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Knight Frank Research Compass Report

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

Sydney

Charter Hall has announced a new unlisted retail partnership, RP6, and will seed the new fund with the acquisition of the Pacific Square Shopping Centre in Maroubra. The asset has been purchased for \$137 million on a reported cap rate of 6.5% with occupancy of 99% and a 5.8 year WALE. The centre is anchored by a Coles and an Aldi supermarket and includes 50 specialty stores plus a 2,500m² Fitness First gym. The new retail fund has \$250 million in equity commitments, of which 20% is being sourced from Charter Hall. Charter Hall noted that based on a target gearing ratio of 35%, the fund will have approximately \$250 million of additional purchasing capacity.

GDI Property Group has agreed to purchase 80 George Street, Parramatta for \$38.7 million. The ten level commercial office building, with two floors of basement parking, was acquired from Heathley (Keystone Property Fund No. 29) with main tenants including Westpac (c.41% of property income), HCF (c.15%) and MEGT (c.9%). GDI purchased the 8,184m² building fully leased, however they intend to immediately undertake refurbishment works and mechanical upgrades. The purchase is to be funded by a new single asset unlisted fund that GDI expect to imminently launch with settlement expected in June.

Brookfield has continued to acquire sites adjacent to the substantial Wynyard Place mixed use development site at 10 Carrington Street in the Sydney CBD. The most recent was the April purchase of 36 Carrington Street for approximately \$20 million. The strata building sits on a 325m² site and comprises 2,297m² NLA across ten levels with frontage to both Carrington Street and Wynyard Lane to the rear of the building. Brookfield bought the asset with an occupancy rate of 66% and a WALE of 1.8 years. The purchase follows the previous acquisitions of 60 Carrington Street (c.\$118 million in December 2014; yet to settle) and 50 Carrington Street (\$88 million in July 2014) after Brookfield gained control of the Wynyard Place development site in 2010 following the takeover of Thakral Holdings. Brookfield are progressing with plans for the re-development of the precinct, which will include a 58,000m² premium grade office tower.

Melbourne

The Victorian Government has announced plans to significantly expand Melbourne's Fishermans Bend development on the Yarra River, making it the largest urban renewal project in Australia. The proposed precinct will increase from 250 to 455 hectares to accommodate a new "employment precinct" for businesses. Located approximately one kilometre southwest of Melbourne's CBD, Fishermans Bend was identified as an urban renewal area in July 2012 and rezoned as part of an expanded capital city zone. Interim height controls of 40 storeys would be put in place in the Montague and Lorimer areas, however, there will be no interim height limits on the employment precinct. A height limit of 18 storeys will be in place for the Sandridge and Wirraway precincts, with lower maximum limits in areas abutting neighbourhoods in Port Melbourne. The interim height controls will take effect immediately. The state government expects Fishermans Bend will accommodate about 40,000 jobs and 80,000 residents by 2050.

Australand has sold 357 Collins Street in the Melbourne CBD for \$222.5 million on a core market yield of 6.57% to the Singapore Exchange-listed Fraser Commercial Trust (FCOT). FCOT is affiliated with Frasers Centrepoint which acquired 100% of Australand last year via a \$2.6 billion takeover. 357 Collins Street is the first asset of the Australand portfolio which has been sold into a Frasers-run trust. This increases FCOT's exposure to the Australian office market as it already owns office buildings in Perth and Canberra. 357 Collins Street is a 23-storey A-grade office building which comprises office space of 30,095m² of NLA and 1,825m² of retail space with a basement car park of 40 bays. The building was sold 95.5% occupied to a range of tenants including Commonwealth Bank, Meridian Lawyers and Wilson HTM on a WALE of six years. Australand bought the property from Chinese investor Maxicity in 2010 for \$45 million and secured Commonwealth Bank as an anchor tenant following an extensive refurbishment and redevelopment completed in 2013.

Private equity real estate group Qualitas has acquired the Fawkner Centre office building at 499 St Kilda Road for \$80 million from Malaysian developer IGB. In a joint venture with LAS Group, who had obtained planning permission, the existing office will be converted into a 21-storey, 253-apartment development called the Fawkner. The Fawkner Centre was completed in 1973 and comprises an office building of seven storeys at the front and 19 storeys at the back. In addition to the office NLA of 21,377m², the building also includes 1,453m² of retail space, two levels of basement parking for 331 cars with typical floor plates of 976m². The residential conversion will include a glass facade with the building stripped internally of

all services before being reconfigured to one, two and three-bedroom apartments. With an average unit price of \$1.1 million, construction on the residential development is planned to commence at the end of the year with Qualitas targeting downsizing owner-occupiers.

