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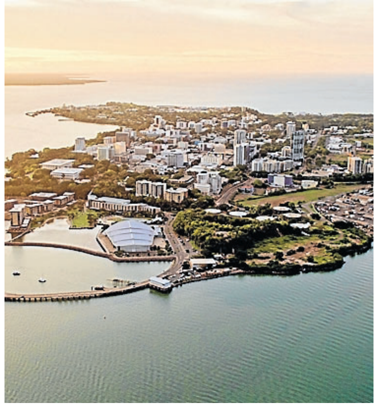
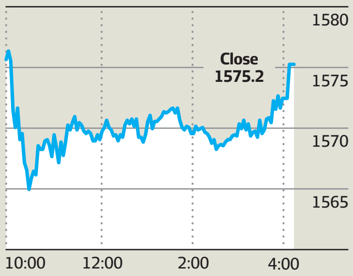
Dexus lands Collins St project in record deal



Inside

Property snapshot

S&P/ASX 200 REITs Wednesday (pts)



Best	Close ($)	Change (%)
Charter Hall Grp	10.16	+2.21
Stockland	3.88	+1.31
Viva Energy Reit	2.54	+0.79
BWP Tr	3.71	+0.54
Charter Hall Long W	4.66	+0.43
Worst		
Unibail Rodamco Wfld	11.70	-2.90
Mirvac Grp	2.76	-1.08
Cromwell Prop	1.105	-0.45
Goodman Grp	13.49	-0.37
Abacus Prop Grp	3.74	Stdy

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Nick Lenaghan

Listed fund manager Dexus has snared QIC's ambitious development precinct at the top of Melbourne's Collins Street, in a record deal worth north of $1.3 billion.

Led by Darren Steinberg, Dexus, backed by a range of capital partners, pushed past rivals Charter Hall and Mirvac to capture the opportunity at 80 Collins Street.

While the race had tightened to the three shortlisted fund managers in recent weeks, it was Dexus and Charter Hall, which faced off in the final round.

All three candidates had tapped into their network of deep-pocketed capital partners to back their pursuit of the Collins Street opportunity offered by the Queensland funds giant QIC, in the largest single deal in Melbourne's commercial property market recently.

Bidding on the complex deal is thought to have come in between $1.3 billion and $1.4 billion, although the end value of the precinct will rise higher as development is completed.

The blended yield across the transaction is around the 5 per cent mark.

The 80 Collins Street property includes a 52-storey tower leased to private and state government tenants.

Around that tower, QIC is developing a mixed-use project, comprising a 39-storey office tower, now more than halfway leased, along with a 300-room hotel and a retail complex.

Pricing the opportunity was complex. The project is under construction, there is no rental guarantee over the unleased office space and components carry varying degrees of risk.

JLL's Robert Sewell, Simon Rooney, Nick Rathgeber and Leigh Melbourne, along with Savills' Ian Hetherington, Ben Azar and James Girvan were appointed to manage the process.

The new tower has been steadily filling with pre-commitments. DLA Piper and McKinsey have recently signed on for the project which already has Macquarie committed. Law firm Ashurst is also understood to be close to signing up for 4500 square metres.

Celebrated restaurateur Chris Lucas, in combination with Sydney's Martin Benn and Vicki Wild, have been brought on board to open an upmarket eatery at the mixed-use development at the "Paris end" of Collins Street.

Dexus has a wide range of potential partners it will have brought into the deal.

In the past year it has bolted in major global investors such as Singapore's GIC and M&G Real Estate for its industrial portfolio.

Its platform includes more than 75 local and international funds such as the National Pension Service of Korea and Canada's CPPIB.

The country's largest office landlord is already familiar with the top end of Collins Street, last year putting its foot on two adjacent sites in the next block that, when amalgamated, could be home to a new office tower.

Dexus, backed by a range of capital partners, pushed past rivals Charter Hall and Mirvac to capture the site. The blended yield is around 5 per cent.

Greenfield housing lots fall off cliff

Su-Lin Tan

The supply of greenfield housing lots on Australia's east coast in 2018 fell to five-year lows matching the constricting supply of new apartments as new-home construction continued to crunch down amid poor demand and curbed mortgage lending, UDIA's latest State of the Land report shows.

Between 2017 and 2018, housing lot production in the three biggest markets of Sydney, Melbourne and south-east Queensland fell despite a rising number of developers moving on to more occupier-friendly, house-and-land projects in an effort to steer away from the soft apartment market.

Volume in Melbourne and south-east Queensland declined by 20 per cent, but Sydney posted the biggest fall at 43 per cent.

"This is the lowest quantum released [for Sydney] since 2013 and signifies a possible portent of the expected production levels for the next few years, " the report said.

In the same period, lot sales in Sydney, Melbourne and south-east Queensland have also fallen by 44 per cent, 34 per cent and 14 per cent respectively, reflecting weak demand.

But, median prices remain high with Sydney having the most expensive lots, at a median 2018 year-end lot price of $489,125 and a 3 per cent increase from 2017. Melbourne's median price posted a 21 per cent annual increase to $339,000.

Despite that, lot sizes continued to fall, putting a squeeze on affordability and value for buyers, with all markets except the ACT having smaller median lot sizes than the previous year. While Perth has the smallest median lot sizes in the country at 375sq m, Sydney is fast catching up with a median size of 379sq m, representing a 4 per cent annual reduction.

