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HD **Offshore rivals hit profits of developers**

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One of Melbourne's most prolific apartment developers has seen annual profit plummet by more than half despite the heated property market as cashed-up offshore entrants flood the sector.

Central Equity, which has just released its Australis project in Lonsdale Street, recorded a fall in profits for 2013-14 to $26.4 million, down from $65.8 million the previous year.

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Revenues at the privately held developer almost halved to $175 million compared with the previous year; a result attributed to the long time frames required to get projects off the ground.

The group, which has concentrated on Southbank in the past decade, completed and settled only one high-rise apartment project during 2014.

The downbeat result is a sign of the intense competition driving Melbourne's apartment development market.

Planning Minister Matthew Guy has approved a slew of projects providing up to 25 years worth of accommodation.

Local developers are competing with offshore operators for sites in the city and the suburbs. Malaysian-based company PJ Development paid a record $145 million for a two-hectare development site at 93-119 Kavanagh Street in South Melbourne in June.

The newlyregistered 20Q Development Co has lodged a proposal to build a 92-metre tower at 68-70 Dorcas Street. The Asian developer paid $17 million for the site, which the vendors were unable to sell in 2010.

Developers with a strong foothold in the commercial market and a broader geographical spread fared better. Profits doubled to $86.8 million at Lang Walker's Walker Group Holdings despite falling revenues.

The Walker Group has a $4 billion Australian pipeline. It is building the $2 billion five-tower Collins Square project in Docklands and was recently appointed developer on a $1 billion Moreton Bay development. It is also behind the $5 billion Senibong Cove residential development in Malaysia.

Yet, it also experienced a tight year. Revenue from property development sales fell 24 per cent to $131.4 million in 2013-14; expenses fell 17 per cent to $193.33 million.

Fortunately, rising property values helped boost the result with the revaluation of investment properties adding $92.9 million to the bottom line, compared with only $66.3 million the previous year. Mr Walker sold the ATO building for $279 million to Malaysian fund manager CIMB TrustCapital.

A fully franked dividend of $550,000 was paid, up 45 per cent on the $300,000 paid in 2012-2013.

Daniel Grollo's high-profile Grocon Group also suffered a significant drop in financial performance, posting a loss as projects finished and it experienced delays getting started on new developments.

The group ended the financial year with a $23.1 million loss, well down on the $25.9 million profit recorded in 2013.

Grocon chief executive Carolyn Viney said the result reflected "the naturally lumpy nature of the industry".

"The timing of completion and commencements of projects creates variability year-on-year. This year has been one where we've set the business up for growth," Ms Viney said.

Grocon has a $2 billion development pipeline with projects in Queensland and Sydney about to start, she said.

Despite the loss, Grocon paid out a $2.43 million dividend.

During the year, Grocon has sold two large parcels totalling 6600 square metres on the former Carlton & United Breweriessite on the edge of Melbourne's CBD, and sold plant and equipment worth $6 million.

Grocon accounts show the CUB sites were sold to Chinese developer Xiang Xing for $58.3 million, slightly less than the touted $60 million price. Settlement is subject to approval by the Foreign Investment Review Board and set to occur in March 2015. The proceeds will be used to pay off debt.

The two-hectare CUB site was acquired for $39 million from RMIT in 2006. However, it has been beset by development delays and union disputes with the company facing criminal charges over the collapse of a wall on the site which killed three pedestrians in 2013.

The group's revenue was down $30 million on the previous year at $450.9 million, despite the business recording double the previous year's figures of construction work in progress.

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