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Knight Frank Research Compass Report

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

Sydney

Arena Office Fund (AOF) has exchanged a conditional contract to sell 85 Harrington Street in the Sydney CBD for $50 million, with settlement due in December. The property is being sold to an undisclosed investor following an unsolicited approach and off-market offer. The six storey building, with basement parking for 52 cars, comprises 7,356m² of office area and 593m² of retail area. As at 30 June, the asset was 98.7% occupied with a 2.5 year WALE, however the purchaser is understood to be considering the building's change of use potential. AOF noted that the sale reflected a 31.6% or $12 million premium to the last independent valuation of $38 million as at 30 June 2014. This premium is relatively in line with the average premium to "in use" investment/book values of other Sydney CBD office buildings that have also been acquired over the past 12 months for potential redevelopment.

Elanor Investors Group (ENN) has announced that contracts have been exchanged for the purchase of 193 Clarence Street in the Sydney CBD for $21 million, reflecting an initial yield of 8.8%. The newly refurbished seven storey building with circa 2,000m² of NLA and basement car parking comprises a 52 room hotel as well as an Oporto restaurant on the ground floor with a 7.75 year lease that commenced in 2008. The asset will be purchased by a newly formed investment vehicle called 193 Clarence Hotel Syndicate to be managed by ENN. The hotel will be managed by the Mantra Group with hotel re-branding and re-naming expected to follow settlement, which is due early October.

Payce Consolidated Limited has purchased a circa 2 hectare site, 44a Wharf Road, Melrose Park for $23.5 million to amalgamate with the adjoining 14 hectare industrial site at 44 Wharf Road which they bought in August 2014 for $95 million. The ASX-listed developer was the sole purchaser of both sites in Sydney's northwest and although no application has been submitted for residential development, Payce has entered into a 50-50 joint venture with the Japanese group, Sekisui House Australia Holdings.

The Sunland Development Group has purchased a site at 18 Macpherson Street, Warriewood for $18 million. The 3.5 hectare site has been purchased from Meriton which sought several unsuccessful applications for high-density residential, seeking up to 280 units on the block, after purchasing the site in 2009 for $5 million. Adjoining the Flower Power nursery, the development is earmarked to be a residential community for 81 town home residences with an end value of $80 million. The project is expected to be launched in 2016 pending planning and design approvals.

A private Chinese developer has purchased 55 Balmoral Street, Waitara for $12 million. The property was purchased from Meissen Properties IB Pty Ltd as part of a structured transaction. Located on Sydney's Upper North Shore, the 3,233m² site has approval for an 81 apartment complex and consists of an amalgamation of four-older style residential dwellings on four separate titles. The property has additional frontage to 40 Edgeworth David Avenue with vehicular access from Balmoral Street.

Melbourne

GPT has purchased the CBW office development from Cbus Property for $608.1 million, on a reported capitalisation rate of 6.50% - Melbourne CBD's largest office sale on record. GPT Group (GPT) and the GPT Wholesale Office Fund (GWOF) will each acquire a 50% interest in CBW. Built in 2009, the CBW complex comprises two office buildings and a retail component, on the corner of Bourke and William Streets. CBW is comprised of: 181 William Street - A 26-level A-grade office tower with 49,833m² of NLA, 550 Bourke Street - A 19-level office A-grade tower with 26,257 m² of NLA and Goldsbrough Lane, a 5,313m² of ground and mezzanine retail. CBW is occupied by a range of tenants including IAG, Deloitte, Ashurst, Baker & McKenzie and Crowe Horwath and has a WALE of 5.2 years.

AMP Capital's Wholesale Office Fund (AWOF) has acquired NAB's recently completed headquarters in the Docklands for $433.5 million from Cbus Property. The 14-storey A-grade office building, located at the corner of Bourke Street and Wurundjeri Way, contains 63,000m² of NLA, a child care centre, auditorium, and a two level podium car park. 700 Bourke Street is close to 99% leased to NAB on a 15-year term. The development was sold with a WALE of 13.6 years on an initial yield of 5.75%, and a core market yield of 5.75% with 4% fixed annual rental increases incorporated.

Charter Hall's Core Plus Industrial Fund (CPIF) has purchased a 46,218m² industrial facility at 32-58 William Angliss Drive, Laverton North for $43.5 million from Goodman Group's Wholesale Property Fund. The property is located in the Angliss Industrial Estate with a land area of 10.37 hectares. The sale reflects a passing yield of 8.0% with a WALE of 3.7 years and was leased to four different tenants. The transaction reflects a land rate of $419/m² and a building rate of $941/m². In another industrial transaction, a local syndicator has purchased 207-215 Browns Road, Noble Park for $21.775 million from the Aspen Group, reflecting a passing yield of 9.83% and a fully leased yield of 10.84%. The property encompasses office and warehouse facilities of 43,949m² that have been constructed in multiple stages with on-site parking for more than 400 vehicles and a land area of 5.814 hectares.

CFSGAM Property Enhanced Retail Fund (PERF) has purchased the Gateway Plaza at 641-659 Bellarine Highway, Leopold for $26 million from private developer, Lascorp, reflecting a capitalisation yield of 7.75%. The neighbourhood shopping centre, located seven kilometres to the East of the Geelong CBD, currently comprises a GLAR of 4,935m² set on a 5.2 hectare site. The centre is anchored by a Coles with a pharmacy and 18 specialities. Completed in 2007, a future redevelopment to enlarge the property to a sub-regional shopping centre is scheduled to commence in 2015. The expansion of the floor space to more than 22,000m² would enable a second major supermarket to be established and would create the region's second-largest suburban shopping centre after Waurn Ponds. Also included in the potential development would be specialty food shops, a discount department store, bulky goods and trade supplies, and specialist non-food retail outlets. The Bellarine Peninsula currently has a population of around 52,000, and this is expected to increase to around 65,000 by the year 2021.

