



16/10/2017

Welcome to this weeks Property News.

This week we examine the latest Housing Finance figures, catch up on the M&A activities in the listed REITs and review the week's major property transactions. But first...

Its All About Logistics



The big action this week was the move by e-Shang Redwood (ESR) to take a strategic stake in Centuria following their move on Propertylink last week. ESR is the fourth largest logistics real estate developer, owner and operator of logistics assets in pan Asia and have been keen for Australia assets for several years.

ESR have approx \$8B of AUM and plenty of ambition. They sit behind ProLogis (\$72B), GLP (\$38B) and Goodman (\$26B) and are rapidly growing. ESR is supported by some of the worlds top investment funds including APG, CPPIB, Goldman Sachs, Morgan Stanley, AIP, PGGM, Ping An and SK Holdings. Their strategy is simple: to build long term relationships and deliver solutions that improve their customers' supply chain efficiency and fulfill their strategic expansion goals. Sounds familiar. Goodman have transformed their business along a very similar strategy.

In a changing global e-commerce market, it is now all about logistics - how to get goods

from the supplier to the consumer in the quickest time and for the least cost. This process is being radically re-shaped by several key trends including robotic warehouse management systems, autonomous transport, the technological evolution connecting consumers directly to suppliers and the race for the last mile by fulfillment services. The types of assets required to satisfy this supply chain is quite different from the traditional forms. The winners in this race (in terms of property at least) are industrial landlords with deep relationships to key logistic groups and a cost effective ability to meet their needs.

ESR have had aspirations to enter the Australian market for some time and were one of the top under bidders for the GIC portfolio which was ultimately sold to Ascendas REIT in Sept 2015 on a yield of 6.4%. ESR were also in talks with Goodman on their \$1.2B industrial portfolio which ultimately went to Blackstone in July 2016 and Nov 2016 for a yield of 7.4%

In addition to buying direct portfolios' ESR are just as willing to buy into listed REITs to achieve their ambitions. In early 2017, ESR acquired an 80% stake in the REIT manager of Singapore listed Cambridge Industrial Trust and became the trusts' 2nd largest unit holder. Now, in their latest move ESR are hoping to achieve a similar outcome with the \$2B of industrial assets in Centuria and Propertylink.

We therefore don't expect ESR will settle for minority stakes in PropertyLink and Centuria, nor will they want to be offered a portfolio of poor quality assets of their own. ESR are clearly in it for the tenant relationships and opportunities that they will bring over time. The combined groups key tenants include Melbourne Markets, Woolworths, The Iconic, Pacific Brands, Border Express, Premier Group, Cotton On, Black & Decker, and Toll. The only way ESR will get close to these groups and the real estate they occupy is with a majority ownership of both trusts. Easier said than done I suspect.

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.

Warwick Petschack
Managing Director



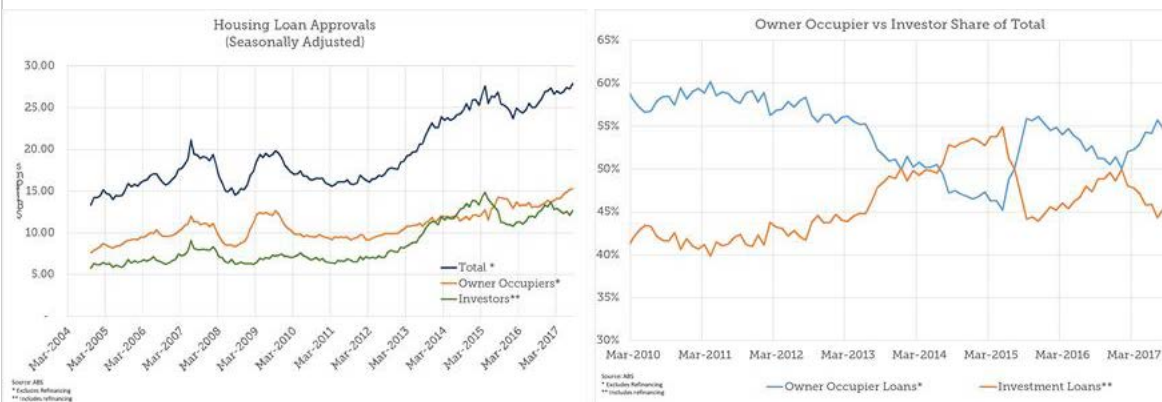
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Housing Finance

ABS stats for Housing finance in August showed that finance to investors recorded it's biggest monthly gain in 11 months recording a 4.7% increase on the previous month. The press love to make this out to be a sign of an over heated market, however the big turnaround was off the back of an equally significant decrease in July so the average increase across the 2 months is just 0.4%. In fact total investor lending for the 12 months to August is up only 0.5% on the 12 months to July. Not a big deal really.

