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Knight Frank Research Compass Report

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

Sydney

Brookfield has acquired 50 Carrington Street in the CBD from DEXUS Property Group for \$88 million. DEXUS acquired the 11,277m² asset in 2012 and embarked on a capital expenditure program including works to the lobby, lift facilities, building façade and end of trip facilities. After purchasing the asset with 61% occupancy and a WALE of 2.2 years, DEXUS successfully leased a number of vacancies and sold the asset fully occupied with a 3.7 year WALE. Although the building is located in close proximity to the Brookfield owned and controlled 1 Carrington mixed-use development site, the property was reportedly keenly contested amongst buyers after a full expression of interest campaign.

Propertylink has purchased 50 Airds Road, Minto in south-west Sydney for \$21.6 million. The 23,063m² warehouse complex has been purchased on a reported passing yield of 9.5%. The property is leased to Fields Australia, Doka Formwork Australia and NSW Freightlines and reflected a reported WALE of 3.5 years. The asset was acquired within the Propertylink Australian Industrial Partnership (PAIP), a vehicle that was launched in March 2014 with capital backing from Goldman Sachs and UK based Grosvenor Group. After a number of recent acquisitions, including the 10 asset portfolio from Abacus for 106.75 million in June, the acquisition takes the total value of the PAIP assets to a reported \$360 million with exposure in Sydney, Melbourne and Brisbane.

Meriton has purchased an amalgamated site containing two Business Parks in Rosebery for a combined \$190 million from DEXUS Property Group. Zoned residential with a GFA of 90,000 m², the current assets include a 27,300 m² facility at 5-13 Rosebery Avenue and a 16,800 m² facility at 25-55 Rothschild Avenue. More recently, Meriton purchased another major residential development site in South Sydney, being an 11,102 m² industrial site fronting Church and Bourke Street's, Botany for \$75 million, from the Orlani Property Group. The site has development approval for 341 apartments, with Meriton intending to resubmit an application to council to increase this to 400 apartments.

Melbourne

Invesco has purchased 321 Exhibition Street in the Melbourne CBD for \$208 million from Cromwell Group reflecting an approximate yield of 6.40%. The 22-level A-grade office building comprises 29,809m² of NLA and 54 basement parking bays with floor plates ranging between 1,343m² and 2,020m² with the office space entirely occupied by Origin Energy on a 10-year lease from 2011. Cromwell undertook a \$35 million extensive refurbishment between July 2010 and August 2011, following the departure of Australia Post after more than 20 years at the address, achieving a 5.5 Green Star rating.

Propertylink's Australian Industrial Partnership has acquired the new Melbourne Markets development at Cooper Street, Epping for \$77.4 million, reflecting a passing yield of 9.6% from developer Hansen Yuncken, who is working on behalf of the Victorian government. The asset comprises five separate warehouses interconnected to the markets trading floor with pre-commitment of approximately 76,070m² to 41 tenants, with leases ranging from five to 10 years. The relocation of the wholesale fruit, vegetable and flower markets from Footscray to Epping in Melbourne's north is scheduled for completion in the second quarter of 2015 and on completion, the investment will have a WALE of 5.4 years.

Abacus Property Group and global investment firm KKR have purchased a 70% interest in Towers 2, 3 and 4 of the World Trade Centre (WTC), Melbourne for \$120.4 million, reflecting an initial yield of 9.3%. The vendor, private developer Clement Lee's Asset 1 Group, will retain a 30% co-ownership interest. The WTC complex was originally completed in 1983 and consists of four interconnected office buildings. Towers 2, 3 and 4 provide a total of nearly 50,000m² of NLA offering approximately 43,500m² of office space, 4,600m² of retail space including restaurants/bars fronting the Yarra River, a 1,800m² childcare facility, and a commercial car park consisting of 310 car bays. The development is approximately 90% occupied and has a WALE of over 5 years and over 50% of the office component is leased to the State Government of Victoria. The joint venture will be funded with a \$90.3 million contribution from KKR and a \$30.1 million contribution from Abacus with Abacus taking over management of the complex.

Malaysian based developer Mammoth has purchased 15-27 Wreckyn Street, North Melbourne for \$12.3 million. The 2,271m² site has been purchased from Lort Smith Animal Hospital with the intention for residential development. On the other side of the CBD, Spec Property has purchased 476-484 City Road and 51-59 Thistlethwaite Street, South Melbourne for a combined \$13.5 million. The development sites have been purchased with approval to convert to residential apartments.

