
— Street Talk

Dexus shops Sydney CBD office towers in bellwether deals

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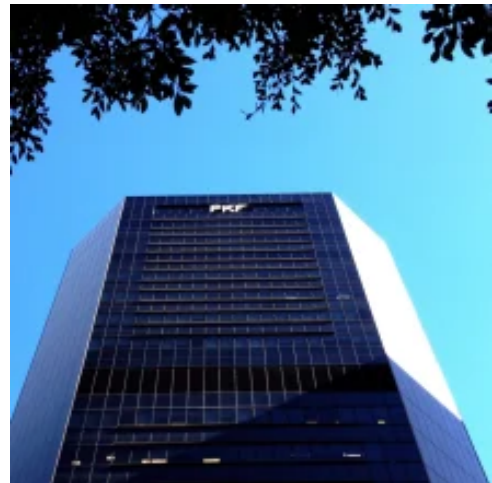
Dexus has hung up the for-sale sign at its Sydney CBD office towers at 1 Margaret Street and 44 Market Street in separate sale processes that are expected to test [unlisted office asset valuations \[https://www.afr.com/link/follow-20180101-p5cvus\]](https://www.afr.com/link/follow-20180101-p5cvus).

The 18-storey tower on Margaret Street has been put on the auction block for the first time in 25 years via Colliers and CBRE. It is being pitched as only the second asset of its kind – entirely freehold, prime and valued at more than \$100 million – to trade in Sydney in the past two years.

According to the pitch deck circulated to real estate advisers, the tower is in a favourable location fronting three CBD streets near Barangaroo, with a path to rental growth and with infrastructure including a Sydney Metro station being built nearby.

Metrics shared with real estate bankers likely to drum up potential bidders said the building was at 99 per cent occupancy, with \$20.4 million net passing income and a weighted average lease expiry of 2.1 years. The low WALE and concentration among big tenants was something that suitors would no doubt be interested to hear about.

The sell-side advisers also painted a picture of “development upside”, telling tyre kickers they could take the tower to 33 levels under current building height rules should they wish.



1 Margaret Street, Sydney, was built in 1984 and has been refurbished four times since, most recently in 2019. **Michele Mossop**

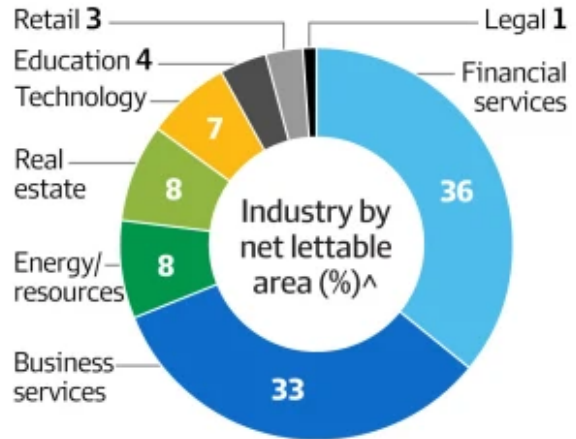
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Colliers and CBRE collected early indications of interest late last month and were expected to have had a number of groups in due diligence last week.

At 44 Market Street, Knight Frank and JLL are working to the same timeline. The 26-level tower, whose tenants include the Australian Bureau of Statistics, was being pitched with an 85.4 per cent occupancy and 2.7-year WALE. It had higher net passing income than its Barangaroo-end counterpart at \$24.3 million. Sources said it had attracted interest from Singapore-based investors.

1 Margaret Street, Sydney

■ Year built	1984
■ Refurbishment	2002, 2013, 2015, 2019
■ Occupancy	99%
■ Net lettable area	20,755sq m, 18 levels
■ Net passing income	\$20.4m
■ WALE* (by income)	2.1 years



*Weighted average lease expiry ^As at Mar 31, 2023



Sales closely watched

The two Dexus buildings are joined by Blackstone's 85 Castlereagh Street, known to bankers as the JPMorgan Tower. They are expected to be worth several hundred million dollars but well short of the \$1 billion mark.

Put together, the three buildings are the first significant office assets in the Sydney CBD to come up for sale in some time. The process is being closely watched [<https://www.afr.com/property/commercial/office-market-meltdown-expected-as-reality-sets-in-20230317-p5csxi>] for how far from the book values their sale prices land.

The vendors suggest there's no reason why prime assets with good income profiles and long WALE should trade at 20 per cent-odd discounts implied by listed real estate investment trusts. The buyers, on the other hand, are likely to be opportunistic and push for lower valuations.

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