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Owner-occupiers buy in

Carolyn Cummins
COMMERCIAL PROPERTY EDITOR

THE drop in interest rates has triggered a buying spree among small-to-medium investors in the strata office market.

The buyers are managers and directors who, through redundancies and downsizing of companies, have opted to leave and set up their own businesses. They want to be in the city near their clients and former colleagues and some, if not all, have large redundancy cheques that they wish to invest in bricks and mortar.

And with interest rates heading down, property is offering more solid yields than the sharemarket, or even 90-day bank bills.

As a result, strata sales have been pushing onwards this year and the outlook remains positive for the coming year. Supply will be the only issue that could interrupt the trend.

Knight Frank says the strata market in the Sydney central business district has shown a strong correlation between the fall in interest rates and the rise in sales.

The executive of city sales at Knight Frank, Andrew Palmer, said there was evidence that investors were coming back into the market, especially in the core of the CBD. Included in these latest sales were Level 5, 109 Pitt Street, for $4.75 million, and Level 6, 70 Pitt Street, for $1,402,000.

"Owner-occupiers are also quite active and are being led by the lawyers and accountants, which is a good sign the market has bottomed," Mr Palmer said. "Next year the market is set to see the lowest supply levels in years, when projects like 350 George Street and 257 Clarence Street are sold out."

Mr Palmer said the city's "core" precinct values would be underpinned by rents rising in the secondary assets, where tenant demand is set to increase in 2013-14.

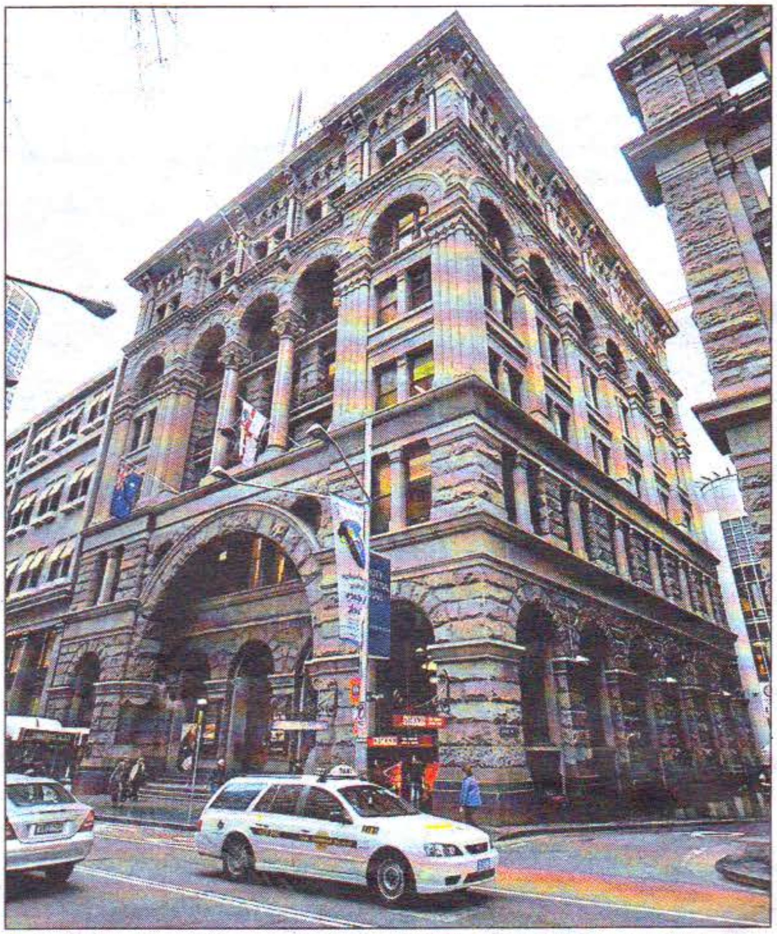
"From an investment point of view, the yield spread, especially for self-managed super funds, has never been better when you take into account the tax advantages and low cost of debt," Mr Palmer said.

Knight Frank's other sales examples were at Suite 507, 66 Hunter Street, which sold for $827,500; Level 5, 109 Pitt Street, which sold for $4.75 million; and Level 9, 70 Castlereagh Street, which went for $1.9 million.

