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Knight Frank Research Compass Report

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

Sydney

Investa Property Group has acquired a 75% interest in 420 George Street in the Sydney CBD for \$442.5 million, representing a core market yield of 5.3%. The interest was purchased from Fortius Funds Management through its Fortius Active Property Trust No.1, while the remaining 25% is held by Lendlease's Australian Prime Property Fund (APPF) Commercial. Constructed in 2010, the 31-level A grade building is situated adjacent to Pitt Street Mall and provides a total NLA of 37,688m² with floorplates averaging 1,200m². The building was 100% occupied at the time of sale and sold with a WALE of approximately six years, while major tenants include AECOM, State Street and JLL.

Western Australian-based Pindan Capital has purchased the Warners Music building located at 39 Albany Street, Crows Nest for \$13.3 million. The asset was purchased through a syndication of Pindan's clients on a yield of circa 6.0%. The three level office building comprises a total NLA of 3,286m² while providing basement car parking for 40 vehicles. Given the site area of 1,609m² including three street frontages, it has great future development potential. The building is currently anchored by Warner Music who currently occupy the top floor. The acquisition follows Pindan's recent purchase of a 54 apartment development site in Turramurra for \$14.2 million.

The amalgamation of four freestanding house sites into one 3,792m² residential development site, with potential for higher density, has been sold in Lane Cove. The site located at 84-90 Gordon Crescent has been purchased by the Chinese-backed local developer Apex Property International Pty Ltd for \$19.6 million; with land allotment areas ranging from 785 to 1,119m² within the sale. The purchaser intends to submit a development application to construct a residential complex comprising 85 apartments. If the development application is approved, this will be equivalent to just over \$230,000 per apartment.

Melbourne

Boutique investment firm Anton Capital has acquired 120 Spencer Street in the Melbourne CBD for \$165 million from private investor Harry Stamoulis, reflecting a reported yield of approximately 7.00%. Completed in 1973, the 23-level office building is located in the Spencer precinct, adjacent to Southern Cross station and has an NLA of 33,000m² and 300 car parking spaces. Levels 14 to 22 were refurbished in 2010. The asset is 90% leased to a range of tenants including Central Queensland University, Sage and NBN.

Stockland Property Trust has purchased the Satellite Corporate Centre on the corner of Springvale Road and Wellington Road in Mulgrave for \$87.6 million from Frasers Property Group reflecting an initial yield of 7.50%. Located on a 2.2 hectare site, the 21,126m² business park comprises of three high quality office buildings and a multi deck car park accommodating 1,361 vehicles. The Satellite Corporate Centre was sold with a WALE of 8.69 years reflecting a building rate of \$4,163/m². The three assets are 100% leased to Kmart, Toll Holdings and Coles Group.

BlackRock Asset Management has purchased Building 10 at 658 Church Street in Richmond for \$45.5 million from Frasers Property Group reflecting a core market yield of 7.25%. Constructed in 2000, Building 10, 658 Church Street has a total NLA of 7,696m² including 278 basement car parks. The six level building was sold with a WALE of 3.1 years reflecting a building rate of \$5,912/m². The asset is currently 100% occupied by a range of tenants including The Smart Group, Country Road Group and The Commonwealth Government of Australia.

As part of the 2016-17 State Budget, the Victorian Government announced it will provide significant infrastructure investment, including triggering three major projects. The State Budget will provide \$1.6 billion towards the Melbourne sky rail project, an elevated rail line through Melbourne's south-eastern suburbs, a further \$1.4 billion towards the Western Distributor project anticipated to commence in Q4 2016, and will provide full funding for the \$11 billion Melbourne Metro rail project. The Melbourne Metro rail tunnel will be the largest infrastructure project in over a decade, seeing the biggest overhaul to the train network since the construction of the City Loop.

A Chinese developer, Aohua Sheng Le Property, has purchased an amalgamated Southbank development site from more than 20 property owners, for \$32.3 million. Located at 107-117 Queensbridge Street, the 1,856m² site extends to City Road and is within close proximity to Crown Casino. The development is likely to be mixed-use and extend into the adjoining site located at 87-105 Queensbridge Street; also owned by Aohua Sheng Le Property. In total the site will span more than 4,000m². The subject site currently accommodates office, residential and carparking but is earmarked for up to 880 apartments across the multiple allotments owned by the developer.

Brisbane

The Australian Unity Healthcare Property Trust has purchased an office building at 15 Butterfield Street, Hertson for \$81.47 million. The 11,253m² office building, located at the edge of the Brisbane Fringe market and opposite the Royal Brisbane Hospital, has the office space fully occupied by Queensland Health (98% of the building). The building, which has four levels of office accommodation was constructed in 2008 and has floor plates of 3,279m² and parking on site for 136 cars. The building was sold with a WALE of 4.5 years and reflected a core market yield of 7.12%. The building was sold by local private investor Mr Clive Berghoffer.

Charter Hall has bought out JV partner PSP Investments, paying \$93 million for a 50% interest in 100 Skyring Tce, Newstead. Charter Hall which already holds 50% of the building for its Core Plus Office Fund (CPOF) has purchased the remaining share for the Direct Office Fund (DOF). CPOF and the Canadian based PSP Investments developed the building in 2014 with the main tenant, Bank of Queensland, occupying 51% of the office space. With a WALE of 10.1 years the passing yield of 6.43% represents the premium being paid in the market for core assets with long WALES highly regarded in the Brisbane market to span the current weaker leasing conditions. The property is of a relatively large scale for the Brisbane Fringe market with an NLA of 24,665m² and floorplates which average 2,200m².

