



Australian Property Markets News & Views

26/6/2017

Welcome to this weeks Property News.

There's been plenty of activity over the last week with Dexus' staggering acquisition of 50% of MLC Centre being the highlight along with the launch of APN's newest REIT, the Convenience Retail REIT. We review these activities along with our regular review of the weeks' transactions and REIT announcements and remind clients about direct access to our transaction database.

Transaction volumes are currently at record highs with over \$30Bn of institutional real estate traded over the last 12 months, including over \$9B in the last quarter alone. The weight of capital is pushing yields to the lowest level in decades with the weighted average yield across all markets down to 5.8%. The key question is, will it continue?

The spread to bond yields supports the current pricing, and Dexus among others believe there to be a few years before the top of the cycle, however the risk of capital retreat must be higher.

I read with interest on Friday that over 50% of the equities market is foreign owned and with corporate earnings potentially slowing, there are some who feel that it is time to be underweight to Australia. The impacts of a shift of capital away from Australia will be obvious in the equities markets and unless employment conditions continue to support growth and consumption, the flow on affects to real estate capital will be evident across all markets.

A this point in the cycle I continue to favour debt investments which provide a cushion to falling capital values and can offer a more attractive income return than direct real estate.

CMA aims to assist real estate investment managers and clients to add value to their investment decisions with relevant market based advice. We value your relationship and hope that we can be of assistance to you. If you require any strategic advice, market insights, transaction report or individual REIT assessments, please feel to contact us.

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Property Transactions

This week, we recorded over \$1.7B of transactions across 18 assets.

Most notable was the announcement by Dexus of the acquisition of 50% of MLC Centre and 100 Harris Street Pyrmont at a weighted yield of just 5.5%.

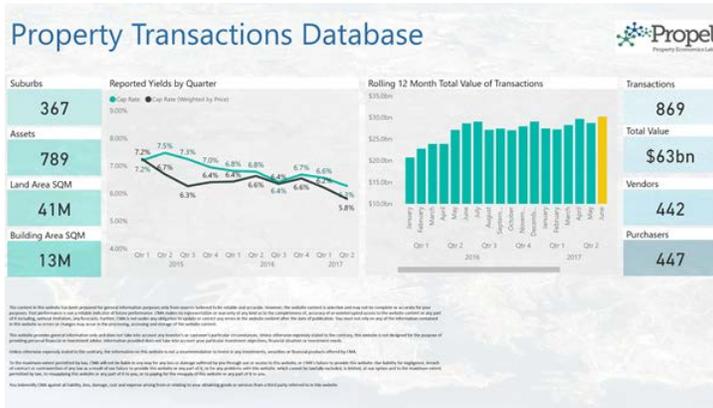
We also look two deals nearing completion with AMP Capital and Alpha Partners. [Continue reading...](#)

Image	Address	Vendor	Purchaser	Price	Cap Rate	Date
	17 Hardner Rd Mount W...	United Invest...		\$20,500,000	6.6%	23/06/17
	233 Glen Huntley Road E...		Stellar Group	\$25,000,000		23/06/17
	495 Blackburn Rd Mount...	EG Funds Ma...	Fife Capital	\$76,300,000		23/06/17
	1 Cranbourne Frankston ...		Viva Energy REIT	\$5,700,000	5.4%	22/06/17
	1182 Sydney Rd Fawkner...	Northpark Gr...	Viva Energy REIT	\$9,300,000	5.7%	22/06/17
	153 Wharf Street Tweed ...		Private Investor	\$11,200,000	6.3%	22/06/17
	160 Ann Street Brisbane ...	CorVal	(b)(c) Alpha Inves...	\$133,000,000		22/06/17
	23 Steel Street Newcastl...	David Boyer	(b)(c) AMP Capital	\$165,000,000		22/06/17
	285 Fitzgerald Rd Lavert...	Northpark Gr...	Viva Energy REIT	\$21,600,000	5.3%	22/06/17
	307 Palmers Rd Truganin...		Viva Energy REIT	\$9,000,000	5.1%	22/06/17
	442 Enoggera Rd Alderie...		Viva Energy REIT	\$9,700,000	5.4%	22/06/17
	60 Cashel Street Christch...	Bridgewater ...	Grand Central	\$49,000,000		22/06/17
	71 Foxwell Rd Coomera ...	Empirica Dev...	Viva Energy REIT	\$19,300,000	5.9%	22/06/17
	100 Harris Street Pyrmo...		Dexus	\$327,500,000	5.3%	21/06/17
	19 Martin Place Sydney ...	QIC Global R...	Dexus	\$361,300,000	4.5%	21/06/17
	19 Martin Place Sydney ...	QIC Global R...	Dexus Wholesal...	\$361,300,000	4.5%	21/06/17
	2 Gerard Drive Coffs Har...	Private Inves...	OzProp	\$11,750,000	7.7%	21/06/17
	240 Waterworks Rd Ash...	Trident Corp...	Aviator Capital	\$33,500,000	7.4%	21/06/17
	111 A'Beckett Street Mel...		SP Setia	\$61,000,000		19/06/17
Total				\$1,710,950,000	5.8%	

CMA/Propel Transaction Data Base

Our transaction database is growing week by week and providing clients with valuable insights in to the property markets. We are likely to move to a subscription service shortly, however if you would like to review our current content, click on the map below and register for access.





