

Australian Property Markets News & Views

A review of last weeks property transactions and AREIT activities.

8th September 2017



Blackstone drops Asset sales
Top 300 Global Pension Funds
Economic Outlook & Housing Finance

11/9/2017

Welcome to this weeks Property News.

In addition to some recent economic news, this week we review the decision by Blackstone to withdraw from sale its' shopping centre portoflio; the latest in the battle for Australia Pacific Data Centres; and a "strategic" move by Centuria to take a position in Property Link. We also look at the week's key transactions and other news.

Economic Outlook

The June Quarter GDP figures released this week provide some hope that a return to reasonable growth is in progress with an annual growth rate of 1.8% however much of the growth has been in public investment and credit driven private consumption. On the bright side, the mining sectors' drag on the economy has just about passed and its influence on the economic growth numbers will decline. Net exports of good and services is improving and is expected to contribute to higher growth in the coming year.

The consensus view however is that economic growth will return to 2.5% to 3.0% pa with some pressure to move interest rates slightly higher over the short to medium term.

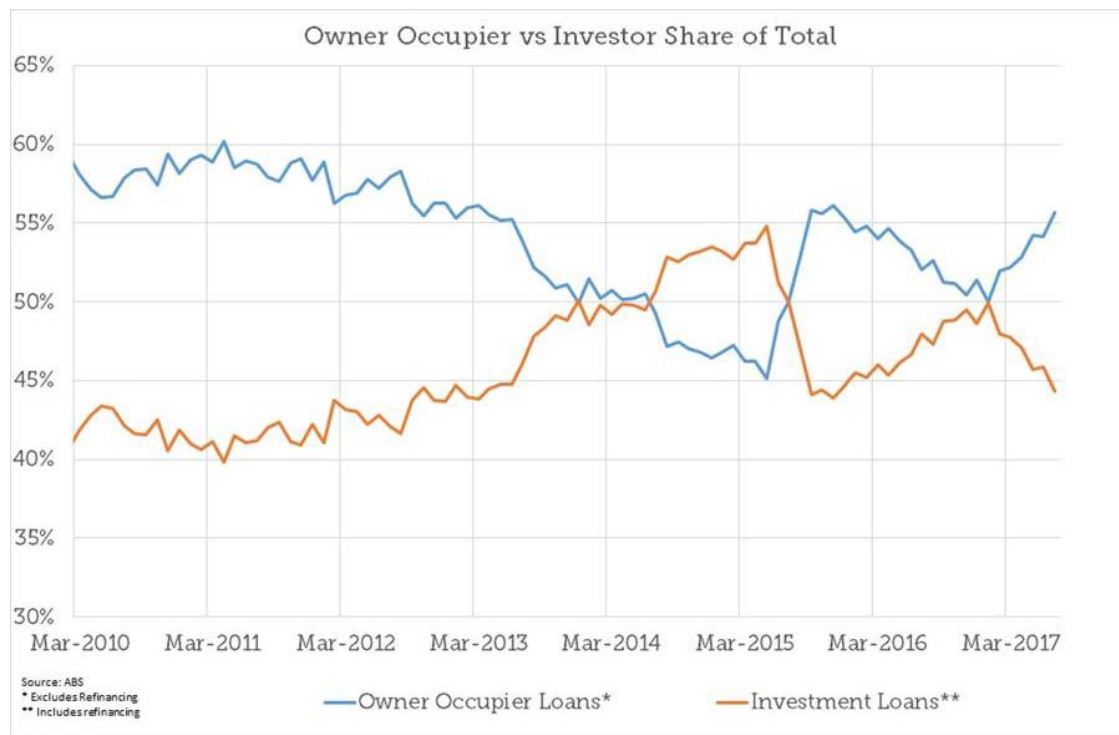
The Australian real estate market is highly leveraged to global capital and the key macro risk to real estate is whether global conditions will shift capital away from Australia. The clamp down offshore investment by China may contribute to this, however the bigger risk is what the US and Europe Central Banks do to strengthen their own economies and what impacts these moves may have on currency and global capital flows. Here are some articles on this topic from last week that are worth reading;

- SMH - [If Trump Gets His Way](#)
- AFR - [ECB Reluctant to Tighten](#)

Housing Finance Numbers

This week, the ABS also released the Housing Finance numbers for July 17 with signs that the overall housing market continues to cool with total lending (excluding re-financing) down 0.9% on last month with investment loans falling 3.9% but owner occupier loans up 2.2%. Despite this monthly downturn, investment loans over past the 12 months are up 11.4% on the previous 12 month period.

The important economic point is that the portion of lending to owner occupiers is growing and is well above that of investment loans, suggesting that the macro prudential controls to discourage speculative investment lending has had its affect, with investment loans back below 45% of total lending. This may allow the reins to be loosened a little, allowing for a soft landing in residential markets. Read more - [ABS](#)



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Blackstone Cancels Shopping Centre Disposal

We heard this week that Blackstone was underwhelmed by offers for its \$3B retail portfolio and has shelved plans to sell the portfolio, and will instead pursue further opportunities to enhance the assets.

The sale was to have been the largest deal in the last 3 years eclipsing the acquisition by CIC of the Investa portfolio at \$2.45Bn. China Investment Corporation were said to be one of the front runners early in the sale process for the Shopping Centres but have since pulled out.

