

Macau investor pays out \$265m for tower

Nick Lenaghan

A private Macau-based player is the latest investor into Sydney's booming office market, taking over the Markham-owned building in Elizabeth Street for \$265 million.

The deal for 179 Elizabeth Street comfortably exceeds initial expectations for a sale price of at least \$250 million, testament to the ongoing appetite for Sydney's commercial property.

The passing yield on the deal was 5.17 per cent, with a sales rate of \$16,041 per square metre after three rounds of bidding. It was brokered by Ian Hetherington, Simon Fenn and Ben Azar of Savills and James Barber, Adam Woodward and Vince Kernahan of Colliers International.

News of the Elizabeth Street deal comes in the same week as Blackstone's \$3.1 billion proposal to take over Investa Office Fund was revealed, a major move that quickly boosted confidence in the commercial market.

The 16-level, A-grade Elizabeth Street tower has 16,520 sq m of office space and is close to fully occupied. The property has an average lease expiry of 3.9 years.

Private real estate group Markham bought the Elizabeth Street office building for \$148.8 million two years ago.

At that time, Markham's acquisition from the LaSalle Asia Opportunity



The Markham-owned 16-level tower in Sydney's Elizabeth Street.

Fund III was struck on a cap rate of around 7 per cent.

Investors from Macau are proving to be regular buyers in this country.

Two years ago casino king Loi Keong Kuong bought energy giant Exxon-Mobil's \$160 million headquarters in Melbourne's Southbank.

In April this year, HoHo Brothers, which includes race-driver Henry Ho, paid \$40 million for a Collins Street office building in Melbourne that sold on a very low yield of 4.2 per cent.

Sector ripe for arbitrage, M&A

Nick Lenaghan

The discounting of property stocks globally has made the sector ripe for arbitrage investment and M&A activity, according to LaSalle Investment Management Securities' global product strategist, Steve Ralff.

Discounting is entrenched in Baltimore-based Mr Ralff's home turf, with the main real estate investment trust index in the US down more than 5 per cent this year.

Whatever their local strengths may be, Australian property stocks have also been freighted with the same global concerns. They are down around 0.7 per cent year to date.

While discounting has driven a number of factors, rising bond yields in anticipation of interest rate hike is a dominant theme. But as Mr Ralff is quick to point out a rise in rates off the back of a strengthening economy, is inherently a good signal for real estate.

"If you've got good economic activity, that means you've got good consumption. You've got good occupancy, which means you've got stronger net operating income," he told *The Australian Financial Review* on a visit this month.

Therein lies the arbitrage. Concerns about rising bond yields in the US are "way overdone," according to Mr Ralff.

But it has made pricing in listed property "really attractive" as a result, even as the fundamental investment



Concerns overdone: LaSalle Investment Management Securities' Steve Ralff.

value of portfolios – some, not all – remains sturdy. That's fertile ground for mergers and acquisitions, allowing well-heeled investors to swoop on property stocks trading at discounts to their portfolio values. "One is private companies can take public companies private," he said. "You're seeing public companies buy public companies."

The LaSalle executive's comments were delivered in the week before Westfield shareholders voted to support the \$33 billion takeover by European giant Unibail-Rodamco.

His remarks seem even more prescient a week after the vote, as US funds giant Blackstone's \$3.1 billion bid for

locally listed landlord Investa Office Fund was unveiled.

The Blackstone move has been seen a big vote of confidence in local commercial property through a cash bid for a discounted stock.

M&A activity, such as the Westfield takeover, helps set a price for assets and points the way to the arbitrage still possible on discounted property stocks.

There's plenty of appetite for that play from the larger sovereign wealth funds in Asia and Middle East that Mr Ralff has crossed paths with recently.

"There's a lot of large sovereign wealth funds that are very interested that don't necessarily want to get involved in buying the entity but they're sure interested in buying the stock and taking advantage of the arbitrage."

With LaSalle as an investor in Unibail-Rodamco, Mr Ralff backed the Westfield takeover. It's also part of the other big global story for retail property now playing out, the growing divide between superior shopping centres and lower quality malls.

The "whole motivation" for Unibail's takeover, Mr Ralff noted, to create a "best in class" global retail platform as landlords worldwide meet the challenge of e-commerce by transforming their malls into all-purpose lifestyle destinations. "That is why the well-capitalised publicly traded REITs that enjoy a low cost of capital are going to be able to up the capex sufficiently," he said.

