

# COMPASS

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### Knight Frank Research Compass Report

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

#### National

**Ascendas REIT (A-Reit), a Singapore-based business space and industrial real estate investment trust, has announced the acquisition of 26 logistics assets located across Australia from GIC and Frasers Property for \$1.073 billion, the largest ever industrial transaction in Australia.** The acquisition of the portfolio, which comprises over 630,000m<sup>2</sup> of modern logistics assets, predominantly located in the core Australian East Coast markets, will establish A-Reit as the eighth largest industrial landlord in Australia and diversify the Trust's portfolio. Around 83 per cent of the portfolio is leased to blue-chip tenants such as Coles, Toll, Kmart, Pacific Brands, DB Schenker and Nestle and the WALE was 5.7 years. The properties will be placed into the Ascendas Real Estate Investment Trust and the acquisition will be funded by \$600 million in debt and the issuance of securities. Of the 26 assets, nine are located in NSW (predominantly Erskine Park/Eastern Creek), nine are located in Victoria (predominantly Dandenong South and Altona), seven were located in Queensland and one is located in Perth at 35 Baile Rd, Canning Vale.

#### Sydney

**The NSW Government has announced that Pontiac Land Group will acquire the 99 year lease of Sydney's Sandstone buildings for redevelopment into a luxury hotel.** The two buildings, which are each in excess of 100 years old, are located at 23 and 35 Bridge St, with the two sites separated by Loftus St. Currently occupied by the Department of Planning and the Department of Education and Training, the buildings are expected to be vacated in 2018 with the hotel anticipated to open approx. three years later. As part of the deal, Pontiac Land has agreed to pay \$35 million for the lease, together with a commitment to undertake an estimated \$250 to \$300 million refurbishment of the assets. The hotel is planned to comprise 240 rooms, however Pontiac Land still need to obtain all design and planning approvals. The Sandstones are subject to statutory heritage protection in NSW. Under the proposal, Government Property NSW retains custodianship of the Sandstones, and will apply its in-house heritage management expertise to oversee the transformation during the development approval and construction phases.

**The NSW Government has committed \$200 million to upgrading and refurbishing the Circular Quay wharves.** The Government announced that construction is expected to begin in 2019, however details of the program are yet to be determined with a range of options being considered including upgrades to the ferry wharves to make them modern and accessible, all the way through to a complete revamp that could include double-storey wharves with new retail facilities. The work will be funded via the NSW Government's infrastructure fund, Restart NSW, with funding to be sourced via a new round of asset recycling. Assets earmarked for divestment include some select assets currently held by the Sydney Harbour Foreshore Authority (SHFA) deemed to be not of long term strategic importance. SHFA assets targeted for divestment will be the Shangri-La and Four Seasons hotels in the Sydney CBD, the Novotel and Mercure hotels at Darling Harbour and commercial offices at Darling Quarter. According to the Government, a number of non-core government buildings in The Rocks area have also been identified as suitable for divestment, but this would be subject to a review and potential strengthening of heritage conservation controls.

**The Australian Catholic University (ACU) has acquired 33 Berry St in North Sydney for approx. \$90 million with the asset to provide permanent space for higher education and research at the University's North Sydney Campus.** The 13,195m<sup>2</sup>, 16-storey building, which includes three levels of basement parking, was built in 1975 and underwent two major refurbishments in 1989 and 2003. ACU already occupies approx. five floors within the building, with other large tenants including the NSW Police Service on three floors and Flight Centre. The purchase reflected the growth of the university in the area with the ACU citing a 53% increase in student numbers at the campus over the past three years. The group previously acquired 8 Napier St, North Sydney for \$57.3 million in 2011, where the Schools of Law, Allied Health, Business and Global Studies are all occupants.

