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Knight Frank

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Knight Frank Research Compass Report

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

Sydney

Dexus Property Group and the Dexus Wholesale Property Fund have purchased a 50% stake in the 67 storey MLC Centre (19 Martin Place) from QIC for $722.6 million. The office tower was purchased with a 4.1 year WALE, a reported core market yield of 5.6% and is the largest commercial transaction in the Sydney CBD this year. The tower boasts over 67,100m^2 of office space and 10,300m^2 of retail space and key office tenants include Holding Redlich, Tresscox and Pitcher Partners. This acquisition strengthens Dexus' footprint in the Sydney CBD office market as one of the dominant owners. This purchase comes in conjunction with Dexus also purchasing 100 Harris Street, Pyrmont for $327.5 million, occupied by major tenants WeWork and Fairfax's Domain. The property was purchased with a fully leased yield of 5.4% and a WALE of 7.6 years and is the largest office transaction in Pyrmont.

An offshore investor has purchased 116 Miller Street, one of the largest potential development sites in North Sydney, for $135 million. The 11,368$m^2$ office and retail building which includes tenants CBA, ANZ and NAB is located opposite the future Victoria Cross Metro Station. The sale reflected a reported fully leased yield of 5.25%, underpinned by the strength of the North Sydney market. The sale has generated a $75 million capital gain for the vendors, Property Bank Australia, Security Capital Corporation and RG property within six years of purchasing the asset. Yields are expected to remain low with strong rental growth forecast amidst the office market withdrawals in North Sydney and the new metro train line.

Dexus and Cbus Property have secured the renewal of anchor tenant Clayton Utz at its premium office tower, 1 Bligh Street. The law firm renewed 17,000m^2 over levels 1-15 for another 10 years starting from 2021. The renewal represented a major win for Dexus and Cbus as Clayton Utz were initially interested in relocating to the new developments at AMPs Quay Quarter tower or Brookfield's 10 Carrington Place. The renewal has boosted the WALE of 1 Bligh Street from six years to nine years. The building is currently 100% occupied and is considered one of the most prestigious buildings in the Sydney CBD based upon its calibre of tenants.

Chinese-backed Maville Group has sold their 219-231 Botany Road site in Waterloo for $40 million to a local developer. The 4,980m^2 South Sydney site was previously purchased by the group in 2015 for $29.5 million. They had since achieved an indicative scheme approval for a nine-storey building accommodating 134 residential apartments, ground floor retail and 95 car parking spaces. Two offshore developers have also purchased development sites to the North of the CBD. A 4,002m^2 site located at 2-10 Milner Road in Artarmon with potential for 22 townhouses sold for $25 million and a 5,450$m^2$ site in Macquarie Park transacted for $50 million. The Macquarie Park site at 2-10 and 14 Cottonwood Crescent has the potential for 80 apartments and was acquired via an amalgamation of six apartment buildings utilising the NSW strata renewal sale process whereby only 75% of apartment owners are required to approve the sale of the entire building.

Melbourne

Suntec REIT has acquired a 50% interest in Mirvac's 477 Collins Street, CBD, office development for $414 million, based on a capitalisation rate of 4.80%. The development, due for completion in mid-2020, will provide over 51,000m^2 of office space across 40 levels and will be the largest premium-grade office building delivered in Melbourne for over 25 years. Deloitte has pre-committed to 22,000m^2 of office space across 12 levels. Upon completion, 477 Collins Street is targeting a 5 Star Green Star rating and a Platinum WELL certification. The office tower will include end-of-trip facilities, a wellness centre, a childcare centre and a lobby that features a 30 metre-high glass atrium. Mirvac also recently sold a 50% interest in 664 Collins Street in the Melbourne CBD for $138 million to Morgan Stanley Real Estate's Prime Property Fund Asia on an initial yield of 4.97%. The office tower, which is also under development, is located above Southern Cross Station and will comprise 26,000m^2 of A-grade office space across nine levels. The asset, which is 62% pre-committed to Pitcher Partners and ExxonMobil, will complete in Q2 2018.

Centuria Metropolitan REIT has purchased the Target headquarters office building at 2 Kendall Street, Williams Landing for $58.23 million from Cedar Woods Properties on an initial yield of 6.50%. The 12,919m^2 eight-level, A-grade office building is fully pre-committed to Target on an initial ten-year lease, accommodating 850 employees on completion in 2019. It will sit adjacent to a train station and freeway interchange, and is within the 50 hectare Williams Landing Town Centre which includes the newly opened Williams Landing Shopping Centre and numerous residential and commercial developments.

Melbourne-based developer Caydon Property Group has purchased a 7,000m² portion of land within the decommissioned Amcor paper mill site for $29 million. The Alphington site has the potential to yield 350 apartments within the 16.5 hectare “Yarrabend” master plan which fronts the Yarra River to the South and is bound by Heidelberg Road and the Chandler Highway. A mix of 2,500 free-standing dwellings, townhouses and apartments are earmarked for the proposed development including a retail precinct and primary school. Chinese developer, Country Garden has also purchased a 363 hectare site to the south west of Melbourne, in Wyndham Vale, for $400 million. Located on Black Forest Road, the site has the potential for 5,000 dwellings. In Box Hill, a local private developer has purchased a site at 851 Whitehorse Road for approximately $50 million. The 4,268m² site was purchased from Spotlight with development approval for three buildings accommodating 517 apartments and a 150 room hotel.