The Centres which included Top Ryde Shopping Centre in Sydney, Melbourne's Greensborough Plaza and Westfield Warrawong, Strathpine and Figtree were initially offered in one line, however sources suggest that back in July subsets of the portfolio were being offered to make the transaction more digestible.

It is clear that the market sees the challenges that the sector will face in coming years and will no longer pay a premium for what has previously been regarded as "protected" real estate.



Property Transactions

This week we recorded 13 major deals for a total value of \$320M.

The largest deal which settled this week was Charter Hall's Prime Office Fund building at 109 St George's Terrace, Perth which sold for \$71.7M.

We also noted acquisitions by Mirvac,



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Australian Funds among the Largest Pension Funds in the World

An annual survey by Willis Towers Watson of global pension funds named 16 Australian funds in the top 300 global funds with combined AUM of \$556B. The top 5 Australian Funds in the Global ranking were;

- 32. Future Fund \$92,046M
- 36. Australian Super \$78,135M
- 72. QSuper \$48,870M
- 90. First State Super \$42,743M
- 92. UniSuper \$39,788M

The Australian funds boosted their AUM by 9% compared to the global average growth rate of 6% on last year. Among the Australian funds, Hostplus moved up 27 places, REST up 14 places, Sunsuper and HESTA both up 13 places.

For the Top 20 Global Funds, the asset allocations show a significant difference in the investment style for each of the regions. The graph below shows that of the Top 20 Funds, those domiciled in Asia Pacific (non of which are Australian Funds), allocated 54% of their capital to Bonds vs 19% for US Funds and 37% for European Funds, whilst the allocation to Alternatives (which includes Property) and Cash was only 6.8% for Asia Pacific Funds vs 34% for the US and 14% for Europe.

A small re-weighting in Asia Pacific back to Alternatives could result in a significant amount of capital being deployed into property assets across the region.

TOTAL VALUE OF FUND ASSETS

SPLIT BY ASSET ALLOCATION AND FUND DOMICILE OF THE TOP 20 FUNDS



A copy of the Global 300 report is available [here](#).

Fund News

The ASX 200 AREIT index closed the week up 1.15%. The main contributors to the increase this week were

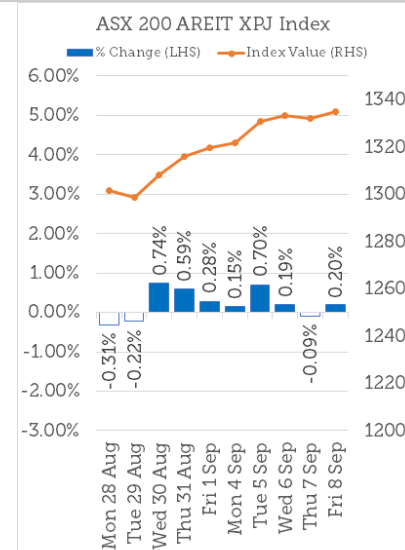
- SCentre (up 5.2%)
- Westfield (up 3.3%)
- Lend Lease (Up 2.8%)
- Vicinity (up 1.1%)
- GPT (up 0.8%)

These were offset by declines from

- Goodman (down -1.5%)
- Dexus (down -1.3%)
- Stockland (down -1.1%)

360 Capital 2nd Offer for Aust Pac Data Centres

Last week's proposal from 360 Capital to acquire AJD was presented as either a scheme of arrangement, requiring shareholder support (which NextDC oppose), or as an alternative proposal which will ultimately take the form of a takeover bid and be subject to different rules and processes. Last week, the ADJ Board claimed that, in



their view, the only 360 Capital proposal capable of being considered was a takeover bid. ADJ met with 360 Capital to clarify the conditions of the bid and on Friday ADJ confirmed that they were not satisfied that the capital distribution (by way of a higher debt facility in the trust) provided sufficient certainty to ADJ unit holders and encouraged 360 Capital to come back with a full cash offer.

Meanwhile, the alternative suitor, NextDC increased their stake by a further 1% to 21.8% to block any chance of a scheme of arrangement put forward by 360.

Centuria Capital take stake in Property Link

Centuria Capital together with its Industrial REIT announced this week that they have jointly acquired a 17% interest in PropertyLink for circa \$97M at \$0.95cpu. Centuria describe the purchase as a "strategic stake" in the business and that they intend to initiate discussions with PropertyLink about strategic initiatives.



PropertyLink hold 30 industrial assets valued at \$695M and manages 9 external funds valued at \$1.2Bn. Whilst there may be some synergies between the groups, Centuria may find it difficult to wrestle control of Propertylink off its established investor base.

Centuria Capital will fund its \$53M contribution from cash together with a Notes Issue announced earlier in the week for \$25M for 3.5 years at 7% pa. ([read more](#)). Centuria Industrial REIT will fund its contribution from a \$44M institutional placement. ([read more](#))

Other News

- Cromwell was called out by the [AFR](#) for not properly informing investors of a related party transaction in a \$13.6M deal to sell a 26% interest in an industrial asset to Monash Private Capital, whose CEO is Geoff Levy, the chair also of Cromwell. The details were buried in the annual report, but not discussed at the annual meeting.

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