**After a two-stage sale process, UrbanGrowth NSW has selected Frasers Australand to purchase and develop the future mixed use town centre at Edmondson Park for more than \$100 million.** The 24 hectare site is located in South Western Sydney and adjoins Edmondson Park railway station which was open to the public early in 2015. The site has the capacity to deliver 912 new home allotments, four super lots and up to 45,000m<sup>2</sup> of retail and commercial space. The town centre is envisaged to be a village-style master plan incorporating an urban lifestyle close to public transport routes with large open spaces. It is centrally located to the new bus-rail interchange with easy access to the M5 and M7 motorways.

## Melbourne

**AMP Capital's Wholesale Australian Property Fund has purchased the Stud Park Shopping Centre for \$154 million from the unlisted Lend Lease Retail Partners Australia (LLRPA) fund that is being wound up, reflecting a net yield of 6.0%.** The sub-regional shopping centre with a GLAR of 26,043m<sup>2</sup> is located on the corner of Fulham & Stud Roads, Rowville, approx. 30 kilometres South East of the CBD and is set on a 10.3 hectare site with 1,530 car spaces. The centre is anchored by a Coles and Woolworths supermarkets and a Kmart department store, alongside 58 specialty retailers and the Rowville Library. The fully-leased centre offers the potential for mixed-use development on the northern portion of the site. It was the sole remaining asset in the LLRPA fund, a closed-end unlisted wholesale shopping fund that invested in sub-regional centres.

**The AMP Wholesale Australian Property Fund has also acquired 425 Collins St in the Melbourne CBD for \$39.0 million from the private investor Halim Group, representing a core market yield of 5.58%.** Completed around 1930, the nine-level office building is located in the Western Core, on the corner of Market St opposite the Cbus Property site at 447 Collins St which is earmarked for a large scale mixed use redevelopment. The 5,390m<sup>2</sup> building was refurbished and the upper floors modernised in the mid-1980's with levels 4 to 8 refurbished in 2007. Largely leased to Wisewould Mahony lawyers, other tenants include Terra Firma and Australian Stock Report. The building is on the Victorian Heritage Register and listed as a notable building in the Melbourne planning scheme and also comprises basement parking for 38 car spaces with average floorplates of 577m<sup>2</sup>. The building was 90% occupied at the time of sale and sold with a WALE of 2.6 years.

## Brisbane

**Aurizon has pre-committed to approx. 19,000m<sup>2</sup> of office accommodation to be constructed at 900 Ann St, Fortitude Valley.** The commitment in Brisbane's Fringe market will allow Aurizon to consolidate its operations from CBD locations including 175 Eagle St and 192 Ann St. The site is owned by the Anglican Church as part of a larger 8,140m<sup>2</sup> holding which spans the block between Ann and Wickham Streets. The property will be constructed on volumetric title over part of the site on a lease term of 110 years. The project will be delivered by developer Consolidated Properties Group which has development approval for the 15 level building with basement parking for approx. 110 cars. While the rental remains undisclosed, Aurizon has agreed to an initial term of 12 years over the building which is due for completion in April 2018. The project has been purchased on a fund through basis by Charter Hall Managed Funds, the Core Plus Office Fund (CPOF) and the Direct Office Fund (DOF) with an estimated total investment of \$170 million and an anticipated initial yield of 6.50% on completion.

**The AMP Wholesale Office Fund is reported to have purchased Stanley St House in the South Bank precinct of South Brisbane for \$26.3 million, with the sale reflecting an initial yield in the range of 6.10%– 6.20%.** The three level commercial property, formerly known as Abigroup House, was purchased by LaSalle Investment Management as part of the Lend Lease Core Plus Fund's East Coast Property Portfolio divestment in late 2014. The 2,338m<sup>2</sup> building is leased by Southbank Corporation (348m<sup>2</sup> expiring mid-2018) and also has a new eight year lease to WPP over the balance of the building (1,990m<sup>2</sup>). The asset is located on a 1,250m<sup>2</sup> leasehold site and was constructed in 2008.

