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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.

National

Australian office sales volumes ($10m+) have been super-charged over the past two calendar years, with almost $30 billion worth of assets transacted. The record high of $14.0 billion achieved in 2013 was easily surpassed in 2014 with $15.99 billion changing hands (circa $2 billion transacting in the final fortnight of the year). To put the past two years sales activity into perspective, volumes have been around 80% higher than what was achieved in the market peak in 2007.

Although the CBD office transaction volumes were the major contributor to the strong results in both 2013 and 2014, there has been a steady increase in transaction activity in the non-CBD office markets over the past few years. It should also be noted that the total CBD activity by value in 2014 actually fell by 6% compared to 2013 levels, whereas the non-CBD volumes rose by 63%. We expect this pick-up in activity in non-core and suburban markets to continue into 2015.

In the retail sector, the sales momentum experienced during 2013 has continued well into 2014 with $6.78 billion worth of retail assets ($10m+) exchanged during the year, moderately below the heights recorded during 2013. However, this modest slowdown is more the result of limited assets being offered to the market, particularly Regional Centres, which continue to be highly sought after, however opportunities have been rare. With a significant amount of both domestic and global capital looking for investment opportunities in the market, coupled with the limited offering of core 'trophy' assets, buyers have begun to gravitate towards Neighbourhood Centres, particularly those with a higher exposure to food, grocery and restaurant/café retailing. Buyer depth is expected to remain solid over coming years, which is likely to place downward pressure on core market yields.

Sydney

DEXUS Property Group has acquired the Lakes Business Park at 2 Lord Street, Botany for $153.5m. The property is 95.9% occupied to more than 50 tenants including Mazda, Bosch, Sunbeam, Telstra and BRP with a WALE of 3.2 years. The business park comprises 43,617m² of lettable area (30,379m² office and 13,238m² industrial) across a total of 11 buildings. However there is the potential for further development given the large total site area of 78,715m², as the asset was sold with an approved Master Plan that provides for development on the site of approximately 70,000m² of commercial space. Lakes Business Park adjoins Sir Joseph Banks Corporate Park, which was acquired by DEXUS Wholesale Property Fund back in 2011.

Challenger Life has acquired 35 Clarence Street in the Sydney CBD for $137.1m from AMP Capital Investors on behalf of Queensland based superannuation fund Sunsuper. The 15,422m² A-grade building, located in the Western Corridor, includes 16 levels of office accommodation, three levels of basement parking, a child care centre and ground floor ancillary retail. The building also underwent relatively recent refurbishments in 2012 including works to the ground foyer lobby, lift interiors, car park lighting and amenities including a new End of Trip facility. The property was sold 100% occupied to a variety of tenants including Bupa, Young & Rubicam Brands and Chesterton International with an approximate WALE by income of 4.0 years.

Insurance Australia Group (IAG) has signed a new 33,000m² lease over the low and mid-rise floors at Darling Park Tower 2. The new lease will absorb the backfill space from PWC who are due to relocate to T1 International Towers, the new Barangaroo office development, in late 2016. IAG is scheduled to move into the building in 2018 on a lease period of 12 years with the new lease consolidating three tenancies including their head office at 388 George Street, 347 Kent Street and also 309 Kent Street, where the recently acquired Lumley Insurance is located. Darling Park is located at the southern end of the Western Corridor and consists of three office towers with other major tenants including CBA and Rabobank.

Construction has now commenced on the Bringelly Road Upgrade with Stage 1 proposed to be completed by 2017. The project forms part of the Western Sydney Infrastructure Plan jointly funded by the Australian and NSW governments to build roads to support the development of growth centres, employment and the proposed airport at Badgerys Creek. Stage 1 includes widening Bringelly Road, between Camden Valley Way, Leppington and King Street, Rossmore and including access to the future Leppington Town Centre. Whilst the detailed design is being finalised for Stage 2, the upgrade will extend to the Northern Road, with construction work expected to start in late 2016 and be completed in late 2018.