Fund News

Big Buy for Dexus

The \$722.6 million MLC purchase by Dexus, undertaken with an unlisted Dexus fund, also included 100 Harris St Pyrmont for \$327.5m. The combined assets were acquired on a weighted yield of 5.5%. The announcement kicked off a capital raising process in which Dexus sought \$500M of additional equity at a price of \$10.20 per security. This was a 3.4% discount to the previous day trade.

Dexus claimed that the deal would be neutral to FFO, however analysts felt the deal would be dilutive and that Dexus should have been more constrained. UBS downgraded the stock to a sell rating. Late on Friday the stock was trading down at 10.04 down from 10.56 or -5% from Tuesday's close.

Dexus defended their pricing citing the strong fundamentals in Sydney; constrained supply with a low vacancy rate, and exceptional rental growth forecast as

dexus



tenants scramble for space. Dexus believe the peak is two to three years away.

The MLC site does however have prominent exposure to one of Sydney's most exclusive retail precincts and capacity to add additional retail and commercial space to take advantage of its location. With a WALE of 4.1 yrs and 5% vacancy, the key for Dexus will be to ensure that it secures and exceeds its forecast rental reversion.

Convenience Retail

APN Property Group Launches new REIT

APN confirmed this week their intentions to staple three of their unlisted trusts and list the new Convenience Retail REIT. Upon listing, the Convenience Retail REIT will own 67 service station and convenience retail assets located across Australia, predominantly on the eastern seaboard with an independent valuation of \$323 million based on a cap rate of 7.25%. The portfolio will have a WALE of 13 yrs with tenants including Woolworths, Puma, 7 Eleven and Caltex. The trust is targeting gearing of 30% and a FFO Yield in FY18 of 6.6% with a 98% payout ratio.

The Trust will compete with VIVA Energy Australia who have 425 service stations valued at \$2.0B and trading at a premium to NTA of 15%.

CMA believes the valuation pricing of the Convenience Retail REIT at 7.25% is significantly softer than recent market deals (see VIVA below) as well as VIVA weighted average cap rate of its portfolio at 5.9%.

VIVA expands Portfolio

Also this week, VIVA Energy, announced it acquired 8 service station properties for a price of \$89M, on a weighted average cap rate of just 5.6%. The portfolio is predominantly leased to Shell with a WALE of 10.8yrs. VIVA completed the acquisition with an institutional placement of \$80M at a 2.9% discount to the previous close price.

APN | Property Group



[Link to PDS](#)

VIVA
EnergyAustralia

Other News

- [Charter Hall](#) also confirmed the issue of securities as per its recent raising of \$275M
- [SCA](#) also provided an updated on the valuation of their portfolio with 19 new valuations showing a cap rate compression of 14Bps to 6.48% and an increase in value of \$116.9M
- [Dexus](#) also announced valuation results of 62 of 102 properties with an increase in value of \$240M with a 38Bps compression in average cap rates over 12 months to an average of 5.95%
- The [Arena Childcare REIT](#) announced valuation results for its 66 properties with an increase in value of \$23.8M over the 6 months to June 30 with a compression in cap rate of 15Bps to an average of 6.73%.
- [GrowthPoint Properties](#) also updated market on earnings indicating a forecast FY17 FFO of 25.3cents, up 2.3 cents from previous guidance.
- [APN Property Group](#) announced that it will move ahead with the IPO of their Convenience Retail Trust as per above.

Distributions

The following funds announced distributions for period ending June 30;

- [Charter Hall Group](#) 15.6 cents
- [Investa Office Fund](#) 10.2 cents
- [SCA Property Group](#) 6.7 cents
- [Dexus](#) 23.76 cents
- [Australian Unity Office Fund](#) 3.8 cents
- [GrowthPoint Properties](#) 10.9 cents
- [Centuria Metropolitan REIT](#) 4.375 cents
- [Centuria Urban REIT](#) 3.75 cents
- [360 Capital Group](#) - 1.625 cents
- [Cromwell](#) - 2.085 cents
- [Aventus](#) - 4.02 cents
- [Mirvac](#) - 5.5cents
- [GPT](#) - 12.3cents
- [BWP](#) -8.85cents
- [Astro Japan](#) -21cents

Investment Opportunities

CMA is currently sourcing capital for the following Investment Opportunities. If you would like more information, please contact us [here](#)



Senior Debt
Construction &
Holding Facility

\$60M
4 Year Term
60% LVR

9%
Return*



Senior Debt
Sydney Short Term

\$15M
1 Year Term
55% LVR

10%
Return*

CLOSED

* Returns are expressed as forecast IRRs and are subject to a variety of investment risks. Investment is only available to wholesale clients.

Property Research Portal

CMA / Propel accesses property research from leading agencies and researchers across the market and brings them together for our clients to easily access. Click [here](#) if you are interested in the latest research for;

- [Commercial markets](#)
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Daily REIT Report

Propel publishes a daily REIT Report listing the key movements in the Australian listed property markets with information on key announcements, performance reports, presentations and analysis.

If you are interested in accessing these updates click on the link below and let us know.

[***REIT Updates***](#)

Feedback

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