

HD Q&A with Brett Draffen of Mirvac - Developing Australia

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Mirvac is well known for its role within the Australian development and construction industry, with a diverse portfolio of assets and projects across the office, retail, industrial and **residential** sectors. In May 2014, Brett Draffen was appointed Chief Investment Officer, having previously held a number of senior positions with Mirvac. In this edition, Brett speaks to **Property** & Projects Partner Steven Cardell about future opportunities and some of the emerging issues that will impact on new ventures.

WHAT MARKET SECTORS DO YOU SEE AS PROVIDING OPPORTUNITIES FOR MIRVAC GOING FORWARD?

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Mirvac is committed to being a diversified and integrated **group**, leveraging our integrated delivery model to create assets. There are opportunities for us to exceed our benchmarks in a number of sectors. The question is; how can we be more focussed in each sector around capital allocation?

In the office sector, it's about creating and repositioning assets. Mirvac is not a buyer of the new, shiny thing, rather we're a creator of the new, shiny thing, such as 8 Chifley in Sydney; or we look at repositioning assets using our integrated skill set.

In the retail space, it's about improving the quality of our portfolio with a focus on non-discretionary, food-based, subregional or urban centres and CBD centres.

It's about repositioning, exiting out of some non core centres, and then using our integrated model to develop some \$800 million of accretive development potential in our existing portfolio.

For industrial, we're a niche player and have a relatively small portfolio. Our strategy is around specific opportunities to, again, leverage our development capability to create new assets or reposition existing assets, potentially through change of use.

LOCALLY, MIRVAC HAS BEEN VERY ADAPTABLE AND WAS THE FIRST TO RIDE THE CREST OF THE RESOURCES BOOM AND GET INTO A NEW MODEL OF DELIVERY. HAS THE MODEL BEEN ADAPTABLE FOR NEW VENTURES?

Mirvac's integrated delivery model allows us to fast track how we respond to market opportunities. Our strategy is to narrow our directional mandates so that our teams know where they can and can't play across the sectors.

While extra flexibility might allow us to go into emerging markets, it doesn't necessarily mean the returns are there. Some markets might provide a higher return initially, but if those markets don't have the depth, ultimately, it's better not to play.

That was probably the case with the resources space - we went in quickly, did a few things, and made some good returns. However, we also made sure we didn't risk a lot of capital.

IS THE ASIAN MARKET HAVING ANY IMPACT ON THE WAY YOU DEVELOP AND MARKET YOUR PROPERTIES?

Over the last 20 years, the Asian market has had several investment cycles, but it's always been in established development product. Now, for the first time, the **Chinese** are entering the market as

developers, particularly in the **residential** sector, and undertaking much larger projects. They're long term players, and their return expectations appear to be lower. Also, many of the **Chinese** groups are developing products for their own markets, rather than our local markets.

We tend to look for projects where we can leverage our integrated model; something that is multi-staged, has a level of complexity about the planning, or has a partnering angle with the State government or private organisations.

In the long term, there is room for both players. Over time there will be a greater focus on return from offshore parties. At some point, the discipline around capital will kick in and there'll be some stability. Asian investment will be a significant part of the market, in terms of competition, for some time.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY ARE BECOMING INCREASINGLY IMPORTANT IN BUSINESS LIFE. HOW IS MIRVAC'S 2014 SUSTAINABILITY PLAN IMPACTING ON THE WAY YOU DO BUSINESS?

Sustainability has gone from something that is "nice to do" to something that is embedded. We have just returned from our international roadshow where our top investors wanted to know about our approach to sustainability and social responsibility, which is very encouraging.

For office space, sustainability is at the forefront. Now you can see a premium price for a building because of its sustainability rating, and you will see that in the cap rate. Tenants are requiring it and some tenants, such as government and big corporates, have a minimum requirement, so it's a strong driver.

It is fair to say this has also filtered quickly down into retail and industrial asset classes. Sustainability is also critically important in the **residential** sector, however it is often a delicate balance between "compliance" and **purchasers** seeing extra value for leadership in this area.

Mirvac's sustainability strategy is called "This Changes Everything" and is very specific about our expectations relating to Resources, the Future of Place, Communities and Portfolio thinking. It deliberately doesn't yet have all the answers, but does provide a sound framework to measure our performance.

We have already made great progress and I recommend you download our FY14 Sustainability Report from www.mirvac.com.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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