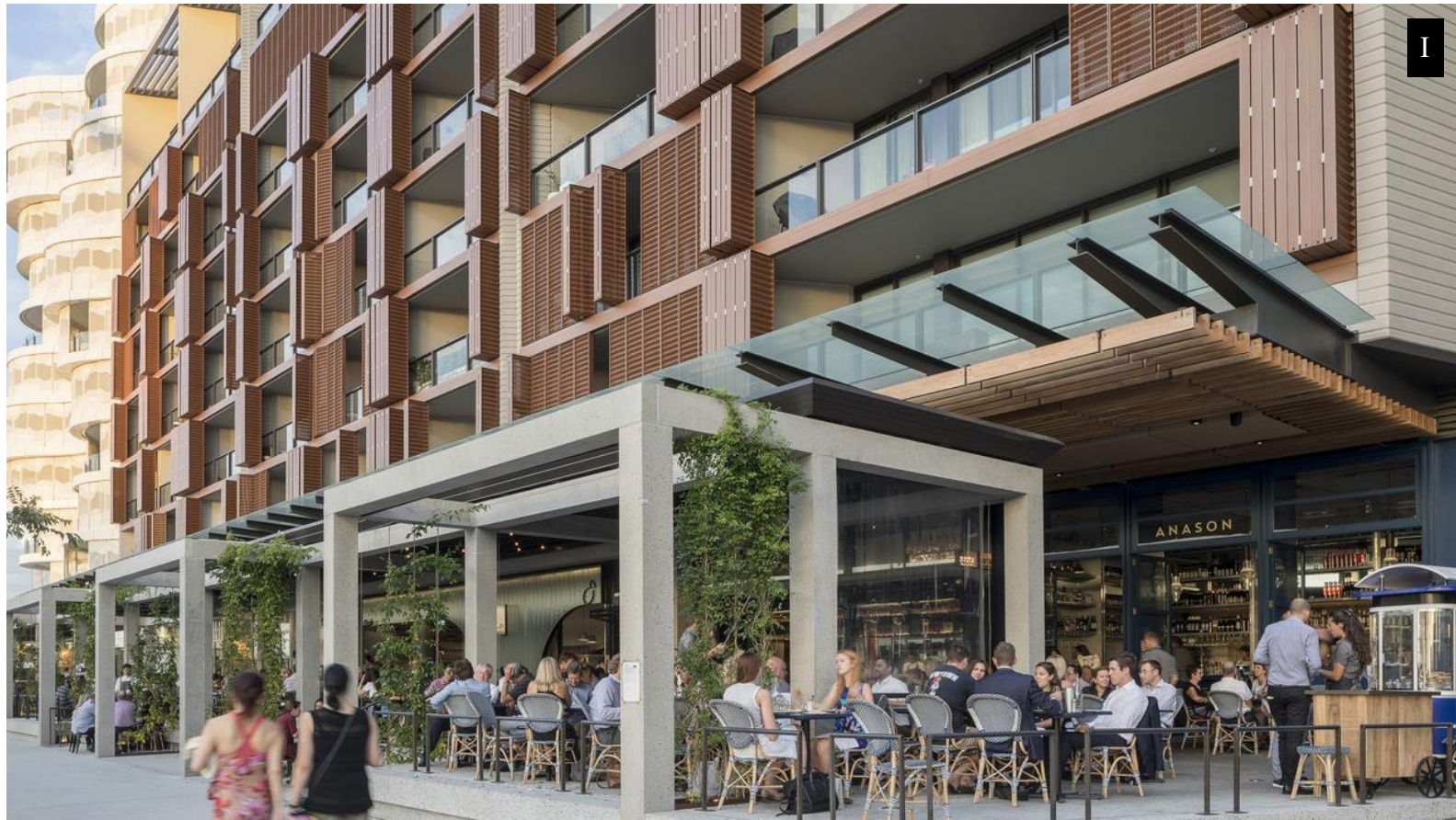


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# Lendlease sale to Stockland, Supalai signal new property mega-trends



Lendlease sees its future in urban and luxury apartment development.

By ERIC JOHNSTON  
6:50PM DECEMBER 18, 2023

The biggest property deal of 2023 represents two very different approaches to how developers are responding to what is expected to be a structural shortage in housing for many years to come.

With the \$1.3bn buyout – a price that includes an option for expansion – Stockland and its new Thai partner Supalai [have cemented themselves as the nation’s biggest developer](#) of affordable outer suburban residential communities, securing a monster portfolio of nearly 28,000 housing lots across Australia’s outer suburbs.

The seller – Lendlease – on the other hand is putting all of its bets on the cities and urban development. It is mostly eyeing corridors on metro lines which are ripe for apartment living.

