Onisforou happy for half the rent in Waterloo


The 10,000sq m office building at 290-294 Botany Road.

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Australian Financial Review
Jun 3, 2020 – 5.21pm

Veteran Sydney developer Theo Onisforou has halved the net rent on his Waterloo office project on the city fringe, a move he hopes will quickly win him a pre-commitment and allow him to get on to his next project. But is it the first sign of desperation in a coronavirus-weakened market?

The 10,000sq m office building at 290-294 Botany Road.
"I'm not desperate. I'm just desperate to find good developments and this is a good one. I'm very happy with the rate of return I will achieve," Mr Onisforou told The Australian Financial Review.
"I know this will make me unpopular with a lot of the other developers in that area, but I don't care.
"I would rather have a tenant than not have a tenant. Because as soon as I've done it, it will give me the confidence to go and do it again."
The offer is for $320 per sq m net rent, which is half what Caltex is understood to be paying for nearby accommodation in Green Square. It is also well below net rents of around $780 at office projects at Everleigh nearby.
Before the coronavirus crisis hit, Mr Onisforou's Angus Property had planned to develop speculatively the 10,000sq m development at 290 Botany Road. His asking price then was $640 per sq m.
Designed by Chenchow Little, the seven-storey building has 1500sq m average floor plates and frontages to both Botany Road and Wyndham Street.
The offer is for a 50 per cent discount on the first five years of a longer lease for a tenant who takes out the entirety of the building. Mr Onisforou insists the deal stacks up for him, taking into account the fact he bought the site 20 years ago for $1 million, along with the low cost of his development finance and potential savings in construction.

On Botany Road: Property developer Theo Onisforou outside his proposed next office development. James Brickwood
"The idea that developers need to achieve a 5 per cent return when interest rates are sub 2 per cent is ridiculous. There will be a growing realisation that with interest rates at these low levels for the very long term, you don't need to adhere to a 5 per cent return," he said.

"I'd rather do three deals on a 3.5 per cent return than no deals or one deal at a 5 per cent return. My opportunity cost of funds is so low and the cash I have I don't want to deposit at 0.5 per cent."

He enthusiastically points out savings for a blue-chip tenant compared to CBD rents of $1100 per sq m, as well as the building's post-pandemic attributes: voice-activated lifts, large floor plates, foyer amenities and a relatively low rise with a wide stairway.
Has the softening market forced Mr Onisforou's hand, though?
"Not necessarily. I view it as an opportunity. I believe it may have taken me two years to get a tenant. I don't want to lease it in pieces."
Perhaps the most important question, though, is whether a successful deal will set a new benchmark on fringe office rents. Colliers International's Michael Crombie, who is handling leasing with DB Property's David Brown, is adamant the offer is a one-off and will not crash rents in the area. "It's one man offering a deal because he wants to do a deal."

The seven-level building is designed by architects Chenchow Little.
There is pressure on pricing in the office market. Jefferies analyst Sholto Maconochie expects CBD office asset values over the next six to 12 months to fall 5 per cent to 10 per cent, with effective rents dropping by 5 per cent to 15 per cent.
"Office property was starting in a good position [going into the crisis]. Values were still increasing and cap rates were firming pre-COVID," he said.
"Sydney and Melbourne were at record low vacancies. We have also seen transactions in office close at tight rates in Sydney and Melbourne that were locked in pre-COVID-19. Clearly there will be pressure on values but not to the same extent as retail."
Another factor, according to Mr Maconochie, is the need for increased social distancing, which will help stop or even reverse the trend towards increased density.
"People are reluctant to give back space because they don't know yet what the space requirements are. It's not a typical recession. I don't believe the office is dead, but the jury is still out as to what the office looks like post COVID-19," he said.