The Queensland Government has resurrected the Cross River Rail project and named it their highest priority infrastructure project. The Cross River Rail has had a number of iterations since first being proposed in 2008 and will replace the abandoned BaT (Bus and Train) proposal which was a multi-level tunnel for both train and bus access. The latest proposal involves a new 10.2km rail link from Dutton Park to Bowen Hills, providing a second river crossing for the rail network. With the current Merivale Bridge between South Brisbane and Roma Street forecast to reach capacity by 2021 there is a real need to provide an alternate river crossing for the railway network, which has added capacity at the outer edges of the network (Springfield Link, Moreton Bay Rail Link). The proposed alignment involves five new station precincts at Boggo Road (near Dutton Park), Woolloongabba, Albert Street in the CBD, additional station facilities at Roma Street and a new station at The RNA Exhibition grounds in Bowen Hills. The project, with a current estimated cost of \$5.2 billion, has an estimated delivery date of 2023, with a business case to be presented to the Federal Government mid-2016 and the newly created Delivery Authority investigating a number of potential funding models.

Perth

LandCorp has appointed Blackburn Property Developers, after a two staged tender process to create a high quality mixed-use development consisting of more than 750 homes and 123 apartments at the Claremont Ovals precinct, in the Western Suburbs. Blackburn is the third developer to buy into the LandCorp infill project with Georgiou Group nearing completion of its “The Pocket” development and Mirvac expected to begin construction of “The Grandstand” in late 2016 or early 2017.

Melbourne-based property developer OpenCorp have entered the Western Australia market after purchasing two development sites in Port Coogee and Hammond Park. OpenCorp will launch a 75-lot land subdivision in Hammond Park named “Quenda” and the “Quayhouse” project in Port Coogee, will be a 38 apartment coastal development.

German supermarket giant, ALDI, has confirmed that their first Western Australia stores will open in early June. Lakeside Joondalup Shopping Centre, Mirrabooka Square Shopping Centre, Kwinana Marketplace and Belmont Forum Shopping Centre will be the first locations for the chain. These are the first of 20 stores expected to open in 2016 with ALDI planning to expand further in Western Australia over the next few years, with a target of 70 new shops. The distribution centre located in Jandakot, constructed by Georgiou Group costing \$80 million, is now complete with stock set to begin arriving next month.

Under a public offer to purchase campaign, Landcorp has sold its last Leighton Beach residential site to a Singapore-based developer for \$15.4 million. Located in North Fremantle, the 4,015m² beachfront site with expansive views of the Indian Ocean, forms part of the WA government’s re-zoning and normalisation of the Leighton Beach urban renewal precinct. The site has yet to receive development approval but is likely to accommodate a five to six level apartment complex forming part of the mixed-use urban village; similar project sizes to those being developed by Mirvac and Brookfield Multiplex currently within the precinct.

Canberra

Local based investor Zapari Group has acquired 197 London Circuit, Canberra for \$13.525 million, reflecting a core market yield of 9.82%. Also known as Eclipse House, the 11-level C grade office building, located in the CBD at the junction of London Circuit and Akuna Street, provides 5,883m² of office NLA with typical floor plates of 580m². Although the current tenant (ACT Government) has a lease expiry in November 2016 with a five year option, it is understood they have indicated

their intention to vacate at expiry. Subject to approval and the lease variation charge, Zapari Group intends to redevelop the site to accommodate a 153 room hotel.

Building on recent leasing momentum in Canberra, the Department of Infrastructure and Regional Development has committed to two, new 10 year leases (renewals) at 62 Northbourne Avenue, Civic (10,300m²) and 111 Alinga Street, Civic (16,300m²). This commitment highlights the continued strong tenant demand within the Civic precinct where in the six months to January 2016, net absorption measured 20,906m², compared to the broader Canberra market which was flat over the same period. Elsewhere, the Department of Finance has leased 1,600m² at 2 Faulding Street, Symonston for a 10 year term.

Adelaide

Adelaide based property group Commercial & General have launched the Commercial & General Wholesale Office Trust. The fund is structured as an unlisted wholesale unit trust and currently comprises the South Australian Police (SAPOL) building at 100 Angas Street and the State Administration Centre Portfolio (SACP). SACP comprises the office buildings of 200 Victoria Square, 31 Flinders Street, 220 Victoria Square, 30 Wakefield Street and 12 Victoria Place. SACP and SAPOL have a combined NLA of approximately 78,000m², a WALE in excess of 10 years (income weighted) and a combined value of approximately \$371 million. The fund has a target of raising \$1 billion in assets under management.

Auckland

In the largest single office building transaction undertaken this year, Mansons TCLM has concluded the sale of a large office property the firm developed on a speculative basis. Building A of the two-building complex at 151 Victoria Street in the Auckland CBD, sold for circa NZ\$115.82 million to Augusta Funds Management, who unconditionally purchased the five green-star office property in which media company NZME is the anchor tenant. In June, Augusta will offer the public NZ\$70 million of equity in the building in the biggest syndication it has undertaken. Mansons also has two more large speculative building projects currently underway in Sale Street in Auckland city and in St Georges Bay Road, Parnell.

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