OCTOBER 2012

Knight Frank Research Compass Report

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

Portfolio Sale

A new joint venture between Telstra Super (90%) and Charter Hall Property Trust (10%), the unlisted BP Fund, has contracted to acquire a national portfolio of Bunnings Warehouse retail stores for $207 million. Seven recently completed Bunnings stores across Australia were sold by Bunnings on leaseback terms to the joint venture entity for a total of $176 million. A further single Bunnings Warehouse located in Stafford, suburban Brisbane, was transferred from the Charter Hall Direct Retail Fund into the joint venture vehicle for $30.7 million. The combined portfolio reflected a reported initial yield of 7.6% (post acquisition costs) and a WALE of 13.3 years.

Sydney

Joint owners of the 5 Martin Place development in the Sydney CBD, Commonwealth Property Office Fund (CPA) and Cbus Property, have announced a commitment to the tower which satisfies the pre-commitment level required to trigger construction. Legal firm Ashurst has committed to a 10 year lease over levels five to eleven within the 19 level project. The 13,871m² commitment represents approximately 44% of the office component of the building and the owners will now progress to construction on the development. On completion, the project will provide in the order of 31,000m² of premium office accommodation and 2,500m² of ground level retail space through the integration of the existing heritage listed “moneybox building” and a new glass tower to the rear of the site.

Charter Hall Retail REIT (CQR) has contracted to acquire three sub-regional shopping centres within regional New South Wales for a combined total of $100.7 million, as the group continues its strategy of acquiring food based shopping centres. The assets included Tamworth City Plaza for $35 million (purchased from Australian Unity), Dubbo Shopping Centre for $30.5 million (purchased from Centro MCS) and the remaining 50% share in Lake Macquarie Fair and Mount Hutton Shopping Centre for $35.2 million (increasing ownership to 100%). The weighted average of the portfolio reflected an initial yield of 9.6%, a 4.9 year WALE and an occupancy rate of 98.7%.

Private Hotel investor, Mr Jerry Schwartz has purchased the Novotel Newcastle from Accor Hotels. Sold for $16.5 million, the deal reflected an initial yield of 9%. The hotel includes 88 rooms, a restaurant and bar, two conference rooms, leisure facilities and a 77-bay car park. This sale followed his purchase of the Crowne Plaza Hunter Valley for a reported $45 million in July. That resort, which included 150 hotel rooms, 169 strata-titled two and three bedroom villas, and a golf course had been in receivership with Ferrier Hodgson since 2010.

Melbourne

A Melbourne syndicator has purchased 570 St Kilda Road, Melbourne for $23.8 million. Podco purchased the 10-storey boutique building, which is 40% vacant, at a 9.45% yield from Indonesian investor Jacky Mulani. It has been reported that more than 20 investors joined the syndicate for 570 St Kilda Road. The building has a net lettable office area of 7,688m² and tenants include iHost Hospitality, Bravura Solutions and K-Line Australia. The sale of 570 St Kilda Road brings office investment activity in 2012 within the St Kilda Road commercial precinct to $169.1 million, with the vast majority sold to private investors and syndicates.

The Commonwealth Bank of Australia (CBA) has signed a 10-year lease to occupy approximately 9,000m² in Walker Corporation's $1.3 billion Collins Square project in the Docklands precinct of Melbourne. CBA will move into the second tower at Collins Square, which is also committed by Marsh Mercer for 23,000m². The bank will be relocating from approximately 18,000m² in its current headquarters at 385 Bourke Street, owned by the Commonwealth Property Office fund (CPA). On completion, Walker Corporation's five-tower Collins Square office park development will cover 180,000m² of office space in five towers and 10,000m² of retail space. The Australian Taxation Office has already moved into the first 38,000m² tower and the second 35,000m² Marsh Mercer tower is expected to be completed in June 2013.

Brisbane

A secondary building within the Brisbane CBD has sold for $74.92 million. CorVal Partners has purchased 160 Ann Street from the unlisted Investa Enhanced Fund (IEF). The 16,060m² building was sold with a WALE of 6.8 years with the longer term tenants of Central QLD Uni (5,127 m² to 2020), XStrata Technology (2,481m² to 2022) and The Department of Health an Ageing (2,481m² to 2025) balanced by vacancy (827m²) and shorter term exposure to Suncorp (1,654m² late 2012 & 3,308m² in 2015). The sale reflected a passing yield of 9.43% and a core market yield of 9.06%.

This follows confirmation earlier in the month of the settlement of the long-mooted sale of 40 Creek Street, also within the Brisbane CBD. This 12,353m² building was sold for $84.5 million, purchased by private investor the PGA Group. Sold by Charter Hall Opportunity Fund No. 5 after a major refurbishment in 2009 and extensive leasing campaign, the sale reflected an initial yield of 8.28%, a core market yield of 8.0% and a WALE of 6.1 years.

Southern Cross Storage, the joint venture between National Storage and Heitman LLC has purchased a self-storage facility within the inner Brisbane suburb of Bowen Hills for $10.4 million. The 12,000m² facility was leased to National Storage, Harvey Norman and Mortgage Alliance Brokers. This off-market purchase from Lend Lease represents a continuation of the integration strategy which commenced with the purchase of 22 National Storage properties for $187.5 million in 2011.

Perth

A 50% interest in the redevelopment of the Old Treasury Building, St Georges Terrace in the Perth CBD has been sold to K-REIT Asia for $165 million. The 35 level, 30,797m² office tower is being built by Mirvac and is anticipated to be complete by mid-2015, with the office space leased to the WA Government for 25 years. This is the second major development acquisition that K-REIT has negotiated with Mirvac, with K-REIT purchasing Mirvac's 50% interest in the 8 Chifley Square development, in the Sydney CBD for $155 million in July last year.

In the Pilbara region of north-west WA, the historic Esplanade Hotel, Port Hedland recently sold for more than $30 million. The hotel has been recently refurbished and extended to incorporate an additional 85 rooms, taking the total to 108 rooms. It is understood that 80% of these rooms are contracted on a 12-month term to a major commodity company.

Adelaide

German fund manager Real I.S AG is purchasing 400 King William Street in the Adelaide CBD Frame for a reported $100 million. Negotiated off-market, this is a landmark sale for the Adelaide CBD, the biggest commercial sale since City Central Tower 1 sold for $142 million in 2004. This is the third major Adelaide asset purchased by Real I.S AG, following the purchase of 77 Grenfell Street in 2011 for $91.7 million and the KPMG building (151 Pirie Street) for $61 million in 2006. The 10 level, 22,000m² building was developed in 2009 by the vendor the Kyren Group and is 100% occupied with a mix of both private and public sector tenants, including Workcover which moved into the building in July this year. The green credentials of 4.5 star NABERS (with the potential to reach 5 stars in the near future), 60% occupancy by public sector tenants and the WALE of 7 years were all seen as drawcards for the purchaser.

Christchurch

The New Zealand Government has issued RFP's for the development of 30,000m² of office space in central Christchurch. This is in support of the Christchurch rebuilding program with office accommodation required to be located in the heart of the CBD. All Government agencies relocated from the central city area post-earthquakes. The recent release of the CBD blueprint and recovery plan is an opportunity for the Government to secure accommodation that supports its business requirements while facilitating development projects for local investors. Over 300,000m² of commercial space was lost or has been demolished and the New Zealand Government has designated a significant amount of inner city land to facilitate rebuilding. It is currently acquiring land on a compulsory basis to assist progress for both the private and public sectors. The total inner city rebuild is estimated to cost around NZ$20 Billion.

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