Brisbane

Cbus Property has extended its direct holdings in Brisbane, acquiring 443 Queen Street, CBD for \$49 million. The five level property has an NLA of 5,500m² and sits on a site of 2,183m² which has extensive frontage to the Brisbane River. The property had been purchased by a local private family for \$40 million in late 2012. Hatch currently occupies approximately 4,000m² of space with Cubic Transport having 1,100m² but the site is considered to have medium term redevelopment potential. The other major Brisbane asset that Cbus has involvement with is the fully pre-committed 75,000m² 1 William Street development, which it co-owns with ISPT, and is scheduled for completion during 2016.

HWL Ebsworth has signed a heads of agreement to take approximately 5,000m² of space in the 480 Queen Street project across three of the high rise floors. The property, which is being developed and constructed by Grocon, was purchased on a fund through basis by DEXUS Property Group and DWPF in early 2013. This takes the project to 71% commitment following other recent agreements with PricewaterhouseCoopers and Allens Linklaters. The rental and incentive levels are undisclosed.

The 360 Capital Industrial Fund has contracted to purchase 33-37 Mica Street, Carole Park for \$23.9 million. The property has an area of 17,916m² across a variety of warehouse, temperature controlled food production areas and office accommodation, located on a site of 2.27ha. The property was sold on a 15 year leaseback to Green's Foods which is backed by the private equity group, CVC. The sale reflects a passing yield of 8.0% with rental reviews during the initial term of 3.25% per annum. The contract is conditional on the vendor obtaining the freehold title to the land, which is currently held on a leasehold basis from the Queensland Government. In near-by Richlands the Australian Prime Property Fund, managed by Lend Lease, is finalising the acquisition of 70 Fulcrum Street from Hills Industries for \$15.6 million. The 17,455m² office warehouse facility is located on a site of 3.67ha and was offered with a short term leaseback from Hills Limited.

Singapore-based Aspial Corporation, is finalising the purchase of a 2,077m² mixed use site at 30 Albert Street in the Brisbane CBD for approximately \$36 million. The development site has been purchased from Cornerstone Properties with development approval for a residential complex with 279 apartments. The building known as Camelot Court, is currently an 8-storey residential building accommodating 25 apartments with ground level parking for 50 cars. Elsewhere, R&F Properties is negotiating to purchase the former TAFE college site at 1 Cordelia Street, South Brisbane for approximately \$46 million. The 4,658m² site is earmarked for residential redevelopment with a potential 600 apartments over three towers.

Perth

Western Australian property syndicator, Australasian Property Investments Limited, has purchased Carine Glades Shopping Centre on Beach Road, Duncraig (in Perth) for \$24.25 million, reflecting a reported initial passing yield of 8.2%. The centre, which was purchased off-market, is situated on a 9,813m² parcel of land approximately 17km north of the Perth CBD, with street frontage to Beach Road of 111 metres, as well as additional access from nearby Davallia Road. The site is less than 1 kilometre east of the Warwick Train Station and the Mitchell Freeway within the southern boundary of the City of Joondalup and adjacent to the City of Stirling. The neighbourhood shopping centre comprises 3,052m² of GLA and is anchored by an IGA Supermarket occupying some 810m² on an initial 15 year lease expiring in 2018. The property encompasses an additional 22 speciality stores, 4 ATM's and a kiosk and generates a net passing income of approximately \$1.87 million per annum. The sale reflects a land rate of \$2,471/m² and a building rate of \$7,946/m².

Sunland Australasia Properties has purchased the Criterion Hotel at 560 Hay Street in the Perth CBD from Gemtower Holdings for \$16.5 million. The building, which dates from 1937, was the subject of a renovation completed in May 1996. It has 4 levels and is constructed in the Art Deco style of reinforced concrete floors, rendered and painted brick walls with a pitched corrugated steel roof. The hotel, which holds a AAA Tourism 3.5 star hotel rating, has 69 rooms, a brassiere with seating for up to approximately 90 diners, a basement bar that has not been operational since 2010, one function room and stacked car parking. Room occupancy as at March 2014 was 92% while the average room rate was \$99.00 per day reflecting RevPAR of \$91.00. The sale of the hotel was with the benefit of vacant possession and reflected an internal rate of return of 10.75%. The property is located on the northern side of Hay Street between Pier Street and Barrack Street. Within close proximity of the hotel is a mix of commercial, civic and retail uses including the Central Law Courts, District Court of Western Australia and Perth Town Hall. The property is opposite the Cathedral Square Precinct.

