Robert Harley

Macquarie shows it has sharp eye for a good deal

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Macquarie moving in…the Beaux-Arts Commonwealth Bank building on 48-50 Martin Place Photo: Michel O'Sullivan

Property observed

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Macquarie Group is showing its smarts by buying and redeveloping its own headquarters on Martin Place.

So many others take the big incentives and move to new developer buildings on the fringe. Commonwealth Bank of Australia and Westpac have done it in Sydney and the NAB in Melbourne.

- **Photo gallery | Macquarie's roof-top plans for Martin Place**

Both the Queensland and NSW governments are embarked on new rounds of asset disposals to raise cash on a sale-and-leaseback basis.

All have good reasons for doing so. The traditional corporate/government real estate mantra is that organisations should retain property that is absolutely necessary and lease the rest. It provides more flexibility.

But renting is not universal. ANZ owns its Melbourne Docklands base; Goldman Sachs developed its $US1.25 billion tower at 200 West Street on Manhattan and JPMorgan has bought its new European headquarters at 25 Bank Street in Canary Wharf.

Macquarie has declined to comment on its move, but I suspect that when the proposal to spend well over $200 million on the Beaux-Arts Commonwealth Bank building on Martin Place went up to the board, few questioned the concept.

Presumably the directors looked very hard at the group's capacity to deliver such a project, and the risks involved, but that is another issue.

The concept itself ticks boxes.

In the Basel III world, it's the right sort of asset.

And in the new accounting order, lease exposures are on the balance sheet, lessening one of their attractions.

Most of all, the Martin Place project is a cost effective way of managing the risks of creating a new work place.

One of Macquarie's advisers is Greg Smith, a veteran of corporate leasing, who has just excised his business from Grant Samuel to join, as an executive director of Pepper Property, the fast growing global financial services business, The Pepper Group. Smith will not talk about Macquarie's decision, but he will discuss the risks and rewards for major corporations in their real estate decisions.

"In the post-global financial crisis world, a lot of the risk is being pushed back on the tenant," he says.

If corporations are going to take those risks, why not take equity?

One of the great challenges for corporations is integrating all the fitout and technology.

Today, perhaps one-third of the cost of a corporate office is in the tenant's fitout and technology.

Smith argues that best way to control the costs, and provide design flexibility, is to be the client, not a tenant influencing the builder, though a cost-cutting developer.

"You (the corporation) have to deal directly with the builder. You get the best outcome on time, the best outcome on cost, and the best result," he says.

Many corporate tenants also provide very large bank guarantees to back their tenancy. And if it is on the balance sheet, why not have equity?

Smith also argues that many corporate tenants undervalue their covenant.

A project without a tenant is worth far less. Almost worthless in fact, because the banks will not fund them. It is one reason why developers pay large incentives.

If you are a bank like Macquarie, why give away the value of your covenant to a developer. Why not realise that value for the group?

On the simple numbers, the Macquarie deal looks competitive.

If the Martin Place project costs around $225 million, the bank will have done an effective development. Work the numbers backwards, on a typical yield, and the imputed rent also looks pretty competitive.

Macquarie could sell the project and take a substantial profit.

I suspect that there is much more to this project than the financials.

Macquarie has shown, with its Shelley Street tower, a keenness to align work place and real estate.

The executive behind Macquarie's real estate initiatives, director of services Will Walker, told *TheAustralian Financial Review* in July that work and information have changed immeasurably in the past decade, but property has not kept pace.

"Work and information are all around us and building and work environments need to align to this environment, to people's work patterns and work styles," he said.

That is what will likely emerge in the reworked building under the new glass dome and down through the new atrium at 50 Martin Place.

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The Australian Financial Review

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