out 129 apartment redevelopment. Another example in February of the aggressive demand from Asian buyers for Sydney Inner Ring residential conversion opportunities was 495 Harris Street, Ultimo purchased by a Chinese developer. The asset was sold by AMP Capital Wholesale Office Fund for \$63 million. The building is currently tenanted by Tabcorp on a 10 year lease expiring January 2015.

Melbourne

The unlisted Australian Property Opportunities Fund has purchased 390 St Kilda Road for \$56 million from the Charter Hall run unlisted fund, PFA Diversified Property Trust, reflecting an initial yield of 8.30% and potentially a fully leased yield of 9.6%, with a WALE of 3.3 years. The 22-storey office building comprises 16,335m² of NLA with 212 underground parking bays and typical floor plates of 750m². It is occupied by a range of tenants including Tvet Australia, ADAPS, Cummings McCormack Flavel and Toll Express. The Australian Property Opportunities Fund is a retail investor fund which is managed by a joint venture between Fort Street Advisers and financial planners Dixon Advisory Group. The fund, which initially raised \$160 million, contains four assets with 390 St Kilda Road the first office building to go into the portfolio. In addition to 390 St Kilda Road, the fund also includes retail assets Oxford Square in Sydney, Lynbrook Village Shopping Centre in Melbourne and the Lake Innes Village at Port Macquarie.

Charter Hall's Core Logistics Partnership has acquired the Peters Ice Cream facility at 254-294 Wellington Road, Mulgrave for \$62 million, reflecting a yield of 7.50%. The asset has been purchased in a sale and leaseback agreement with Peters, who have committed to a 20-year lease on the circa 38,000m² facility which is the ice cream maker's main manufacturing plant in Australia. The 14.4 hectare site also includes 5.5 hectares of surplus land. The Core Logistics Partnership fund now holds around 10 assets including an Amcor logistics facility at Scoresby, a 50% stake in the Metcash Distribution Centre at Canning Vale in Perth and the Somerton logistics facility in Melbourne's North. In total the CLP fund is worth approximately \$550 million.

Brisbane

Propertylink has purchased two Brisbane industrial assets for a combined sum of \$62.5 million. The assets, purchased from the Dexus Property Group, are both located in the South West of Brisbane. 183 Viking Drive, Wacol is a modern industrial complex of three warehouses constructed during 2012 and 2013 on a site of 4.8 hectares. The 25,869m² of total building area is occupied by Nissan (7,830m² to Nov 2022) and Cotton On (12,220m² to Dec 2023) with the remaining 5,819m² vacant. The other asset, 57-101 Balham Road, Archerfield is an older style industrial complex with seven warehouse tenancies leased to a mixture of companies including Kennards Hire, BlueScope Steel and The Murdoch Group with lease tails ranging from Sept 2014 to June 2018. There is a total of 24,462m² of building area on a site of 4.5 hectares.

Industrial development in Rochedale, located approx. 13km to the south east of the Brisbane CBD with direct access to the Gateway Motorway, is to be boosted with the sale of a major development parcel. The 23.5ha parcel has been sold by listed company Brickworks to the Goodman Joint Venture Industrial Trust (a joint venture between Goodman and Brickworks) for \$25.93 million. The existing Austral brick facility will remain to the south of the site, however this excess land to the north, will be developed into an estate to be known as the "Rochedale Motorway Estate". The plan for the initial stage of the estate contains seven buildings ranging from 7,450m² up to 49,135m² for a total of 125,045m².

The growing demand for residential development sites is continuing to absorb sites formerly proposed for commercial developments both in the CBD and Fringe market. The latest example is Watpac entering an exclusive due diligence period with Metro Property Development to sell the remaining stages of the Waterloo development in Newstead for \$40 million. In the CBD, 550 Queen Street is being offered to the market with a potential residential proposal after formerly seeking pre-commitments as a 18,539m² (GFA) office development. In late 2013 the site at 30 Albert Street was sold to Cornerstone Properties for a reported \$18-19 million for a likely residential development after the previous proposal was for an office tower of 20,000m² was dropped.

Charter Hall has contracted the Virgin Australia headquarters at 56 Edmondstone Road, Bowen Hills for \$65.98 million for their proposed Charter Hall Direct VA Trust. Subject to capital raising, the property, offered with a vendor leaseback to Virgin Australia for 12 years with annual increases of 3.5%, will transact at a capitalisation rate of 8.5%. The property is a 12,427m² low rise, campus style development with three interconnected buildings of three levels, located on a site of 9,302m² which was constructed by Virgin in 2008.