A Moonee Ponds site with a concept plan for a multi-staged development of 1,200 apartments has been sold to local developer Caydon, for approximately \$42 million. The plan for 40 Hall Street & 34-36 Margaret Street incorporates residential, office and retail buildings ranging from 6 to 26 storeys on the site, formerly occupied by the Moonee Ponds Market. The 1.34 hectare site is currently zoned Commercial 1, which allows for mixed use; with a development plan overlay submitted for approval by the Victorian Government. The site was sold by Leighton Properties and Qualitas who had previously purchased the site from Reading International in October 2013.

The former Carlton & United Brewery development site in Melbourne, with approval for 1,035 apartments has been sold to Hengyi, a subsidiary of Shandong HYI Group based in Shandong province, China for \$64.8 million. Located at 170 (156-172) Victoria Street, the 2,927m² corner site also fronts Bouverie Street, and current plans suggest it will be known as 8 Bouverie Street when completed. The site was previously owned by Singaporean developer, Chip Eng Seng, who purchased the site for \$32 million from Grocon in 2013. The site has development approval for a 72-storey residential tower, designed by Elenberg Fraser, incorporating some retail space and the conservation of the two storey heritage bluestone building shell - the site is otherwise mostly vacant.

Brisbane

Challenger Life has confirmed settlement of its purchase of the NEXT Hotel in Brisbane's CBD for \$133 million. The sale, which was mooted late 2014, involves a 10 year leaseback to SilverNeedle Hospitality over the 304 room hotel. The vendor, SilverNeedle, had overseen the refurbishment of the hotel, which involved the conversion of 3,695m² of former commercial space into hotel rooms (increasing the rooms from 150 to 304) and re-branding of the hotel to the 4.5 star NEXT Hotel banner. The refurbished ground floor space has been leased to retailer Forever 21 also on a 10 year term. The property which is located at 76 Queen Street, within the Queen Street Mall had been purchased by SilverNeedle for \$56.75 million in 2012 with the subsequent refurbishment estimated to have cost \$50 million. During April the first of Brisbane's current wave of office conversion projects was completed, with Capri by Fraser opening the doors to its 239 hotel room conversion of the former 9,469m² office building at 80 Albert Street.

DEXUS is understood to be in due diligence to purchase the Waterfront Place complex, including both the 59,512m² premium office tower and the adjoining riverfront Eagle Street Pier restaurant/retail complex, for a sum in the order of \$630 million. The asset is being sold by Stockland Trust and the Future Fund who hold the property in 50% shares.

SCA Property has purchased the Whitsunday Shopping Centre for \$46.98 million. The sub-regional centre is located at Airlie Beach in Central Queensland and is anchored by a Coles supermarket and Target Country with 46 specialty retailers. The vendor, a private investor, has provided a two year rental guarantee on any vacancy which has resulted in a passing yield of 7.25% and a reported fully leased yield of 8.50%. This continues the recent trend of steady retail centre transactions with Aspley Village Shopping Centre sold by Abacus Property Group for \$32.25 million and Karalee Shopping Village purchased by Consolidated Properties/CVS Land Partners for \$27 million selling in the last month.

A joint venture comprising Consolidated Properties and LJCB Investments has been announced as the preferred tenderer for the Yeerongpilly Green Transport Orientated Development. The site of the former Animal Research Institute is located at 665 Fairfield Road, Yeerongpilly and is envisaged to be developed in line with the Yeerongpilly planning framework, working closely with Economic Development Queensland. The redevelopment of the 14.1 hectare site is valued at \$850 million with the mixed-use project expected to be constructed over multiple stages. The first land release comprises 4.6 hectares with 265 apartments, 8,750m² of retail and 9,800m² of commercial uses. Once completed, the project will incorporate a total of 1,100 apartments, a 103 room hotel and associated retail and restaurant facilities.

Perth

German discount retailer, Aldi, has purchased a retail building located at 1383 Albany Highway, Cannington for \$8.4 million from The Furniture Guide and Lifelong Investments. The property, with a building area of 3,234m² on a total land area of 6,675m², will be leased back to the current occupier Impressions Furniture for the next 12 months. The sale forms part of a \$450 million investment in 20 Aldi stores in Western Australia. To date, Aldi has committed to developing stores in Southern River, Halls Head, Kwinana, Rockingham, Australind, South Lake, Joondalup, Camillo, Midland, Mundaring, Ellenbrook and Mandurah.

