



Industrial – Case Study

Off Market Deal – Secured Below Replacement Value

Prosper Group client secures a prime Sydney industrial property below bank valuation

Purchase price:	\$12,400,000
Bank valuation:	\$12,400,000 - \$12,800,000
Replacement value:	\$16,000,000
Net passing yield:	9.1%
Property age:	3 Years
Tenant:	Coil Steels 7.4 years left on lease 2 x 5 year options

For more information about how Prosper Group commercial buyers agents can assist you source a quality retail property please call us on **1300 664 373** or email enquiries@prospergroup.com.au

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The Opportunity

- The property was sourced off-market by Prosper Group from an ASX listed property trust.
- It was purchased showing a net yield of 9.1%.
- The building has a GLA of 8,975m² on a land area of 22,330m².
- There are high load capacity floors in the building. The building also accommodates the use of three gantry cranes and there is a hardstand area surrounding the building which provides good all around access for trucks.
- The property is located in Erskine Park which is a growth industrial precinct accommodating national tenants and a high employment catchment. Erskine Park is strategically positioned close to the M7 and M4 major road infrastructures.
- The tenant is CMC Coil Steels and Erskine Park is their head office; they are a national company involved in the manufacture and distribution of steel products and have been operating in Australia for over 50 years. Their parent company CMC is based in the USA and listed on the New York Stock Exchange.
- The tenant has 7 years and 4 months remaining on their initial 10 year lease term with two further 5 year options.
- The property was owned by a publicly listed property trust that had bought the property in 2007 for \$15.3 million and had a recent valuation prior to our clients purchase at \$14 million.

Our Strategy

We identified early that the current rental rate at \$126m² net was about \$16m² above market rates. Current lease rates for similar properties in the area were around \$110m² - \$115m². With this information we applied a capitalisation rate of 8.75% against a market rental rate of \$110m² to determine a market value of the property. We then applied a discounted present value calculation on the extra \$16m² of rent over the remaining period of the initial lease term and added this figure to our first calculation to determine an accurate valuation.

Confident of our market knowledge and refined process for analysing industrial properties, on behalf of our client, Prosper Group offered a price considerably lower than the vendors asking price with a 30 day settlement which included only 14 days for due diligence.

Our offer was accepted mainly due to two main factors:

1. The vendor was looking to deal off market and was also looking for sharp terms
2. The vendor was confident in our reputable purchasing history and our client's capacity to complete the transaction

During our due diligence analysis we identified several maintenance and repair issues that had not been previously rectified by the vendor. Prior to the expiry of the due diligence period and unconditional exchange we negotiated an additional \$31,000 rebate on settlement to cover the cost of these works.

A Happy Client

Our client is an experienced commercial / industrial property investor and had a particular criterion to buy a blue chip industrial property in Sydney on a strong yield. Our client is delighted that he has purchased this industrial property which provides:

- A passing net yield of 9.1%, which increased to 9.4% after the next rent review; within one month of settlement.
- The property is only 3 years old so offers a massive amount of depreciation.
- A long term lease to a blue chip tenant.
- The property is located in a growth area that is surrounded by other national tenant's.
- A quality facility with multiple gantry crane capacity and high load capacity floors as a point of difference over other industrial properties in the market.
- The bank valued the property up to a range of \$12.8m.