The big increase in investor lending was throughout 2016 when investors moved from being 45% of total lending to 50% of total lending. This was enough to get APRA to step in and curb the banks lending as shown in the charts below. In 2017, lending to owner occupiers picked up again and is now back to 55% of total lending. It is too early to say whether APRA are at ease with this ratio or the overall growth of credit (up 8.2% above last year) when economic growth is at circa 1.8% pa.



The Reserve Bank has been watching closely and this week called out the "potential risks" in the investment housing markets noting that macro prudential policies aimed at managing those risks has limited power to curtail speculation. The RBA conceded that the lending restrictions imposed on the banks are "constraining" households but are only moderating house price growth. What to do !. The RBA would love to lift interest rates to cool credit growth however they also acknowledge that house prices growth is predominately a Sydney and Melbourne issue and better tackled by constraining lending arrangements than by the blunt instrument of interest rate hikes.

The RBA and APRA are clearly eyeing off the non bank sector where an influx of capital (mostly from offshore) has become available for investors who are prepared to pay a higher interest rate in order to acquire an investment property (or settle one under contract). It will be hard for either the RBA or APRA to influence the non banking sector which is largely a market based environment, free from the protection of the authorities, unless the federal government agree to extend their powers.

Property Transactions

This week we recorded 14 transactions worth \$600M.

In a rare and complicated deal we saw QIC and Deutsche Asset Management swap a Sydney retail asset with a Melbourne office asset in a \$200M deal.

Charter Hall also completed another sale and leaseback worth \$100M and Paul Lederer buys back into retail.

For details on these and other deals.... [Continue reading....](#)



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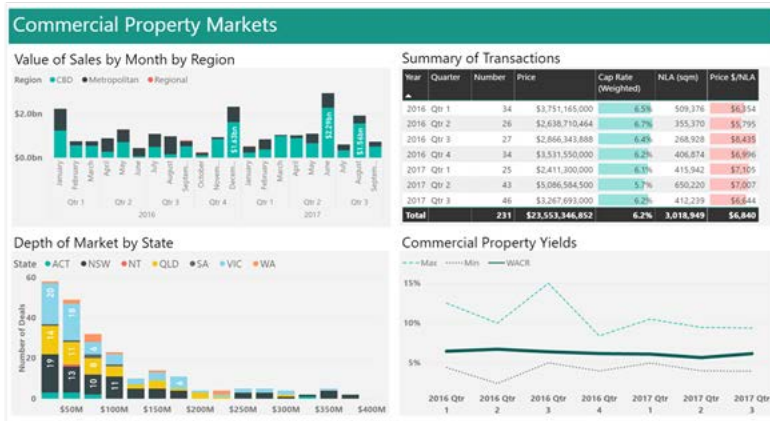
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Access transaction data across Commercial, Industrial, Retail and Development sectors in Australia.

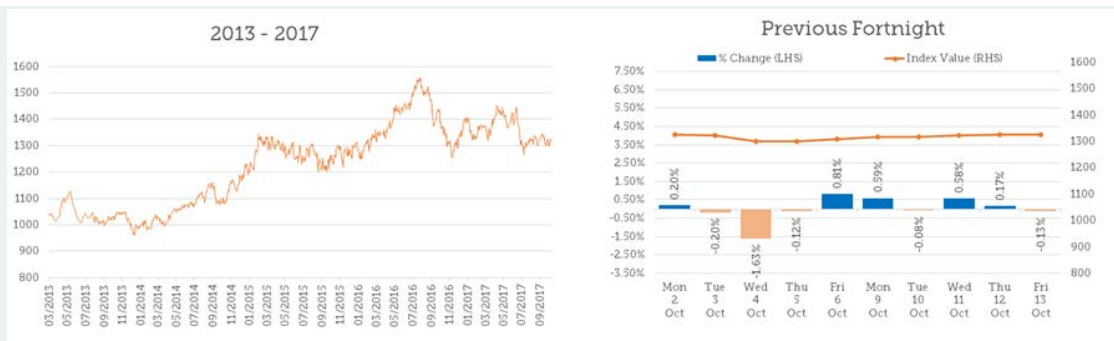
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Fund News

