

# Property

## Subregional centre revival

Ben Wilmot and Lisa Carapiet

Investors are getting back into the subregional shopping centre market, with two large assets selling in recent weeks and another \$250 million of sales in the wings.

Sydney-based Armada Funds Management, led by former UBS director Chris Monaghan, has acquired the Ingle Farm Shopping Centre in South Australia from Colonial First States's Direct Property Investment Fund.

The sale, subject to a capital raising, was struck at \$82 million, and demonstrates how investors are being pulled back into the market by the high yields on offer. The deal will reflect an initial fully leased yield of just over 9 per cent.

The sale, along with that of Endeavour Hills Shopping Centre, has lifted total subregional shopping centre transactions in 2009 to about \$481 million, with the average initial yield on the centres sold at 8.61 per cent, according to Jones Lang LaSalle.

Sales activity is now 48 per cent ahead of comparable turnover for all of 2008.

That relatively quiet period saw about \$324 million of centres sold on a tighter average initial yield of 7.18 per cent.

Armada is believed to have been

### KEY POINTS

- Buying interest has reignited and yields are beginning to improve.
- Sales so far this year are almost 50 per cent higher than all of 2008.

attracted to the strong performing subregional property by the income security of its national tenants, sales turnover growth above 5 per cent, and expansion potential.

The centre is anchored by two Coles supermarkets, a Kmart discount department store and three mini-majors. It has a gross lettable area of 27,442 sq m.

The Ingle Farm deal was negotiated by Simon Rooney, Australian head of retail investments at Jones Lang LaSalle.

"Transactional activity within the subregional shopping centre sector has started to materially increase in the first seven months of 2009, underpinned by counter-cyclical private equity and syndicate investors, who accounted for 93 per cent of the buyer profile," he said.

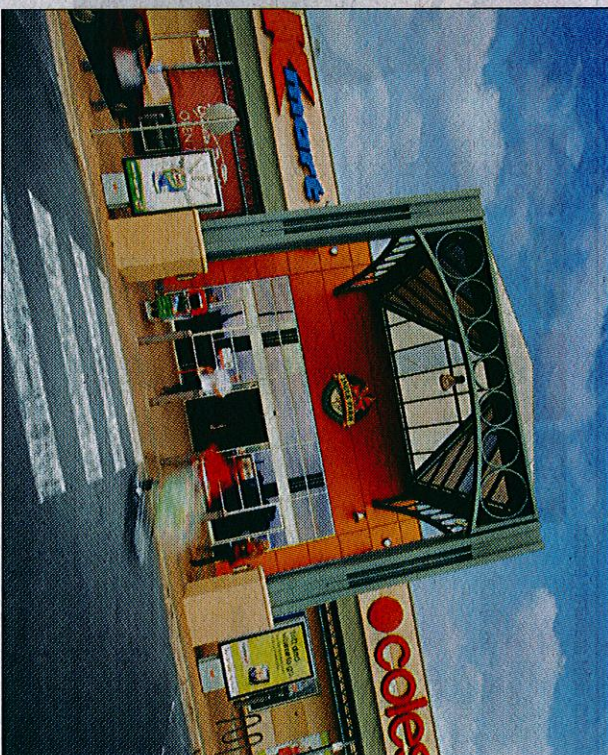
Mr Rooney attributed the interest in subregional centres to the historically low cost of funds and the softening in their values, ranging from 100 to 300 basis points since their peak in mid to late 2007.

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The Ingle Farm sale in South Australia is indicative of renewed interest.

The sales show the sector is coming back to life after something of a hiatus when buyers struggled to secure senior debt and faced higher bank margins and difficulties in raising equity.

While these tough conditions are still present to a degree, they have created strong buying opportunities for cashed-up privates and syndicates.

Institutions, too, are starting to demonstrate interest again.

Research by JLL showed activity in subregional centres was following the neighbourhood sector, where values had recalibrated and the pace of deals had picked up.

"Particularly for first tier sub-regional assets, it would seem

other." he said.

Yields have plateaued, with only limited further softening of between 25 to 50 basis points in the prime end of this sector expected to occur over the next 12 months," Mr Rooney said.

CB Richard Ellis regional director of retail investment sales Steve Wakeham said the best buying opportunities lay at the sub-regional end of the market in non-metro locations.

"One of the clear advantages of [outer-city] locations is that it is much easier to quantify the competitive threat there.

"As markets normalise, yields between metro and non-metro locations will move toward each other," he said.

## Endeavour for Makris

Ben Wilmot

A Adelaide-based private investor Con Makris has snapped up the Endeavour Hills Shopping Centre in Melbourne's south-east for a price of between \$80 million and \$90 million.

The wealth of father and son Con and Ross Makris was ranked at \$883 million in the *BRW* Rich List and the family has been expanding its existing centres and buying interstate.

The Endeavour Hills centre was sold by the wholesale ING Retail Property Fund Australia, which is also selling its jewel, Western Australia's Lakeside Ioonadup regional shopping centre, which was valued in June at \$490 million.

The parties in the Endeavour Hills deal said the centre changed hands on a yield of 8.35 per cent – the relatively tight yield was due to the treatment of capital expenditure and the structured nature of the deal.

The centre comprises a large and recently refurbished subregional shopping centre anchored by Big W, Safeway, Coles, Aldi and Dan Murphy's, together with 93 specialty stores. The gross leaseable area is about 30,912 square metres.

The sale was brokered by Carl Molony and Jonathan Fox of Stonebridge Property Group.

Mr Molony said the property's recent upgrade, dominance of its primary trade area, and strong anchor-tenant profile ensured robust inquirers and bidding.