SEPTEMBER 2012

Knight Frank Research Compass Report

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

Sydney

Global property group MGPA (Asia Fund III) has acquired 6-10 O'Connell Street in the CBD for a reported $105.1 million from Private Property Syndicate (managed by Colonial First State Global Asset Management). The acquisition reflects a reported yield of 8.0%. The 29-level office building comprises 16,689m² including 15,057m² of lettable office area and was 92% occupied. MGPA took advantage of the relative discounts available for B-grade, core-plus assets compared to prime stock and intend on increasing the income return by repositioning the asset.

The Marlborough Hotel at 145 King Street, Newtown has been bought at auction for $12.175 million. The hotel was bought from Chris Crawley by the private equity-backed Riversdale Group, who plan on renovating the pub. Riversdale Group are also looking for further buying opportunities to boost the size of their current portfolio. In a positive sign for pubs and hotels, the sale occurred a week after the Solotel Group purchased the Bank Hotel at 324 King Street, Newtown for a reported $11.8 million.

Melbourne

The GPT Wholesale Office Fund (GWOF) vehicle has announced it has secured Suncorp as a tenant at its Premium Grade tower at 530 Collins Street, Melbourne. Suncorp will lease 15,500m² over twelve floors (levels 27-38), with the majority of the space recently vacated by law firm Allens. The commencing office rent is reported at $485/m² net face with a 20% incentive to contribute to the fit-out. Annual reviews over the 10-year lease commencing 1st July 2013 are 4% per annum. Suncorp are vacating ISPT's 447 Collins Street and are reportedly going to adopt an activity-based workplace environment. Since ANZ's departure from 530 Collins Street in 2009 around 50,000m² or 75% of the asset's NLA has been re-leased. Capital expenditure and refurbishment works have included a revamped food court, expanded lobby and Wi-Fi.

Sydney developer Barana Group has purchased the Novotel St Kilda Hotel from Tourism Asset Holdings Limited (TAHL) for about $55 million showing a yield of 8%. The 211-room hotel sits on a 5,792m² site on The Esplanade, overlooking the St Kilda foreshore. The hotel is operated by Accor on a management agreement which has nine years to run. It is expected that the property would be run as a passive hospitality investment for the term of that agreement, but the site also offers considerable residential development potential in the future. The Novotel property stands near the St Kilda Triangle site, which the local council plans to revitalise due to its connection to The Esplanade and the beach. Barana also owns the Novotel in Glen Waverley.

Brisbane

The Queensland State Government has announced a short list of six developers to undertake the 1 William Street project which they will lease from completion in 2016. The State indicates that work is expected to start on the 60,000m² - 75,000m² building later this year with Cbus, Lend Lease, Brookfield, Westfield, Leighton Properties and Grocon requested to submit full proposals.

An industrial property within the tightly held suburb of Hemmant has changed hands for $13.25 million. Hemmant is located south of the Brisbane River within the TradeCoast region of the city and this parcel is freehold within a precinct which has a large proportion of leasehold land. The property is currently used as a container park with four years remaining on a lease to Tyne. Thus the 4.81 hectare site has future development potential. The property was purchased by the Charter Hall Core Plus Industrial Fund (CPIF) from syndicator the Accumulus Investment Group. The sale reflected a rate of $275/m² on the land component and a reported passing yield of circa 10%.

Another Charter Hall Fund, the Direct Industrial Fund (DIF) has purchased the Coates Hire facility at 29-47 Mudgee St, Kingston, located within the Logan Motorway Corridor. The property, located on a site of 9.68 hectares, was purchased for $20.85 million from Watpac. The site is currently undergoing expansion works and Coates Hire has recently signed a new 20-year lease over the facility from the completion of construction in early 2013. The sale reflects a passing yield of 7.9%.

Perth

Suburban areas have been active recently, highlighted by the recent pre-commitment from the Department of Education to a new 6-storey building at Tassels Place in Innaloo. The 15-year lease on the 6,800m² building will be on a site neighbouring the IKEA store on Ellen Stirling Boulevard and completion is expected in 2013. With settlement mid-October, a private investor has purchased 130 Fauntleroy Avenue, Redcliffe for $24.5 million on an initial passing yield of 8.74% and core market yield of 10.27%. Comprising two office buildings plus two freestanding warehouses, the site was fully occupied at the time of sale.