The ASX 200 AREIT index was up 1.1% with most stocks gaining ground. The major gains were from Scentre (up 1.3%), Goodman (up 1.6%), Stockland (up 1.9%) and Mirvac (up 2.2%). These were offset by losses from Dexu (down 0.5%) and Investa (down 0.5%).



360 Capital Interrupted

NextDC, the tenant and counter bidder for control of the Australia Pacific Data Centres stepped up the fight against 360 Capital by lodging a submission to the Take Overs Panel to stop the 360 process. NextDC contends that 360 Capital's bid statement discloses an intention of 360 Capital to make a capital distribution to security holders (including 360 Capital), which 360 Capital may use to repay a debt facility available to fund its bid and that this would constitute "financial assistance" which would require security holder approval, and that the bidder's statement and target's statement do not provide adequate disclosure with respect to this.

NEXTDC is seeking to get 360 Capital to immediately stop processing acceptances and be prevented from acquiring securities on market until the Panel makes a decision.

The Take Overs Panel advised that a panel has not been appointed yet and no decision has been made whether to conduct proceedings. Presumably 360 Capital will continue to process applications and await the outcome of the proceedings.



ESR takes to PropertyLink

Last week we reported that ESR stepped in to counter Centuria's bid for Propertylink by picking up an 18% stake in PropertyLink. As mentioned above, ESR stepped in this week with a surprise raid on the Centuria platform by also acquiring 14.9% of Centuria.

In a standard defensive move, Propertylink revalued its portfolio upwards by \$37.81 million to value its wholly owned industrial property portfolio at \$710.1 million, a



5.6 per cent increase from its June 30 valuation.

With Centuria raising \$60M of capital last week to assist in its bid for Propertylink, they have defensively moved to increase their ownership of their own Industrial Trust by spending \$25M of this capital to increase their stake in CIP to 17.75%. We expect that Centuria will now revalue these assets to lift the value of their stake and to gain a better outcome for investors if a bid for the trust is taken. It is interesting that ESR moved on Centuria as opposed to the Industrial REIT itself - we presume this is a muscle flexing attack on the parent.

The groups all meet last week to face off and we can be certain this dance has a long way to play out from here.

Charter Hall Open Up



Charter Hall provided an update to the market on its group activities ([read more](#)) with an emphasis on transaction activity including sourcing and securing sale and leaseback to private companies which has substantially lifted their overall business in recent years with deals with groups including Inghams, Coca Cola, ALH Group, CEVA, Aurizon, Virgin and Primo.

Charter Hall's Direct business has also seen substantial growth in recent years with FUM up 19% pa over the last 4 years. Going forward, Charter Hall will move away from closed ended retail funds to a more open ended platform business which provides easy access for advisors and platforms as well as to better cater for digital platforms and unadvised direct investors.

Other News

- AOF issued a presentation to investors on its Brisbane acquisition and capital raising ([read more](#))
- Ingenia Communities provide an update to Investors ([read more](#)) and also presented a paper at the Morgan Conference in Queensland ([read more](#)). Ingenia also announced that a Sydney West Planning Panel rejected a development application for a site they control in Vineyard. ([read more](#))
- Folkestone announced the acquisition of Sydney Airport Hotel for \$76M together with a capital raising

process to support the new fund. ([read more](#))

- Growthpoint Properties provided an upgrade to its earnings guidance following the settlement of a property at near Perth Airport, improved leasing conditions and improvements from its investment in IDR. FFO is now forecast to be 3% higher than planned and Distributions up 0.9% from previous advice. ([read more](#))

Bowral Classic

Warwick (along with a few thousand other riders) will be participating in the 160km Bowral classic cycling event on the 22nd October. Warwick is using this event to raise funds for Hope for Cambodian Children Foundation, a cause that CMA and our partners support.



Please visit his fundraising page now:
[GoFundRasiePage](#)

Thanks !



Feedback

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