Beijing-based real estate company, Wanda One, has purchased Gold Fields House, at 1 Alfred Street, Sydney CBD, for $415 million from Blackstone Real Estate Partners VI. Wanda One is a newly formed joint venture of Dalian Wanda Commercial Properties and Wanda Hotel Development. More recently, the JV has purchased the adjacent Fairfax House, for $73 million, from Chinese-owned AXF and EverBright, who also own the adjoining Rugby Club site. This includes the laneway known as Rugby Place, increasing the attractiveness and likelihood that the balance of the city block will be acquired by Wanda One, for the proposed No. 1 Sydney project. The $1 billion mixed-use complex is proposed to include luxury apartments, a five-star Wanda Vista hotel and commercial space. With a prime Circular Quay location, many of the currently approved 197 luxury apartments and 160 proposed hotel rooms will have uninterrupted views of Sydney's Harbour Bridge and the Opera House. Gold Fields House is currently 90 per cent occupied with all leases containing escape clause for the landlord that becomes exercisable in 2017. At this time, it is expected that the No. 1 Sydney redevelopment will commence.

Melbourne

The Mirvac Group has sold a 50% interest in the new office development at 2 Riverside Quay in the Southbank office market to ISPT for $106 million. ISPT will fund 50% of the total development costs throughout the construction period with the transaction based on a capitalisation rate of 6.12% and a coupon adjustment rate of 6.25%, capitalised over the development period. The building will comprise 12 floors of A-grade office space with NLA of approximately 21,000m² above an existing eight-level car park, with end-of-trip facilities to be situated on Level 9. Scheduled for completion in 2017, the project was pre-committed by PwC which will lease 17,200m², equating to around 82% of the NLA for 12 years. Mirvac will provide a five-year rental guarantee on any unlet office and retail space from the date of practical completion; however PwC has first right to approximately 3,730m² of additional office space, prior to practical completion. The building is designed to target a 5.0 Star Green Star Office As Built v3 rating and minimum 4.5 Star NABERS Energy rating.

Growthpoint Properties Australia has acquired the land and the development of an office building to be located at 211 Wellington Road in Mulgrave for a total cost of $62.6 million from a joint venture between Australand and CIP. Growthpoint will acquire the site of approximately 1.1 hectares for $7.0 million and will pay the balance of $55.6 million, monthly on a cost to complete basis, providing an initial income yield of 7.75% on completion of the development. The property will comprise a 7-storey office building with an NLA of 12,718m², together with a multi-deck car park of 650 spaces. The building is targeting a 5 star NABERS rating and 5 star Green Star rating and will be 60% leased to Monash University under a 5 year lease (from practical completion) with two further options of 5 years each with 3.25% annual increases. Monash will use the offices for administration. The vendor will provide a five-year rent guarantee from practical completion for any part of the remainder of the building not leased at practical completion, expected in early 2016.

360 Capital Office Fund has acquired B8 at 576 Burnley Street in Richmond for $46.5 million from the developer – Botanicca 8 Pty Ltd, reflecting a core market yield of 7.70%. Completed in 2013, Botanicca 8, a five-level A-grade building provides 8,331m² of NLA with 217 on-site car spaces and is fully leased to GE Capital Finance and Forever New Clothing. Located within the Botanicca Corporate Park, the property was sold with a WALE by income of 7.2 years, with all leases subject to fixed reviews, averaging 3.5% per annum and is designed for a 4.5-star NABERS Energy rating. The Botanicca Corporate Park is anchored by the Australasian headquarters of GE Capital and Golder Associates with an on-site gym and a further 33,700m² of NLA of office accommodation in the office park.

A potential development site in Collingwood, zoned for high density residential, has been sold for close to $23 million to Cbus Property. The 2,010m^2 site is bound by Wellington, Langridge, Cambridge and Derby Streets' and sits within Collingwood's mixed-use precinct known as the "golden pocket". The site could support between 250 and 300 apartments, with a total end value of $150 million; when a development application is submitted to the local council. The site is located approximately two kilometres from the centre of Melbourne's CBD and 35 Spring Street, Cbus' residential project with 270 apartments, over 43 levels that overlook the stunning Fitzroy Gardens.

Brisbane

The Sheraton Noosa Resort & Spa, 14-16 Hastings Street, Noosa Heads on the Sunshine Coast, has been sold for $110 million. The resort, which has been sold by the Valad Property Group, contains 176 rooms plus detached villas, a day spa and function rooms all with a five star grading. There is also 1,181m² of retail accommodation, undercover parking for 175 vehicles and two private boat jetties attached to the property in Weyba Creek. The resort was purchased by the Karedis and Laundy families and had recently undergone a circa $6 million refurbishment. Sheraton has been the operator of the resort for 25 years, however the lease will end in late 2015 which provides the opportunity for vacant possession and/or renegotiation of the hotel operator. The property occupies a prime 9,946m² site on the south side of Hastings Street.

