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HD Tower boom has investors on edge

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LP Local investors are split about the direction of the commercial property market with several striking major deals while others are urging a more cautious approach as yields compress.

Pundits calling the top of Sydney's office pricing boom have been silenced in the past week by reports that Morgan Stanley is backing Charter Hall's $500 million play for a Sydney office tower on a yield close to 5 per cent, and news that the Bank of China is mulling a purchase of Deutsche Asset Management's tower at 140 Sussex Street on a similarly sharp yield.

TD At the same time, wealthy offshore groups including Deka Immobilien and BVK continue their hunt for office property.

But local groups are complaining of high pricing, particularly against a backdrop of weakness in premium office rental markets and high incentive levels.

"We've got cheap cash and low interest rates, and that causes people to say the yield gap is fantastic for buying property, but the high yield is not a high yield, it's a face yield and I believe people are cottoning on to the idea that they'll only get a 6.5 per cent yield if they're giving away incentives of 35 per cent," ISPT capital transactions head Tony McCormack said.

"You strip the incentive out of it and you're not left with much." AMP Capital and ISPT are understood to have held back on bidding higher for a number of high-profile assets recently up for sale, while sources close to GPT indicate the group has pulled back on an aggressive push to grow its office holdings at a time when prices are rising higher.

Against this backdrop, Charter Hall has emerged as one of the most aggressive buyers of office property, splashing $171m on new purchases in the first half fiscal 2016, which come in addition to its reported interest in Shelley Street.

The group declined to comment on the deal and reports it had secured Morgan Stanley as a backer, but noted its acquisition drive would continue, with plans to add more office assets to tip into both its Direct Office and Core Plus Office funds.

"Sydney core office remains attractive to both local and international investors due to the current spread between Australian property income yields and the cost of debt remaining above long run averages," Charter Hall's head of office, Adrian Taylor told The Australian.

"This investment environment will continue to drive strong interest in investment in quality Australian commercial property assets." Other executives argue that prices will continue to creep higher, even as yields remain low, in a bid to capitalise on favourable borrowing terms, ongoing stock withdrawals and sustained low interest rates."Investors have accepted core returns will be lower and are taking advantage of low borrowing costs," JLL office investment head Rob Sewell said. "The supply outlook in 2017 and 2018 is constrained and we project a period of above-trend effective rental growth over 2017 to 2019."

CO dgdk : DekaBank Deutsche Girozentrale

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