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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.

Sydney

Lend Lease has announced that they will sell Tower 1 at Barangaroo South into a new wholesale fund for circa $2 billion, with the new fund to be known as Lend Lease One International Towers Sydney Trust, acquiring 100% of the tower. The purchase is set to be funded with a $1.4 billion equity component comprising equity commitments from Qatar Investment Authority (QIA) for 37.5%, the Lend Lease managed Australian Prime Property Fund Commercial (APPF Commercial) for 25% with Lend Lease holding the residual 37.5% as a co-investor. Tower 1 comprises approximately 101,000m^2 of commercial NLA and 6,000m^2 of retail, which implies a capital value of $18,692/$m^2$. It is understood, however, the sale price assumes 100% occupancy with the price to be adjusted for any residual vacancies at completion. Lend Lease also announced new tenant pre-commitments for the Tower with Marsh & McLennan Companies agreeing to lease 10,400m^2 (4.5 floors) of office space and Servcorp 2,300m^2 (1 floor) in the building, Following previously announced leasing agreements with PWC and HSBC, this takes the Tower 1 pre-commitment level to approximately 48% and 66% across all three Barangaroo towers. Construction of T1 commenced in April 2014 with completion estimated for late 2016.

The NSW State Government has released the 2015/16 Budget, with one of the highlights being a substantial increase in stamp duty revenue reaching a record high of $7.29 billion, underpinning an expected surplus of $2.1 billion for the 2014/15 financial year. Budget projections are for the operating surplus to be maintained over the next four years, which is set to preserve the State's AAA credit rating. Noting the benefits that NSW is deriving from the nation's shift away from mining orientated business investment, the budget forecasts that NSW domestic growth will increase at an above trend rate of 3.5% over the next two years, which is above the national average, and the highest rate for NSW since 2007/08. This underpins a relatively positive outlook for the labour market, which is also expected to grow at an above trend rate of 1.75% over the next two years. Supplemented by the long term lease of 49% of the electricity transmission and distribution networks, the Government reiterated its commitment to infrastructure. Over the next four years the state funded capital investment program is set to average annual spending of $10.3 billion, which is well above the $6.95 billion average of the past eight years. In the forthcoming year, major expenditure includes $1.7 billion for WestConnex, $1.4 billion duplicating the Pacific Highway between Hexham and the Queensland border into a divided road and $977 million towards Sydney Metro Northwest, amongst other projects.

Following their recent purchase of 309 George Street in the CBD, HK Realway has made another Sydney purchase, acquiring 140 Arthur Street in North Sydney for $58.2 million after an expressions of interest campaign. The commercial office asset comprises 8,384m^2 of NLA, which is 100% occupied reflecting a 2.3 year WALE. The major tenant is the NSW Business Chamber, who occupy 49% of the NLA, and have been located in the building for the past 20 years. The asset was purchased from CorVal, who bought the building in December 2012. Investors have been notably active on the Lower North Shore, with 201 Pacific Highway also trading during the month for $115 million. The asset was purchased by a joint venture between Abacus and Goldman Sachs, who each contributed 50% of the equity. The asset, which forms part of the Forum Complex, is located above the St Leonards train station and contains 13,841m^2 of office space plus 2,688m^2 of retail, and is approximately 97% occupied.

The Mirvac Group has purchased 472 and 486 Pacific Highway, St Leonards for approximately $121 million from CIMIC Group Limited. Located close to the St Leonards train station, the proposed amalgamated 5,133m^2 site has recently been rezoned for mixed use and is the subject of a development application for over 500 apartments and 7,500m^2 of commercial and retail space. The site currently accommodates two commercial office buildings and both are expected to be leased back to CIMIC until late 2016. Leighton House is a six storey office building completed in 1984, with an NLA of 4,833m^2, and is the long-time headquarters of Leighton. The adjoining building, 486 Pacific Highway, is an 11 storey office and retail building with an NLA of 6,785m^2 (office component of 5,677m^2).

Goodman has announced the pre-lease of two new facilities for DHL Supply Chain at the Oakdale Industrial Estate at Horsley Park, which is a joint venture between Goodman and Brickworks. The facilities, which total 27,145m^2 and 31,080m^2 respectively, were both committed on 10 year terms, with completion anticipated in May 2016. Goodman noted that DHL already occupy four purpose built warehouses within the estate, which will result in total occupancy of 146,715m^2 across six facilities at Oakdale upon completion of the new buildings. Boosting access to the development from the M4 and M7, Goodman also announced a planning agreement with the State Government to construct a $23 million road upgrade of Old Wallgrove Road which will provide four lanes of separated carriageways, direct to Oakdale Industrial Estate.