The listed 360 Capital Industrial Fund has purchased 69 Rivergate Place, Murarrie for $27 million. The property was purpose built for Yamaha in 2007 and there are 8.5 years remaining on the lease. The 11,552m² building contains warehouse space, a research centre and just under 2,000m² of office accommodation. The asset, located on a riverfront site of 15,700m² was sold by Trinity Funds Management and represented a passing yield of 8.0%. The 360 Capital Industrial Fund has also purchased 136 Zillmere Rd, Boondall in the northern industrial precinct of Brisbane for $25 million. The facility is fully leased to Bradnams Windows and Doors until 2023 with further options. The facility has a building area of 15,619m² plus awning space, good hardstand storage areas and a three level carpark for 250 vehicles. The sale from a local private investor is understood to represent a passing yield of 9.52%.

Repco has agreed to lease a large industrial facility at the Brisbane Airport for a reported $100/m² net. The 22,467m² building at 51-57 Qantas Drive, Eagle Farm will be leased for a 15 year term with commencement later in 2015. The building was formerly occupied by DB Schenker which relocated to Redbank in the west of the city in mid-2014 and the property has undergone refurbishment and installation of sprinklers prior to Repco taking the space.

AMP Capital has divested 60 Edward Street in the Brisbane CBD for $60 million. The 10,638m² high B grade building was sold to RACQ which intends to partly occupy the asset. The building was constructed in 1987 and has basement parking for 110 cars. The property was sold with some existing and also impending vacancy and it is understood that RACQ intends to occupy five floors in the building (circa 4,000m²). The sale reflected a core market yield of 7.92% and a passing yield of 6.17%.

A major development site at 255 Logan Rd, Buranda, approximately 4km to the South of the Brisbane CBD, has been purchased by Singaporean listed developer Wee Hur Holdings for $53.1 million. The vendor, Anthony John Group had obtained preliminary approval on the 1.7 hectare site for a major transit oriented development of a maximum GFA of 154,000m² which includes residential, retail and office facilities. The site is located close to Buranda Train Station and has good access to arterial roads. The purchaser has also agreed to acquire an additional 2,194m² site from the Department of Transport and Main Roads for $5.2 million.

Perth

Federation Centres has purchased Currambine Central shopping mall at 1244 Marmion Avenue, Currambine, north of Perth for $74 million. The centre was purchased from the private property group, White and Partners, the investment arm of the Ray White Group. The neighbourhood shopping centre is located 30 kilometres to the north of Perth in Currambine and is anchored by a Woolworths supermarket and a Dan Murphy's and has 44 specialty retailers. FDC will also fund the cost of expansion of the centre of $20 million which is currently in the early stage of construction and expected to be completed mid-2015. The expansion will comprise the addition of a fresh food market anchored by a Farmer Jacks supermarket, six new specialty retailers and an expansion of the existing Grand Cinemas tenancy. The acquisition and expansion is expected to provide a yield of 7%.

Woolstores Shopping Centre was sold by EG Funds Management to an undisclosed private buyer for $40 million, representing an initial yield of 6.47%. The neighbourhood shopping centre with a GLAR of circa 7,900m², containing WA's biggest Coles supermarket, was sold after a long campaign to secure extra height from the City of Fremantle for redevelopment of the site. The Woolstores site is part of 12 sites around the Port City which form the basis of planning scheme amendment 49. The Fremantle council introduced the scheme to "encourage quality developments" and increase the port city's economic capacity. Along with a potential for staged construction of apartments above the shopping centre, the expiry of all leases at the centre by the end of 2016 opened the way for an improved tenancy mix. The property sale reflects a rate of $5,063/m² based on GLAR.

