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Knight Frank Research Compass Report

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

Sydney

A Mirvac-led consortium has been the successful tenderer for the acquisition of the Australian Technology Park (ATP) in Redfern/Eveleigh. The asset was acquired from UrbanGrowth NSW Development Corporation for a total consideration of $263 million. Although Mirvac will develop the project, the development will be undertaken on a fund-through basis with equal co-investments from Mirvac, AMP Capital Wholesale Office Fund and an AMP separate account client, Sunsuper. As part of the revitalisation of the precinct, Mirvac and its partners will develop approximately 93,000m² of office space to be leased to the Commonwealth Bank (CBA) on a 15 year term, in addition to 3,000m² of amenity, including a gymnasium, retail outlets, childcare and a multipurpose community space. The CBA floor space will be spread across two state-of-the-art buildings with planned completion in 2020. CBA will exit existing offices in Parramatta, Sydney Olympic Park and Lidcombe as leases near expiry and consolidate into the ATP facility as well as their CBD tenancies. With regards to the existing buildings on the site, and as part of the Mirvac Group-led bid, Centuria Capital have acquired three of the existing assets at ATP from UrbanGrowth, being the NICTA Building, the Biomed Building and the International Business Centre, as well as the freehold interest in 8 Central Avenue (Channel 7 headquarters) for a total consideration of $104 million. The Mirvac Locomotive Trust (a sub trust of Mirvac Limited) has acquired the freehold interest in the existing Locomotive Workshop and the National Innovation Centre. The Locomotive Workshop will be redeveloped to deliver high quality, multipurpose A-grade workspaces for major technology and innovation users with a focus on start-up businesses.

The NSW Government has announced the locations of Sydney's Metro City and Southwest railway stations, with confirmed locations being Crows Nest, Victoria Cross (North Sydney), Barangaroo, Martin Place, Pitt St (near Park St) and underground at Central. As part of the announcement, the Government confirmed that a new metro station in the Artarmon industrial area will not proceed, while a metro station at either The University of Sydney or Waterloo is still under consideration. To facilitate the work for this stage of the Metro project, 52 properties will be compulsorily acquired including 19 buildings in the CBD and a further 17 in North Sydney and Crows Nest. It is estimated that the CBD acquisitions will result in 49,500m² of office NLA being permanently withdrawn from the market, equivalent to 1.0% of total stock, with major buildings including 39 Martin Place, 55 Hunter St, 175 Castlereagh St and 5 Elizabeth St. In terms of timing, it is envisaged that the properties will be acquired by the end of the first quarter of 2016 with existing tenants to be relocated by the end of 2016. Construction of the first stage of the metro line between Rouse Hill in the city's north-west and Epping is due for completion in 2019 at a cost of $8.3 billion. That section will link to Chatswood on the existing Epping to Chatswood line. The second stage of the project via the CBD is due to open in 2024 and will connect to the Bankstown line, which will be converted to take the new driverless metro trains. The Government also announced that investigation will begin into potentially extending the metro rail from Bankstown to Liverpool.

The Strata Development Bill 2015 has been passed by the NSW Parliament and will come into effect in July 2016. This is the first major reform to the Strata Titles Act since being introduced in 1973 and will deliver over 90 changes to existing laws affecting both residential and commercial properties. The Bill covers changes to proxy farming, improving outdated regulations impacting renovations, increased protection against building defects, as well as, the collective decision making sales process. Encouraging the renewal of older tired buildings, only 75% of consenting approval will be required from owners to terminate and renew a strata scheme, down from the current 100% requirement. NSW is the first state to pass updated strata legislation, although the Victorian government is considering the 75% threshold when it introduces reforms, while WA is proposing to introduce a sliding scale for termination of strata titles based on the age of the building. The NT government is currently drafting a proposed review and an inquiry is underway in SA of their strata laws.

New sunset clause laws have been announced by the NSW government to protect off-the-plan purchasers when developers cancel contracts without good reason and on-sell the subject property for a financial gain. If a developer intends on rescinding a contract on, or after 2 November 2015, they must first seek consent from the purchaser. If the purchaser doesn't agree, the developer will need to justify the termination and if unresolved, the developer will need to apply to the NSW Supreme Court for the termination of the contract to take place. The court will consider if the sunset clawback is just and equitable. This is unlike the superseded system where the purchaser bears all legal costs after the event, to prove if the developer deliberately delayed the completion of the works, with the intention of reaping a gain in a market with higher prices. The legislation will also apply retrospectively, and apply to contracts that have exchanged, but not yet passed the sunset clause date.

