# Property

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# No 'shiny things' for Irongate's gritty new industrial fund

Larry Schlesinger

Irongate has joined the wave of fund managers funnelling capital into the booming industrial property sector, but with a twist: it will focus on buying properties that none of its bigger competitors seem to want.

The former ASX-listed group, which relaunched in April following a management buyout of its platform from Charter Hall, has secured seed funding from its Johannesburg-listed backer Burstone Group (formerly the Investec Property Fund) for its new industrial property fund.

Hong Kong-based private equity firm Phoenix Property Investors has co-invested in the unlisted fund's first asset, an under-rented, partially vacant industrial complex in Smithfield in Sydney's western suburbs.

The complex was acquired for $57.25 million from the Katz family's EK Nominees, owner of the St Ives Shopping Village on Sydney's north shore. Colliers agents Trent Gallagher, Gavin Bishop, Sean Thomson, and Peter Dale brokered the sale.

The Irongate fund's seed asset comprises the adjoining properties of 338-350 Woodpark Road and 1 Dupas Street, which offer a combined land area of 3.4 hectares and a total net lettable area of 17,546 square metres across eight buildings.

The fund manager acquired the properties on an initial yield of 3.7 per cent, but expects to be able to lift income returns to more than 6 per cent over the short term by leasing vacant space and resetting rents on existing tenancies to market rates when they expire. The estate was acquired with a weighted average lease expiry of just 1.7 years.

Irongate CEO Graeme Katz (not related to the Smithfield vendors) said the fund's focus was on acquiring "under-rented and unloved assets on good landholdings", a niche the bigger end of town largely ignored.

The Smithfield estate in Sydney's western suburbs comprises eight buildings on an initial yield of 3.7 per cent.

"The real estate investment trusts are focused on new shiny things. We believe there are a number of opportunities, where, with hard work, we can unlock value in these infill sites," he told *The Australian Financial Review*.

Irongate was also comfortable having small manufacturing companies as tenants, a category the "bigger guys don't like", Mr Katz said.

"We don't mind these sorts of tenants, which tend to be stickier than others.

"We're happy to take on things that aren't fashionable for the REITs."

Irongate's launch of its unlisted fund comes as peak construction body ACIF forecast $10 billion-plus in new industrial property investment this financial year, and similar amounts over the next two financial years.

Highlighting how strong demand is for industrial assets, ACIF's latest estimates added a cumulative $4.4 billion over the combined three years to forecasts made just six months earlier.

While much of this investment is in new facilities, Mr Katz all but ruled out pursuing brownfield or greenfield developments, saying he found it hard to understand how such projects stacked up, given high land and construction costs, plus all the other costs associated with development.

"It's fascinating to see the REITs selling income-producing commercial assets to fund their industrial development pipeline, how do they make money," he said.

"Why sell an income-yielding asset bought on decent money and then convert that to development risk?"

Mr Katz said Irongate had bought the Smithfield estate at below land and replacement cost and without having to take on any development risk.

With industrial vacancy rates at 0.2 per cent in western Sydney, Irongate has already secured tenants for two empty sheds: a logistics firm and a light industrial manufacturer.

Mr Katz said the investment was not just about generating significant rental increases.

"We're giving love to an unloved site through roofing, painting and improving fire and safety," he said. "We're spending capital to improve the amenity."

Irongate expects to deliver total annual returns in the mid-teens.

Mr Katz declined to reveal growth targets for its new fund, but said the Smithfield acquisition was the first of many Irongate intended to make in the short term.

## Garda offloads $24m Hawthorn building

ASX-listed property trust Garda has sold its last Melbourne office building for $24.1 million, a 3.6 per cent discount to its $25 million December valuation (based on a cap rate of 5.75 per cent) as it pivots to becoming a largely pure-play industrial portfolio. Garda said it had entered into an unconditional agreement with Minsmere – a subsidiary of British Virgin Islands-incorporated Chartwell Industries Limited – to acquire 8-10 Cato Street, a four-level office building in Hawthorn East. It sold 33 per cent occupied. Net sale proceeds will be used to pay down debt. Garda said it was continuing to work with the counterparty that has agreed to acquire buildings 7 and 9 in the Botanicca Corporate Park in Richmond, Melbourne, for $80 million. In May, Garda slashed the value of two of its suburban Melbourne office towers by 15-20 per cent. The sale of the Hawthorn East building was brokered by Josh Rutman and Tim Carr from JLL. LARRY SCHLESINGER

