

Real estate funds management new battle ground for 2017



John McBain, CEO of Centuria Capital: "The advantage of getting bigger is that if the property performs properly, its cost of funds should decrease."

by [Matthew Cranston](#) [Nick Lenaghan](#)

The race for control of billions of dollars worth of property funds management platforms, both listed and unlisted, is heating up as the commercial property cycle peaks and opportunities to acquire direct property diminish.

Last year global giant AXA Investment Managers bought the independent [Eureka Funds Management with \\$5 billion under management](#), while Centuria bought up the 360 Capital platform after 360 itself took over Fife Capital's \$225 million Australian Industrial REIT. And in one of the most eye-catching manoeuvres global funds manager [QIC took over the running of a \\$600 million unlisted property fund](#) after its

wholesale investors voted to remove global giant LaSalle as their manager. Macquarie Group's head of real estate, Antony Green, said while the best outcomes are usually friendly, hostile attempts should not be ruled out this year as managers seek scale.

"Generally the best longer term outcomes are achieved in an agreed friendly coming together of platforms. However, for those operating particularly in the listed markets "sand pit", you have to be prepared for those unfriendly and aggressive unsolicited "sand throwers".

"The driver of profitability in funds management is generally performance and growth – increased funds under management with greater economies of scale will drive platforms' behaviour."

He is advising Investa Office Fund in its ongoing imbroglio with Cromwell Property Group which has sought to take over the management rights to the Investa Office

Investa manages more than \$3 billion in office towers around the country but has had to see off a previous attempt by Dexus at having its manager removed.

Cromwell, led by Brisbane based Paul Weightman, has been aggressively seeking property funds under management and now controls more than \$10 billion in funds under

management, with about \$6.9 billion in Europe.

Last year it launched a new €2 billion (\$2.9 billion) [European property fund](#) with early support from the largest privately owned life insurance company in Denmark, PFA Pension.

Other major funds management businesses such as Charter Hall have also excelled with funds management increasing by 8.6 per cent in the first six months of this financial year to \$19 billion, reflecting a 16.1 per cent annual growth rate since June 2010.

"We have created eight new funds totalling \$8 billion in the last five years," Mr Harrison said. "And I think if you look at our record we have confidence to continue the growth of the platform."

Higher costs

"I think you will continue to see the friendly and hostile approaches to M&A."

Centuria is another of the rapidly growing property fund managers in Australia, but chief executive John McBain doesn't agree that the demand for funds under management is because it's harder to buy real estate. The group has bought up just under \$500 million of real estate.

"In the listed funds management space, the advantage of getting bigger is that if the property performs properly, its cost of funds should decrease. That's what everyone is striving for," Mr McBain said. "The smaller REITs have a higher cost of funds than the larger ones have. This is what's driving consolidation."

While Mr McBain said his group is having no trouble finding suitable assets to buy, other fund managers are slowing down.

Funds management consultant Ken Atchison said that in the unlisted property space, most of the funds are closed for new investors.

"Many of them are closed to new investment at the moment. There is a queue," Mr Atchison said.

"There are limits on assets, and the investment managers are hesitant about buying new assets at today's prices as well."

And while groups such APN Property Group have headed off some competition for REITs, Mr Atchison said the real estate sector does not have to face quite as much competition.

"One broad observation in property funds management is that the level of competition is a lot less than in sectors like Australian. There's a dozen or so in