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Knight Frank Research Compass Report

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

National

The release of the PCA Office Market Report in early February, showed that the performance of the CBD markets in Sydney and Melbourne skewed net absorption higher over the past six months, notwithstanding a continuation of relatively soft performance in Brisbane, Darwin, Adelaide and select non CBD markets. Net absorption recorded for the six months to January 2016 was positive 169,484m^2 for the Australian CBD markets and negative 4,853m^2 for the non-CBD markets.

The total CBD vacancy rate still increased slightly from 10.7% to 10.9% over the past six months, as new supply additions, which were the highest in six years (360,485m^2 of gross supply added), outstripped new demand. Prime grade vacancy is now sitting at 9.5% compared with 12.7% in the secondary grade segment. In the non-CBD markets, the total vacancy fell slightly from 9.6% to 9.3%, however when looking at this by grade of asset, the differential between the performance of prime grade and secondary grade properties is much wider, with prime vacancy at 6.9% and secondary vacancy at 11.2%. Sub-markets with limited prime options for tenants and a relatively benign supply pipeline include; Parramatta (1.7% prime vacancy), North Ryde/Macquarie Park (4.8%), and North Sydney (6.4%), which is underpinning the fundamentals in these and other non-CBD markets.

Sydney

Propertylink and the Grosvenor Group have partnered to launch the Propertylink Office Partnership 3 (POP 3) fund following the acquisition of four office properties at North Ryde for a total consideration of $94 million. Despite being offered as a seven asset portfolio (four in North Ryde, two in Frenchs Forrest and one in North Sydney), the newly established POP 3 fund bought the North Ryde assets from the Blackstone controlled 151 Property portfolio. The four office buildings with a combined NLA of 20,455m^2 and blended WALE of 5.02 years includes 1 Lucknow Road, 12 Julius Avenue, 10 Julius Avenue, and 10A Julius Avenue. Leased to tenants such as Revlon, BOC and Rexel Group, the sale reflected a blended passing initial yield of 7.82%.

DEXUS Property Group and the DEXUS Wholesale Property Fund (DWPF) have jointly purchased 90 and 100 Mount Street, North Sydney for an initial acquisition price of $41 million from Laing O'Rourke Australia. The DA approved site, currently home to two commercial buildings will be redeveloped into a 34-level office tower with a total NLA of 41,163m^2. As part of the sale, DEXUS and DWPF have entered into a fixed price design and construction contract with the vendor, while Laing O'Rourke has also pre-leased 6,229m^2 at the development. Subject to the final settlement date, construction is anticipated to commence in mid-2016 with practical completion expected in mid/late 2018. The anticipated total development cost including the initial acquisition price of $41 million is $467.5 million. The site has been earmarked for an office development for a number of years, however a lack of pre-commitment interest has meant the project has failed to take-off until now.

The Lendlease managed Australian Prime Property Fund Industrial has purchased an under construction 15,800m^2 prefabrication facility at Eastern Creek for $27.1 million from Frasers Property Australia. The asset, located within the Eastern Creek Business Park where other major tenants include Kmart, DB Schenker and Fisher & Paykel, is due for completion in mid-2016 and will be occupied by Lendlease's Design Make on a five year term. Design Make is a new manufacturing business launched by Lendlease in 2015 which will service the company's development pipeline through the prefabrication of customised building components, ultimately reducing construction periods and costs.

Payce Consolidated has expanded its portfolio in Melrose Park, purchasing a development site from Aqualand for $160 million. The 4.5 hectare site located at 657-661 Victoria Road and 4-6 Wharf Road will allow the Payce and Japanese-based Sekisui House joint venture to develop a fully integrated plan for the Wharf Road precinct. In 2014, the joint venture purchased development sites at 44 Wharf Road, also known as the former Reckitt Benckiser site, and 44A Wharf Road for a combined $263 million. Earmarked as one of Sydney's largest urban renewal projects, the multi-staged, mixed-use development has plans to include affordable housing and new public parks, as well as, office and retail space. At this stage the proposed site will accommodate 860 apartments, although with the possible amalgamation of land parcels, there is potential for a total 1,200 apartments across the project.

Meriton Group has purchased a development site in Mascot from Jewel Fine Foods, for $67 million. The 7,176m² site, located at 671-683 Gardeners Road, was sold with development approval for 242 residential apartments, making the sale equivalent to a rate of $276,860 per apartment. Also developed by Meriton, Mascot Central adjoins the subject site with the first stage expected to be completed in April 2016, with a mix of apartments and a new retail precinct anchored by a Woolworths supermarket.