There is anticipation in the market that Chevron will construct a new 75,000m² headquarters over two sites in the Elizabeth Quay development. Chevron is spearheading the development of the $43 billion Gorgon LNG project and the $23 billion Wheatstone venture near Onslow and currently occupies several buildings around the Perth CBD, including circa 20,000m² in QV1.

Aspen Group has secured a lease at the former Australian Wool Holdings complex in Bibra Lake from Leighton Contractors on a 2.5 year term. The building comprises approximately 65,000m² of warehouse space as well as over 7.5 hectares of hardstand, with Leighton seeking to utilise the site to support their operations on the Gorgon project.

Adelaide

The Bendigo and Adelaide Bank Building, located at 169 Pirie Street has been sold. The 10-storey, 7,479m² building sold for $22.1 million to a local syndicate of investors and was previously owner occupied. The building will reportedly undergo a major refurbishment to improve the building's NABERS rating from 2.5 stars to 4.5 stars. This continues the recent trend within the Adelaide Core for offices to be upgraded. The former SAPOL building on Flinders Street, and 100 Waymouth Street are both undergoing major refurbishments. The Bank has now relocated to a new Grenfell Street address.

An undisclosed buyer has purchased a 50% interest in the Gepps Cross bulky goods centre on Main North Road at Gepps Cross for $30.7 million. The half stake in the 62,000m² bulky goods retail centre has been purchased from Axiom Properties, who participated in a joint venture development with Harvey Norman and Charter Hall back in 2009. The centre is currently tenanted by major retailers including Harvey Norman, the Good Guys and JB Hi-Fi. This deal is one of two major S.A. Bulky Goods sales this month, with BB Retail Capital purchasing the Mile End Homemaker Centre for $43.5 million from Charter Hall Retail.

Stamp Duty concessions for off-the-plan, inner-city apartments in relation to the Bowden and Gilberton developments have been extended by the State Government, to push for a more "vibrant" Riverbank Precinct. These two developments are contiguous to the riverbank along Linear Park, with the aim being to breathe life into the city centre. By abolishing the Stamp Duty on these apartments, purchasers are making large savings, encouraging people to move into the centre of Adelaide. Stamp Duty is abolished for any apartment bought off-the-plan for under $500,000 whilst a capped concession is in place for properties valued at more than $500,000.

Auckland

AMP NZ Office Limited (ANZO) has purchased Westfield Downtown Shopping Centre at 11–19 Customs Street West in the Auckland CBD for NZ$90 million (AU$70.9 million), increasing the number of CBD assets held in New Zealand to sixteen. The 14,368m² retail centre has been purchased from the Westfield Group on an initial yield reflecting 7.6%. The 6,500m² site has also been acquired with approval for a 71,000m² mixed-use office and-retail development. Reflecting its focus on prime CBD assets, ANZO is to rebrand as Precinct (PCT) as of September 28th 2012.

An undisclosed overseas investor has purchased the Auckland Hyatt Regency on the corner of Princes Street and Waterloo Quadrant in the Auckland CBD for NZ$59.7 million (AU$47.2 million). The acquisition of the 291-room hotel coincided with similar purchases by foreign investors of the 283-room Hotel So in Christchurch for NZ$19 million (AU$15 million) and the 232-room InterContinental Hotel in Wellington for NZ$50 million (AU$39.5 million).

Christchurch

158 Gloucester Street, Christchurch, 'Press House', has been sold. This comprises the brand new 6-Star Green Star design, seven level office building developed for Fairfax Media Limited and occupied by its South Island masthead - 'The Press'. The entire building is leased for a 16-year term from January 2012 and incorporates a net floor area of 4,252m². The property was developed by Sydney based Ganellen and sold to local Christchurch investors for circa NZ$26.5 million (AU$20.9 million). The sale reflects a yield of 7.5% and reinforced returning confidence to the Christchurch investment market after the announcements by the NZ Government for the redevelopment of Christchurch CBD post-earthquakes.

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