Perth

Singaporean real estate company, Hiap Hoe, has purchased 130 Stirling Street, in the northern fringe of the Perth CBD, from a Charter Hall syndicate for \$90 million reflecting an initial passing yield of 7.92%. The acquisition, which is Hiap Hoe's first in WA, comes only months after the company purchased three Melbourne properties worth \$177 million in total. The sale of 130 Stirling Street, which is subject to FIRB approval and expected to settle before June 30, is the first major Perth CBD transaction this year and the first sale greater than \$73 million since June 2013. The complex is situated on a 3,055m² site and comprises 12,349m² of NLA, and has three ground floor retail units, four upper levels of office accommodation and 236 parking bays. Charter Hall designed and developed the office building in 2009 which was syndicated with a \$41 million equity raising one year later in 2010. The sale reflects a building rate of \$7,288/m² and a land rate of \$29,460/m².

Law firm King & Wood Mallesons has signed a new ten year lease for 4,164m² of space spanning three floors in QV1 at 250 St Georges Terrace, representing one of the largest Perth CBD deals to occur during the past six months. Mallesons adds to the list of law firms to commit to space within the premium tower over the past year joining Herbert Smith Freehills and Clayton Utz. In addition, US oil and gas giant Chevron signed a new lease for nearly half the building (28,480m²) in 2013 which will commence in January 2017. Mallesons leased the space from Investa Property Group and the Commonwealth Superannuation Corporation at a rental rate believed to be between \$800/m² and \$850/m² gross face.

An undisclosed private WA-based investor has purchased Northam Boulevard Shopping Centre at 171 Fitzgerald Street, Northam (in the Avon region of Western Australia approximately 100km from Perth) for \$14.05 million reportedly reflecting a yield of 8.5%. The 6,346m² complex is anchored by a Woolworths supermarket which has a long term lease expiring in 2030, and encompasses 22 speciality stores including OPSM, Thingz, Red Dot and Subway, with 373 car bays. The sale reflects a building rate of \$2,214/m².

Adelaide

A modern suburban office building at 22-30 Gawler Street, Salisbury in the north of Adelaide has been purchased for \$4.305 million. The building was constructed in 1995 for a Federal Government tenant and was sold fully leased, with the SA government taking the ground level on a 10 year term from April 2011, with private tenants on the upper level. The sale reflected an initial yield of 10.28% and a WALE of 6.5 years. The building has a site area of 4,289m² and a building area of 1,978m², which reflects an improved rate of \$2,176/m².

Hewlett Packard Australia has leased 6,072m² in 108 North Terrace, Adelaide. The lease, over levels 8, 9, 10 and a portion of Ground has been taken for a term of 5+5+5 years commencing March 2014 at a rent of \$480/m² gross face. The building is a modern commercial office tower constructed in 1999, located toward the north western fringe of the CBD core. The deal included a licence to occupy 50 car parks at \$385 per car park per calendar month. In addition, 1,030m² (covering levels 10 & 11) at 182 Victoria Square, Adelaide has been leased to Flinders University of South Australia for a term of 5+5 years commencing March 2014 at a rent of \$385/m² gross face with four car parks taken at a rate of \$400 per car park per calendar month. In line with the softer rental conditions within the Adelaide market over the past six months, these leases were done at incentives in the 15-20% range.

Canberra

Ausco Modular has leased a 1ha site in the Monaro Industrial Park at 20 Tralee Street, Hume. The industrial site has been leased from Walker Corporation for a 10 year term. Walkers will build a purpose built facility for Ausco Modular with extensive hardstand storage areas for the modular hire buildings, along with secure storage and modern office facilities. The facility, which is expected to be completed in May, will see Ausco Modular join other tenants within the estate such as Toll IPEC, Toll Customised Solutions, Grace Records Management and Allied Pickfords. Monaro Industrial Park is located in the industrial hub of Hume, 13km south of Canberra's CBD & 14km from Canberra Airport.

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

Christchurch

Layne Harwood
Managing Director, New Zealand
+64 3 377 1460
layne.harwood@nz.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

Auckland

David Sylvester
Director, Auckland
+64 9 377 3700
david.sylvester@nz.knightfrank.com

Australian Capital Territory

Terry Daly
Managing Director
+61 2 6221 7869
terry.daly@au.knightfrank.com

Northern Territory

Matthew Knight
Managing Director
+61 8 8982 2502
Matthew.knight@au.knightfrank.com

Tasmania

Scott Newton
Chief Executive Officer
+61 3 6220 6999
scott.newton@au.knightfrank.com

Research & Consulting Contacts

New South Wales

Nick Hoskins
Associate Director
+61 2 9036 6766
Nick.hoskins@au.knightfrank.com

Western Australia

Gabriel Payne
Research Analyst
+61 8 9225 2412
Gabriel.Payne@au.knightfrank.com

Victoria

Richard Jenkins
Director
+61 3 9604 4713
Richard.jenkins@au.knightfrank.com

South Australia

Penny Davidson
Research Analyst
+61 8 8233 5246
Penny.Davidson@sa.knightfrankval.com

Queensland

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

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