New funds dominate unlisted real estate space

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The unlisted property funds sector will head into 2015 almost unrecognisable from what it was prior to the global financial crisis seven years ago.

Back in 2008, investors were left stranded in frozen funds amid tumbling commercial property values and high debt levels.

"The property funds management industry for individual investors has undergone significant change over the past six years as a result of corporate activity and restructuring," said Ken Atchison, managing director of financial advisory firm Atchison Consultants.

Unlisted funds remain popular with investors with high net worth individuals, family offices, SMSFs, dealer group syndicates and individual investors all participating in 2014.

Figures compiled by Atchison Consultants show the diversified Charter Hall Group to be the biggest Australian unlisted fund manager in 2014, followed by diversified wealth manager Australian Unity and Centuria.

Centro Properties Group, the biggest operator of unlisted funds in 2008, wound up its complex shopping centre syndicates and agreed a restructure of the business with its bankers, to emerge as Federation Centres.

"In addition to changes in the list of largest managers the emergence of new managers has been a feature of the industry. This has been driven in part by regulatory changes and by the departure of smaller managers through poor business management," Mr Atchison said.

He said Basle III requirements have encouraged the exit by banks from property investment management, demands by superannuation regulators for liquidity have hampered the offering of property funds by major platforms and the inability of owners and managers to arrange the recapitalisation of funds and businesses has prompted the total departure of some managers.

Brisbane-based Sentinel Property Group, run by industry veteran Warren Ebert, has about $740 million in assets under management.

Sentinel acquired $250 million worth of property in 2014, including nine supermarket-based centres in the last six months.

Mr Ebert said his fund would be buying very aggressively in first six months focusing on sectors that others don't like such as rural shopping centres. "We were buying industrial property and homemaker centres, when no one else was," he said.

But he warned that the unlisted sector was heading back to what it was with "financial engineers" entering the market, rather than "property people".

"There are still a number of funds paying distributions out of borrowed funds," Mr Ebert said "That's what destroyed the sector the last time, borrowing from capital to pay investors."

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