## Perth

**The Mandurah Central shopping centre development, which is due for completion in mid-2016, continues to secure retailers.** The development comes as part of a strong push in activity for this sector and demand for easily accessible neighbourhood centres growing throughout WA. The Mandurah Central neighbourhood centre, with a GLAR of 5,788m<sup>2</sup>, is expected to officially open in June 2016. It is located in one of Western Australia's strongest growing corridors outside of the Perth CBD on Exchequer Ave directly east of the major intersection of Mandurah Rd and Mandjoogoordap Drive. Mandurah Central will boast a full-line Woolworths supermarket with 15 specialty stores and some commercial space. The Centre will have level parking for more than 296 cars including mobility and parent parking.

**Brisbane based Sentinel Property Group has purchased the Geraldton Homemaker Centre at 208-210 Northwest Coastal Hwy, Geraldton for \$27.3 million on a passing yield of 8.30%.** The 15,949m<sup>2</sup> bulky goods centre is located 424 kilometres north of Perth and sits on a 4.73 hectare site with major tenants including Spotlight, The Good Guys, Forty Winks, Barbeques Galore, Pet Barn, Godfrey's, Repco, Supercheap Auto, Anytime Fitness and McDonalds.

## Adelaide

**The South Australian Government, under Renewal SA, has appointed ASX listed residential development company Cedar Woods for the redevelopment of the 16.5 hectare former Glenside Hospital site in Adelaide's east.** The project is in the preliminary stages of master plan design, with the aim of delivering a mixed-use, environmentally sustainable urban neighbourhood approx. two kilometres from the CBD, with site works earmarked for 2016.

**102-120 Wakefield St, a 10 level multi-storey car park, comprising 676 bays has sold to local private investor in an off market transaction for \$25 million.** The property sold with Development Approval for a 20,835m<sup>2</sup> office building to be constructed over the undeveloped portion of the site. The office development is expected to comprise ground floor and nine upper levels, three of which will extend over the existing car park structure.

**In other major deals, a private investor has purchased the Valley View Shopping Centre at 901 Grand Junction Road, Valley View for \$12.3 million, reflecting a market yield of 7.39% and a WALE of 5.5 years by income.** The centre is anchored by a full line Foodland Supermarket and 8 specialty stores. In the industrial market, Toll Group has leased 2,904m<sup>2</sup> of space in the Charles Sturt Industrial Estate at 20 Cheltenham Parade, Woodville. The office warehouse has been leased from ISPT Core Fund for a five year term at a net rent of circa \$95/m<sup>2</sup>.

### Canberra

**With leasing demand from the Commonwealth being constrained throughout 2014 and the first half of 2015, it appears the market is stabilising following recent leasing activity to government departments.** The pick-up in demand is the result of government departments no longer needing approval from the Australian Public Service Commission to hire workers from outside the bureaucracy as part of the relaxation of the public service hiring freeze. Recent government lease deals include The Department of Employment leasing 9,383m<sup>2</sup> at the Charter Hall Office Trust owned 14 Mort St, Civic and the Australian Crime Commission leasing 4,318m<sup>2</sup> at the ISPT Core Fund owned 4 National Circuit, Barton. Although these were direct leases, an improvement has also occurred in sub-lease space and would now be materially lower than the PCA's July 2015 figure of 27,217m<sup>2</sup> for the total Canberra market.

### Auckland

**NZX listed investor and manager, Stride Property Ltd (previously known as DNZ Property Fund) has entered into an unconditional agreement to acquire a NZ\$287 million portfolio of bulk retail properties on a 6.5% yield.** The portfolio includes 19 bulk retail assets that are 100% occupied by the creditworthy and renowned tenant General Distributors Ltd – the operator of Countdown Supermarkets in NZ and an ultimate subsidiary of Woolworths Ltd. The total annual net income stream of NZ\$18.7 million net is underpinned by a quality tenant and a long WALE of 18 years. There are limited on-going incentives and associated re-leasing costs. This portfolio will enhance and complement Stride's investment portfolio by providing a new, specialist investment product that will deliver an increase in dividends to shareholders. The property is being sold by Antipodean Supermarkets Ltd and Antipodean Properties Ltd whose ultimate owners are the William Pears Group out of the UK.

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