Property is offering more solid yields than the sharemarket.

The associate director of institutional investments and city sales at CBRE, Rohan Ramsay, said 350 George Street was quietly launched in January and had sold about 65 per cent of the sites since.

"This is almost unheard of in the commercial strata market, even back in 2006 and 2007 when some 40,000 sq m of supply was absorbed," Mr Ramsay said. "Despite the strata market being at a low point in volume, 350 George Street has sold at lightning speed, showing the strata market is very supply-led."



Going fast ... about 65 per cent of sites at 350 George Street have sold.

He said the buyer profile in the property had been 85 per cent owner-occupiers and also self-managed super funds.

"A typical buyer profile is a well-networked consultant, be it financial, legal or management, who has started their own advisory business and needs a CBD address and only small suite for say themselves and maybe one business partner plus one support staff," he said.

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The heritage building at 350 George Street in Sydney subdivides well into small suites. Photo: NIC WALKER

Abacus in big strata play

Ben Wilmot

A joint venture between the listed Abacus Property Group and Sydney-based W Property yesterday finalised a deal to buy a National Trust-classified building in Sydney's CBD.

The pair paid $27 million to acquire 350 George Street from the Kador family, which had owned the property for eight years.

Their plan to stratify and sell down the building is one of the larger plays in Sydney's strata office market in recent years. The city's strata office market has been flat for the last few years because much of the available stock was sold down between 2005 and 2007.

The market has since been blighted by an under-supply of new projects, particularly as developers have struggled to obtain finance.

In early 2002, the Kador family outlaid $23 million to buy the property known as Societe Generale House. That deal paved the way for the Australian National University to leave the property and Societe Generale moved to 400 George Street in the middle of the decade.

Plans for a strata subdivision of the property were approved in 1999.

The heritage building subdivides well into small suites and has already attracted a waiting list of buyers. The stock will become available as existing leases expire over the next five years.

While the heritage aspects of the building will remain untouched, works to improve the configuration of the office space will be undertaken.

The strata sell-down is planned over the next three to five years.

Abacus has been active in Sydney this year. The group bought 343 George Street from DEXUS Property Group for $55 million in 2009. Abacus onsold the property this year for $78 million to the City of Sydney after leasing its office and retail space.

On the retail property front, Abacus teamed up with major stake holder South Africa's Kirsh Group, to snap up the Birkenhead Point shopping centre and marina complex in Sydney for $174 million in the biggest Australian retail asset sale this year.

The outlet centre, which fronts the Parramatta River at Drummoyne, was sold by Singaporean tycoon Denis Jen.

Gavin Lloyd and Graham Russell of CB Richard Ellis negotiated the latest transaction.

The private W Property has been an active player in Sydney's city fringe market and its projects include 35 Buckingham Street and the Cooperage at Pyrmont.

The group, run by Mike and Prue Williams, is also converting the former Valhalla cinema in Glebe to strata suites and it owns 36 Hickson Road at Millers Point.

Elsewhere in Sydney, Abacus Property Group is among the groups circling the two adjoining Martin Place properties being sold by wealthy publican Cyril Maloney.

Mr Maloney is selling No. 4 and No. 14 Martin Place. Property industry sources have estimated they could change hands for about $160 million.

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Speed picks up in strata

Carolyn Cummins
COMMERCIAL PROPERTY EDITOR

AMID expectations of another interest rate drop and a volatile sharemarket, the strata property investment sector is forecast to get a much-needed boost as buyers look for higher-yielding assets.

After a very quiet 12 months, with total sales volumes of about $100 million only, small-to-medium investors are tipped to weigh in again as borrowing costs fall.

The director of city sales at CBRE, Gavin Lloyd, says it's been a flight to quality by investors, among them redundant investment bankers seeking suites for new consultancy firms.

Mr Lloyd said that in the 350 George Street site, being developed by W Property and Abacus Funds, he has sold 17 suites off the plan, with a net return of about 7 per cent each, to former stockbrokers, returning expats and private investors.

Availability of bank finance is also thawing, albeit at a slow pace, which has enticed small-to-medium investors back to the sector.

