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Knight Frank Research Compass Report

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

National

The recent release of the PCA Office Market report in early August has continued to demonstrate the two-tiered office leasing market which currently exists in Australia. The vacancy rate in the Sydney CBD fell further to 5.9%, while the Melbourne CBD remained low at 6.5%. In contrast, all other state and territory CBD markets with the exception of Hobart remained well above double figures. Hobart (8.2%), Melbourne (6.5%) and Darwin (22.5%) were stable, while falls were recorded in Canberra (11.4%), Adelaide (16.1%) and Sydney (5.9%). Brisbane (15.7%) was the only CBD market to record an increase over the past six months. Across all of the Australian CBDs the average vacancy rate is 10.5% with strong absorption of 188,097m² over 2016/17. The vacancy in the Australian non-CBD markets has continued to tighten, falling to 9.5%, as total stock has continued to trend downwards as office space in suburban locations is eroded for residential redevelopment. The tightest office precincts are currently Melbourne Southbank (3.3%), East Melbourne (3.3%) and Parramatta (4.3%) while the highest vacancy rate has continued to be in Darwin (22.5%) and Perth (21.1%).

The recent circular released by the China State Council on Outbound Investment Control represents a further formalisation of controls on capital outflow from the country. This is a continuation of increased regulatory oversight which has been in place since the start of the year, however is not considered to be a policy change. Of particular focus is the curtailing of 'irrational' investments with sporting teams and movie studios given as examples of investment which is not favoured. Investments to be 'restricted' or 'subject to high scrutiny' include development sites and hotels, largely due to concerns surrounding the inherently risky nature and higher gearing levels for these investments. Despite this greater scrutiny, approval for investment is still expected to be given with established assets, particularly those related to technology or logistics, to be favoured. Companies based outside of Mainland China, those which already hold offshore capital or are recycling capital from offshore investments will not be impacted by this greater oversight.

Sydney

Singaporean real estate investment firm Ascendas-Singbridge has purchased 66 Goulburn Street in the Midtown precinct of Sydney for $252 million. The Midtown vacancy rate was 4.2% as at July 2017, 300 basis points below the 10-year average. The 22,929m² leasehold office tower was purchased from the GDI Property Group on a 5.0% net passing yield. The building is anchored by Government Property NSW and has a WALE of 6.1 years as at January 2017.

ASX-listed Goodman Group has sold 8 Khartoum Road, Macquarie Park to a private investor for $95.3 million. Macquarie Park's vacancy rate stood at 8.5% as at July 2017. The 11,127m² brand new six-level campus style office building is almost fully leased to Fuji Xerox for 10 years. The sale represents a net passing yield of 5.25% and rate of $8,565/m².

The Four Points by Sheraton Sydney hotel on the corner of Abercrombie Street and Broadway in Chippendale has been purchased by private investor Jerry Schwartz for $156 million from Impact Investment Group. The 297 room hotel development is currently under construction with completion expected in 2018. The transaction represents a rate of $525,252 per key.

Local Chinese Developer, AVP Developments Pty Ltd, has purchased The Glenmore Meat Co site in Glebe for $23.58 million. The 2,034m² development site located at 40-46 Wentworth Park Road currently accommodates owner-occupier, Glenmore Meat Company. The site fronts Wentworth Park with access from Bellevue Lane at the rear and is within walking distance to the Bays Precinct, earmarked to undergo extensive redevelopment over the next decade.

Melbourne

GPT Wholesale Shopping Centre Fund (GWSCF) has purchased a 25% interest in Highpoint Shopping Centre at 120-200 Rosamond Road, Maribyrnong for $680 million from the Bensen family on a reported yield of 4.20%. GWSCF exercised its pre-emptive right to purchase Highpoint Shopping Centre, with the acquisition price reflecting a 10% premium to the Fund's 30 June 2017 book value. The purchase takes GWSCF's ownership in the asset to 83.33% while GPT Group retains a 16.67% interest, with GPT Group continuing to be the manager of Highpoint Shopping Centre. The 154,000m² Super Regional shopping centre is one of the largest shopping centres in Australia, incorporating 474 tenancies and 7,341 car spaces, last undergoing a $300 million redevelopment in 2013. As at 30 June 2017, the Super Regional shopping centre had 99.7% retail occupancy and generated an annual turnover of $990.6 million.

Vantage Property Investments has purchased 420 St Kilda Road, Melbourne for $68.84 million on an initial yield of 5.40%. The office building was purchased from Melbourne developer CEL Australia, a subsidiary of Singapore-listed property group Chip Eng Seng which purchased the building in 2013 for approximately $45 million. The 10-level B Grade office building contains 10,562m² of net lettable area and serves as CEL Australia's local head office alongside tenants ANZ Bank and APP Corporation. The St Kilda office market has emerged as an attractive investment market as vacancy has improved, falling from 12.9% to 11.3% in the six months to July 2017, underpinned by withdrawals for residential conversion and strong tenant demand for space in the remaining office buildings.