Brisbane

Australian property developer Stockland has purchased a 3.3 hectare, waterfront, site at Hope Island for $13.5 million. The site, located at 2-44 Marina Quays Boulevard, was purchased from the administrators of Fish Developments. The site is suitable for up to 100 medium-density dwellings and is surrounded by established housing estates and golf courses. It is opposite the proposed town centre to be anchored by a supermarket and speciality shops. The site is within close proximity to the Helensvale train station with access through to Brisbane, and a light rail station, due to be completed by the end of 2017, which connects south to the Gold Coast University Hospital and onto Broadbeach. This light rail line will eventually extend down to the Gold Coast Airport.

Offshore investor M&G Real Estate has purchased 512 Wickham St, Fortitude Valley for $119.1 million, reflecting a core market yield of 6.18%. The 14,585m² office building, located in Brisbane’s Fringe office market, is the first Brisbane purchase for M&G, with the asset to be placed within the Core Asian strategy fund. The unlisted fund invests exclusively in core assets within the Asia Pacific region and has more than US$3billion in assets under management. The building, also known as HQ South, was constructed in 2010 and has seven office levels, ground floor retail and basement parking for 207 cars. The property was sold by AFIAA on a WALE of 6.2 years with the major tenant being CPB Contractors (Leightons).

The resurgence of interest in the Gold Coast office market has continued with CorVal purchasing the Bundall Corporate Centre for $89 million. The property contains two office towers with a total NLA of 21,110m² and a health centre on a large, high profile site on the corner of Bundall Road and Slayter Avenue in the suburb of Bundall. In February 2017 the vendor, Cromwell Property Group, lodged an application for a multi stage retail and residential masterplan for the underutilised areas of the 2.68 hectare site which included three residential towers plus a retail and dining precinct. This sale represents the second time that Cromwell has sold the asset, having previously sold the property when it was still one tower in 2007 for a premium $106 million before purchasing the site again (now with two office towers) in 2011 for $64 million.

Perth

The Old Perth Girls’ School at 2 Wellington Street, East Perth has sold for $5.075 million to a syndicate of local investors. The property is heritage-listed and is situated on the corner of Wellington Street and Plain Street, with the site occupying over 1.1 hectare of land, located approximately one kilometre from the Perth CBD. The property was purchased for its redevelopment potential, however due to its heritage nature, any future development will be at the discretion of the Metropolitan Redevelopment Authority.

A retail warehouse at 15 Sundew Rise, Joondalup has sold for $7.5 million to a private investor. The property is located within the newly established commercial/showroom precinct in Joondalup, approximately 23 kilometres north of the Perth CBD. The property was sold with a 12 year lease in place to JB Hi-Fi and the sale reflected a passing yield of 5.7%.

Adelaide

Work on the new $80 million Adelaide city tramline extension has now commenced. The tramline will be extended in two locations from King William Street, approximately one kilometre east toward the old Royal Adelaide Hospital Site on North Terrace, plus a short spur line north to service the Festival Plaza and Adelaide Oval. The extension compliments the broader AdeLINK plan which encompasses an expansion of the tram network across metropolitan Adelaide.

London based GFG Alliance (Liberty House) is set to purchase Arrium for an undisclosed sum. Arrium operates the Whyalla Steelworks and went into voluntary administration in 2016. The Whyalla Steelworks directly employs approximately 3,000 people with a further 2,500 jobs reliant on the steelworks and aligned industries therefore the sale has implications on broader regional economic conditions in South Australia. It has been reported that GFG Alliance intends to retain the existing workforce and invest in the Whyalla facility.

A prime CBD development site at 75-79 King William Street, Adelaide has been purchased by a private developer for $8.388 million. The 650m² site has three frontages and no prescribed height limit, currently improved with a 3,334m² seven-level office building with ground floor retail. The existing office accommodation has been vacant for an extended period of time. The sale equates to $12,905/m² of site area. Elsewhere in the city, the SA Government has sold a vacant industrial site at Lot 9 Naweena Road, Regency Park for $4.888 million. The 25,840m² site is to be developed by a private owner occupier and is located approximately 8km north of CBD, surrounded by a number of significant distribution centres. The sale equates to $189/m² of site area.

Canberra

Sydney based private investor Lederer Group has acquired 11 Moore Street in Canberra from Willemsen Investment Corporation for $44 million. The sale reflected a core market yield of 7.53% and an improved rate of $5,079/m², with a WALE of 3.3 years. Centrally located within the Civic precinct, the A-grade building is fully occupied by the ACT Government with a lease expiry in October 2020. Completed in 2005, the eight level office building provides a total NLA of 8,663m² and basement car parking for 62 vehicles. The asset attracted strong interest from both interstate and offshore buyers and highlights the current strength of the Canberra investment market. The sale comes off the back of the recent acquisitions of 2-6 Bowes Street ($58.33 million) and 82 Northbourne Avenue ($57.33 million).

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