Quinn won't yield on incentives

TRADING ROOM

GREG BROWN

PROPERTY syndicator Shane Quinn isn't fooled by the lure of high yields.

The co-founder of Quintessential Equity believes incentives paid to tenants as a sweetener to lease office space have become rife since the global financial crisis — something that has shifted his company's investments from the office to the industrial space.

Quinn says office landlords are paying incentives "up to and beyond" 40 per cent, meaning a tenant would get the equivalent of four years for free on a 10-year lease.

While incentives keep rents and face yields high, Quinn says, the effective yields (what a landlord nets when the incentives are stripped out) are low.

And it has made the office game a tough one for investors to make a buck.

"A lot of the institutional investors were nervous (during the GFC) and wanted to secure cashflow within their trusts, but it's gone beyond what the tenant needs in terms of the incentive to relocate," Quinn says.

"It's got to the point where it's dangerous and could be viewed as financial engineering to retain capital values high."

Quinn says industrial properties do not require "anywhere near" the incentives to attract tenants and the replacement costs show they are better. It's a market driven by rates per square metre of the purchase price, rather than the yield, he notes.

"So we're not always blinded by cashflow.

"We don't look at the yield first, we look at the replacement value and whether we can extract value from there."

While Quintessential Equity, which holds $22 million worth of assets, was formed in 2010, Quinn's infatuation with property goes back to his days at university.

He studied civil engineering at the University of Wollongong with the sole purpose of understanding property from the construction phase.

"I didn't do it to build roads and bridges," he says.

"I always wanted to understand property from the inside out.

"It gave me an understanding on how buildings are built and what makes buildings tick."

When he finished university in 1998, he rode the back of the Celtic Tiger (Ireland's economic boom from 1995 to 2000) and went to Dublin to manage the construction of high-rise apartments.

In 2002, he went to London and managed a 22-storey apartment complex on the Thames.

He came back to Australia at the end of 2003 and by the following year had bought his first commercial investment, 51 Queen Street in Melbourne, with two business partners he met through "old mates" from his native Canberra.

The office building was bought for $8.2m and sold for $16.65m two years later.

He says this purchase set the precedent for Quintessential's buying strategy: to pick up buildings at below replacement cost, refurbish them aesthetically and reduce overheads, with an exit strategy once the building is regenerated.

In 2009, chartered accountant Harry Rosenberg asked Quinn whether he could put together a syndicate for his wealthy clients.

Quinn found the office building at 93 George Street, Parramatta in Sydney's west and the deal was syndicated within 36 hours.

The building was bought for $18.5m and Quinn says the bank valuation is now $27m.

It is netting $2.7m from tenants, with the state government recently agreeing to a five-year option in the building.

After this success, Quinn and Rosenberg combined their property knowledge and contacts to form Quintessential Equity in July 2010.

Quintessential's capital comes mainly from high-net-worth investors with whom Rosenberg established relationships when he was an accountant.

But the company has begun to attract a broader pool of investors, Quinn says.

The firm has 10 properties under syndication, including an office building in Sydney's west worth $26m, a warehouse in Melbourne's west worth $10m, and a property in Port Adelaide worth $9.5m.

Sales have included an industrial property in Hume in Canberra, which was sold for $9.65m at a 50 per cent return.

Quintessential also bought a GE Asset Management property, 333 Exhibition Street, Melbourne, for $17.5m, and sold it less than two-years later for $22m.

Quinn is an advocate of reducing the Carbon footprint of commercial property space.

The company aims to halve the carbon footprint of its buildings, increasing the NABERS ratings to five-star.

"Building's with a high NABERS rating reduces building costs and attracts elite tenants who are driven by corporate social responsibility," Quinn says.

"The majors want to be corporate socially responsible so that they can retain quality staff and also portray the image to their shareholders."

AARON FRANCIS

Industrial property syndicator Shane Quinn says he is not always blinded by cashflow