The smaller markets of Adelaide and the ACT were the only two that recorded a higher year-on-year lot production in 2018 with Adelaide up 40 per cent, and the ACT higher by 98 per

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Greenfield housing lot supplies fall off cliff

cent. Housing lot sales for these two areas were also higher in 2018, compared to 2017.

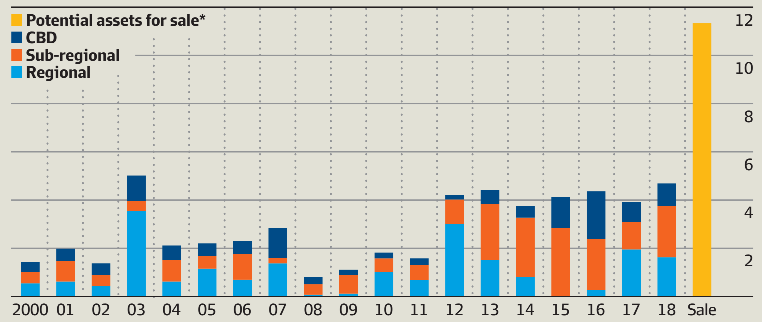
The outlook for Sydney's greenfield production doesn't bode well in particular, with a forecast of an average 7700 lots a year for the next few years, down from about 8920 a year in the preceding five years. At this rate, Sydney won't be able to meet the target of about 12,400 greenfield lots a year – based on the historical development split of 70-30 between infill [apartments] and greenfield dwelling production – for 1.7 million new people in Sydney by 2036, UDIA says.

The roll-out of NSW's new Special Infrastructure Contribution levies could dampen production further with fewer developers willing to buy sites, particularly in Sydney's north west, one of NSW's key growth areas and soon to be serviced by the metro fast train. Overall, in 2018, Sydney still managed to produce 19 per cent more new homes compared to the previous year, mainly due to record-level unit completions of 30,880, the highest among capital cities.

Across capital cities, 128,000 new homes were completed in greenfield areas and infill locations, representing a 4 per cent decrease to 2017 but a 92 per cent increase to the start of the housing boom in 2013.

On the block

Australian retail transaction volumes ($b)



*represents over 2.5 years of average transaction volumes

SOURCE: CITI

US, UK mall slump headed Down Under

Retail

Nick Lenaghan

Australian retail real estate is yet to feel the full impact of falling values and deal flow evident in the UK and the US commercial property markets, according to Real Capital Analytics.

The local retail property investment market is still robust enough to contrast with the bleak picture in values and volume of deals in the UK and the US markets, but how much longer it can swim against the global current is an open question, according to Petra Blazkova, RCA's senior director for APAC Analytics.

"In the UK and US you still have shopping malls which are doing very well, which are fetching very high capital value prices," she told *The Australian Financial Review*.

"Then you have the malls which are the losers. In the UK there are malls which are being sold for £1 per square foot because they are in rubbish locations. It's the case in the US as well.

"Australia seems to be a little bit behind that trend. But the market here is not that different in the behaviour of consumers from what we have in the UK, or continental Europe or the US.

"So the question is not whether but when it starts to happen in Australia. You will start to to see some of the malls struggling. I think there are already some cases. The yields are moving out, the market seems to be turning."

In the UK, retail investment was at the weakest level on record in 2018. In the US, portfolio and single asset sales have declined for three consecutive years, a trend that was partly masked in 2018 by a handful of giant entity-level deals.

In Australia, by contrast, retail investment grew by 14 per cent year-on-year in 2018 with listed landlords including Scentre – it bought a 50 per cent stake in Westfield Eastgardens in Sydney's south-east for $720 million last year – along with SCA Property Group and Vicinity Centres active.

In total, listed investors purchased $1.7 billion of retail assets in 2018, the second highest level to date, according to RCA figures.

Partial share investments accounted for 37 per cent of all transactions – a six-year high – signalling strong demand for good retail assets in a tightly-held market.

But the widening spread in value between malls and logistics values which is apparent in the UK is a worrisome trend for mall owners in Australia.

"It may be a bold call. The market here is facing some headwinds in terms of consumer spending, the dollar being low, the growing cost of land and labour," Ms Blazkova said.

"Combine that with e-commerce taking off slowly but surely. Then you might say that what has been happening in other markets, if the investors are not careful, it will start to affect the values here."

ACT reaps $84m in residential land sale

Su-Lin Tan

The ACT government's suburban development program and urban renewal arm Suburban Land Agency has auctioned off another five blocks of residential land in Canberra for more than $84 million as part of the territory's asset recycling initiative program.

The most expensive landholding sold was Block 24, Section 39 at Griffith, which went for $40 million. The price was the largest single block sale by the ACT government since 2016. The 1.2-hectare site can yield 282 new dwellings and is within close proximity of Manuka Oval and schools.

That was followed by the sale of a 1.4-hectare site at Block 3, Section 62 in Narrabundah, which closed at $20.3 million. 177 new homes can be built on the property. In total, four sites in Griffith and one in Narrabundah were sold, as demand for land continues amid a housing shortage in the territory. A sixth site in Lyons passed in. All sites can accommodate townhouse and low-rise residential projects, the agency says.

The ACT, along with South Australia continues to defy headwinds that are pummelling the east coast markets, the latest UDIA State of the Land report shows.