Following a record high level of transactions in 2013; CBD sales in 2014 set yet another record high with almost $3.0 billion sold in the Melbourne CBD office market.

After a subdued first quarter, investment activity surged in the remaining three quarters, boosted by a number of major sales with 10 transactions above $100 million recorded between April and October.

Office investment sales activity ($10m+) in 2014 within the Melbourne CBD totalled $2.97 billion across 33 properties. This volume of sales has exceeded all previous years—setting a record high annual level for the Melbourne CBD office market.

Having been usurped by offshore groups in 2013, unlisted funds and syndicates were once again the most prominent purchasers in 2014 accounting for 41% of office sales by value.

Boosted by a number of major transactions, significant acquisitions made by unlisted funds in 2014 included: AMP Capital Wholesale Office Fund’s purchase of 700 Bourke Street for $433.50 million and GPT Wholesale Office Fund’s half share acquisition of the CBW office development for $304.05 million. Cbus Property’s disposal of CBW was Melbourne’s highest office transaction on record.

Source: Knight Frank
Despite the domestic investor dominance of 2014, offshore groups also remained active accounting for 38% of all sales. In previous years, offshore investment has been led by Asian-based investors, however in 2014, North American-based investors accounted for 49% of cross-border investment into the Melbourne CBD office market with European investors also active, accounting for 18% of cross-border investment.

With prime investment opportunities becoming increasingly scarce, the weight of capital seeking commercial property resulted in investors converging on secondary assets. Over 2014, secondary office sales in Melbourne CBD totalled $1.15 billion, surpassing $1 billion for the first time on record. The vast majority of transactions in the secondary market were made by offshore investors who accounted for 58% of all secondary asset acquisitions. Somewhat surprisingly, investor motivation/focus within the secondary market for the bulk of sales were for value add assets rather than immediate redevelopment opportunities.

The weight of capital chasing office investments was a major factor in compressing CBD yields further over 2014 with downward pressure likely to continue through 2015.

**CBD OFFICE TOP 10 SALES 2014**

1. **CBW: 181 WILLIAM ST & 550 BOURKE ST**
   - **Price:** $608.10 million
   - **Date:** September 2014
   - **NLA:** 81,453m²
   - **Rate/m² of NLA:** $7,466/m²
   - **Yield:** 6.50% core market (6.00% initial)
   - **Vendor:** Cbus Property
   - **Purchaser:** GPT Group (GPT & GWOF)
   - **Comments:** Built in 2009, the CBW complex comprises of two A-grade office buildings and a retail component was sold with a WALE of 5.2 years. The transaction represents Melbourne’s CBD largest sale on record.

2. **700 BOURKE ST**
   - **Price:** $433.50 million
   - **Date:** September 2014
   - **NLA:** 63,000m²
   - **Rate/m² of NLA:** $6,881/m²
   - **Yield:** 5.75% core market (5.75% initial)
   - **Vendor:** Cbus Property
   - **Purchaser:** AMP Capital Wholesale Office Fund (AWOF)
   - **Comments:** The 14-storey Docklands located A-grade office building is close to 99% leased to NAB on a 15-year term and was sold with a WALE of 13.6 years.

3. **750 COLLINS ST**
   - **Price:** $249.50 million
   - **Date:** May 2014
   - **NLA:** 36,734m²
   - **Rate/m² of NLA:** $6,792/m²
   - **Yield:** 7.5% (reported)
   - **Vendor:** DEXUS/CPIBB* 
   - **Purchaser:** GPT Wholesale Office Fund (GWOF)
   - **Comments:** Completed in 2007, the AXA HQ building, also includes a further 4,000m² of retail space and car parking over 16,500m².

4. **321 EXHIBITION ST**
   - **Price:** $208.00 million
   - **Date:** July 2014
   - **NLA:** 30,200m²
   - **Rate/m² of NLA:** $6,887/m²
   - **Yield:** 6.75% core market (6.75% initial)
   - **Vendor:** Cromwell Diversified Property Trust
   - **Purchaser:** Invesco
   - **Comments:** The 20-storey A-grade office building was substantially refurbished in 2011 and is fully leased to Origin Energy until November 2021.

5. **818 BOURKE ST**
   - **Price:** $152.50 million
   - **Date:** October 2014
   - **NLA:** 21,874m²
   - **Rate/m² of NLA:** $6,332/m²
   - **Yield:** 6.79% core market (6.90% initial)
   - **Vendor:** GPT Group (GPT)
   - **Purchaser:** Hines Global REIT
   - **Comments:** Built in 2007, the eight-level A-grade office building comprises ground-floor retail and two levels of above-ground parking. The building is 98% leased to three office tenants: AMP; Ericsson Australia; and Infosys.

6. **350 QUEEN ST**
   - **Price:** c. $130 million
   - **Date:** October 2014
   - **NLA:** 22,411m²
   - **Rate/m² of NLA:** c. $5,801/m²
   - **Yield:** n/a
   - **Vendor:** K T S Holdings Sdn Bhd
   - **Purchaser:** Undisclosed Chinese investor
   - **Comments:** The octagonal 21-storey B-grade building known as KTS House, was sold in an off-market transaction. Considerable scope for redevelopment remains at the 7,295m² site with two further towers originally planned.

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FIGURE 2
Melbourne CBD Office Transactions
Breakdown by purchaser type ($10mill+)

Source: Knight Frank
7. 628 BOURKE ST
Price: $129.60 million
Date: May 2014
NLA: 24,226m²
Rate/m² of NLA: $5,350/m²
Yield: 7.10% core market (7.10% initial)
Vendor: Investa Office Fund (IOF)
Purchaser: M&G Real Estate
Comments: The sale reflected a 12% premium to book value. QBE House was fully leased to a range of tenants and sold with a WALE of 6.9 years.

8. 18-38 SIDDELEY ST
Price: $120.40 million (70% share)
Date: August 2014
NLA: 52,301m²
Rate/m² of NLA: $3,226/m²
Yield: 9.30% initial
Vendor: Asset1
Purchaser: KKR/Abacus Property Group
Comments: Towers 2, 3 and 4 of the World Trade Centre sold with a WALE of 6 years with more than 50% of the office leased to the state government of Victoria.

9. 40 MARKET ST
Price: $105.00 million
Date: September 2014
NLA: 12,011m²
Rate/m² of NLA: $8,742/m²
Yield: 6.25% initial
Vendor: DEXUS (DXS)
Purchaser: MTAA Superannuation
Comments: Following a commitment to refurbish the nine-storey building and its core facilities, the building’s sole tenant – Powercor agreed to new a 15-year lease.

10. 655 COLLINS ST*
Price: $102.00 million
Date: May 2014
NLA: 16,966m²
Rate/m² of NLA: $6,024/m²
Yield: 7.00% (reported)
Vendor: DEXUS/CP1BB*
Purchaser: GPT Wholesale Office Fund (GWOF)
Comments: Media House, headquarters of Fairfax Media and The Age was completed in November 2009.

* As part of the DEXUS takeover of CPA, DEXUS entered into a MOU with GPT (GWOF), to acquire, on market terms, three CPA assets—750 Collins Street, 655 Collins and 50% of 2 Southbank Blvd, Southbank.
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