Property

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GPT spin-off delivers goods

Ben Wilmot

BGP Holdings, the unlisted European property fund spun out of GPT Group last year, has sold down its most indebted properties and has stabilised its remaining €2 billion ($2.84 billion) portfolio.

The fund, once the bane of GPT's existence as a listed real estate investment trust, hopes to make an eventual capital return for shareholders.

BGP's Australia-born managing director, Mark Dunstan, said the fund should be able to return a meaningful sum though he admitted the timetable was uncertain due to economic uncertainty. BGP had flagged a three-year timetable for selling its assets.

The fund, which represented the rump of the European real-estate joint venture with investment bank Babcock & Brown, controlled about €2.6 billion of property when it was effectively handed back to investors via an in-specie distribution last year.

The portfolio included almost 30,000 residential apartments as well as tranches of shopping centres and light industrial parks. The properties were concentrated in Germany but spread across Europe.

Mr Dunstan said it was difficult for Australian investors to see how bad things were in continental Europe's economies and real-estate markets. A turnaround was critical to the timing of BGP's plans. "It's really dependent on the macro environment," he said.

After a long career in European banking and funds management, including an earlier stint at BGP, Mr Dunstan is more cautious on the region's outlook. The macroeconomic background had become challenging, he said, as investors retreated in the face of European governments imposing fiscal cuts, prompting fears of a double-dip recession.

KEY POINTS

- BGP hopes to deliver a meaningful return for shareholders although the timetable is uncertain.
- It sold some assets earlier this year.
- But a turnaround in Europe is critical to the timing of future sales.

He told *The Australian Financial Review* last week that Europe's property market had "locked up" but BGP had been able to sell "very large blocks of property in a very difficult market" earlier this year.

An update to BGP investors says assets in the worst financial condition, or those that carry legal or reputational risks, have been sold. BGP had sold down about €560 million of property that was in "negative equity" where the debts outweighed the asset values, Mr Dunstan said.

This year, BGP offloaded portfolios of residential apartments in Germany known as Böhnke, Immowest and Franz 2 and 3. Corestate, a Swiss private-equity firm, bought the Böhnke and Immowest portfolios, with the deals to close by the end of this month. The Franz 2 and 3 portfolios were bought by investors close to BGP's lenders and the group is talking to banks about more of its apartments.

BGP also sold HBI Germany, a light industrial portfolio, to listed British investment company Hansteen in March, for €300 million. Hansteen took on the portfolio's debt but BGP did not receive an "economic return".

BGP's board, chaired by Rod McGeoch, expects a drawn-out recovery and has decided that the portfolios with the highest potential future value should be sold last.

Low interest rates make it difficult to sell assets in Europe. Photo: BLOOMBERG

Low interest rates in Europe are making large sales tough. Many of the swaps BGP put in place when it bought assets were at much higher levels, leaving them "out of the money".

But BGP is looking to sell outlying retail assets in Spain and Germany and light industrial assets in France and Denmark. The asset sales could reap €250 million but BGP cautioned that debt levels were "extremely high".

Mr Dunstan is shifting BGP's focus to its higher quality properties from which the group hopes to return equity to shareholders. He says progress has been made since he returned to running the fund last year. At the time, Australian analysts who track GPT doubted whether the group had any value. Mr Dunstan conceded there was uncertainty about the value of certain BGP properties but remained positive. "As the dust settles you can see that there is value in there," he said.

BGP's challenge is that the large portfolios it bought during the boom are much harder to shift in a slower and less liquid market.

"Banks have been understandably reluctant to allow 'cherry-picking' of portfolios," Mr Dunstan said, meaning buyers can't come in and snap up the best assets.

The attitude of lenders will be critical to the success of BGP's plans. Mr Dunstan said BGP faced two concerns on this score. "Can we negotiate with the banks to sell our interests in smaller parcels? And, will market confidence recover so that we can get the market value for the portfolios?"

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Salta sued over luxury apartment

Scott Elliott

Victorian artist James Richardson is suing Melbourne developer Salta after alleged defects were discovered in his $5.45 million penthouse. He has alleged the apartment, in Salta's development at 150 Clarendon Street, has $350,000 worth of faults.

Mr Richardson's barrister, Ian Percy, said in court on Friday that the apartment was not completed in the way his client had expected. Mr Percy said the fittings, taps and interiors of the penthouse were well below par given the money his client had paid.

The plaintiff has employed architectural consultant John Permewan to assess workmanship of the building. His report is expected to be presented today.

Salta's defence team said their client was yet to lodge a defence claim, but they conceded that the sale contract incorporated a defect liability period in which the vendor was required to fix faults.

The property was converted from East Melbourne's Mercy Hospital into 86 units and has been marketed as the benchmark for luxury apartment living.

Victorian Supreme Court judge Peter Vickery quipped that given the property's $5.45 million price tag, it must have quite a view.

The parties have until September 10 to mediate, before a directions hearing is held.

Vacancies tipped to hold back ING Office despite latest deals

Ainslie Chandler

Listed property group ING Office Fund faces a tough year ahead, despite recent leasing deals, analysts say.

The fund recently signed leasing deals at properties including 151 Clarence Street, Sydney – where Westpac will take 10,500 square metres – and 295 Ann Street, Brisbane, where QR is leasing 15,000 sq m.

However, 2011 financial year earnings are likely to be affected by vacancies at 10-20 Bond Street, where a $60 million refurbishment is under way and at 295 Ann Street, where six months of downtime remains.

US properties Park Tower and Waltham Woods also have significant vacancies, according to UBS analyst Grant McCasker.

"While inquiry is picking up in Australia … the US still remains difficult," Mr McCasker said.

While ING is in a strong capital position, with 23 per cent look through gearing and $632 million in undrawn capital, it is unlikely to use its liquidity until it diversifies its debt away from its current lenders. However, funds from a sell-down of the company's stake in the Dutch Office Fund could be used to buy domestic office assets.

Macquarie Equities suggests that a recovery in the Sydney office market, expected in the second half of this year, has been delayed until the first half of 2011, due to European and Chinese economic uncertainty and fears over the government's proposed resource super profits tax.

This would affect leasing at the 10-20 Bond Street property, where the first tranche of space is expected to be available in September.

However, ING suggests there is inquiry for more space than is available in the property.

UBS retained its "neutral" recommendation on the stock, while upgrading its 12-month price target to 64¢ from 55¢. Macquarie retained its "outperform" recommendation, with a 69¢ 12-month price target.

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