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Sydney retail attracts Asian interests

by Mark Bristow : Wednesday, September 02, 2009

The sale of a hotel and retail complex in the Sydney CBD has been chalked up to growing Asian interest in the Australian property market, according to CB Richard Ellis.

According to agents of CBRE, the sale of 185 Castlereagh Street had been finalised amid renewed interest in Sydney CBD investment opportunities, particularly for retail properties.

CBRE directors, James Aroney and Josh Cullen, said that the fact that the property is a retail building as opposed to an office building provided a point of difference, as did the property's diverse income stream and prime corner location, resulting in the final sale price of \$20.25 million.



"As a result, we were able to conclude the sale on a relatively tight yield of circa 7.5% to a private Hong Kong family with existing property interests in Australia," said Mr Aroney.

Once owned by failed property tycoon Theo Morris, the fully-leased eight level building houses the New Windsor Hotel as well as a boutique accommodation hotel, a TAB outlet and a café, generating an annual rental of approximately \$1.56 million.

Mr Aroney said that the tight sale yield highlighted the differing fundamentals for investment hotels, such as those which had recently been sold by ALE, where buyers were effectively purchasing an annuity.

"There's a significant differential between operating pubs and freehold investments, which has been borne out in a number of recent hotel sales," said Mr Aroney.

According to CBRE, the sale of 185 Castlereagh Street is the latest in a series of deals to Asian investors, with key deals this year including the \$220 million purchase and development of the Southport RSL site in Queensland by Korean group City Plan, the \$34.5 million acquisition of Chesser House, Adelaide, by a Malaysian syndicate, the \$38 million purchase of 61-79 Quay Street, Sydney, by a Chinese joint venture and the \$20.12 million acquisition by Korean developer Mirae of a development site in Brisbane's West End.

Mr Cullen said that the interest was being driven predominantly by institutional and private investors from Singapore, Hong Kong, Malaysia and Korea.

"Australia is proving to be a popular choice for foreign buyers due to a range of factors, including the relative strength of the local economy, the weaker Australian dollar, low interest rates and the recent easing in investment yields, together with transparency of the market and the ease of undertaking transactions," said Mr Cullen.

The flurry of investment activity mirrors the trend which occurred during the last property market downturn in the mid 1990's, according to the agents, who said that during the period of 1995-2003, Asian buyers were the dominant purchasers of Australian commercial property assets.

Developed in 1928, the 185 Castlereagh Street property was completely refurbished and extended in 1996, with Mr Aroney adding that the site's prime location and future potential had underpinned much of the buyer interest.

"The area is set to improve further in the longer term with the City of Sydney's proposed City Park and Square, which is located within one block of 185 Castlereagh Street, and with the development of the new ANZ headquarters at 163 Castlereagh Street," said Mr Aroney.

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"185 Castlereagh Street also has redevelopment potential - in isolation or as a possible site consolidation with the neighbouring 175 Castlereagh Street."

While there is understood to be an existing development consent for a new 15-level mixed use development, comprising a licensed hotel, retail space and commercial offices at the site, any redevelopment of the site would be a long term play, given the existing leases in the building which extend out to 2015.

The New Windsor Hotel is leased until 2015 and comes with 15 poker machine entitlements and a hoteliers licence, which reverts to the building owner at the end of the lease.

The upper accommodation levels are leased to Pateras Pty Ltd, operators of Sydney's Blakket Hotel, with the Castlereagh Street operation a boutique, four-star hotel comprising 36 rooms.

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