Melbourne

Melbourne-based private investor Harry Stamoulis has purchased One Collins Street in the Melbourne CBD for $125.0 million from private investor Overland Properties, reflecting a passing yield of 5.2%. One Collins Street was completed in mid-1984 and consists of several linked new and refurbished buildings, connected by a covered overhead walkway and includes a basement car park. The property comprises a number of buildings on the Victorian Heritage Register including 61 Spring Street; which was constructed in 1870, located on the corner of Collins Street and served as Australia's first war cabinet room in 1914. Currently 100% leased, the 14,006m² A-grade office tower is occupied by a range of tenants including; Amazon.com, McKinsey & Co., IBISworld, Aberdeen Asset Management and Rabobank. One Collins Street was sold with a WALE of 3.1 years and reflected a building rate of approximately $9,000/m².

Logistics specialist investment manager LOGOS Property has acquired the Oxford Refrigerated Logistics Estate in Laverton North for approximately $205 million reflecting an initial yield of 6.75%. The 23.99-hectare Oxford Cold Storage estate was sold with a 20-year triple net lease to Oxford Cold Storage on a sale-and-leaseback arrangement. Oxford Cold Storage is Australia’s leading provider of third party temperature controlled warehousing. The property incorporates 14 temperature controlled warehouses, two conventional warehouses and various support buildings, as well as extensive concrete paved driveways, hardstand and car parking areas. Located at the corner of Dohertys and Hume Road, the site has been developed in stages by Vaughan Constructions and currently provides a GBA of 123,089m², with capacity for further expansion.

MTAA Super has purchased the Vogue Plaza in South Yarra for $92 million from Melbourne-based private investor Harry Stamoulis. Completed in 2012, the shopping centre comprises the ground floor and first level of the Vogue residential tower that Stamoulis Property Group developed at 670 Chapel Street. Comprising 17,600m² of GLAR, the centre is anchored by a Big W outlet, a Woolworths supermarket, a Guardian childcare centre and 40 specialities with 600 undercover parking bays.

Local Melbourne developer, GURNER, has purchased a Fitzroy North development site from private family, Satnam Properties Pty Ltd, for close to $40 million. The site is earmarked for 550-650 apartments across multiple buildings with public realm and retail space at the ground floor. Located at 26-56 Queens Parade, the 8,500m² site is positioned within the Gasworks precinct, bound by Queens Parade, Alexandra Parade and Smith Street; close to Edinburgh Gardens and the Fitzroy Swimming Pool. Nearby, South East of the public pool in Fitzroy, the formerly known Gloweave factory at 425 Smith Street, on a 2,700m² parcel of land sold to the Kahlon Group for $20 million in late 2015.

Brisbane

QIC Global Real Estate has sold 41 George Street in the Brisbane CBD for $159.8 million to Basil Property Trust, managed by Singapore-based AEP Investment Management. The asset is one within a portfolio acquired by QIC from the QLD State Government in 2013 and had an allocation at that time of $83.05 million. The 27 level office tower was constructed in 1979, refurbished in 1997, and is fully leased to the Queensland Government until June 2021, reflecting a passing yield of 8.7%. The 29,960m² building is located on a site of 2,811m² and is located opposite the Queens Wharf integrated development site which provides the potential for redevelopment or alternative use should the office space be vacated.

Stockland has purchased a greenfield site in Coomera from a private vendor for $40 million. The 116 hectare site, also known as Waterway Downs, fronts the Coomera River and includes a development site of 98.2 hectares. Two adjacent islands are included in the sale, which are located on the Coomera River (Foxwell Island, 10.1 hectares) and Thomson Island (8.1 hectares). The site has development approval for the construction of a combined 747 high-quality detached residential dwellings and town homes within a master planned riverside community, surrounded by a 50 hectare conservation area. The Stockland Group forecasts first land settlements to be achieved from Waterway Downs in 2017-18.

A Hong Kong-based conglomerate, including Lei Shing Hong, has purchased a redevelopment site in Newstead from private developer, Balfour Irvine, for $26 million. The 7,843m² riverfront site located at 194 Breakfast Creek Road, at Breakfast Creek Wharf, is earmarked for a new Mercedes Benz dealership with residential apartments above. In 2012, the site was sold by the Bank of Scotland to Mr Irvine for $6.35 million. This is not the first redevelopment site purchased by Lei Shing Hong in Brisbane. In late 2015, the 6,170m² Mercedes Benz dealership site, earmarked for 665 to 760 apartments, at 365 Wickham Street, in Fortitude Valley, was bought for $40 million.

Perth

The off-market sale of a Perth CBD office building located at 190 St Georges Terrace was the first major sale in 2016 at a purchase price of $64.2 million and a core market yield of 7.39%. Credit Suisse Real Estate Investment Management purchased the 11 level building with a NLA of 9,332m², located on a 1,832m² site, from Terrace Properties. The purchaser also owns 45 St Georges Terrace which recently underwent a refurbishment.

