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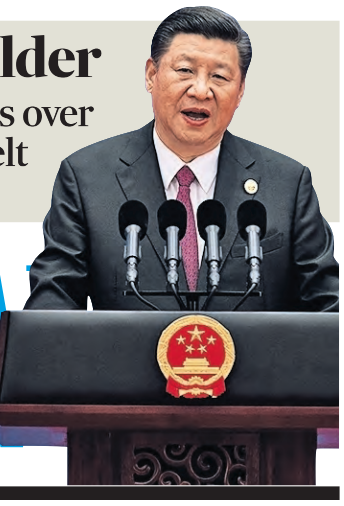


THE AUSTRALIAN FINANCIAL REVIEW

www.afr.com | Thursday 18 May 2017 **$4** INCLUDES GST

▶ Morrison relief as ratings agency backs away from downgrade ▶ But more budget cuts required to reach surplus

S&P keeps AAA rating on edge

Jacob Greber
Economics correspondent

> **S&P Global Ratings**
>
> The negative outlook on Australia reflects our view that if downside risks to government revenue materialize, then budget deficits could persist for several years, with little improvement, unless the parliament implements more forceful fiscal policy decisions.

The Turnbull government has been given a temporary reprieve in its battle to save the AAA credit rating, but has been told its budget repair claims are too optimistic and that more politically difficult budget decisions lie ahead.

S&P Global Ratings affirmed the top-notch rating in response to last week's big-taxing, big-spending budget, but insisted its warning first issued in July last year that the outlook "remains negative" is still firmly in place.

After more than a week of closely scrutinising the budget papers – including the near impossible task of assessing whether a planned explosion in so-called "good debt" for infrastructure will boost the economy – S&P backed away from a near-term downgrade.

The announcement came as both the Coalition and Labor confirmed that the fight over increases in the top marginal tax rate – headed towards 50 per cent – will go all the way to the next election.

It also came as the debate over the bank tax continued, with Labor joining calls to include foreign banks.

A relieved Treasurer Scott Morrison said S&P's decision would strengthen the financial position of the country, which would be of particular benefit to banks, which are campaigning against the new tax.

The rating helps support Australia's borrowing and "it flows through to every state and territory and every one of the major banks", he said.

"Our big banks are one of the prime beneficiaries of the Commonwealth retaining the AAA rating."

The Senate passage of the government's bank tax faces a complication with Labor signalling it will push to include foreign banks, saying exclusion is a form of "reverse protectionism". ▶ **News p6**

S&P said in a statement that it could lower the rating within the next two years, effectively extending by almost 12 months the time in which the federal government can rescue the AAA.

In July it said there was a one-in-three chance of a downgrade by mid-2018. On Wednesday the agency gave no odds on a cut by May 2019.

In the meantime, the government remains under pressure to hold the line on its forecast to return to surplus by 2020-21, which S&P heavily questioned
Continued p4

Budget tax hit brings no cheer to households

Jacob Greber

The most sustained collapse in real wages since the early 1990s recession and growing pessimism about the property market among heavily indebted households has cast fresh doubts over the budget's forecasts for a rebound in consumer spending.

In a disappointing outcome for the Turnbull government, which had been hoping for a post-budget lift in sentiment, Westpac's monthly survey showed a strong slump in sentiment among middle and high-income families, tradies and city voters.

Last week's budget included $18 billion in new taxes over four years, including a lift in the 2 per cent Medicare levy to 2.5 per cent and a new levy on big banks that could be passed onto customers or shareholders. And the Labor Party opposed allowing the temporary 2 per cent high-income deficit reduction levy to lapse, flagging a potential top marginal income tax rate of 49.5 per cent.

Separate figures released yesterday showed wages grew just 1.9 per cent last quarter, which is slower than inflation. Signs of ongoing softness in wages highlights the greatest single threat to the government's core forecast that the budget deficit will narrow in coming years as wages growth accelerates to 3 per cent, delivering it a significant surge in income tax revenue.

There are few signs that a sustained pick-up is likely any time soon, with record household debt close to hitting 190 per cent of disposable incomes, making the Reserve Bank of Australia deeply reluctant to deliver more interest rate cuts.

Critically, the budget's economic forecasts anticipate a sharp rise in household consumption, funded by savings built up since the financial crisis. However, that trend towards spending some of the equity built up by surging house prices could slow as households fret over whether the property market has peaked.

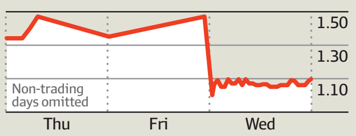
Westpac's survey shows confidence fell 1.1 per cent following the budget to a below-average reading of 98 points, which is below the level at which
Continued p4

Oroton whacked

Oroton shares were smashed yesterday, falling more than 19 per cent as it joined the double-downgrade club. The retailer is battling weak consumer demand, brand relevance with Asian buyers and the fallout from its poorly performing Gap franchise.

In its second profit warning in five months, Oroton warned its earnings would collapse 75 per cent, and is likely to push it to its first loss since 2006. The handbag and accessories retailer joins more than 70 companies to downgrade profit forecasts this year.
▶ **Companies p20**

Oroton share price, past 3 days ($)



Property frenzy | Alex Collins, above, has warned that the hot commercial property market is at risk of a correction given the "insane" prices being paid. He and his father-in-law yesterday paid $13 million for a Woolworths supermarket in Queensland on a tight 6 per cent yield, part of $103.5 million worth of commercial property sold over a two-day auction by Burgess Rawson. ▶ **12 pages of Property p31-42**

Officeworks retreat raises float doubts

Jemima Whyte and Sue Mitchell

Wesfarmers' shock decision to abandon plans to list its Officeworks retail chain on the ASX has cast doubt on the future of more than $8 billion of floats, as jittery investors apply closer scrutiny to new deals.

