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Group parks money in self-storage fund

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As many investors abandon commercial property, one group of wealthy individuals is backing a $9 million self-storage development in Melbourne — and looks to reap a substantial reward.

The group has just put $1.5 million into a new unlisted trust from Ray White Invest and the cash return, once the project is completed, is expected to be about 15 per cent.

"We were oversubscribed," said Ray White Invest chief executive Dan White.

"A number of subscribers are saying they cannot leave their savings earning 2 to 3 per cent indefinitely. Sooner or later, their capital has to work harder."

The development, in Sharps Road at Tullamarine, will consist of two buildings — 5850 square metres in all — pre-leased to leading operator National Storage for 15 years.

Mr White said the valuation metrics had "changed a lot" from the initial numbers but "it still made sense".

The project's end value of $9 million is based on a yield of 8.5 per cent, which is a lot higher than it would have been 18 months ago.

But that is not the real attraction of the deal. The lure is that by leaving the development profit in the project, investors can gain a supercharged cash-on-cash return.

The project is being managed by R&J Developers. The investors, including Ray White Invest, inject about $1.5 million in equity and Westpac Banking Corp has provided the debt funding.

Mr White said Westpac had given strong banking support but acknowledged that the margin on the loan was more than planned and that the bank had done many more checks than it would have in the past. "The LVR [loan-to-value ratio] is low and the interest cover is high," he said.

As well as the initial yield, investors will also share in profit on the project when it is eventually sold, presumably when the property market is stronger than today.

"There is still support for well structured property investments with a medium-term view," Mr White said.

Another fund manager, GDI Property Group, has come to a similar conclusion after closing its latest fund, the No. 29 Office Fund, with an oversubscribed $23.5 million. The fund bought two properties last year: 251 Adelaide Terrace in Perth and 4-13 Jamieson Street in the Melbourne suburb of Cheltenham.

GDI managing director Steve Gillard said the fund offered a 10 per cent return with the security of multi-let assets bought well below replacement cost.

"We are seeing investors move back into direct property, seeking a safe investment in bricks and mortar in preference to investing in the volatility of the sharemarket," he said.