A limited supply has also triggered a rise in demand, because owners are able to charge more sustainable rents to cover mortgages.

According to the director of consulting and research services for Knight Frank, Vanessa Rader, the Sydney central business district strata office market has endured tumultuous activity in the past 10 years, with last year yielding the most challenging results.

Sales in the past year included level 6, 16 O'Connell Street for $1.2 million; level 1, 65 York Street for $4.4 million; suite 1103, 37 Bligh Street for $560,000, and suite 804, 5 Hunter Street for $575,000. The buyers were a combination of small-to-medium private super funds and high net worth individuals.

Pending tax regulation changes for super funds and investment are also behind a return to the sector.

The shift from residential has been slow; however, momentum is expected to gather pace as funds move out of holding cash – as interest rates fall – into the higher-yielding bricks and mortar.

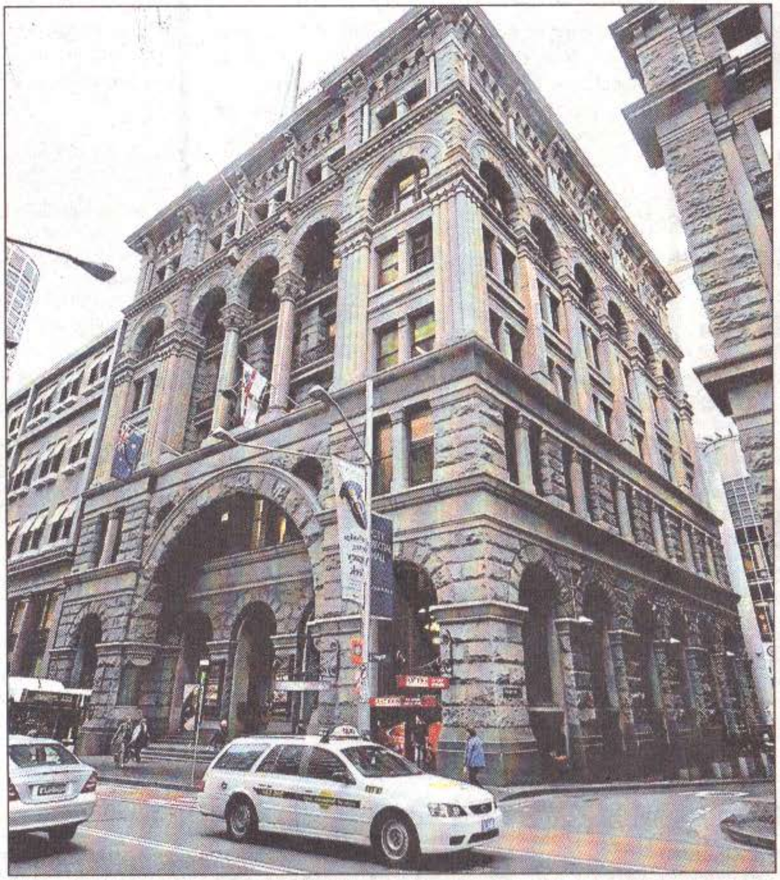
Ms Rader, in her new report on the Sydney CBD strata market, says that last year there was a move away from large suite sales, with the buyer profile showing an appetite for smaller sizes in the range or up to $1 million in value.

"With new supply (albeit one project) in the market, this is the impetus needed to reinvigorate Sydney's CBD strata market and bolster turnover levels and, in turn, grow capital values," the report says.

The Knight Frank strata office report forecasts a positive outlook for the next three years for the Sydney CBD market.

This comes from a combination of increased demand from financing and banking companies as the economy improves and rising staff numbers, along with a limited new supply of office blocks, excluding the Barangaroo project.

In turn, rents are predicted to improve, mainly from a drop in lease contract incentives during 2013 and beyond.



Financial thaw ... former stockbrokers, returning expats and private investors have bought into the redeveloped 350 George Street.

Ms Rader said the market had witnessed an increase in investment activity for the first quarter of the year, which showed the improved accessibility to finance.

"These positives for the broader market translate to the strata market," she says in the report. "Smaller investors have acknowledged this improvement in investment fundamentals and are looking to capitalise on the current values."