Property

Brookfield
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Forced sales loom in second half

Ben Wilmot

A wave of forced property sales is expected in the second half of 2012 as lenders take a harder line on valuations and approving refinancings.

Major banks will be called on to roll over billions of dollars in loans written against commercial properties at the height of the boom.

Borrowers will come under pressure as values, particularly on lower grade properties, have fallen heavily, and some sectors, like retail, are also struggling in the current climate.

Colliers International national director Matthew Meynell said there was some "GFC fatigue" emerging in the market.

"A lot of commercial property loans were written on longer terms and they're currently up for renewal," he said. In many cases, neither loan-to-value ratios nor valuations "stacked up", he added.

Mr Meynell, who advises receivers and lenders, expects a pick-up in business over the next six months, as lenders scrutinise even clients who have been servicing their debts, making refinancing harder.

Quintessential Equities bought Penrhyn House in Canberra for $14 million on a yield of 11 per cent.

He nominated syndicates with access to equity as being well positioned to capitalise on opportunities thrown up by the dislocation.

In one such deal, boutique property group Quintessential Equities snapped up Penrhyn House in Canberra from receivers McGrath Nicol.

The property at 2-6 Bowes Street sold for just $14 million, well below its last sale when the unlisted Government Property Trust picked it up from Investa Property Group in 2006 for $37.5 million.

The building is about 70 per cent leased by the Department of Human Services until November 2013 and sold on a yield on passing net income of about 11 per cent. Selling agent Michael Heather of Colliers International said Penrhyn House represented a great opportunity for the buyer to significantly upgrade the building from an environmental perspective to keep the current tenant or win other government tenants.

Quintessential Equities wants to upgrade the 12,622 sq m property from a 0-star NABERS rating to a 5.5-star NABERS rating.

Quintessential Equities director Shane Quinn said the purchase price for the asset, at about $1,100 per sq m, was below market rates for other office space in the Canberra suburb of Woden.

He emphasised the opportunity to revamp the building into an A-grade asset suitable for government tenants, rather than constructing a new tower.

"It may stun people to know this, but constructing a new building takes the equivalent carbon footprint of 90 years of usable base building energy, due to all the material required for the construction such as new concrete, steel and so on," he said.

Centro's record $200m settlement approved

Nick Lenaghan

The record $200 million settlement of the shareholder litigation against shopping centre giant Centro has passed its last hurdle.

Federal Court judge John Middleton yesterday approved the agreement thrashed out last month between Centro, its former auditor PwC and the two groups of litigants, led by Maurice Blackburn and Slater Gordon.

"The settlements in the proceedings are fair and reasonable for the group members as a whole," the judge said.

Justice Middleton said he was satisfied with the distribution of settlement proceeds among the claimants, comprising major institutional investors and retail investors.

Law firm Maurice Blackburn led the larger of the twin class actions and will claim $150 million in the settlement.

Its clients will end up with a pot of less than $100 million, after legal costs and a commission is paid to litigation funder IMF.

Maurice Blackburn principal Martin Hyde said it was not possible to calculate a simple cents in the dollar return for his clients, who had suffered varying amounts of loss after Centro virtually collapsed in late 2007.

Centro's woes came when it failed to account properly for its current liabilities that year and then struggled to refinance its maturing debt.

"The fact that it settled for $200 million sends a strong message to corporate Australia that entities are accountable to their shareholders," Mr Hyde claimed.

Justice Middleton said the settlement struck was made more difficult by "changing events in the market place" while the trial was underway.

Centro has made rapid steps this year to restructure its business under new chief executive Steven Sewell, selling stakes in its larger malls to cut debt and to develop its portfolio.