

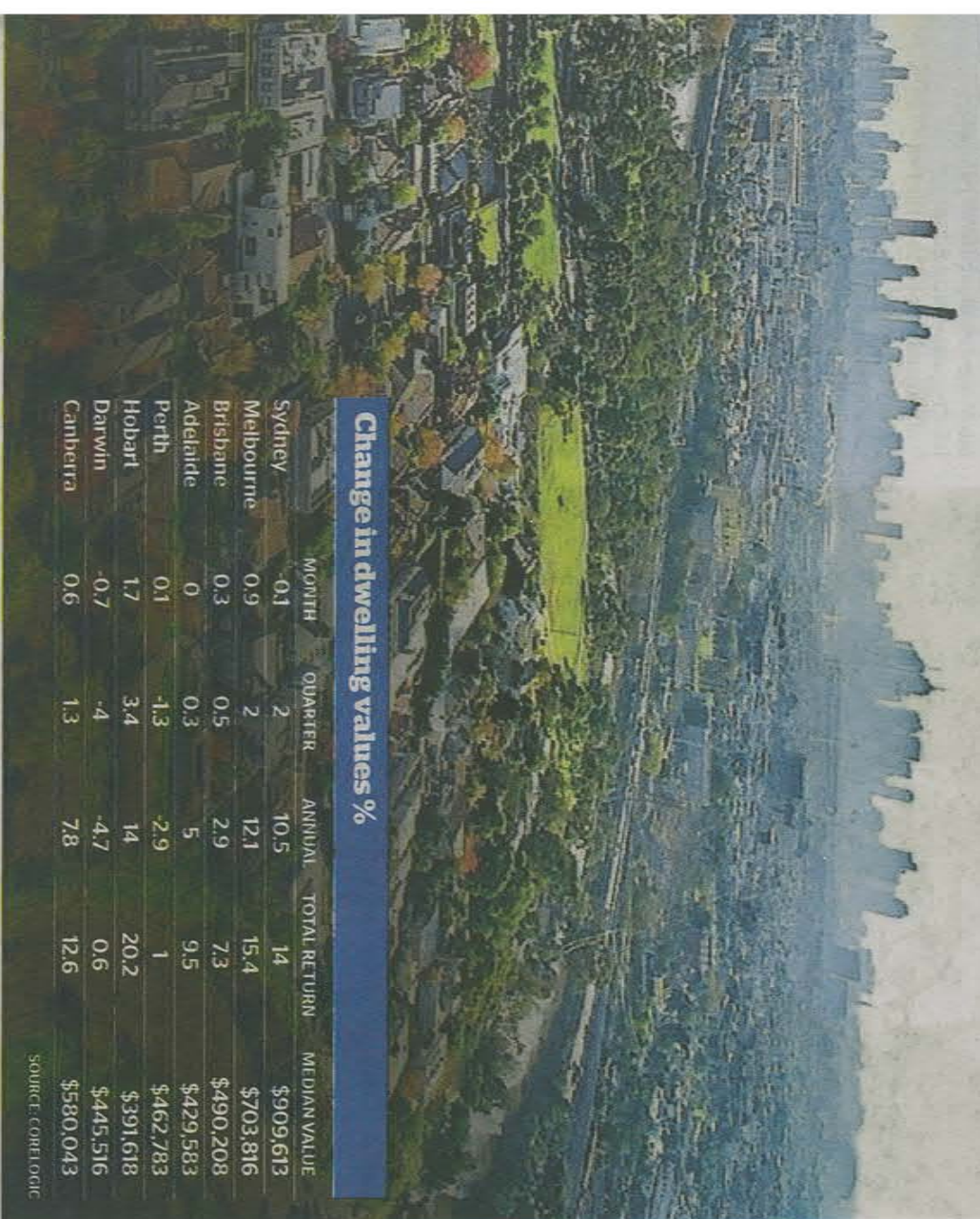


## HK firm pays \$42m for St Kilda Road tower

An eight-storey office tower on Melbourne's premier St Kilda Road has been snapped up by Hong Kong conglomerate Glorious Sun, best known in Australia for buying Jeanswest and exporting the brand to China. The conglomerate purchased 324 St Kilda Road for \$42 million. The building is fully leased to five tenants - Westfarmers, Veolia Environmental Services, Silver Chef Group, Crawford & Company and SMART Group.

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## Sellers left their run too late?

and moved to limit interest-only lending to 30 per cent of new residential loans.

The response from the banks has been to push up interest rates on interest-only lending - which had the effect of partially deterring their loan books, taking some borrowers out of the market and increasing banks' margins on these types of loans.

This, combined with pressure from APRA, the Reserve Bank and the Australian Securities and Investments Commission on the banks to improve lending standards, was all part of the push to allow the property bubble to deflate in an orderly way.

While these measures seem to be gaining traction, it is unlikely the Reserve Bank will be caught out again and repeat its mistake

and allow interest rates to drop. Indeed most economists think the next rate movement will be up - albeit not for a while.

The effects of even small increases in rates are magnified when households are carrying higher burdens of debt.

Meanwhile, the Sydney market has long been the one most have focused on given its rate of growth (until the month of September) has been higher than the others, followed closely by Melbourne.

Corelogic, which monitors house prices, noted that across the Sydney housing market, it was the detached housing sector that pulled the monthly and quarterly growth rates lower.

"While unit values are also appreciating at a slower rate, detached housing values were 0.3 per

cent lower over the month of September and 0.2 per cent lower over the quarter while unit values recorded a subtle rise," it said on Monday when releasing its report on September price movements.

Concern about unit oversupply in Sydney is less evident compared with that of Brisbane, or to a lesser extent Melbourne.

Corelogic head of research Tim Lawless said: "Potentially the affordability challenges facing Sydney buyers within the detached housing sector are pushing more demand towards the medium to high density sector ..."

Another emerging feature of the market is the return of the first-home buyers.

Corelogic said first-home buyers are clearly increasing their presence across the market.

## \$10b battle for nation's stationery cupboards

An immigrant who has spent 40 years building up his business is in a huge fight - and not just on paper, writes **Carol Saffer**.

Every year billions of sheets of paper are used in the running of the nation's governments. They are held together with millions of paper clips and staples.

There are sticky notes by the truckload, pens aplenty and highlighters for all. One dollar out of every three spent in the \$10 billion office supplies sector comes out of state and federal governments and right now there's a battle royale raging over who should get to fill those stationery cupboards.

In the fight, a local home-grown business, run by immigrant entrepreneur Dominique Lyone, called Complete Office Supplies (COS) is up against two global heavyweights of the stationery world.

The heavyweights want to merge. If that goes ahead, Australia will have allowed a mega-supplier tie-up over countries' regulators have knocked back twice on competition grounds.

The stakes are high not only for the participants but for their customers, which include those paper-shuffling public departments spending taxpayer billions.

Lyone arrived in Australia in 1967 as a 13-year-old after he and his family fled Egypt during the six-day war with Israel.

His father spoke no English. The move was to build a better future for the family, