

BUSINESS

PROPERTY

Investa or POF: know when to hold and when to fold

Report Robert Harley

On Wednesday the chief executive of Principal Real Estate Investors (Australia), Sandy Calder, escorted a group of Australian analysts and investors around the Stadium Gateway in Orange County.

Back in Sydney, the managing director of the Investa Property Group, Chris O'Donnell, was hosting a lunch for about 20 fund managers, trying to convince them to sell into Investa's \$1.4 billion bid for the Principal Office Fund.

With the latest extension of Investa's bid for POF expiring on Monday, the tussle for the hearts and minds of investors is reaching another crescendo.

Two proposals are on the table. Investa has an unconditional offer of scrip (plus a small amount of cash) in a strongly performing property group with office investments enhanced by income from syndication, development and property services.

Mr Calder and the management of POF have countered with a pro-

posal to buy a \$468 million US portfolio and internalise the management in a move which would enhance the income and diversify the portfolio.

Investa has been creeping up the POF register, picking up private investors and some small institutions. By late Friday, the group claimed 28.3 per cent of the POF stock.

The stake will enable Investa to block Mr Calder's plan to internalise the management of POF, but not his proposal to buy the US portfolio.

However, it is possible that Investa could vote down the US proposal if its stake exceeds 30 per cent.

To underline the point, POF's responsible entity has stated that it is not required to proceed with the US proposal if Investa's stake exceeds that figure.

If Investa gains 35 per cent or more, its position on global stock indices could be enhanced and POF's position correspondingly downgraded.

On one analysis, POF would crumble to Investa quite quickly if

the group could gain that 35 per cent stake. On the other hand, however, a number of key fund managers will return from the US on Sunday, probably with a positive view of the US portfolio proposed by POF.

And JBWere, which is advising Investa, has estimated that Principal's management could further sweeten the US deal.

So what should investors do? The poker-playing analysts are advising investors to hold. The risk-averse are advising sale.

Power saving goes out window

Report Tina Perinotto

Are we fooling ourselves about going green? Claims that NSW could face power blackouts by the summer of 2005 because of surging air-conditioning use in homes have come as a jolt to the industry.

The property sector has been making loud noises about green development and there has been a growing number of energy and sustainability ratings systems around the country, backed by tougher building codes.

But, according to architectural and energy professionals, getting the building right is not enough.

The NSW president of the Royal Australian Institute of Architects, Caroline Pidcock, said: "Everyone's been thinking about how efficient the building envelope is but in the meantime they've forgotten about the appliances in the home."

Fridges and freezer, for instance. "If the government really wanted to make an impact we wouldn't allow fridges to be sold if they were energy inefficient," Ms Pidcock said.

In Germany, top-loading washing machines are banned because of their high consumption of water.

"People complain about how long front-loading machines take [for a wash cycle] but we live in a really arid climate," said Ms Pidcock, whose practice provides discounts to clients if they choose environmentally sustainable design. She said it might also help if people could change their expectations of almost perfect indoor comfort where temperature range was no more than 1C. Or wear a T-shirt in summer or a jumper in winter.

RMIT University adjunct professor Alan Pears also has a strong point to make about the hidden costs of the huge, cheaper houses popular on new housing estates.

Take the common lack of eaves or



In the cold . . . NSW could face power blackouts by 2005.

Photo: Steve Siewert

KEY POINTS

- Not enough attention is being paid to appliances' energy use.
- Lighting is also a large guzzler of power in the home.

shading. This means that the buyers either have to fork out extra money after they move in or pay huge power bills for heating and cooling. Not to mention the sustainability issues in the extra paint needed or when the palatial-sized home needs new carpet.

So what are the big energy guzzlers, as the Total Environment Centre's Jeff Angel, puts it?

One is the lighting. Professor

Pears said most people believed halogen down lights were efficient because they had low voltage. In fact, they used the same as a normal 60 watt light bulb, and because they had such a narrow beam of light, far more of them were needed.

He said a typical household used about 6500 kilowatts a year. A fridge built in the mid-1980s would use 1500kW, but a modern one less than half that amount. Add much more for freezers "chugging away in the garage", especially on hot days.

More alarming are the hidden costs of infrastructure needed to supply energy at peak load times.

