APRIL 2013

Knight Frank Research Compass Report

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

Sydney

Altis Property Partners has purchased 117 Clarence Street in the CBD for a reported $61.25 million. The office building with an NLA of 11,200m^2 has been purchased from the unlisted wholesale fund AMP Capital Investors Property Income Fund on a passing yield of approximately 9.25%. The sale continues the trend of wholesale funds being net sellers of Sydney CBD assets over the past twelve months, although it is noted that many of these sales have been complicated somewhat by a number of factors including pre-emptive rights being exercised. This was evident with the listed Commonwealth Property Office Fund (CPA) executing a first right of refusal on a 25% interest at 201 Kent Street. The 25% share was purchased from Colonial First State's Direct Property Investment Fund for $77.3 million and takes CPA's ownership stake to 50%.

As further signs emerge of a turnaround in NSW housing investment, a number of developers are looking to secure apartment development opportunities in Sydney's 'Inner Ring'. Stamford Land Council has purchased 2-24 Grove Street, Dulwich Hill for $23.7 million. The 10,000$m^2$ site is earmarked for a 250 unit apartment complex. Elsewhere, Fridcorp has purchased a 7,975m^2 site on MacDonald Street at Erskineville for $17.5 million. The development site has been purchased with the intention to construct 200 residential units.

Melbourne

German pension fund BVV has acquired 575 Bourke Street in the Melbourne CBD for $70 million from Blackstone Group's closed ended wholesale investment fund V-Plus (Valad managed), reflecting an approximate passing yield of 8%. The 18-level office building comprises 16,200m^2 of net lettable office area and 82 underground parking bays, with tenants including Equity Trustees, HLB Mann Judd and McKean Park Lawyers. 575 Bourke Street has average floorplates of 1,050m^2 and was completed in 1987, with the foyer and public spaces of the building refurbished in 2003.

The Cancer Council has sold two holdings in Carlton for approximately $28 million prior to relocating to an office in St Kilda Road. The Cancer Council sold its Victorian headquarters at 100 Rathdowne Street in Carlton for approximately $19 million to a Chinese development group. The property currently consists of a two-level office building of 4,071m^2 on a 3,100m^2 site on the corner of Rathdowne and Victoria street's which will likely be redeveloped for residential uses. In addition, they sold a six-level, 3,354m^2 office building on a 1,189m^2 site at 100 Drummond Street, Carlton to a private investor. The Cancer Council offered the properties with a short term leaseback, prior to their relocation into 615 St Kilda Road from August 2013.

Brisbane

DEXUS have announced that they have entered into an agreement with Grocon to acquire 480 Queen Street, in the Brisbane CBD, on a fund through basis. The purchase, which will be split 50% to the DEXUS Property Group (DXS) and 50% to the DEXUS Wholesale Property Fund (DWPF), is expected to equate to approximately $544 million, based on a capitalisation rate of 7.25%. The project, which has recently been downsized from 61,500m^2 to 55,561m^2 to broaden its appeal to investors, has pre-commitments in place for 38% of the building. These pre-commitments are to BHP (Levels 8-12, circa 14,000m^2), Herbert Smith Freehills (Levels 29-31, circa 5,100m^2) and a single floor to The Executive Centre (level 27). In addition Grocon have provided a rental guarantee over any vacant space for two years post completion of construction. It is now expected that construction will commence in the short term, which has guaranteed delivery dates in place with BHP, with expected completion in early 2016. On completion the building will provide 31 levels of premium accommodation and the development is targeting 6 Green Star and 5 star NABERS Energy ratings.

Elsewhere in the Brisbane CBD a smaller commercial asset, located at the intersection of the Queen Street Mall and George Street, has been sold for $34 million. The property contains a heritage listed building, a 7-level building to the corner and an annex which interlinks to the floors of the heritage building, completed in 2008. Combined, the buildings provide 6,508m^2 of office space and 18 basement carparks on a stacking system. The buildings were purchased by Abacus Property Group, reflecting an initial yield of 9.4%.