Three development sites across Greater Melbourne have transacted for a total $107 million. In Sunshine North, a 20 ha site on Duke Street was purchased by Pace for $34 million. The former quarry was purchased from Yourland and is earmarked for townhouses and mixed-use. Stockland has purchased a 6.3 ha site at Altona North for $48 million. Located at 278-288 Blackshaws Road and 8-38 Kyle Road, the site has 276 townhouses proposed. In Lara West, Soaraway Developments, a local division of China's Yucai Group, has purchased a 79.6 ha site for $25 million. The corner site has access from both 285 Patullos Road and Bacchus Marsh Road with potential for 909 low-density dwellings.

Brisbane

Private Syndicator OzProp has purchased a cold storage facility at 84 Lahrs Road, Ormeau for $22 million. The facility contains a 7,485m² building on a 2.12 ha site and is located in close proximity to the M1 Motorway some 39km to the South of the Brisbane CBD. Occupied by Scots Transport, the facility was purchased from a private investor at a reported yield of 8.1%.

Miele Australia has pre-committed to lease a 7,065m² industrial facility at Brisbane Airport. The whitegoods manufacturer will relocate from two locations to the new Queensland headquarters on its completion in late 2018. The development, to be delivered by Brisbane Airport Corporation's property division, BNE Property, will consolidate the head office, logistics and servicing roles into a central location.

The Brisbane Fringe office market of Milton has recorded the recent sales of 189 Coronation Drive for $17.5 million and 8 Gardner Close for $10.62 million. The Milton office market had a vacancy rate of 17.9% in the PCA office market survey in July 2017. With the relocation of Origin into the CBD in 2018, the vacancy has the potential to increase to c30%, likely triggering a period of refurbishment, change of use and renewal for the mixed-use precinct. 189 Coronation Drive has been purchased by a private Sydney-based family for $17.5 million with the 2,657m² building sold fully leased with a WALE of 3.9 years. The three-level building, located on a 1,804m² site at the corner of Coronation Drive and Cribb Street was constructed in 1988 and has parking on-site for 59 cars. Sold by a local private family the sale reflected a reported passing yield of 7.44%. The four-level office at 8 Gardner Close was purchased by Quintessential Equity for $10.625 million and was substantially vacant. The 4,352m² asset, sold by the Heathley Diversified Property Fund, sits on a site of 3,135m² and has floorplates of approximately 1,100m².

Perth

Far East Organisation has purchased 109 St Georges Terrace in the Perth CBD for $71.7 million. The property is well-located in the core, being on the corner of William Street – one of the most prominent intersections in the Perth CBD. The building is a 21-level, B Grade office tower, originally constructed in 1972, and later refurbished in 2005. The building sold with a passing yield of 5%. It is understood that Far East Organisation will lease the building in its current state, with potential for longer term refurbishment or redevelopment.

Centuria has purchased the Hatch Building in Perth for $58.2 million. Located at 144 Stirling Street, on the corner of Newcastle Street, the property is within walking distance of the Northbridge entertainment precinct to the East. The property comprises an A Grade office building with four floors, plus an attached warehouse building. The building sale reflected a passing yield of 9%.

Adelaide

Four Adelaide CBD office buildings have sold for a total of $240 million. The first transaction was the sale of the A Grade 45 Pirie Street for $105 million to Singapore based AEP Investment Management. The sale reflected a WALE of approximately 4.0 years and a core market yield of 7.8%. Also in August, US-based Blackstone purchased the SA Motor Accident Commission's national property portfolio comprising 121 King William Street (A Grade) and 99 Gawler Place (B Grade). The properties were recorded as transacting for $58.4 million and $34.6 million respectively. Finally, the leasehold interest in the mixed-use Citi Centre at 141 Rundle Mall sold for circa $42 million to a private investor. The eight-level, B Grade office tower component is fully leased to SA Health and the sale reflected a core market yield of approximately 10.0% and WALE of 4.0 years.

The management rights to South Australia's Lands Titles Office have been privatised by the SA Government for $1.6 billion. The 40 year rights were purchased by a consortium comprising the Canadian Public Sector Pension Investment Board and Macquarie Infrastructure and Real Assets. The sale allows PSP Investments and Macquarie to commercialise the data and follows the recent privatisation of the NSW Lands Titles Office.

Canberra

Local property developer Geocon has purchased a mixed-use development site in Reid for $38.5 million. Purchased from the ACT Government, the 1.17 ha site known as City 7 is located on the corner of Cooyong Street and Ainslie Avenue. Positioned opposite the Canberra Centre and Glebe Park, the site was the former home of the Bega Flats and forms part of the ACT Government's public housing renewal program. The public housing renewal program, labelled the 'ABC Flats' also included the neighbouring Allawah and Currong buildings which sold in early 2016. With a CZ5 Mixed-Use Zoning and no GFA restriction, the development of City 7 could accommodate up to 500 apartments on completion in 2020.

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