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FINANCIAL REVIEW

SE Property
HD Metro targets \$400m by 2015

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WC 737 words
PD 13 March 2014
SN [The Australian Financial Review](#)
SC AFNR
ED First
PG 48
LA English
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LP Apartments and house and land projects have seen a \$2 billion pipeline grow in four years, rivalling listed peers.

David Devine has left Devine Limited, the struggling listed residential developer that still bears his name, clutching at the coat tails of Metro Property Development, which he formed with long-time business partners Ken Woodley and Luke Hartman in 2010.

TD In just four years, Metro has built up a \$2 billion pipeline of apartment and house and land projects and is targeting revenues in excess of \$300 million in 2014 growing to \$400 million in 2015 with annual profits of between \$25 million and \$40 million forecast over the next two years and beyond.

This year it will settle 750 apartments; of the 1000 apartments it is currently selling off the plan in Brisbane, just 40 remain unsold.

Metro is now bigger than many of its listed residential development rivals and should it meet its 2015 revenue forecasts, could sail past Devine, which reported 2014 half-year revenue of \$139.4 million and an \$85 million loss following write-downs of \$70 million.

Chief executive Luke Hartman attributes Metro's rapid success to the combined 60 years' experience of Brisbane property development veterans, David Devine and Ken Woodley, both of whom he worked with at Devine before they were bought out by Leighton.

"Our success has been built on being able to pick the best sites with the sales and distribution networks to sell these projects," Mr Hartman told The Australian Financial Review. "We know how to work with local councils to get approval, we know how to get the product mix right and we have good relationships with our lenders." Investors from China, Singapore

About 20 per cent of Metro apartments have been sold offshore – mainly to investors from China and Singapore. The company has also had great success selling Brisbane apartments to investors under the government's National Rental Affordability Scheme, which provides accommodation at 20 per cent below prevailing market rents, with investors receiving an annual tax-free incentive.

The \$2 billion pipeline includes more than 2500 apartments in Brisbane, with about 1000 currently under construction, and more than 800 houses to be built across Melbourne and Adelaide residential communities.

Late last year Metro swooped on six prime development sites in inner Melbourne on sale by the Uniting Church. Metro paid \$25 million for the portfolio of sites in South Yarra, Balwyn, Ivanhoe and Doncaster. A development application has already been lodged for apartments at the South Yarra site.

A move into the competitive Melbourne CBD is also on the cards, as part of plans to diversify the business.

"We see opportunities in the Melbourne CBD and the surrounding inner ring, though we know its very competitive with the Asian developers active," Mr Hartman said.

"We're not concerned about the perceived over-supply issue." But he admits that Metro has missed the boat in Sydney, the only major market where it does not have a foothold.

"Sydney is the big unknown. We've missed the apartment market this current cycle, but are planning on establishing a house building operation in NSW," he said.

The remainder of the business is spread across housing projects in Victoria and South Australia. Brisbane still bread and butter

In Adelaide, Metro is buying up government school sites with plans for residential projects.

It will increase its reach further with an office opening in Perth soon with plans to build at least 50 homes on the west coast this year; Metro also owns home builder Creation Homes.

Metro's bread and butter remains Brisbane, where it claims to have developed 60 per cent of all apartment projects in the CBD. It's most recent acquisition was a 10,650-square-metre development site in Newstead, which it bought from Watpac for \$40 million, with plans for 800 apartments across four towers. In April, Metro will start marketing its latest Brisbane development – a \$170 million project to be called Newstead Towers featuring 314 apartments and designed by architects Woods Bagot. Metro acquired the 4194-square-metre site on Longland Street in Newstead for \$20 million in December.

"We're targeting sales of 1000 apartments in Brisbane this year. We're very confident in Brisbane, which has good price break compared with the more expensive Sydney and Melbourne markets," Mr Hartman said.

CO devho : Devine Ltd

IN i5010022 : Residential Building Construction | ireest : Real Estate | i501 : Building Construction | iconst : Construction | icre : Real Estate/Construction

NS ccat : Corporate/Industrial News

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AN Document AFNR000020140312ea3d00029