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PARAMOR LOOKS AHEAD TO 2017 FOR FOLKESTONE AND SEES A FOCUS ON EARLY EDUCATION CENTRES AND SENIORS LIVING

Editorial by Mark Westfield

Folkestone managing director Greg Paramor is optimistic looking into 2017 about most property sectors in which his Group is invested, but he is concerned – and he isn't alone - about the outlook for high-rise apartments. "It's not a homogenous market, but there are areas where I see prices retreating, not by two and a half per cent, but 10 or 20 per cent," he told MP Report in a wide-ranging interview.

"There are parts of Brisbane in and around the CBD and inner Melbourne, that have relied predominately on the investor market and are stressed. They have more supply than they need, and as a result, rents and prices will come under pressure," he said. "Sydney is a bit later in the cycle and the market is still meeting the pent-up demand that built over many years when supply was constrained by poor planning, so it will be less severe there.

"The banks too have pulled back, they're not lending to some types of buyers, and demanding bigger deposits. It's sorting itself out, not for the first time, and it'll be a good thing."

Paramor said Folkestone completed its last apartment development in West Ryde about 18 months ago, so has no further exposure to the sector. However, Folkestone has acquired two sites on Sydney's North Shore but won't be starting work until the end of 2018, early 2019. "We're looking ahead to the next cycle," he said. "The projects are very closely connected to transport infrastructure, as was the West Ryde development."

"This cycle is topping out and the only thing keeping it there is low interest rates," says Paramor who believes rates have bottomed in Australia and is watching the situation in the US where he expects Donald Trump's planned infrastructure program to have an effect on rates there. "If that sucks money into bonds to fund the program that'll push rates higher and impact the balance of the rest of the world. Initially, the effect of higher rates here will be marginal, the residential market is very much dependent on the health of the economy and jobs."

Folkestone is involved in two large land subdivisions at Truganina in the western corridor and Wollert in the northern corridor of Melbourne."These are all people buying to build a home for themselves, investors there would be low, they're not speculators but families that tend to pool their resources with a long-term view," he says.

"Speaking generally, the residential market is driven by jobs and people and we've had strong growth in both in Melbourne and Sydney and ideally for these sorts of developments they'll be in an area favoured by owner-occupiers and you'll have a majority, say two-thirds, of owner-occupiers and the rest investors, that sort of mix has worked comfortably for us.

"If you look over the long term, house price growth has run at about 6-8 per cent a year. There will be periods when this isn't the case, and we're seeing in some of the mining areas big pullbacks in value, but in the long term certainly in the eastern capitals that's the sort of growth we're seeing."

Paramor said he would like Folkestone at some stage to get involved in residential developments for rent. "The yields here are very low, about half that for commercial and office space, so at the moment it's not economic. In the US it's feasible, but here the focus is on a capital return over the long term rather than income. Institutional capital has a role to play in providing affordable housing – it's happening in the US , UK and parts of Europe"

Two sectors Folkestone will be concentrating on in 2017 will be its ASX listed Folkestone Education Trust which owns about 400 early learning child care centres, about half of which are leased to the not-for-profit Goodstart group (a consortium of charities), and at the other end of the age scale, its seniors living business.

Paramor says the childcare centres are all on long-term triple net leases (typically 15 years) providing a strong income stream. "We're always looking at our portfolio, and tend to locate in inner city areas of Sydney and Melbourne where there are a growing number of young families as these areas gentrify, but also in the new urban fringe areas where homes are being built and are more affordable, but sometimes there is more competition in these areas. The key is to have the right tenant, and the parents tend to go for the child care centre that has the best reputation, so we are very focused on who our tenants are."

With senior living, Folkestone recently raised $25.66 million through its Seniors Living Fund No 1 to buy 50 apartments at Watermark in Castle Cove in Sydney's northern suburbs, another 8 under construction and with access to an adjoining site to develop a further 21. The fund is looking for more high-end opportunities in Sydney and Folkestone plans to launch a second fund in early 2017 to target others areas including Melbourne and price points. The first fund is targeting a total of $60 million and expects a return of 15 per cent if it develops further senior living sites, or 11 per cent over the seven-year life of the fund if it doesn't expand beyond Watermark. Australia has the relatively low proportion of its population aged 60 and over living in independent living apartments of just 5 under 6 per cent, and he sees prospects for further growth with countries like New Zealand having 8 per cent of its aging population in seniors living communities and in the US it is 12-13 per cent.

As for aged care, Folkestone would be interested but "is staying away from it for now", he says. The change in rules governing aged care living allows an occupant to pay a bond, or stay there on a daily rate, leaving the aged care landlord struggling to find a funding model, the crash in the Estia share price a symptom of this situation.

Source:
http://www.my-property-report.com/articles/paramor-looks-ahead-to-2017-for-folkestone-and-sees-a-focus-on-early-education-centres-and-seniors-l