Luxcon to turn Melbourne office into luxe apartments

Larry Schlesinger

Sydney developer Luxcon has made its first foray into Victoria, striking a deal to acquire an old office building in East Melbourne with plans for a $120 million luxury apartment project.

Managing director Ilya Melnikoff planned to replace the existing nine-level office building at 372-380 Albert Street, which overlooks Fitzroy Gardens, with just 24 residences priced from $2 million.

"We want to develop an exclusive building with a point of difference," he told *The Australian Financial Review*.

"Melbourne has a lower price entry point and good fundamentals and it's a market we have wanted to get into," Mr Melnikoff said.

"East Melbourne is equivalent to Sydney's Double Bay but at a much lower entry point – $20,000 per square metre compared with $35,000,"

All residences will have views over Fitzroy Gardens and the Melbourne CBD, Mr Melnikoff said. Some will have their own lifts – an appealing feature in the post-COVID-19 era. The Albert Street property is just 200 metres from where Mirvac completed its sold-out The Eastbourne development in 2018.

Around the corner is another exclusive apartment building, 150 Clarendon Street developed by Salta Properties.


The East Melbourne office building will become 24 high-end apartments.

Luxcon, which is completing The Aristocrat of Rose Bay in Sydney's eastern suburbs, acquired the East Melbourne building from well-known entrepreneur Nathan Cher, the co-founder of Run Property Group.

Company records show Mr Cher's Yentaprises paid $4.95 million for the building on the corner of Lansdowne Street in 2002.

Mr Melnikoff declined to say how much he had agreed to pay but said the deal had been struck on a yield of 4.5 per cent. Joel Wald of MMJ Real Estate negotiated the off-market transaction.

Industry sources valued the transaction at about $30 million.

Luxcon will lodge a development application this month.

The developer appointed architects Woods Bagot to design the project and expects to begin marketing the residences before the end of the year.

"We feel Melbourne is a natural location for our group to expand into," Mr Melnikoff said.

"The city has amazing architectural and cosmopolitan diversity and lifestyle fundamentals which fit our brand vision and we have been searching for the right property for over 18 months and are extremely excited to pick up what we feel is a perfect site to introduce Luxcon to the Melbourne market."

Despite his enthusiasm, Mr Melnikoff said he expected prices would flatline over the next few months.

"We have not seen price drops in any of the inner city areas we are developing in," he said.

"At the moment, in the luxury market, people are sitting on their hands and not spending."

$50m shows suburban offices still in demand

Larry Schlesinger

Real estate fund managers have acquired more than $50 million worth of suburban and regional office assets on behalf of their investors, in a sign of confidence despite the current ructions between landlords and tenants.

WA-based syndicator Mair Property Funds closed its $60 million diversified fund with the acquisition of suburban office properties in Mulgrave in Melbourne's south-eastern suburbs and in West Perth. The group, founded by veteran investor John Mair, paid $13.9 million for 6-8 Compark Circuit in Mulgrave and $10.6 million for 1162 Hay Street in West Perth.

The recently refurbished Melbourne building is leased to medical equipment supplier Device Technologies. The Perth property is leased to residential insurance broker EBM.

Mair's fund comprises eight properties in four states and provides investors with a distribution yield of 7.5 per cent.

Mair Property Funds managing director David Ellwood, said its asset diversification strategy had proved particularly important during the COVID-19 pandemic. "Whilst a number of the assets in this fund were purchased during 2019, the diversity and sound commercial nature of the tenants have added good resilience during the COVID-19 pandemic, with the large majority operating as normal," he said.

In the outer Melbourne suburb of Frankston, property investment group, Collective Capital acquired a mostly government-tenanted office building for about $20 million on a yield of more than 6 per cent.

The five-level building at 454-472 Nepean Highway offered 6254sq m of leasable space and was currently 78 per cent occupied. Tenants include the National Disability Insurance Agency, St Lawrence and Wise Employment.

CBRE's Mark Wizel and Josh Rutman brokered the sale on behalf of Rakio Pty Ltd, a company owned by Michelle Coppel, the wife of well-known music promoter Michael Coppel.

The Coppels bought it for $6.8 million in 1995 from liquidators of the Pyramid and Farrow building societies.

Collective Capital director and co-founder Nicholas Thompson said he was confident about the strong returns that it would provide to investors.

In Townsville, Sentinel Property Group paid $11 million for a four-level building across from the recently opened North Queensland Stadium tenanted by the Commonwealth government, Incitec Pivot and Rabobank.

The property at 19 Stanley Street sold on a yield of 8.7 per cent through Neville Smith of Colliers International.

Citi tips Ardent, despite visitor woes

Michael Bleby

Dreamworld is likely to reopen in August, ahead of the September school holidays, but the troubled theme park will only return to its pre-COVID 2019 visitor numbers of 1.5 million by 2024, Citi analyst Sam Teeger said as he maintained his "buy" recommendation for parent Ardent Leisure.

ASX-listed Ardent will also only see a return to pre-pandemic sales density of $US7 million ($10.8 million) per centre at its US-based Main Event Entertainment division in the same year, due to lingering concerns about going out as well as weakened consumer and corporate spending, Mr Teeger said.

Even so, the 75 per cent slump in Ardent's share price since its first-half earnings announcement in February made the company cheap for investors, as after accounting for the $100 million worth of assets in Ardent's theme parks division, owners were paying only about $200 million for the much larger Main Event, a price equivalent to just three times FY19 EBITDA earnings, he said.

"While the timing and magnitude of Main Event's recovery prospects are uncertain, the multiple is a minus 17 per cent discount to peers despite Main Event's significant rollout opportunity and turnaround prospects," Mr Teeger said.

"Further, valuation upside exists from the Dreamworld master plan, which could involve partially rezoning the site."

Mr Teeger cut his 12-month price target on Ardent shares by 68 per cent to 55¢. The stock jumped 3.5¢, or 10.6 per cent, on Tuesday, to 36.5¢.

Entertainment provider Ardent, already struggling to recover from the fatal 2016 Dreamworld accident that killed four people, has been hit hard by the pandemic, with its remaining two divisions (having sold off its gyms and marina businesses) closing in Australia and the US.

Ardent has access to debt funding in the US, but none in Australia, as its loss-making theme parks division gives it no means to service debt repayments. The longer Dreamworld stayed closed, the more liquidity pressure it would face, Mr Teeger said.

To free up cash, the company could do a sale and leaseback of the 57-hectare site it owns in Coomera in south-east Queensland, which was worth an estimated $57 million, he said. It could also sell a stake in Main Event – a process it had started before the pandemic – or raise equity.

Crane maker moves HQ across town

Michael Bleby

Crane manufacturer Tadano Oceania is taking out a 10-year lease on new office and warehouse facilities in Lytton, in Brisbane's east.

Industry sources put the cost of the lease – renewable for 10 years – on the 3100sq m facility with 8145sq m hardstand at between $500,000 and $600,000 a year net plus GST.

Developer Northshore Group bought the 146 Lindum Road site in 2014 and delivered the facility in nine months for the Japanese company, which faced an imminent lease expiry at its former premises in Darra, on the other side of the city.

"Our existing premises did not reflect us as a company or offer our customers the infrastructure they needed to support their large investments," Tadano Oceania managing director Anthony Grosser said.

The development includes tilt panel construction, floor-to-ceiling glazing in the offices, a 10-tonne gantry crane, internal service pit, multiple roller shutters and over two acres of dedicated yard. It was negotiated by Ray White Commercial Qld's Paul Anderson.