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\$123m tower falls to Pembroke

SALES: US-based Pembroke Real Estate has purchased the CP3 office tower in Brisbane's central business district for about \$123 million, in its second Australian acquisition.

The sale is a sign that offshore capital has not waned in Brisbane despite the soft leasing conditions, following the play earlier in the month by German giant Union Investment Real Estate, which bought Flight Centre's planned Brisbane headquarters in a deal worth about \$200m.

Pembroke purchased CP3 from the Lend Lease-managed Australian Prime Property Fund, as foreshadowed in *The Australian* earlier this month, on a yield of 6.4 per cent, according to sources.

The 14-storey building, at 70 Eagle Street at the northern end of the CBD, has 13 levels of office space and ground-level retail. It is fully leased, with the major tenant being the Queensland Government Superannuation Fund.

It is Pembroke's second Australian acquisition, with the group refurbishing a Sydney CBD building at 20 Martin Place. Pembroke Real Estate director Jack Clark said that the group was looking to expand its Australian portfolio.

"We invest in properties with prime locations in markets with proven real estate fundamentals and long-term growth prospects," Mr Clark said.

"While Brisbane is facing near-term challenges, we believe it has these characteristics due to its diverse economy, liquid capital markets and strong population growth."

Brisbane hit its highest office vacancy rate in January of 14.2 per cent and also has a looming development pipeline over the next few years, according to the Property Council Australia. The city's vacancy rates are expected to climb to 18.8 per cent by 2017, with effective rents to drop by up to 34 per cent and capital values to fall by up to 26 per cent, according to economic forecaster BIS Shrapnel.

Mr Clark said the long-term leases at the CP3 tower would see the building weather the Brisbane office market's poor prospects in the medium term, while remaining a good long-term investment.

The selling agents were Justin Bond and Ben McGrath of McVay Real Estate, with Rick Butler and Bill Tucker of CBRE also on the campaign.

Mr Bond said that the building attracted interest from local property groups and funds, as well as offshore investors and superannuation funds.

Lend Lease's head of investment management Kylie Rampa said that the sale would allow APPF to reduce gearing and that the fund would look to increase its investment in the Melbourne office market.

"Only because we have large positions in the Sydney market and are a major investor in the (Barangaroo) International Towers," Ms Rampa said.

"(CP3) was one of the smaller assets. It made sense to exit it, and we are forecasting stronger growth to come from some of the other markets."

GREG BROWN