A consortium led by Western Australian institutional developer, Finbar, has purchased the Civic Triangle site in South Perth for \$27.31 million, reflecting a land rate of \$3,789/m². The property comprises a 7,206m² site and is situated on a prominent corner location with three street frontages to Mendis Street, Mill Point Road and Labouchere Road. Situated adjacent to the Mend Street retail, café and restaurant precinct, the property is near the South Perth foreshore and is located

2km from the Perth CBD. The property is zoned "Mixed Use" under Special Control Area – South Perth Station Precinct. Town Planning amendment 25 allows for the development of up to 41 metres in height, however, the site is located in a special design area which allows for additional height subject to council approval. The initial design concept includes a residential building of 295 apartments, a national chain supermarket, specialty stores, restaurants and a plaza fronting Mends Street.

A Chinese investor has purchased the former Matilda Bay Brewery at 130 Stirling Highway, North Fremantle for \$36 million from the McGilvray Family. The 2.9 hectare site has the potential to yield between 350 and 400 apartments with panoramic ocean and river views, located 350 metres from Leighton Beach and 400 metres from the Swan River.

Adelaide

Listed aged care and retirement operators Japara Healthcare have announced their purchase of the Whelan Care Portfolio, a four-asset portfolio in Adelaide for a net price of \$39.5 million. The Whelan Care portfolio will add an extra 258 beds and 41 serviced apartments to the Japara Healthcare portfolio, and after the purchase of this and three additional brownfield sites in Victoria, Japara's total portfolio is now circa 3,400 beds. Settlement is anticipated for October 2014, excluding one of the properties currently under construction in Gawler, which is expected to settle in March 2015. This sale demonstrates the increased demand from institutional investors looking to invest in Adelaide's aged care and health care sector, whilst demand in the Australian residential aged care sector is forecast to increase from 186,000 places today to approximately 260,000 places over the next 10 years.

Canberra

An undisclosed private investor purchased the Australian Defence College complex at Block 1212 Kirkpatrick Street in the Canberra suburb of Weston Creek for \$30.5 million, from a single asset investment trust managed by Centuria Property Funds. The large, nine hectare site has improvements made up of five smaller office buildings totalling 9,286m², which are 100% leased to the Department of Defence until 2023 with a 10 year option, and was acquired on a passing yield of 9.8%. Besides the long term, steady cash flow provided by the covenant, the upside for the purchaser was the excess land component, providing subdivision and redevelopment potential in an area in close proximity to the emerging Molonglo Valley residential precinct.

Darwin

Excavation has begun on the new Gateway Shopping Centre in Palmerston, which is a major satellite city of Darwin and the second largest city in the Northern Territory (NT). The centre is being developed by the Coombes Property Group and upon completion is estimated to include 30,000m² of retail and leisure space. It will be anchored by Woolworths, Big W and Event Cinemas with approximately 60 specialty retail outlets. Total development value is estimated at \$300million with the project employing more than 3,000 workers over the three stages, with the first stage expected to be completed by mid-2016.

The NT Government is expected to announce the winning consortia for the development of the next Stage of Zuccoli, a residential suburb in Palmerston in September. It is understood that four tenders were submitted and the next stage of Zuccoli will incorporate approximately 1,000 lots, expected to range in size from 300m² to 700m². Elsewhere, Darwin's new Marine Supply Base was officially opened for business in August. The \$110 million project, built on 8.55 hectares of land owned by the NT Government, is to be operated by international oilfield business ASCO for a term of 20 years.

Auckland

DEXUS Property Group has sold the Lumley Centre office tower, one of New Zealand's premium freehold office towers, to German fund Deka Immobilien, for \$146 million, reflecting a net initial yield of 7.08%. The asset, located at 88 Shortland Street in Auckland, is New Zealand's largest commercial office transaction completed for six years. The Lumley Centre accommodates a premium tenancy profile, approximately 93% leased to leading commercial firms including Simpson Grierson, Minter Ellison Rudd Watts, Macquarie Group and Lumley General Insurance. The 19,478m² property sold with a WALE of eight years.

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