Here, Lendlease reckons Australia will ultimately embrace higher-density housing to solve the shortage problem as it looks to move up the luxury scale that promises premium returns.



Lendlease has sold its communities business that has focused on outer urban housing developments.

Both housing solutions come with their own distinct economics, but they represent a private sector view that the housing crisis is only going to get worse if Australia expects to grow as it has through migration.

And this means buckets of capital will be thrown at a national problem, which is complicated



by a cocktail of planning issues, infrastructure squeeze, construction costs as well as the longer term outlook for interest rates.

READ MORE: [Stockland bets \\$1.3bn on residential rebound](#) | [Stockland eyes Lendlease unit](#)

Estimates over the next few years for the housing market to get back into balance Australia will need 240,000 new houses and apartments to be build for years of the next five years.

The more optimistic forecasts have Australia delivering around 180,000 a year, leaving a substantial gap.

Stockland chief executive Tarun Gupta points out the cycle for residential and new homes is starting to turn positive particularly as interest rates start to stabilise.

“We have we have pent up demand for residential, we have a lot of population growth and there is a significant undersupply and a structural undersupply of housing,” Gupta tells The Australian.

“Part of this is in the more affordable market and we can bring these lots to market very quickly because unlike apartments they have much shorter development cycles and that is what is attractive”.

Stockland too has been changing under Gupta. He has been moving away from shopping centres and retirement villages, to warehouses and residential. Importantly for property, the play in residential is capital light with Supalai sharing the costs. At the same time, the projects are developed under a pay-as-you-go model so Stockland won't need to acquire all the land upfront.

## Lendlease reshapes

Mega-trends are all very well, but in getting Lendlease to this point of selling one of its foundation assets, the property major has been buffeted by a more immediate force: investors

A long-term underperformer, Lendlease has faced intense demands to return more to shareholders and chief executive Tony Lombardo made this central to his leadership when he took charge two years ago.



Lendlease wants to switch its focus to denser property and up-market apartments. Picture: Jeremy Piper/Bloomberg

However, he was already racing against the clock from day one and some wanted him to move quicker in getting Lendlease back to a high-value player.

Lendlease has attracted a string of activist investors. John Wylie's Tanarra Capital, value investors Allan Gray and more recently, David Di Pillar's HMC Capital, each with their views on the way forward.

They have been pushing Lendlease and Lombardo to accelerate a five-year plan to simplify the sprawling global business, pay down debt and exit areas where it lacks advantage – including its flagship construction arm that comes at a high cost.

Lombardo started testing the market for a sale of his communities business in October last year with an initial 50 per cent stake offered.

This caught the interest of Supalai's adviser Joe Gersh, who opened talks with his client seeking to expand in Australia through a joint partnership.

In May, my colleague [Bridget Carter revealed](#) that Stockland had also entered the frame with Supalai with the Macquarie-advised Lendlease becoming more comfortable around selling the full communities portfolio.

However, a deal came down to finding the right price, with Stockland and Supalai taking advantage of the pressure Lendlease had been under from its own investor base.

Communities had a book value of more than \$800m. Last year, sales were down 43 per cent to nearly 1800 lots with higher interest rates weighing on the business. Although earnings of \$142m were up from just \$16m a year earlier.

## On plan

Over the weekend, a deal was struck which will see 12 master planned community portfolios sold to a joint partnership between Stockland and Supalai for \$1.06bn. The deal covers 27,600 lots across Australia, which already have planning approval, with Queensland being the biggest development.

There's an option for the venture to buy more land from Lendlease for up to \$239m.



Lendlease CEO Tony Lombardo has been under pressure to deliver. Picture: John Feder.

Speaking to The Australian from Kuala Lumpur where he is opening a joint Lendlease retail development, The Exchange, Lombardo says the communities' sale was entirely consistent with his strategy set out more than two years ago to simplify his business.

This strategy was delivered with all investors in mind, with the aim of making Lendlease a more predictable and less risky business.

Part of this was to build out the investment management platform and move away from single-structure developments towards high-rise development – particularly at the luxury end of the market, where demand has been strong.

A sale allows Lendlease to switch capital into the city-based build-to-rent multifamily dwellings.

“Communities has been a great portfolio for us. But from my perspective, it was just single dwelling master communities, which was really land subdivision. It’s a great business, but we’ve decided it’s time to exit that and just really focus on the things that we can do great



consistently around the world,” Lombardo says.

He conceded the asset sale had been slower than investors had been pushing for, but that was a nature of the market rather than the quality of the communities assets.

“This is the largest transaction done in Australia in real estate this year. It’s a great outcome, and to get it away to 20 per cent premium to book value. That’s a great outcome for our security holders,” the Lendlease boss says.

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