SWEET SPOT FOR MELBOURNE OFFICE MARKET

COMMERCIAL PROPERTY
OLGA GALACHO

MELBOURNE'S office sector will be the most balanced of all the major capital cities during the next three years in terms of vacancies, according to new research.

From 2015, the supply and demand for rented office space will be closely matched compared with markets in Sydney, Brisbane and Perth, commercial agency CBRE's latest Market Outlook predicts.

But while Melbourne's CBD is likely to outperform other markets until 2018, the report warns that from that year an extra 168,000 sq m of office space will come into the market. The main projects delivering this space are 477 Collins Street, 82 Collins Street and 288 Exhibition Street.

Melbourne's long-term ratio of office space availability will be stretched by more than 2 per cent by the planned projects, putting pressure on landlords with vacancies on their books.

CBRE also forecast that housing developments close to the city would continue to be rolled out strongly from next year.

"Rezoning in some parts of the inner-Melbourne industrial market will see a rise in residential developments as owners seek to unlock value in land holdings, especially those sites flagged with potential residential upside," the report said.

The agency remained "cautious" about the extent of new unit supply, noting that housing demand was shifting towards a preference for high-density living.

On the retail front, CBRE tips sluggish rents will rise in the wake of a good year for consumer spending.

"Retailer profit margins have fallen in the last two quarters but are still relatively strong after a period of consolidation and cost cutting.

"The continued entrance of new foreign retailers has increased demand for prime CBD space, with expectations this trend will spill over to quality regional centres."

The foreign retailers had, however, pushed up rents as they competed for prime space. CBRE believes this trend will flow to regional shopping centres next year as international brands expand.

The outlook for industrial properties is healthy, particularly in the transport and logistics sector, which is performing well thanks to increased consumer spending. The trend had made modern logistics facilities a prime target for investors, CBRE said.

Bernard Madoff

Madoff's aide jailed

LEGAL

A FORMER account manager for convicted fraudster Bernard Madoff has been sentenced to six years' jail for her role in the former financial adviser's multi-billion-dollar swindle.

US District Judge Laura Taylor Swain called the sentence for JoAnn Crupi, 53 "a justly harsh result for someone whose work was so integral to the unspeakable fraud perpetrated by Bernard Madoff".

Crupi, who said Madoff kept her in the dark, started work at Madoff Securities in 1983. By 2002, the judge said, she added a fake trade to her own investment account to show phony tax losses, proving her knowledge of the fraud.

Madoff, 76, is serving a 150-year prison term after his Ponzi scheme was revealed in December 2008.

Closer to the exit

NAB sheds more risky UK loans

EVAN SCHWARTEN
BANKING

NATIONAL Australia Bank has moved a step closer to completing a long-awaited exit from the British banking sector, offloading more than $2 billion worth of higher risk loans.

It will sell £1.2 billion ($2.29 billion) of non-performing loans from its UK commercial real estate portfolio to Cerberus Global Investors, an affiliate of the New York-based private equity firm Cerberus Capital Management.

NAB has been reducing the size of the portfolio since 2012, taking it from £5.6 billion to just £836 million, with an earlier package of largely non-performing loans also going to Cerberus in July.

The latest sale will eliminate most of the portfolio's higher risk loans.

NAB chief Andrew Thorburn said the move was part of the big four bank's plan to exit the UK, which has long been a drag on its performance.

NAB took a hit of more than $1 billion in 2013-14 from writedowns and provisions linked to the UK business.

Those contributed to a near-10 per cent fall in the lender's annual cash profit to $5.18 billion.

"The sale of these higher risk loans in the NAB UK commercial real estate portfolio is another important milestone in our strategy of reducing our low-returning legacy assets and sharpening our focus on our core Australian and New Zealand franchises," Mr Thorburn said.

"Pleasingly, the remaining NAB UK CRE loans are largely strong performing loans, and we will look at other options to manage this small remaining portfolio." Mr Thorburn indicated in October the bank was considering a float of its UK business, which includes the Clydesdale and Yorkshire brands.

NAB entered the British banking scene during a pre-global financial crisis expansion and despite the initial fanfare, the investment became a millstone as the quality of the loanbook soured.

The bank has also floated its Great Western Bank subsidiary in the US, and plans to sell down its entire holding there.

NAB shares closed up 2c at $31.50, defying widespread declines in the broader market and among its major peers.

AAP

The Clydesdale Bank is part of the NAB's underperforming British business.

RATE SPIKE IN RUSSIA

WORLD ECONOMY

RUSSIA'S central bank has hiked its key interest rate to 17 per cent from 10.5 per cent in a desperate bid to revive its currency and rescue its troubled economy.

The biggest single increase in rates since 1998 comes after the rouble's value has sunk roughly 50 per cent since January — it's now worth about 65 roubles to the US dollar.

Russia's economy has been battered by Western sanctions imposed over the conflict in Ukraine, and falling worldwide oil prices.

The falling currency threatens to drive up Russia's inflation to dangerous levels.

By raising interest rates, the bank hopes investors will find it more appealing to keep their money in Russia.

Retail having to rewrite the manual to maintain earnings

THE SHORT CUT
with ROGER MONTGOMERY

RETAILING is a tough business to be in at the moment.

And I wonder if it's not about to get a whole lot tougher.

Just the other day John Borgehtti from Virgin Australia noted the slump in consumer confidence had hit the airline.

And while Flight Centre said it was tough, Rio noted the economy was "challenging" and PAS Group said profits could be 30 per cent lower.

It is easy to think that the weakness is simply cyclical. And to some extent it is, but there is a growing structural component.

Take the rumours recently swirling around that Myer and DJ's might be forced to bring forward their Boxing Day sales!

Myer and David Jones are rumoured to have pallets of clearance stock ready in the event that management decides to launch post-Christmas sales a week early.

Such a decision could forever change the retail landscape and retailer profits in Australia.

How? Simple. Retailers make all of the profits in the few weeks before Christmas and just after. They effectively have two bites at the cherry. The first is before Christmas when you are obligated to ensure your friends and family have gifts under the tree on Christmas Day. The second occurs afterwards day when buyers take advantage of sales.

Today however DJ's were offering discounts of 30 to 60 per cent and Myer up to 40 per cent.

If all the steep discounting and sales occur before Christmas, you may as well pack the car on boxing day for the annual trip.

Morgan Stanley have been quoted as saying this Christmas could be the toughest since 2008 (GFC), and consumer confidence has fallen to a five-year low.

No wonder nobody is giving Mr Abbott any love.

On another front a structural change in retailing will not only affect two company's profits and margins, but it may also mean they lose their blue chip status.

The emergence of hard discounter Aldi as a serious player with 350 stores and 10 per cent market share will now mean the company can bring it's supply chain on shore and reduce prices for its products even further.

Wherever Aldi has entered a market globally, profit margins for the incumbent operators like Coles and Woolies have been reduced significantly. Nowhere in the world have the incumbents worked out a suitable strategy for thwarting Aldi's surgically precise approach.

With all the focus on the price of oil, it's easy to say "oils ain't oils" but the real change for investors is that retailers ain't retailers anymore either.

Roger Montgomery is the founder of Montgomery Investment Management