Cape Bouvard Investments Pty Ltd purchased 12-14 The Esplanade from New Star International property fund for the purchase price of $51 million. The property, formerly known as the CTA Building, was a six level hotel above five levels of above ground parking converted into a 14-level A grade office development in 2008. With tenants such as ATCO Technologies, DBNGP Nominees and Yamatja Marlpa Aboriginal Corporation the building is majority tenanted (7.5% vacant), has an NLA of 7,957m² and traded on passing yield of 8.1%. 12-14 The Esplanade is located opposite the new Elizabeth Quay development and close to the rail and bus stops of the CBD.

Chinese-backed YT International has reportedly purchased the Forrest Centre at 219-221 St Georges Terrace in the Perth CBD for approximately $220 million, lifting proceeds from the portfolio sale to circa $500 million. The twin office complex, comprising towers of 8,888m² and 21,239m², has been purchased from the Insurance Commission of Western Australia who also offloaded two major retail suburban shopping centres late last year at Ellenbrook and Livingston Marketplace in Canning Vale for a purchase price of $319 million.

Adelaide

Melbourne based Shakespeare Property Group has purchased two office buildings in the Adelaide CBD Core precinct. 19 Grenfell Street was purchased for $39.2 million, selling with a WALE of 2.1 years by income on a core market yield of 8.46%. The property has ground floor retail and 17 upper levels of office accommodation with a NLA of 10,786m² with the building recently undergoing an extensive upgrade to the core services. At the date of sale the property was approximately 21% vacant. The property has a mixed tenancy profile with the Australian Red Cross and WIPRO accounting for 50% of the passing income. **The second asset, 30 Currie Street, was purchased for $28.75 million. The property sold with a WALE of 1.2 years by income on a core market yield of 8.57%.** The office building comprises ground floor retail and 10 upper levels of office accommodation with a NLA of 9,184m². At the date of sale the property was 46% vacant with major tenants including Suncorp, Iron Road Limited and the South Australian Government Minister for Infrastructure.

Auckland

During FY2015, 13 projects valued at NZ$163 million were completed at Goodman's Highbrook Business Park in East Tamaki, and to date, over NZ$70 million of development has been announced in FY16. Developments and acquisitions are being funded by asset sales rather than new equity. Over FY15 NZ$149 million of property was sold, including some non-core land and an emphasis on office and non-Auckland assets such as the Amenity and IAG buildings in Addington, Christchurch, which sold in October 2015 for NZ$33.2 million, and properties at Glassworks Industry Park in Christchurch which sold for NZ$38.9 million in December 2015. Goodman Property Trust (GMT) is targeting another NZ$100 million to NZ$150 million of sales in FY16, whilst in December 2015, GMT purchased the NZ$86.2 million Datacom development in Wynyard Quarter.

Research & Consulting Contacts

Australia
Matt Whitby
Group Director
Head of Research & Consulting
+61 2 9036 6616
Matt.whitby@au.knightfrank.com

Paul Savitz
Associate Director,
Consulting Services
+61 2 9036 6811
Paul.savitz@au.knightfrank.com

Residential Research
Michelle Ciesielski
Director, Residential
+61 2 9036 6659
Michelle.Ciesielski@au.knightfrank.com

Agency Contacts

Australia
Stephen Ellis
Chief Executive Officer
+61 2 9036 6611
stephen.ellis@au.knightfrank.com

Queensland
Ben McGrath
Managing Director
+61 7 3246 8814
Ben.Mcgrath@au.knightfrank.com

Australian Capital Territory
Terry Daly
Managing Director
+61 2 6221 7869
terry.daly@au.knightfrank.com

New South Wales
Richard Horne
Managing Director
+61 2 9036 6622
richard.horne@au.knightfrank.com

Western Australia
John Corbett
Managing Director
+61 8 9225 2561
john.corbett@au.knightfrank.com

Northern Territory
Matthew Knight
Managing Director
+61 8 8982 2502
Matthew.knight@au.knightfrank.com

Victoria
James Templeton
Managing Director
+61 3 9604 4724
james.templeton@au.knightfrank.com

South Australia
Peter McVann
Managing Director
+61 8 8233 5210
peter.mcvann@au.knightfrank.com

Tasmania
Scott Newton
Chief Executive Officer
+61 3 6220 6999
scott.newton@au.knightfrank.com

New Zealand
Layne Harwood
Country Head, Director Capital Markets
+64 9 377 3700
layne.harwood@nz.knightfrank.com

State Research Contacts

Queensland
Jennelle Wilson
Senior Director
+61 7 3246 8830
Jennelle.wilson@au.knightfrank.com

Victoria
Richard Jenkins
Director
+61 3 9604 4713
Richard.jenkins@au.knightfrank.com

New South Wales
Luke Crawford
Senior Analyst
+61 2 9036 6629
Luke.Crawford@au.knightfrank.com

Western Australia
Sonia Grewal
Research Analyst
+61 8 9225 2412
Sonia.Grewal@au.knightfrank.com

South Australia
Rory Dyus
Research Analyst
+61 8 8233 5230
Rory.dyus@sa.knightfrankval.com

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