Melbourne

Growthpoint Properties Australia has acquired the land and the development of Building C, 211 Wellington Rd in Mulgrave for a total cost of $50.9 million from a joint venture between Frasers Property and CIP. Growthpoint will acquire the site of approximately 1.11 hectares for $7.0 million and will pay the balance of $43.9 million, when works are complete, providing an initial income yield of 7.25% on completion of the development. The property will comprise a five-level office building with a NLA of 10,295m², together with a five-level car park of 598 spaces. The building is targeting a 5 star NABERS rating and 5 star Green Star rating and will be 47% leased to BMW Australia Finance under a five year lease (from practical completion) with two further options of five years each with 3.25% annual increases. BMW Australia Finance will occupy 4,792m² across two-and-a half floors in the development which is due for completion in the third quarter of 2016, moving out of the nearby Nexus Corporate estate. 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. Growthpoint previously acquired another pre-leased office building in the same business park for $62.6 million in January 2016.

Unlisted EG Funds Management has acquired 277 William St in the Melbourne CBD for $45.9 million from private investor Harry Stamoulis. Completed in 1962, the 13-level office building is located in the Flagstaff precinct, within the core legal precinct and adjacent to Flagstaff station. Comprising 12,071m² of NLA, the building was refurbished with a two-level addition in 2004 and comprises 32 basement carparks. Leased to a range of tenants including: Shine Lawyers, Medibank and Tenix Solutions, the property has an approximate 90% occupancy rate and sold with a WALE of 3.5 years. EG will hold the property in its Core Plus Fund No. 1, its seventh acquisition for the fund.

Aventus Retail Property Fund has acquired the Epping Homemaker Centre for $40 million from private investor Nick DiMauro reflecting a capitalisation yield of approximately 8.0%. The bulky goods shopping centre, located 20 kilometres north of the Melbourne CBD, currently comprises a GLAR of 22,200m² on a 6.0 hectare site with 680 car spaces. The centre is 95% leased to a range of tenants including Officeworks, Chemist Warehouse, Lincraft, Supercheap Auto, Snap Fitness and two independent supermarkets.

ISPT Retail Australia Property Trust has purchased The Well Shopping Centre in Camberwell for $72.5 million from private investor AV Myer Group reflecting an initial yield of 6.06% and a fully leased yield of 6.78%. The Well is located eight kilometres east of the Melbourne CBD and comprises 23 specialties, four kiosks and five ATMs, providing a total GLAR of 9,325m² with 352 undercover car parking spaces. The centre is currently 93.9% occupied with tenants including: Coles, Dymocks, JB Hi-Fi, Terry White Chemist, Liquorland and Goodlife Health Club.

Brisbane

Deutsche Asset & Wealth Management has purchased 313 Adelaide St, Brisbane CBD for $125.4 million on behalf of a German-based fund. The 14,592m² office building was constructed in 1986 by the vendor, F.A Pidgeon & Son, and has been refurbished a number of times since then, most recently in 2012. The purchase, which is the first Asia-Pacific investment for this fund, reflects a passing yield of 7.21% and a WALE of 4.1 years with sitting tenants including Department of Transport & Main Roads and Qantas.

A recently developed Bunnings Warehouse has sold for approximately $40.1 million to a private investor. The 15,972m² retail warehouse, which opened in August 2015, was offered on a 12 year leaseback to Bunnings. Situated opposite the Orion Shopping Centre at 1 Main St, Springfield the property is located on a site of 37,110m². The suburb of Springfield is part of a master-planned community located some 30 kilometres to the south west of the Brisbane CBD. The sale is understood to reflect a passing yield of 5.27% to the Melbourne-based, private investor.

An industrial development site at 408 Stapylton Road, Heathwood of 24.55 hectares is being purchased by the LOGOS Property Group for approximately $50 million. The vendor is local private developer Lyn Brazil who is also retaining a parcel of land for development. The site is located on the corner of Stanmore Rd and the Logan Motorway, with access direct to the motorway. The land provides a prime development opportunity with a number of larger users in the market for purpose built accommodation and is located close to a number of established industrial estates with significant retail and logistics users.

Inner Brisbane has seen four significant development sites sold suitable for higher density residential in the last month totalling $77 million, continuing to be a more affordable option along the East Coast. Three of the sites sold with development approval which included the redevelopment of The Chalk Hotel, at 735 Stanley St, Woolloongabba purchased by the JV of Dyldam and Barakat Property Group from Steve Hammond for $25 million (467 apartments, 8,635m² site); 365 St Pauls Terrace in Fortitude Valley purchased by Vicland from Forza Capital for $13 million (260 apartments, 2,056m² site) and a redevelopment site located on the corner of 7 Chester St & 14 Ella St in Newstead purchased by Kokoda Property from Urban Construct for $19 million (376 apartments, 3,628m² site). The sales rates for the DA approved sites varied from $50,000 to $53,535 per apartment. The fourth site, with a land area of 2,300m² was located at 2 Cordelia St, South Brisbane (potential of 350 apartments) purchased by Accord Property Group from Angus Johnson for $20 million. Although selling without development approval, a rate of just over $57,140 per apartment was achieved.

