

# Yields to drive new fund growth

One Sydney property developer plans new funds to capitalise on rising residential demand, writes **Ben Wilmot**.

Sydney developer Hycorp Property Group hopes to accelerate its move into funds management as institutional interest in residential property picks up.

The group, best known for its apartment complexes on Sydney's lower north shore, believes apartment prices in the leafy area will hold up despite rising interest rates.

Continuing interest in the niche market and rising residential rents should support the group's ambitions to start new funds, Hycorp director Michael Abolakian said.

"We now have six property funds – three active development funds, one investment fund and two development funds," he said. "We plan to make the development funds available to investors in the near future."

Hycorp mainly develops medium-size residential units and has also built single dwelling homes. The construction and development business has also expanded to the fringe of Sydney's central business district and the eastern suburbs, where it also believes prices will hold up. In total, the boutique developer has more than \$100 million of work on its books for the next two years, and most of its projects now come with commercial aspects, rather than being purely residential developments.

Mr Abolakian said the group had relied on a core group of investors but he wanted to raise more external capital as it grew. Hycorp believes its in-house construction capabilities will give it an advantage in keeping projects on track in the tougher environment.

The group also keeps a controlling 51 per cent interest in its developments. Mr Abolakian said the move into funds management



Yields will support the market: Michael Abolakian, left, with his son Stephen. Photo: JIM RICE

was partly driven by his son Stephen, a development manager at the group and an economics student. He had been instrumental in the push into funds.

Hycorp's current investors are mainly retail, with self-managed superannuation funds comprising 35 per cent of backers, but the group wants to attract interest from major superannuation funds.

"We have been in discussions with a number of institutional investors in recent months who are looking for exposure to the boutique residential development market," Mr Abolakian said.

He acknowledged the group would not usually attract the attention of fund managers, but believes

they will be attracted by the group's track record. "We are confident in securing arrangements with some of these investors in the next six to 12 months," he said.

He wants to develop a master fund that comprises slices in the group's projects. "We'll bundle four to five properties and offer them to institutions," he said.

Hycorp's first fund backed the Ani apartment development in Chatswood. The fund returned 49 per cent over an 18-month investment period. About 70 per cent of the complex was presold, but the fund will retain some apartments to lease out as rents were almost double its expectations.

Hycorp plans to sell apartments

into strong markets. But when faced with softer markets, it will retain some units after paying down debts. "We will then wait for the market to turn around and then we will offer apartments," Mr Abolakian said.

The group's second fund is backing the development of 25 apartments in Willoughby to be delivered next year. It will also finish a luxury complex in Frenchs Forest with seven apartments later this year for its fifth fund. But most projects are pitched at a lower range.

"We don't [usually] believe in the over \$1 million story with apartments," Mr Abolakian said.

He dismisses the notion that wealthy so-called empty nesters are willing to pay \$1 million to \$1.5 million for apartments, noting they face a range of other retirement costs.

Instead, the group mainly targets the \$600,000 to \$700,000 bracket.

"We felt our margins are a bit thinner, but in the blue-chip areas we know we're going to get a sale at the end," he said.

Despite some gloom in Sydney's residential property market, Mr Abolakian said sales enquiries had been strong as investors turned to residential property to avoid stockmarket volatility. When the market took another dive things started happening, he said.

On Sydney's lower north shore he puts delays in some sales down to vendors wanting too much.

"There's greed coming into it," he said. While not predicting a price collapse, Mr Abolakian flagged an easing of demand. "I think there will be a pull back," he said.

But he is optimistic about setting up new funds because of changes in the dynamic of Sydney's rental market. Two years ago, Mr Abolakian said rental yields on apartments were running at about 3 per cent to 3.5 per cent.

But with recent rental increases, he estimated it was now about 5 per cent. He said that interest rate rises had also been passed onto renters by landlords.

"I see further pressure. Rental yields will have to increase to about 6 per cent in my opinion," he said.

## Trillium offers too low

One of the UK's largest property operations, Land Securities Group, may drop a plan to sell its property management subsidiary, Trillium, after initial offers for the property-management unit were too low, *Property Week* has reported. Goldman Sachs Group's Whitehall real estate funds, William Pears Group's Telereal unit and Charterhouse Capital Partners each bid less than £1 billion (\$2.1 billion) last week, or 30 per cent below Land Securities' own valuation for Trillium. A final round of bids from the three suitors is scheduled for mid-June, although difficulties in obtaining financing and a slide in property values make it unlikely any of them will raise their offers. Land Securities will probably proceed with its original plan of spinning off Trillium in a three-way break-up of the company.

**Bloomberg**

## PrimeAg holds dividend

PrimeAg released its first half-yearly report on Friday delivering an after-tax profit of \$1.88 million but no dividend. With just on 80 per cent of the funds subscribed in the capital raising now invested in the company, more than \$235 million worth of properties in NSW and Queensland have been purchased. This totals 40,020 hectares of land and more than 36,000 megalitres of water rights. PrimeAg plans to sow over 25,000 hectares of crops but is looking for rainfall. "Good planting rains over the next month or so will allow a full program of dryland winter crops to be planted."

**Matthew Cranston**

## UK home loans slump

Approvals for new home loans in Britain fell to a record low in April, raising fears that the housing market is in for a protracted and painful slowdown. The Bank of England said mortgage approvals – loans agreed but not yet made – fell from 63,000 to 58,000 in March. That was much weaker than the 65,000 predicted by analysts and the lowest since comparable records began in 1999. Approvals in the three months to April were 192,000, just above the record quarterly low of 191,000 in the last housing market crash in the final quarter of 1992, although those also included remortgaging by banks.

**Reuters**