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Knight Frank Research Compass Report

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

Sydney

AMP Capital Wholesale Office Fund (AWOF) has agreed to acquire a further 25% interest in NAB House at 255 George Street in the CBD, increasing the Fund's ownership to 100%. The stake in the 40,100m^2 office tower has been purchased from Brookfield. It is understood that Brookfield will redirect capital from the core asset sale to development opportunities. The sale price remains confidential, however reported estimates are that the 25% share traded for circa $115 million. The building is anchored by NAB, who occupy around 20,000m^2 of high rise space and with approximately 6.25 years remaining on their current lease.

Following a competitive public tender, Far East Organization has acquired the Ausgrid building at 570 George Street in the Sydney CBD for $151.8 million. The asset was sold by the State Government as part of their ongoing strategy of recycling capital from their property portfolio into new state infrastructure. Far East Organization has been notably active in the CBD market, also acquiring 50 - 58 Park Street for circa. $127.0 million in February. It is understood both acquisitions were undertaken with the intention of medium term residential conversion.

Melbourne

Singapore-listed healthcare company, International Healthway Corporation (IHC) has acquired three Victorian assets for a total of $108.8 million. These sales are the beginning of its portfolio diversification into Australia ahead of launching a new healthcare property trust on the Singapore stock exchange. IHC purchased 553 St Kilda Road, Melbourne from the Luxembourg-based company Rosalia Real Estate for $45 million. The seven-storey fully leased office has 10,170m^2 of lettable space with the main tenant being the US consulate general. Given that the property is located with several existing medical services in the surrounding vicinity, IHC has plans to reposition the property over the next few years to meet the rising healthcare demands. IHC also acquired 541 St Kilda Road from a property syndicate that is being managed by APN Property Group for $35.8 million. 541 St Kilda Road is an eight-storey building comprising 8,229m^2 of net lettable area (NLA) and is largely occupied by the anchor tenant, Seek Limited. In addition, IHC acquired a four-storey medical-use building with a NLA area of 5,172m^2 and 154 car spaces at 73-79 Little Ryrie Street, Geelong for $28 million, which is located next to Geelong Private Hospital.

The GPT Wholesale Shopping Centre Fund (GWSCF) has acquired a 50% interest in the Northland Shopping Centre for $496 million from the Canada Pension Plan Investment Board (CPPIB). The transaction represents an initial yield of 6.1% and a core capitalisation rate of 5.8%. Northland Shopping Centre is a Super Regional centre co-owned by CFS Retail Property Trust Group, located approximately 11 km north of Melbourne's CBD, and has the 6^{th} highest moving annual turnover among retail centres in Melbourne. Northland comprises a gross lettable retail area of 92,380m^2, and is anchored by a Myer department store, Kmart and Target discount department stores, Coles and Safeway supermarkets, a 14-screen Hoyts cinema complex, eight national mini-majors plus speciality stores. The transaction was part of the agreement struck between GPT and the DEXUS/CPPIB consortium, in the takeover of the Commonwealth Property Office Fund. Under the arrangement, GPT Group will also buy five office assets once the consortium integrates the rest of the CPA assets. The acquisition is due to settle on 30 April 2014.

Australian fund manager CorVal has acquired stage one of Montague's refrigerated facility at the Wyndham Industrial Estate in Truganina, for approximately $48 million at an initial yield of around 8%. The first 16,960m^2 stage of the refrigerated warehouse is still under construction and is due for completion in November. The facility is being built with a 20-year double net lease in place to the Montague Cold Storage group, which services a range of food-based clients. In addition to the under construction warehouse, a further two stages will provide an extra 29,000m^2 of gross lettable area.

Brisbane

Folkstone Funds Management has agreed to purchase The Station Oxley, a neighbourhood retail centre at 133 Station Road, Oxley, for a reported $35 million. The 7,106m² suburban centre, located approx. 14 km to the South West of the Brisbane CBD was constructed in 2013 and is anchored by a Woolworths supermarket of 3,200m² and 16 specialty stores including BWS, Priceline Pharmacy and Flight Centre. There is basement parking for 126 cars and there is also a 2,412m² commercial component which is leased to the Queensland Department of Communities, Child Safety and Disability Services. The centre has been acquired with the intention of placing in the Folkstone Real Estate Income Fund at Oxley. The centre was developed by local developers Property Solutions and QM Properties in a joint venture and sold with a WALE of 11.1 years and with 70% of the income from either Woolworths or the State Government. The reported passing yield was 7.75%.

Demand for inner city development sites has continued to build with a number of significant residential development acquisitions through Newstead and Fortitude Valley. In addition to the Metro Property Group's exclusive due diligence agreement over the remaining stages of the Waterloo development (10,650m² site) at Newstead, announced last month, further significant sites have transacted. The Aveo Group (formerly FKP) has sold three of the four the remaining stages of the Gasworks development, also at Newstead, to two local Brisbane developers for a total of $39.85 million. Stage B, Skyring Towers, has been purchased by interests associated with Tom Dooley for $16.5 million, with settlement scheduled for November 2014. Stages C&D, Festival Towers, has been purchased by Cavcorp for $23.35 million with settlement scheduled for June 2015. The three sites have the potential to yield between 550 and 650 apartments.