Perth

Vicinity Centres announced the acquisition of two shopping centres, Ellenbrook and Livingston Marketplace for a total consideration of $319.0 million, with settlement expected in early 2016. Ellenbrook has a GLAR of 32,400m² with Woolworths supermarket, Coles supermarket and Big W the main anchor tenants. Livingston Marketplace has a GLAR of 15,400m² and has 36 speciality stores including Woolworths supermarket and Big W. Both centres are located in trade areas with strong population and retail expenditure growth.

Moore Stephens has signed a new 10 year lease over 1,500m² at level 15 of Exchange Tower, 2 The Esplanade relocating from Grosvenor House, 12 St Georges Terrace. Earlier this year Moore Stephens merged with UHY Haines Norton to become one of the largest second tier accounting firms in Perth. The firm has plans to refurbish the new space, which will accommodate 15 partners and 75 accounting staff. Exchange Tower is currently in the process of being upgraded with additional end of trip facilities and a new café opening in the lobby earlier this month.

Adelaide

Singaporean REIT Cache Logistics has purchased an industrial facility at 404-450 Findon Road, Kidman Park for a consideration of $57.3 million. The property has a GLA of 58,974m² on a 119,170m² site and sold fully leased to Metcash Trading Limited, an ASX 100 company. The sale represents a core market yield of 8.72% and a WALE of 4.6 years by income and is Cache's fifth warehouse acquisition in Australia. Given its location the site offers potential for future residential development.

Starwood Hotels and Resorts have signed a deal with the Makris Group to open a Sheraton Hotel on the development site at 88 O'Connell St, North Adelaide. The 160 room hotel will form the centrepiece of the proposed mixed use development, which will include a 16-level apartment building and various retail tenancies, and has a proposed opening date of mid-2019.

Canberra

In what is the largest Canberra office market transaction for 2015 and the first prime asset sale fully secured by a long term Commonwealth lease covenant since Industry House in August 2013, Growthpoint Properties Australia has acquired 255 London Circuit, Civic for $70.025 million from British-based Brompton Asset Management. The 6-level A-grade commercial office building, purpose built for the Department of Foreign Affairs and Trade (DFAT) in 2007 remains 100% leased to DFAT who have a further 11.8 years to run on their lease. With few prime assets being brought to the market over the past two years, particularly those with a solid leasing profile, the sale provides further clarity on prime yields, trading on an initial yield of 6.53%.

In an off market transaction, the Molonglo Group has purchased 33 Allara St, Civic for $29 million from the 360 Capital Office Fund, reflecting a core market yield of 10.41%. The 9,900m² office building is fully leased to six tenants with the Commonwealth (Department of Environment) occupying the whole upper office floors with the lease expiring in December 2016, following a recent one year extension. Passing rentals are considered to be above market, in particular with the Commonwealth tenant. The building offers relatively dated accommodation, with a lack of recent cosmetic upgrades evident, however benefits from recent mechanical and plant upgrades.

Leasing demand for sub 500m² tenancies within Canberra's office market continues to gain momentum, accentuated by two recent deals at Centuria's 54 and 60 Marcus Clarke St in Civic. At 60 Marcus Clarke St, Civic, Windlab have leased 432m² while APM has leased 278m² at 54 Marcus Clarke St, Civic, both of which were on five year terms. With incentive levels for secondary assets broadly averaging 25%, tenants within the private sector are continuing to take advantage of favourable leasing and incentive metrics and upgrading to higher quality buildings.

Auckland

The NZ$300m Christchurch State-of-the-art Justice Precinct has begun development, reaching its first major construction milestone this month with the final concrete pour and installation of the first cranes. The precinct will be home to the Ministry of Justice, New Zealand Police, Department of Corrections, NZ Fire Service, St John Ambulance, local and regional civil defence and emergency management teams, and the judiciary. It will be the largest multi-agency government project in New Zealand's history and has also been recognised as being the biggest foundation slab of all anchor projects in Christchurch comprising of more than 9,500 cubic metres of cement. Upon completion there will be three buildings providing a total floor area of 42,000m², which will cater for 1,100 staff and 900 daily visitors. Construction is forecast to be complete by December 2016.

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