

— Exclusive

MaxCap bundles up high-rise apartments in ‘bulletproof’ strategy

Larry Schlesinger *Reporter*



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Apollo-backed real estate financier MaxCap has joined the corporate push into rental housing after acquiring 125 recently completed Melbourne apartments with an end value of \$95 million.

The portfolio, which comprises one and two-bedroom apartments in four prominent high-rise towers – Sapphire by the Gardens and Premier Tower in the CBD, the country’s tallest residential building Australia 108 in Southbank, and St Boulevard on St Kilda Road – will be leased out for time to capitalise on record-low vacancy rates and surging rents, and then divested for capital gain in a strategy MaxCap has labelled “buy-to-rent-to-sell”.



The MaxCap apartment portfolio includes units in Australia 108. **Justin McManus**

MaxCap has raised more than \$50 million for the special purpose vehicle that will hold the apartments after strong support from high net worth investors and family offices.

It has also heavily co-invested in the SPV in the strong belief – according to MaxCap co-founder Brae Sokolski – that this investment is “bulletproof”.

“Inexorable forces favour the existing supply of apartments, and we believe that apartment values are grossly understated,” he told *The Australian Financial Review*. Over the past 12 months, Mr Sokolski said MaxCap, which is 50 per cent owned by US-based private equity firm Apollo Global Management [<https://www.afr.com/property/commercial/investor-apollo-lands-on-half-stake-in-non-bank-lender-maxcap-20210906-p58p94>], had noticed a dislocation in the market where “very good quality apartments” were not being absorbed by the market and were now “so cheap relative to replacement value”.

“We started optioning up these apartments, before there was a recognition of an undersupply and looming housing shortage,” he said.

Given forecasts of a massive undersupply of housing in the coming years, record low vacancy rates and rising migration, Mr Sokolski said there was “significant upward pressure on apartment values”.

It is this expected rise in apartment values that MaxCap hopes to capitalise on and which it expects will generate most of the 20 per cent total returns forecast.

“Every investor-grade apartment in Melbourne is now valued at below replacement cost, that’s a fact,” Mr Sokolski said.

He quoted research from PropTrack Land that shows the median price differential between an apartment and freestanding house in Melbourne has blown out to 47 per cent, nearly double the 10-year average of 24 per cent.

Having bought in bulk from developers eager to offload unsold stock, MaxCap has acquired these apartments at significant discounts to their advertised prices – sources suggested over 15 per cent – putting investors in the SPV already ahead of a market expected to strengthen.

The launch of the fund comes amid a surge in build-to-rent projects and new platforms, and the sector has been given an added boost by favourable tax changes [<https://www.afr.com/link/follow-20180101-p5dau9>] announced in the budget aimed at encouraging offshore investment.



Brae Sokolski believes apartment values are grossly understated.

Mr Sokolski said a key advantage of MaxCap's strategy was that it came with no construction risk, while giving investors a build-to-rent style product.

"We believe this is the first time that something like this has been done – bundling apartments across a number of buildings," he said.

"We are very keen to do another iteration of this strategy and acquire further portfolios."

MaxCap's acquisitions were guided by Colliers, which will also act as property manager of the apartments.

MaxCap's move into rental housing follows Lowy family-backed Assembly Funds Management acquiring the entire Evo apartment block in Parkville, in Melbourne's inner north, for \$65 million [<https://www.afr.com/property/residential/lowy-backed-fund-in-65m-evo-build-to-rent-play-20220901-p5beka>] last September in partnership with private equity firm NashCap (since renamed Wentworth Capital).

This investment has courted controversy over accusations – reported by *The Age* newspaper [<https://www.smh.com.au/property/news/tom-was-given-a-48-percent-rent-hike-but-that-s-not-why-he-s-upset-with-his-corporate-landlord-20230517-p5d90r.html>] – that the new corporate landlords tried to evade Victoria's ban on no-grounds evictions, through new fixed-term lease agreements that required tenants who took the cheaper, short-term option to vacate after six months. Assembly FM and Wentworth Capital declined to comment.

Larry Schlesinger writes on real estate, specialising in commercial and residential property. Larry is based in our Melbourne newsroom. *Connect with Larry on [Twitter](#). Email Larry at larry.schlesinger@afrc.com*