A future development site, 801 Ann Street, Fortitude Valley, has been purchased by Walker Corp for $22.2 million. The site, which covers 3,582m² is currently used by AP Eagers for their Jaguar, Land Rover and Volvo dealerships and the company will take a leaseback on the site for the next three years. The site has four street frontages and would be suitable for either commercial or residential development, with capacity for approx. 350 apartments. Walker Corp already owns a residential development site in Milton, which was purchased in 2012.

The Brisbane CBD leasing market is showing signs of life with Corrs Chambers Westgarth leasing approx. 6,000m² over levels 41-44 in the premium 111 Eagle Street building. The law firm will relocate from 1 Eagle Street with GPT to take on a relatively significant lease tail in that building. This lease, with a term of 15 years, now takes the building to 94% leased for GPT. However there is extensive sub-lease space within the building with Arrow Energy and XStrata both offering full floors for sub-lease.

Perth

Two adjoining industrial properties have been sold at 164-166 Railway Parade and 172 Railway Parade, West Leederville for $10.2 million and $8.7 million respectively. The properties, which are expected to be redeveloped, are located within West Leederville's former industrial area which is currently undergoing transformation into a mixed-use residential and commercial precinct. Both sites fall under the Town of Cambridge's identified 'Activity Centre' allowing redevelopment to a plot ratio in excess of 3, with buildings up to 10 stories. The 4,403m² site at 164-166 Railway Parade, which sold to a Malaysian investor, is improved with an older style building of approximately 3,160m² providing a short term holding income of $247,387 per annum. The sale reflects a land rate of $2,317/m². The 3,909m² site at 172 Railway Parade, which sold to Finbar, is tenanted by Hisco Hospitality and Healthcare and is improved with an older style single level building offering approximately 700m² of office and showroom as well as 2,000m² of warehouse. The sale reflects a land rate of $2,226/m².

Adelaide

A local private developer has purchased a 13 level B-Grade office building located in the Adelaide CBD on 44 Waymouth Street, for $14.1 million, reflecting an initial yield of 4.60%. The building has a NLA of 7,220m² and is currently 45% leased. The major tenant is the State Government (The Minister for Transport and Infrastructure (SA Health)), occupying approximately 41% of the NLA. The building was sold by the Indigenous Business Council, which is also an occupant in the building.

Charter Hall's Core Plus Office Fund (CPOF) has announced their 50% acquisition of the new Tower 8, a 17 level A-Grade office tower completed in late 2012. The 37,313m² building was sold fully leased with the ATO taking approx. 85% of the office space on a 15 year term and the remaining 15% is leased to Australia Post for 10 years. The transaction involves a conditional agreement for Franklin Street Property Trust (FSPT) to acquire the adjoining Adelaide GPO and surrounding development land, known as City Central, for $12 million. The price has not been disclosed for the 50% interest in the building, as it was a purchase of units in the FSPT. At the time of sale the FSPT's book value for the asset was $199 million, which reflects a gross asset value for the 50% interest of $99.5 million. The joint owner of FSPT will remain Telstra Super, which has a history of co-investment with Charter Hall.

Canberra

Telstra have officially opened their new headquarters at 16-18 Mort Street, Canberra. Telstra had agreed to a 12 year lease with landlord Investa Office Fund in mid-2013 following the departure of the previous tenant, DEEWR. The lease commencement was 1 November 2013 with staggered occupation. Prior to occupation, the building underwent an $18 million refurbishment to bring it to A grade standard including an updated façade and upgrades to the lifts and mechanical and electrical systems resulting in an increased NABERS rating to 4.5 stars. The building NLA is 14,506m² and Telstra is the sole office occupant, while GG Espresso will lease 185m² on the ground floor (opening soon). The move has provided Telstra the opportunity to consolidate operations from four locations, namely Northbourne Avenue in Dickson, National Circuit in Barton, Thynne Street in Bruce and Kent Street in Deakin.

Unlisted fund Quintessential Equity has acquired 14 Moore Street in the Canberra CBD for a reported circa $23 million from DEXUS. The office building totals 11,100m² with average floor plates of 870m² and is located in the north-west quadrant of the Civic precinct. DEXUS had reported that 82% of the building was available for lease as at December 2013. The acquisition by Quintessential Equity followed their recent acquisition of an industrial property in NSW (1 Inglis Road, Ingleburn) for $13.8 million from AMP. The property comprises a 9,928m² warehouse on 65,680m² of land with the potential for the surplus land to either be sold off or developed.

Darwin

Broadcast Australia Pty Ltd has sold two residential development sites at 16 and 25 Blake Street, The Gardens, an inner suburb of Darwin. The sites have a combined area of 52,340m² and form a high end residential redevelopment site which is currently zoned CP Community Purpose, so there is some associated re-zoning risk. A local developer has paid $12.5 million for both of the sites. The purchaser plans to re-zone and redevelop the sites however no time frame has been identified**.**

Centurion Transport has leased a substantial industrial facility at 71 McKinnon Road, Pinelands on a 5 + 5 year lease. Improvements include the main warehouse of 2,415m², awning of 1,725m², offices of 453m², a secondary warehouse of 260m² with side awning of 123m² and a wash-down facility. Total land area of 15,100m². The property is owned by a private investor based in Perth. The annual net rental is $565,000 per annum, which reflects a rate of $114/m² net over the building areas (including awning space).

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