Oil and gas technology giant, Schlumberger, has leased 9,903m² of NLA in the Jandakot City Business Centre off the Roe Highway at Jandakot. The prime manufacturing space at Site 506 Pilatus Road, Jandakot has been leased from Perth-based property group, Ascot Capital, at an approximate rent of \$118/m² net for an undisclosed term. This facility has just reached practical completion and offers two separate workshops of 3,389m² and 6,514m² as well as over 30,000m² of hardstand.

Local engineering firm, JDSi Consulting Engineers signed a 10-year lease on 1,950m² of space in the WorkZone East building at 202 Pier Street in the Perth CBD. The office space has been leased from Charter Hall's Opportunity Fund No.5 (CHOF5) at undisclosed terms. The engineering outfit had outgrown its previous premises as its workload consulting to the land development industry rose over the past eight years. The \$220 million WorkZone campus at 202 Pier Street comprises two seven-level buildings totalling 28,000m² of new office space with 4,500m² remaining available for lease.

Perth-based private equity firm, Sirona Capital, has finalised the purchase of the Margaret River Shopping Centre at 49 Townview Terrace at Margaret River for \$18 million on a passing yield of 9.3%. The 5,712m² neighbourhood shopping centre has been purchased from the SCA Property Group and sold with a WALE of 13.1 years. As of December 2014, the centre had the lowest occupancy rate of all of SCA's centres, with 79% of its GLAR leased. Anchor tenant, Woolworths, occupies 3,800m² of the centre on a 20-year lease while speciality retail makes up the remainder.

The Peel Joint Development Assessment Panel approved the redevelopment of Mandurah Forum Shopping Centre after the development application received unanimous endorsement from Mandurah City Council last week. Subject to final investment approvals, construction is expected to begin within the next 12 months and there is expected to be circa 24,000m² of new retail floor space and 150 new retail stores. The slated redevelopment of Mandurah Forum is on the back of Federation Centres' upgrade of Halls Head Central (currently undergoing a \$54 million redevelopment) and its \$39 million redevelopment of Warnbro Central, which was completed in late 2014.

Adelaide

Three new hotel development projects have been announced for Adelaide's CBD. London listed IHG Hotel group will develop its third Holiday Inn Express in Australia, located on Hindley Street; the Accor Group will develop a five-star Sofitel on Currie Street and Western Australian based Lester Group plan to develop a Choice Hotel on the corner of North and West Terrace. The Holiday Inn Express will be developed by Dubai-based investment fund Pro Invest as part of a 2013 agreement to develop 15 Holiday Inn Express hotels in Australia for IHG under a franchise agreement. The Sofitel will be developed in conjunction with local South Australian builder the Palumbo Group and the Choice Hotel will be part of a \$150 million mixed use development which will include two office towers and 5,000m² of retail space. Both the Holiday Inn Express and Sofitel have a projected completion date of late 2018 and the Choice Hotel has a scheduled completion date of September 2016. When complete, the Sofitel will be the first 5-star hotel developed in Adelaide's CBD for nearly 30 years.

Singapore-listed Starhill Global REIT has purchased the Myer Centre Adelaide for a reported \$288 million from Australian group Novion Retail Partnership on a passing yield of 6.6%. The sale is the second largest retail transaction ever recorded in the South Australian market following the sale of a 50% share in Westfield Marion in 2003. The Myer Centre Adelaide is located on Rundle Mall and comprises 60,000m² of retail space made up of eight mini-major tenants, 88 specialty tenancies, 11 kiosks, six ATMs, 467 basement car parking spaces and 10,000m² of office accommodation. The office accommodation within the centre features across 31 tenancies and is accessed via North Terrace.

Plans for the \$896 million upgrade on the North-South corridor between Torrens Road and the River Torrens have been updated and contractors have been appointed. The joint venture project between the State and Federal Government involves a 3km non-stop section of road between Torrens Road in Ridleyton and Ashwin Parade in Torrensville. Construction is scheduled to start mid-2015 with completion by the end of 2018. The Development will further improve travel times and support the recently completed South Road Superway and Northern Expressway.

Canberra

After a slow start to 2015, investment activity in Canberra has experienced a considerable pick-up in recent weeks, underpinned by Centuria's acquisition of 54 and 60 Marcus Clarke Street in Civic. Despite being offered by Mirvac as a portfolio (including two in Sydney and one in Melbourne), Centuria acquired the two Canberra assets at 60 Marcus Clarke Street (\$49.1 million) and 54 Marcus Clarke Street (\$14.2 million), reflecting cap rates of 8.3% and 10.0% respectively. While Centuria have been active buyers in recent weeks, they also recently sold 2 Faulding Street Symonston for \$6.5 million. The 8,448m² multi-purpose building represents a significant development opportunity given its site area of circa 32,000m².

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