Melbourne

Fraser's-owned Australand has secured CEVA Logistics at the West Park Industrial Estate in Derrimut in Melbourne's western industrial precinct. CEVA has committed to an initial 10 year lease for a new 90,000m² campus-style warehouse and office facility. The new facility is expected to be completed in mid-2016 with an end value of approximately $80 million. According to Knight Frank research, Melbourne pre-lease commitments announced in 2015 to date total 174,150m², already above the 10-year annual average. Pre-lease activity remains underpinned by the transport and logistics sector which have accounted for 40% of total pre-lease commitments over the past three years.

LaSalle Investment Management has purchased the Summerhill Shopping Centre at 850 Plenty Road, Reservoir for approximately $85 million from the joint venture partnership of developer LAS Group and private equity real estate group Qualitas. Developed on the site of former Target and Coles outlets, the sub regional shopping centre, located 12 kilometres north of the Melbourne CBD, was completed and opened in March 2015. Comprising GLAR of 16,705m² on a 4.2 hectare site, the centre is anchored by a Coles supermarket, as well as an ALDI, a Kmart discount department store plus two mini majors, 32 specialties and 602 car spaces. The Summerhill Centre is forecast to produce over $100 million in sales in its first year of trade. Coles, Kmart and ALDI occupy 67% of the GLAR with a WALE of 15 years across the majors. LAS Group paid $18.3 million for the site in 2008 and had originally planned a mixed-use residential development.

Property syndicator Haben Property has purchased the Croydon Central Shopping Centre at 5-15 Kent Avenue, Croydon for approximately $40 million from private investment group PCL Prattcorp. The neighbourhood shopping centre, located 30 kilometres east of the Melbourne CBD comprises GLAR of 9,588m² on a 4.4 hectare site with 768 car spaces. The centre is anchored by a Coles and ALDI supermarket with one mini major and 31 specialities. Completed in 1982, with the ALDI supermarket completed in 2004, the site offers scope for redevelopment with planning approval to construct a 29,000m² shopping centre recently granted by the local and state governments. This purchase will lift Haben's holdings to five centres with the Croydon Shopping Centre to be held in the Haben Retail No.5 Trust.

Brisbane

DEXUS Property Group and DEXUS Wholesale Property Fund have announced their intention to purchase Waterfront Place and the adjoining Eagle Street Pier for $635 million, from Stockland Trust and the Future Fund. Under the conditional agreement each fund will acquire a 50% interest in the complex, with settlement scheduled for 1 October 2015. The office building, Waterfront Place, at 1 Eagle Street has a NLA of 59,448m² and accounts for 95% of the complex's income. The adjoining Eagle Street Pier only accounts for the remaining 5% of total income, however the low rise 6,258m² building sits on a large riverfront site of 4,206m² and represents significant future development potential. At the time of sale the complex had a WALE of 4.2 years and the sale reflected a capitalisation rate of 6.9%. Stockland has reported an allocation for the office tower of $592 million and Eagle Street Pier at $43 million. The office tower was constructed in 1990 and had an occupancy level of 90% at the time of sale. There have been relatively few transactions in the Prime Brisbane investment market across the first half of 2015 with another imminent transaction being the newly completed, 16,600m², K1 building in Bowen Hills being sold by Lend Lease, which is reported to be under contract to The Impact Group for approximately $130 million.

Two pre-commitments to major industrial facilities have been announced for the western suburbs of Brisbane. Wild Breads have committed to a new 12,000m² building at 2637 Ipswich Road, Darra on a 20 year term. The specialised facility will be constructed by CIP on land owned by JV partner, Charter Hall's Logistics Partnership. This is the first commitment for the Connect West Business Park, which was formerly owned by Boral before being sold in mid-2013. In nearby Acacia Ridge, Lindsay Australia have pre-committed to a new facility of 11,165m² on a site of 4.6 hectares, for a 12 year term. The transport depot which will contain office, cold store and warehouse space will be constructed at 152 Postle Street. This pre-commitment forms part of a 7.2 hectare site which was purchased by local private investor Peter Harburg in 2014 for $11.5 million, after being divested by Aurizon. Both of the above commitments represent infill developments on sites which have been converted from manufacturing/major transport uses which were sited on large land banks. As sites within the existing land estates become depleted it is expected that these land rich older facilities will increasingly be converted into more efficient warehouse uses.

Listed property developer Sunland has finalised the purchase of Lakeview in Mermaid Waters, acquiring the site from the Scheinberg family for $61 million, after an extended settlement. The 41.9 hectare greenfield development site is located on the corner of Bermuda Street and Nerang-Broadbeach Road, and surrounds a large central lake and features canal frontage with direct ocean access. The site has development approval for 1,425 dwellings with an end value of $850 million, comprising houses, townhouses and medium density apartments. These will be progressively rolled out in stages over the next decade with the first stage to be launched soon. The site includes an existing retail precinct with a GLAR of 3,865m² with the potential to expand the retail offering across the 4 hectares of additional commercial land. Lakeview was once earmarked as a potential site for the Gold Coast convention centre.