Brisbane

EG Funds Management has purchased North West Plaza Shopping Centre for $41.2 million. The retail centre, located in the Brisbane suburb of Everton Park, 8.5km north of the CBD, was sold by Consolidated Properties which purchased the centre in early 2011 for $14.5 million. The centre has since had a revamp which included replacing an IGA with a 3,300m² Woolworths supermarket and strengthening the open air/bulky retail component of the centre. The Woolworths has 18 years to run on the lease with five mini-majors and 25 specialty retailers. Purchased for EG's Core Plus Fund No. 1, the 9,508m² centre was sold fully leased with a WALE of 9.0 years and reflected an initial yield of 7.70%. The centre is slightly unusual in that the traditional neighbourhood retail component of the supermarket and enclosed specialty retailers is complimented by an open area element which is tenanted by The Reject Shop, Good Start Child Care, Sam Riley Swim School, Snap Fitness, Chipmunks Indoor Playland, Coffee Club and a number of takeaway food retailers.

Fort Street Real Estate Capital has purchased Northpoint Shopping Centre, North Toowoomba for $36.5 million for its Australian Property Opportunities Fund II. The recently completed centre was developed by the locally based Hallmark Property and is anchored by a Coles supermarket of 3,691m². The centre has a GLAR of 6,686m² which includes a 458m² medical centre and 24 specialty stores and the sale reflects a reported fully leased yield of 7.6%. This is one of a number of recent reported neighbourhood retail centres which have sold – such as Jimboomba Junction Shopping Centre purchased for $20 million by Sentinel Property Group, Hilltop Shopping Centre, North Lakes purchased for $15.2 million by a private investor and Village Travel Centre, Chinchilla purchased for $10.1 million.

A large tavern and adjoining development land west of Brisbane has been purchased by the ALH Group for circa $21 million. The Yamanto Tavern has been sold by local publicans and the complex includes a number of bar areas, ale house, bistro, 40 gaming machines and a retail liquor store. In Redcliffe, in the Northern suburbs of Brisbane, the First Choice Liquor and Redcliffe Tavern has been purchased by a private investor for $11.5 million which indicates a reported yield of 7.27%.

Mantra has announced the conversion of the former residential building, The Observatory, Spring Hill into Mantra on Edward Brisbane as the supply of hotel and serviced apartment rooms continues to increase in central Brisbane. The residential building, completed in 2006, has been leased in its entirety by Mantra and will offer 114 units in total. The first 50 units have completed refurbishment and will be available for occupation during the G20 Summit in November with the remainder of the units to come on-line in early 2015. In addition to this conversion, 2014 has seen some 911 accommodation rooms added to supply across the CBD and Brisbane inner suburbs with a further 2,250 rooms under construction or proposed for delivery in 2015 & 2016.

Perth

WA based property syndicator and developer Primewest has purchased the Tyne Square Shopping Centre in Northbridge in a $9.05 million off-market deal, representing a yield of 8%. The 2,110m^2 centre is anchored by a 1,653m^2 Supa IGA supermarket. The site also features a pharmacy and a medical centre. The vendor was East Coast based private investor JOU1 Pty Ltd. Situated at the corner of Newcastle and Beaufort Street, Tyne Square was the first city development to combine a retail complex with 83 residential apartments and was constructed by Psaros Builders. The property is located directly over the Graham Farmer Freeway tunnel.

New Zealand listed medical property investor, Vital Healthcare has bought a 31-bed psychiatric hospital in Subiaco for $13.5 million, reflecting a reported initial yield of approximately 8.5%. The 701m^2 Marian Centre is a stand-alone private psychiatric hospital located six kilometres west of the Perth CBD, previously owned by the Catholic Diocese of Bunbury. Vital has plans to undertake a $10.8 million redevelopment and expansion project to be completed over the next 12 months which will see bed numbers increase from 31 to 66, refurbishment of existing ward accommodation, new lift and lobby, extension of existing dining area and provision of additional consulting suites. The property is operated by Healthe Care, which has a renewed 20-year lease on the hospital.

Adelaide

The Lend Lease managed Australian Prime Property Fund Commercial (APPF Commercial) has exchanged contracts for the acquisition of a portfolio of office assets in the Adelaide CBD. Acquired from German based fund manager SachsenFonds, the assets comprise three modern, high quality A-grade commercial buildings with strong sustainability credentials plus a 700 bay car park. The assets are well located and 100% leased to high quality tenants providing a total net income of approximately $15.2 million and a blended WALE of approx. 2.5 years income weighted.

It has been reported that 151 Pirie Street, Adelaide is currently under contract for circa $70 million, reflecting an initial yield of 7.10%. The nine level commercial office building is 100% leased, with the major tenant being KPMG which occupies 38% of the building's total NLA, until May 2026. The building sold at a rate of circa $5,568/m^2, with a WALE of 5.7 years by income.

It has been reported that Abacus Property Group has purchased a 50% stake in Westpac House, located at 91 King William Street, Adelaide for $74 million, reflecting core market yield of 7.93%. This transaction takes Abacus' holding in the building to 100%, reflecting a total value for the property of $148 million. The Premium grade, 31 level office building is Adelaide's tallest office tower, providing a total NLA of 31,399m^2. The building is leased to 28 tenants with a WALE of 3.6 years and vacancy rate of 8.4%.

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