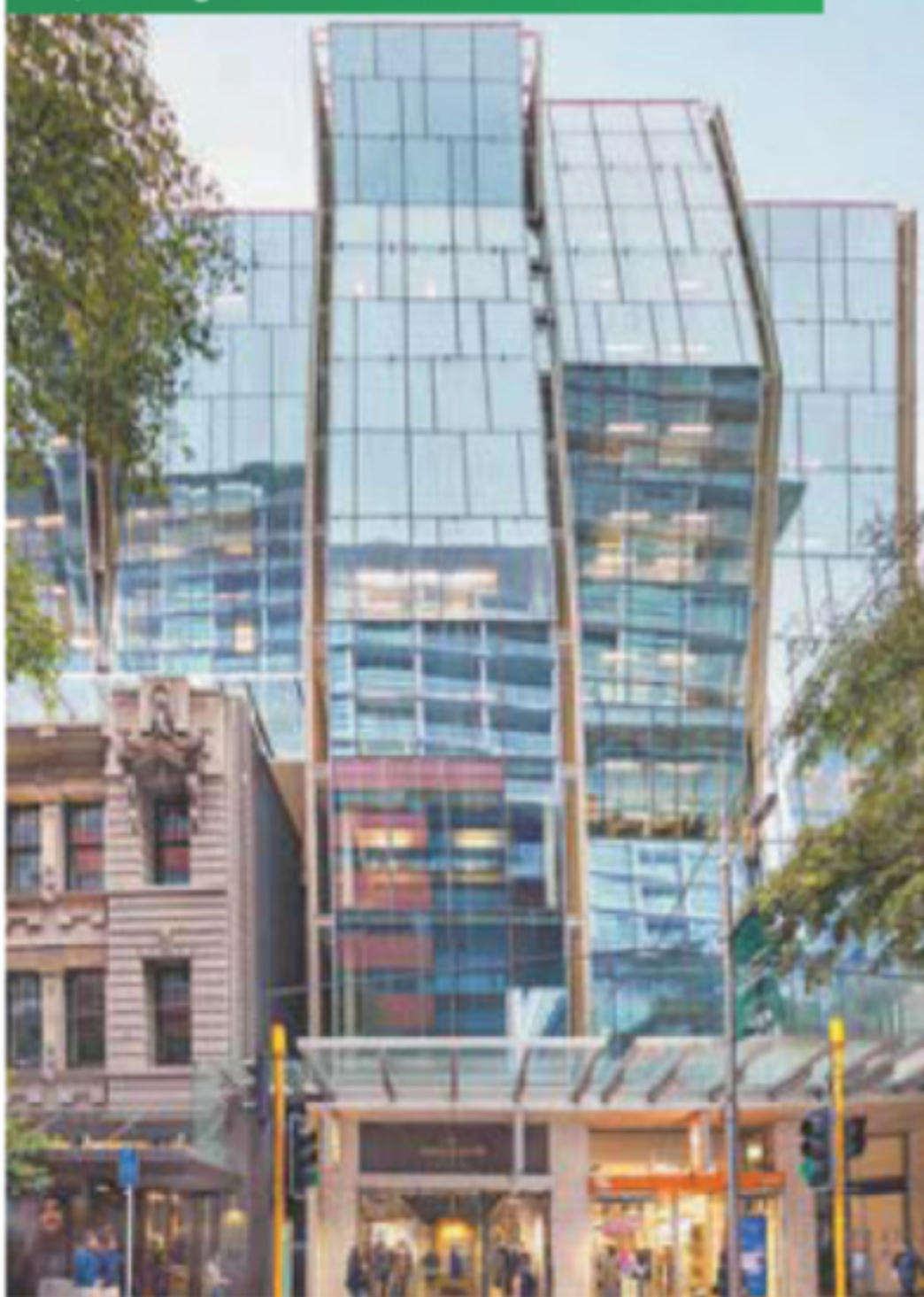
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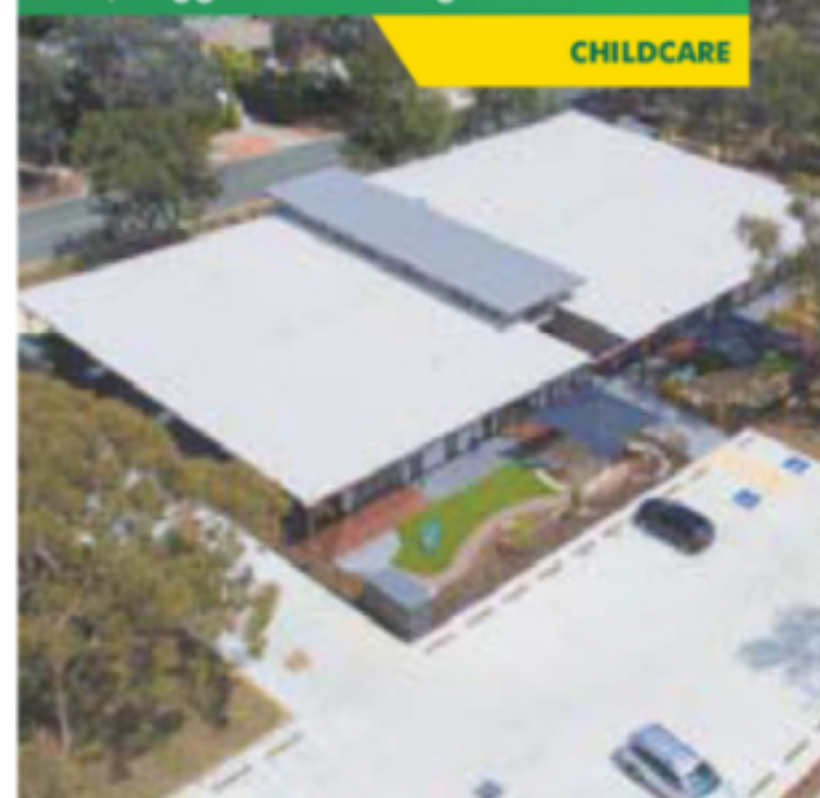


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