Singapore-based, Fragrance Group has purchased a second Perth CBD development site known as Milligan Square from Georgiou Capital for $30 million for redevelopment purposes. According to the Fragrance Group, the 3,561m² development located on the corner of Milligan Street and Murray Street would be held by its new subsidiary Fragrance WA-Perth (Milligan). The purchase includes intellectual property rights and development approval for a 21,000m² office tower over 15 levels, restoration of the historic Pearl Villa and Milligan Hostel, and a 132-room 13-level hotel fronting Murray Street.

Georgiou Capital has secured planning consent for a mixed use development project. The property transaction reflects a land rate of $8,425/m^2$.

A 10-storey office building located at 220 St Georges Terrace in Perth CBD was sold for $35 million, down $25 million from its original purchase price of $65million back in 2007. The transaction highlights the changing fortunes and office oversupply in the CBD office market. The property is located along the northern side of St Georges Terrace, between Milligan Street and King Street and is within the core of the Perth CBD. The 10-level 'B' grade office building owned by A. Caratti & Gucce Holdings with an NLA of 9,198m^2 was sold to a private buyer, representing an initial yield of 4.83%. The property sale reflects a rate of $3,805/m^2 based on NLA.

BHP Billiton's new spin-off company South32 has a conditional agreement to lease part of the 108 St Georges Terrace, Perth. The distinctive triangular-topped 52 level A-grade office tower with 39,000m^2 of NLA, is jointly owned by Brookfield Property and its parent entity, Brookfield Asset Management. South32 is expected to take up naming rights on one of Perth's largest corporate towers currently named Bankwest building after signing a 10.5 year lease. South32 will lease around 8,300m^2 of the building which could be worth more than $5.5 million in annual rent from May onwards when shareholders vote on approving the demerger, with occupancy increasing to 75%. South32 have operations in aluminium, nickel, silver and coal assets, with 25,000 employees across southern Africa, Australia, Colombia and Brazil.

Adelaide

A local private investor's purchase of 151 Pirie Street in the Adelaide CBD, settled in late December for $72 million. The sale reflected an initial yield of 7.06% and a weighted average lease expiry of 5.7 years, with the major tenant, KPMG occupying 38% of the building NLA.

A $10 million deal has been made between the South Australian Government and Oz Minerals which will see the mining company relocate its head office from Melbourne to its existing offices at 162 Greenhill Rd in Parkside, Adelaide. Oz Minerals have two major copper assets in South Australia, its Prominent Hill mine south-east of Coober Pedy in the state's north-west and the Carrapateena project located 130 kilometres from Port Augusta. The funds will be spent on a new research partnership between the company and local universities.

Adelaide developer Emmett Property has been granted Development Approval to construct a $20 million office building of four levels, to be known as the "Frome Flinders" development. The building will have a total NLA of 4,000m^2 with an average floor plate of 1,500m^2, located on the corner of Frome and Flinders Street. Construction will commence mid-2015 with a completion date of late 2016. In other development news, The SA Government has granted development consortium Adelaide Capital Partners (ACP) exclusive access to a 407 hectare parcel of land located in Gillman. ACP plan to develop the site into a resources hub, dubbed "Lipson Estate", to service the gas, oil and mining industry. The development will include options for lease, purchase and design/ construct.

Charter Hall Retail REIT and local superannuation fund Charter Hall Retail Partnership No 1 have purchased the former Brickworks site in Torrensville, Adelaide. The 17,300m^2 site will comprise a $75 million sub-regional centre anchored by Woolworths, Big W and Dan Murphy's together with 5,200m^2 of specialty space, to be completed by mid-2015. Woolworths and BIG W have committed to new 20-year leases and Dan Murphy's has committed for 15 years.

Canberra

Two office investment sales concluded in late December, adding to the relatively benign sales volumes for 2014. Firstly, 44 Sydney Avenue, Forrest sold for $32 million to Quintessential Equities, which is subject to a capital raising with settlement expected in early 2015. The four level stand-alone A-grade office building including 216 car spaces (202 at-grade) was 35% vacant at the time of sale, with the Department of Foreign Affairs and Trade (DFAT) occupying 34% of the building. Secondly, a large 5,046 m^2 site at 217 Northbourne Avenue was sold to a local developer (217 NBA Pty Ltd) for $11.45 million with the intention for residential conversion, with a DA already lodged. Market activity over the 2014 calendar year was dominated by sub $40 million sales with the largest transaction the $45.01 million acquisition of NewActon East by single asset unlisted fund Placer Property.

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