Perth

Western Australian-based builder and property investor Pindan Capital purchased The Reef at Two Rocks, a 38.4 hectare residential land estate located approximately 55 kilometres north of the Perth CBD. The estate was purchased from P&N Landreach Pty Ltd, an entity associated with P&N Bank in a deal understood to be worth around $37 million. The estate is located close to the beach in a prime elevated position at the northern tip of Perth's north-west coastal suburbs, with many lots overlooking the Indian Ocean. The beachside land includes an already established residential estate with further development potential, and could eventually provide up to circa 685 residential lots. The purchase comes shortly after Aigle Royal Developments paid $13.5 million for circa 59 hectares of land that can provide 530 homes at Port Geographe located along the southwest coast of WA. Singapore-listed Roxy Pacific and super fund Hostplus have also made significant investment in the area in recent months, paying $59 million for a 4.4 hectare development site at North Fremantle. The recent transactions reflect a rising developer interest in securing large WA landholdings for future residential development and there is strong interest in providing affordable living and land subdivisions to meet ongoing demand from the new home market.

Mustera Property Group has entered into an unconditional contract to acquire Lot 70 Haig Park Circle, in East Perth from Georgiou Capital for $4 million. The property, which is located approximately 1.5km from the Perth CBD, comprises a 2,233m² land parcel which is currently used as a short term public car park. Wilson Parking Australia Pty Ltd currently leases the whole site which provides fifty on-grade car bays. Mustera has indicated that they intend to retain the site as an investment property, albeit noting the potential for future development. The Vendor, Georgiou Capital, had approval to build a six-level, 60-apartment project on the site. The property will be acquired by Claisebrook Holdings Pty Ltd, a wholly owned subsidiary of Mustera. In tandem with this transaction Mustera has also secured a three month option to purchase an adjoining property, 45 Royal Street, East Perth, for $8.5 million subject to Mustera undertaking due diligence on the property.

Adelaide

The South Australian 2015/16 State Budget has been released, with various changes that impact the property industry primarily through tax reform. These include a three year phase out and ultimately the removal of stamp duty on commercial property transactions by 2018, the removal of stamp duty on corporate reconstructions, the removal of stamp duty on transfers of unit trusts, the removal of stamp duty on non-real property transfers and the removal of the 'Save the River Murray' Levy. In addition, there were minor changes to State Land Tax by increasing the threshold values by 2.0% – 2.5%. Overall, these changes are likely to stimulate investment activity in the South Australian commercial property market from both local and foreign investors.

Private investors have purchased two Coles Shell Service Stations, with 207-211 Victoria Road, Largs Bay selling to an undisclosed private investor for $3.1 million and 606-610 Marion Road, Park Holme sold to Adelaide based developer Emmett Property for $4.8 million. 207-211 Victoria Road's current lease expires in June 2016 and sold for $1,681/m² on a reported passing yield of 4.26%. 606-610 Marion Road was occupied by Viva Energy Australia Limited on a lease term of 10 years and a total of 20 years of renewal options for $2,400/m² on a reported passing yield of 5.73%.

Starwood Hotels and Resorts has announced their first foray into Adelaide with a new purpose built hotel "Aloft Adelaide", to form part of the $300 million New Mayfield mixed-use development at 43-69 Sturt Street. The project is a joint venture between local developer, Sturt Land, builder Tagara and Melbourne-based developer Colvid. The development will have a reported 200 beds and be Australia's third Aloft branded hotel with a planned opening date of 2018.

Canberra

Despite Canberra's relatively elevated office vacancy rate, driven by a Government led rise in sub-lease space, the leasing market has started to gain some momentum in recent months following several large lease deals in and around Civic. The relaxation of the public service hiring freeze announced in the 2015/16 Federal Budget is likely to improve sentiment in the leasing market. With Government departments being urged to relocate to sub-lease space, the Australian Electoral Commission has sub-leased levels 1 and 2 (6,450m²) at 50 Marcus Clarke Street, Civic from the Department of Education. Other notable recent deals include Sonic Healthcare leasing 2,275m² at EQ4, 70 Kent Street, Deakin, relocating their pathology laboratory to the ground floor and law firm John Nicholl & Co leasing level 3 (620m²) at 1 Farrell Place.

Local Canberra developer Geocon has purchased a Belconnen development site from the ACT Land Development Agency for $22.1 million. The 16,314 m² site, known as Block 2 Section 200, is bounded by Eastern Valley Way, Cameron Avenue, Emu Bank and Edmonstone Place and is within close proximity to the foreshore of Lake Ginninderra and the Belconnen Town Centre. The site currently accommodates a ground level carpark and adjoins the Belconnen Labor Club. The scale of the site allows the developer to create a master-planned development, which can be released over several stages, with a maximum of 745 dwellings planned for the site. There are some conditions attached to the development including 300 car spaces to be made available for the Labor Club to lease back to replace those lost in the development, as well as 2,900m² of commercial space. Initial site works have already been undertaken to ensure the site is suitable for future development including remediation work, which involved the removal of low-risk bonded asbestos.

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