## New Moremac CEO

Growth areas developer Moremac Property Group, which operates in Queensland and Victoria, has appointed Burbank Group chief executive Tom Trevaskis as CEO. MICHAEL BLEBY

## Dexus land deal

Dexus has sold 30,170sq m of premium industrial land at 20 Distribution Drive in Truganina in Melbourne's west to two owner-occupiers for $25.3 million. Building materials company Mapei purchased a 19,940 sq m lot and aluminum manufacturer Protector Aluminum purchased a 10,230 sq m lot. CBRE's Tom Murphy, Harry Kalaitzis and Fergus Pragnell brokered the deals on behalf of Dexus. MICHAEL BLEBY

## Marina Mirage OK

City of Gold Coast's Planning & Environment Committee yesterday unanimously approved Makris Group's proposed Marina Mirage redevelopment, with a recommendation for approval at a full council meeting next month. MICHAEL BLEBY

# Cup Day rate hike 'killed' buyer confidence: AV Jennings

Michael Bleby
Property deputy editor

The Reserve Bank of Australia's Melbourne Cup Day rate rise "killed" demand for new homes that had been recovering and lifting sales in the first four months of the financial year, AV Jennings chief executive Philip Kearns said yesterday.

The four-month break in interest rate rises before November's increase of 25 basis points had created confidence among the developer's mum-and-dad buyers that the cycle of tightening was over and they could be confident about committing to new purchases, Mr Kearns said.

But the 13th interest rate rise, which lifted the benchmark cash rate to 4.35 per cent two weeks ago, hit that confidence and halted sales.

"It just completely knocked the wind out of the sails of our customers," Mr Kearns told *The Australian Financial Review* yesterday. "Mums and dads want to have some certainty around what their mortgage repayments are going to be.

"Just when they started to get that, it just killed it."

That confidence took a further hit this week when RBA governor Michele Bullock described inflation as a "homegrown" problem, manifesting in domestic services such as hairdressing, dining out and recreational activities, rather than being driven by global factors, he said.

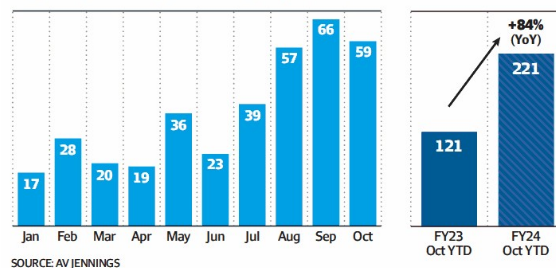
"The comments were a little bit scary, to be honest," Mr Kearns said.

"Mums and dads read what the Reserve Bank say with interest."

The AV Jennings boss made the comments after reporting to shareholders at yesterday's AGM details of the company's 23 per cent jump in revenue to $274 million and a 63 per cent leap in earnings per share to 5.2¢ in the year to June.

**Signs of life**

**AV Jennings' monthly contract signings (sales)**




SOURCE: AV JENNINGS

Mr Kearns declined to say how the prospect of higher borrowing costs would affect the company's sales for the current year, other than to say they would be "more or less" in line with the FY23 volumes.

"There's no doubt most developers, if not all, are finding the market incredibly difficult," he told the *Financial Review*.

The observations are the clearest to date of the effect of the 13th rate rise on the housing market at a time when the federal and state governments are trying to build 1.2 million new homes over the next five years.

Mr Kearns said the 1.2 million home target was unlikely to be met.

"While I have reservations about the ability to deliver that many homes over five years, I would prefer an ambitious goal with a shortfall to achieving rather than a less meaningful target," he said.

AV Jennings said sales in the current trading period were increasing in Victoria and SA.

Sales in NSW and New Zealand, by contrast, were "sluggish", he said.

"Sales in NSW have been harder to come by despite having titled stock available which has been traditionally easier to move," he said.

"This reflects affordability challenges playing out in the Sydney market and is something we are alert to, notwithstanding the growing housing shortage in the same market."