Fringe stock for sale as banks call in developer loans

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INDUSTRY commentators are predicting more properties will come on to the market this year in the $50 million to $80m price range as banks lose patience with property developers over outstanding loans.

The prediction comes after receivers took control of most of Government Property Trust's portfolio. Of the group's 12 office buildings leased to government tenants, eight had been handed over to McGrath Nicol on behalf of Capital Finance Australia - a division of Lloyd's - with about $80m owing.

Government Property Trust was founded, and is managed, by brothers Darren and Adrian Olney-Fraser and has 750 investors, with at least four assets remaining in its hands.

Among the properties in the Government Property Trust portfolio that had not been handed over to financiers are a building in the Northern Territory and a building leased to the Department of Human Services in Bendigo, Victoria.

McGrath Nicol partner Matthew Caddy, who is handling the assets, would not comment.

The properties are expected to come up for sale within the coming months, and real estate agents say they expect more to come up on offer under similar circumstances.

John Talbot, Jones Lang LaSalle's head of capital markets, Australia, said sentiment was continuing to improve, and there was likely to be more stock on the market this year. "I think broadly it will be double what it was last year," he said.

Mr Talbot said there was likely to be up to a dozen transactions in the central business district for between $50m and $80m.

Buildings currently for sale include Eureka Funds Management's Exchange House at 10 Bridge Street, Sydney, for about $65m. Colonial First State Global Asset Management's property arm was also understood to be placing its 22-storey office building at 1 York Street, Sydney, on the market for about $120m.

It was also understood that Charter Hall was to offload a building at 34 Hunter Street, Sydney, for about $40m through Savills, while the group was also selling a Brisbane building at 39 Ann Street through one of its opportunity funds for more than $165m.

Jon Chomley, the national director of investment sales at Colliers International, said big groups such as Charter Hall, ING Real Estate, Dexus and Investa would prefer to sell fringe assets before offloading their CBD buildings.

He said companies would sell if they were looking for redemptions or to free up cash.

Colliers International's director of institutional investment services in Brisbane, Stephen Parker, said he believed a lot of fringe stock would hit the market this year, driven by finance issues in many instances, as well as a flight to quality from the institutional funds and a strong appetite from overseas funds that was proving hard to satisfy in Melbourne and Sydney.

A number of closed-ended funds had fringe assets in Brisbane that would need to be sold.

Areas attracting strong interest included South Brisbane and Fortitude Valley, with the traditional fringe markets of Spring Hill and Milton becoming less popular with investors.

Mr Parker said vacancy in the Brisbane fringe leasing market was at its highest level on record in June last year, and had improved further to 9.5 per cent in the second half of the year.

The main problem was new buildings being finished.

"In short, Brisbane fringe issues are not fixed."

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