In Redcliffe, 25km to the north of the Brisbane CBD, the Bluewater Square shopping centre complex has changed hands for $52.5 million. The property includes a Woolworths anchored neighbourhood retail centre of 11,231m², and a freestanding tavern. The complex was purchased by CP Retail Management and Alceon with the expectation that the retail centre will be offered as a single asset unlisted vehicle, while the Tavern will be added into a separate multi-asset vehicle.

Perth

An englobo piece of land was sold at auction by the City of Bayswater in early April for $22.35 million. The 40.54 hectares tract of "greenfields" land sold to a company controlled by WA listed property developer Cedar Woods. It forms part of a master-planned 504 hectare community which will see the creation of more than 5,500 residential lots as well as three primary schools, a high school and a local town centre.

Singaporean company Far East Orchard Limited has purchased a portfolio of hotel assets in Perth and Melbourne for an estimated $178 million. In Perth, the hotels purchased from STC were the Rendezvous Hotel on the Esplanade in Scarborough and the Rendezvous Studio Hotel Perth Central at 24 Mount Street in the Perth CBD, and includes the businesses associated with each of these properties.

Adelaide

Health Partners Ltd purchased 101 Pirie Street, Adelaide a 'lower B Grade' 10 level commercial office tower with a gross building area of 6,788m² for $12 million reflecting an improved rate of $1,768/m². The building was sold predominately vacant with 2 ground floor tenants, however Health Partners Ltd plan to owner occupy the whole building. It's considered that the building requires significant capital to upgrade. The property was on the market for 18 months reflecting the relative lack of demand for these types of assets.

Levels 3, 4 and 6 of 108 North Terrace, Adelaide totalling 4,732m² was leased to Optus for a term of 7+7+4 years commencing January 2015 at a rental rate of $470/m². The building is a modern commercial office tower constructed in 1999, located toward the north western fringe of the CBD core. The lessee was offered an incentive of 16% taken as capital contribution towards office fit out and a licence to occupy 21 car parks at $425 per car park per calendar month.

Westpac Banking Corporation has renewed its lease over 6,693m² of space at 7 Laffer Drive, Bedford Park. The property has been leased from Growthpoint Properties. The rent for the new 5 year lease is currently in negotiations and will be determined by an independent valuer.

Canberra

Jamie's Italian is the next international brand to make moves on the Canberra market. Jamie Oliver's restaurant chain which has had success in Sydney and Perth, will be opening its third restaurant occupying the Kingsley's Steak and Crabhouse space in Canberra Centre from later this year. The nation's capital has had interest from international brands with recent examples being the successful opening of the third Australian Costco in 2011, occupying space in the Airport precinct while in Civic, Zara opened earlier this year and there is further speculation that Topshop is close to securing space.

Auckland

New Zealand's second largest property transaction for the year was recently brokered, with the sale of 27 Napier Street, Auckland for NZ$63 million. This building comprises a brand new office development which is home to GHD Engineering and Lion New Zealand. The campus style building provides three office levels of 8,303m² with two levels of basement car parking producing a net income of just over NZ$4.41 million pa with built-in rent escalation. The sale reflects a new benchmark transaction with a 7.0% passing yield. The vendor was New Zealand's largest office developer, Mansons TCLM and was purchased by a private investor based in Christchurch (brokered by Layne Harwood, MD of Knight Frank NZ).

Christchurch

The New Zealand Government has announced that Treasury is now expecting the cost of the Christchurch rebuild to escalate to NZ$45 billion and are not ruling out that this may go higher. This is three times the initial estimate in February 2011, but demonstrates the complexity of the process and the extent of damage that occurred. Significant underground infrastructure has been damaged with the water and sewage upgrade alone costing NZ$2 billion. The rebuild cost will be met largely by reinsurers, with the NZ Government picking up the tab for around NZ$15 billion, the Christchurch City Council NZ$5 billion and the balance met by local and offshore. Planning for the rebuild is well underway, while a number of major CBD developments will start in the middle of the year.

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