Each single-bar electric heater, which could be bought for \$20 and cost about 12c an hour to run, needed up to \$2000 in additional

energy supply infrastructure, Professor Pears said. In fact, an EnergyAustralia document that he has sighted said it cost about \$100 million to ensure supply for 45 hours of peak demand a year.

So what is the most environmentally friendly heating around?

Professor Pears said, a modern wood-burning appliance, using the best technology and only dry wood from sustainable sources, rated top of the chart. Next came electric heating using green power, followed by reverse air-conditioning using green energy. The worst was an open wood fire.

But even with the best appliances in the world, it was hard to beat a well-designed house that needed little heating and cooling, he said.

SPOTTING BIDS The deals and the dealers

■ Tony Hartnell, one-time corporate cop and now the chair of Racing NSW, sold one of his country estates during the week for \$1.6 million. The 218 hectare property, Central Farm, fronts the Tross River near the picturesque town of Bodalla on the NSW South Coast. Hartnell, and partner Jim McDonald, raised thoroughbreds on the estate. The price, achieved at auction by agent David Nolan Rural & Project Marketing, is more than double what the pair paid in the early 1990s.

■ At the same auction, and with David Nolan once again encouraging the bidding, one of the few large holdings on the NSW Southern Highlands was snapped up by the Macarthur-Onslow family for \$5.35 million. Their new holding, Southlands, covers 250 hectares at the junction of the Hume and Illawarra Highways near Sutton Forest. Bidding started at \$3.5 million. Few thought it would go as far as it did.

■ Sydney's auctions were stronger in July. CPM Research managing director, John Wakefield, reports the clearance rate at the city's residential auctions hit 72 per cent in the month, the best monthly figure for the year. It's a combination of low volumes and continuing strong demand. Wakefield also believes price growth is slowing. On his auction numbers prices only grew 8 per cent in the year to the end of July.

■ Greg Paramor, along with mates Ric Hutchinson and Nick Burton Taylor, have moved into the next big thing - trout fishing in Tasmania. And they have done it the best way possible, buying the London Lakes Fly Fishing and Wilderness Estate. The estate, boasts a four-star lodge, 1700 square metres of wilderness and an international reputation for brown trout.

■ Tim Russell has become the general manager of funds management for strongly performing property group FKP. Russell was the former managing director, capital transactions, at Principal Real Estate Investors. His aim is to build on the success of the FKP's first unlisted trust, the \$65 million FKP Commercial Property Trust No 1. The trust, which owns 120 Edward Street in Brisbane, made its first distribution this week, delivering investors a return 12 per cent above the forecast.

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Challenger offers shares in Park Hyatt

Report Lisa Murray

Investors will have a chance to own a piece of Sydney's prized Park Hyatt Hotel at the Rocks, after Challenger Financial Services Group launched its retail offer this week.

Challenger, which bought the property last November for \$137.5 million, is aiming to raise \$69 million in equity by selling stapled securities to retail investors.

That means for every dollar an investor spends, they will receive one share in PH Sydney Hotel

Group and one unit in the aligned trust.

The investment is expected to run for up to five years with a forecast yield of 9 per cent in the first year and 12 per cent in the fifth year. The minimum investment is \$5000 and the trust will not be listed on the stock exchange.

The offer marks the first product launch since Challenger was merged with the Packer's CPH Investment Corp and former Colonial First State boss Chris Cuffe was put in charge.

Challenger's head of distribution

and services Rob Adams said the group also plans to spend \$3.5 million next year on substantial renovations to the hotel, which overlooks the Sydney Opera House.

The Park Hyatt sale broke records last year with the price translating to just under \$760,000 for each of its 158 rooms, almost double the estimated \$400,000 a room paid in the sale of the nearby ANA and Westin Hotels.

But Challenger highlights an occupancy rate for the Park Hyatt of more than 80 per cent on average for the past 10 years and

an average daily room rate since 1999 of over \$400.

Lonsec analysts recommended the investment based on the added value of next year's refurbishment and a recovery in the Australian hotel property market.

PH Sydney Hotel Group, the company, will sublease the property from the trust paying a base rent of \$7 million and a turnover rent equal to 8.5 per cent of the hotel's gross revenue.

The company has a hotel management agreement with Hyatt Australia, which will expire in 2030.