

Mirvac in talks to buy Westpac trust

Australian Broadcasting Corporation

Broadcast: 07/04/2010

Reporter: Andrew Robertson

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Developer and funds manager Mirvac has unveiled a \$500 million capital raising and revealed it is in exclusive takeover talks with Westpac's fund management arm.

Transcript

WHITNEY FITZSIMMONS, PRESENTER: Two years after the global financial crisis hit, debt still plagues some listed property trusts.

But many others have managed to rebuild their balance sheets through asset sales and highly dilutive capital raisings.

Today, Mirvac signalled that the sector is now looking to raise capital not for survival, but for growth and the property funds and developer is looking to raise half a billion dollars at a time when it's been granted exclusive access to the books of Westpac Office Trust.

Andrew Robertson reports.

ANDREW ROBERTSON, REPORTER: The property trust sector suffered more than most in the global financial crisis as debt-fuelled growth threatened to send more trusts to the wall.

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Shopping centre owner Centro was one of the hardest hit and only remains in business at the mercy of its banks, with units in both its listed entities still hovering around 20 cents.

But news that Mirvac is undertaking a capital raising to fund expansion is seen by some as a sign that property trusts are on the mend.

WINSTON SAMMUT, CEO, MAXIM ASSET MANAGEMENT: So far, the capital raisings that we've seen to date in this sector have been very much defensive ones in terms of shoring up balance sheets and reducing gearing levels.

So, now we're actually looking at growth opportunities, which I think is a very positive thing for the sector.

ANDREW ROBERTSON: Mirvac will raise \$350 million from institutions and \$150 million from smaller investors and in a statement to the Stock Exchange said it's "seeking to strengthen its balance sheet in preparation for future acquisitions".

One of those acquisitions is tipped to be Westpac Office Trust, after the revelation that Mirvac has been given exclusive access to WOT's books.

Among the trust's assets are the Sydney headquarters of both Westpac and Woolworths.

Fund manager Roger Montgomery says he's not surprised at Mirvac's interest.

ROGER MONTGOMERY, FUND MANAGER: My understanding of the business, the structure is it was one of the few high quality office trusts and in that regard it was more desirable than many of the others.

ANDREW ROBERTSON: As for the sector as a whole, though, despite the presence of some big names such as Westfield, Stockland and Lend Lease, Roger Montgomery is not impressed.

ROGER MONTGOMERY: They've raised enormous amounts of equity and they've done that as a discount to the equity per share.

So the result of course is that they've diluted equity per share and earnings per share enormously. That's one of the problems.

The other problem of course is that returns on equity now stand at rates that are less than what you can get in a bank account. That's problem number two.

And of course problem number three is that all of these assets have been devalued and reduced.

The capital's gone up, so the debt-to-equity hasn't changed, the debt-to-equity ratios haven't changed that much at all.

ANDREW ROBERTSON: Which is why listed property trusts are still badly underperforming the wider market.

The Listed Property Trust index remains down 66 per cent from its high on 25th February, 2007 after falling as much as 79 per cent to its low in March last year.

By comparison, the ASX 200 is only 27 per cent below its peak in November 2007 and only lost 54 per cent from top to bottom.

But it's not just listed property trusts which are suffering. Dugald Higgins specialises in unlisted property which is only now facing up to the reality of its huge debt levels.

DUGALD HIGGINS, PROPERTY ANALYST, ZENITH PARTNERS: There are very few funds in the market at the moment who would have what we would consider to be prudent levels of gearing as well as having good quality assets and very strong quality management.

ANDREW ROBERTSON: As listed funds like Centro copped a beating from investors in 2008, unlisted funds were seen as a superior investment, an impression that's proven to be false.

Which is why many unlisted funds are now frozen and why Winston Sammut is expecting them to become takeover targets for their listed counterparts as they return to health.

He cites Beckton as a prime example.

WINSTON SAMMUT: Even though Beckton is listed, most of its unlisted funds have got issues and it's looking to recapitalise or find a big brother, not only for itself, but looking a ways out in terms of the unlisted.

ANDREW ROBERTSON: For now, investors are waiting to see if Mirvac's interest in Westpac Office Trust results in a takeover bid.

