FINANCIAL REVIEW

SE Property

HD **Apartment sites in sky-high demand**

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Soaring demand for apartment sites in Sydney and Melbourne has some valuers saying there is more money to be made from flipping sites than keeping them.

"I've actually been recommending [selling] to clients because there's more money to be made flipping them than keeping them," Knight Frank valuer Chris Sutton told The Australian Financial Review.

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Private property groups including Anka, Denwol Group and Legacy Property are some names that in past months have joined a growing wave of local developers to sell major sites to other – often offshore – developers for strong prices.

According to valuers, the returns associated with strong growth in apartment sales prices are being eroded by construction costs, which are also on an upward trajectory.

At the same time, new data from JLL shows some younger entrants into the Australian market are targeting lower profit rates on apartment projects than traditional players, and its pushing site prices to compelling levels.

Some newer developers are prepared to pay more for sites, because they are prepared to accept a lower profit rate, according to analysis by JLL director Tyrone Hedge. The analysis suggested development returns on some newly purchased sites are edging closer to 12-15 per cent profit on cost from approved sites, which compares to a traditional benchmark of 20 per cent.

"The NSW residential market has shifted," Mr Hodge said. "The fact that large developers are targeting below the traditional profit rate of circa 20 per cent indicates that they are factoring in continued growth for finished apartment stock, and taking a medium-term view of five years or more.

The finding comes a week after Stockland chief executive Mark Steinert and Frasers chief executive Guy Pahor urged fellow developers to avoid bidding wars that would drive up development site prices. "What we shouldn't do is punch the living crap out of each other and pay the absolute top dollar, and then be unable to create great communities," Mr Steinert told the Urban Development Institute of Australia.

Frasers Property surprised the market in December 2013 when it flipped a five ha river front site with DA approval for 774 apartments to Chinese-based developer Starryland for $58 million.

A new swag of properties to change hands in Sydney and Melbourne in past months showed the trend is gaining pace.

Private, family owned developer Anka sold a Lindfield mixed-use development to Aqualand in February for $27 million.

Property investor Phillip Wolanski's Denwol Group netted around $85 million flipping an apartment site in Epping to institutional investor Cbus Property.

Last week, Legacy Property and other investors scooped more than $40 million by offloading a site on the Pacific Highway in St Leonards. The group also earned a reported $56 million selling a tower at 221 Miller Street in North Sydney, which could yield up to 174 apartments.

In Melbourne, Pacific Shopping Centres owner Sam Alter this year scrapped plans to build a 44-level residential building at Hanover House in Southbank, in favour of selling the commercial building to a Chinese developer. He netted $22.5 million in the process.

Other prominent private property investors include Michael and Andrew Buxton, Daniel Grollo and Lorenz Grollo have followed suit, selling to groups including Hiap Hoe and Xiang Xing.

"Developers that own these sites are seriously considering their options, should they develop the project themselves or should they sell to buyers motivated by different drivers, and secure funds early without the risk," CBRE director Mark Wizel said.

"The explosion of Chinese, Singaporean and Malaysian development capital has propelled land prices to levels not seen in Melbourne in 30 years."

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