Many hoped that the Officeworks float would reignite the IPO market, which took a hit last week when private equity firm Quadrant Private Equity pulled its $500 million float of tap and appliances company Zip Industries.

But Wesfarmers, which was looking to float Officeworks for $1.4 billion to $1.5 billion, could attract offers of only about $1.2 billion. It said it pulled the float "in light of current equity market conditions" and will now examine a trade sale.

Investors have grown increasingly concerned about the quality of floats coming to market after a series of recent disappointments, including Automotive Solutions Group, Wellard, Shaver Shop and Murray River Organics.

"The market is quite nervous that we are coming to the end of the IPO cycle. And if you're a a bit nervous about where the market is going, you have to have a firm view of valuation and the company," said Atlas Funds Management's Hugh Dive.

"Everyone is finding reasons to sell and increase their cash, and in that environment, something that is priced towards the top end will struggle."

The next test for the IPO market is likely to be fast-food roll-up Quick Service Restaurant Holdings, which is owned by private equity firm Archer Capital and valued about $500 million.
▶ **Companies p15**

Commercial space at risk of correction

Larry Schlesinger

Alex Collins and his father-in-law Con Angelatos paid $13 million for a Woolworths supermarket in regional Queensland yesterday, part of $104 million worth of commercial property sold at auction by Burgess Rawson on Tuesday and Wednesday.

But Mr Collins warned the commercial property market was at risk of a correction given the "insane" prices being paid and shrinking returns.

"These prices and returns are completely disconnected from the cost of funds, which are going up at the same time that yields are falling," he said.

On Tuesday, a childcare centre in Vaucluse in Sydney's eastern suburbs set a new yield benchmark for the asset class of just 3.6 per cent while a Red Rooster in Brisbane sold on Wednesday on a 4 per cent yield.

Mr Collins and his father-in-law acquired the freestanding Woolworths in Maryborough, about 250 kilometres north of Brisbane, on a 6 per cent yield.

He said many investors were buying commercial property without proper consideration at a time when bank lending was becoming "a lot stricter".

"A lot of these properties have no growth built in to their leases. There could be a crunch if funding dries up," Mr Collins said.

His comments come as concern grows about the amount of commercial and residential property held in self-managed super funds, a common way for investors to acquire assets at commercial property auctions.

SMSFs held about $162 billion in property investments as of December, a greater amount than cash, analysis of Australian Taxation Office data by investment bank Credit Suisse found.

The Reserve Bank, in its latest Financial Stability Report also flagged concerns about the commercial property market noting conditions had continued to strengthen in Sydney and Melbourne with yields at "historically low levels".

The two days of Burgess Rawson commercial auctions suggest that appetite remains extremely strong especially for blue-chip property like Woolworths supermarkets, but also for childcare centres, petrol stations, fast food outlets and other retail property.

Across the two days of auctions, total sales generated $103.5 million for vendors with a clearance rate of more than 75 per cent achieved.

Childcare sales totalled $47 million across the two days, with just one out of nine centres on offer in Melbourne being passed in.

In Melbourne, a family acquired a retail and office building on Carlisle Street in St Kilda for $1.6 million on a 4.2 per cent yield after the property had failed to sell previously.

The buyers of the Carlisle Street property, who asked not to be named, said they had bought the property as a passive investment.

"We believe it's a secure investment in a metro area where there is strong underlying land value," said a family member.

Burgess Rawson selling agent Shaun Venables said there was "super strong appetite for quality assets".

"The same people, who miss out, come back to our auctions again and again.

"Childcare is very popular, but there's nothing much better than owning your own supermarket," he said.

Burgess Rawson is seeing a "strong appetite" for quality commercial assets at their auctions. PHOTOS: PAUL JEFFERS

$71m for Sydney Six

A portfolio of six industrial assets in Western Sydney – known as the Sydney Six – has sold for $71 million to a single investor. The portfolio – comprising four Wetherill Park assets, a Smithfield property and an Eastern Creek site – offered 45,850 sq m of net lettable area and an annual income of $4.82 million. All six assets are fully leased. CBRE and Colliers International managed the sales campaign on behalf of Simonson Properties.
LARRY SCHLESINGER

Chooks to houses

Chicken producer Ingham's is selling a 40-hectare land parcel in Perth's northern suburbs that accommodates its feedmill as future development opportunity with scope for about 800 dwellings. The site at 1040 Wanneroo Road in Sinagra, about 24 kilometres north of the CBD, is being sold with a three-year leaseback to Inghams. CBRE's Lloyd Jenkins, Ryan McGinnity and Mark Granter are running the expressions of interest campaign.
LARRY SCHLESINGER

Dynon rezoning

The City of Melbourne has approved the rezoning of a 2.8-hectare industrial site in West Melbourne that paves the way for a $500 million mixed-use waterfront project by private developer Perri Projects. The planning amendment for the site in Dynon, fronting the Maribyrnong River, will have it rezoned from industrial to mixed-use, subject to final approval.
LARRY SCHLESINGER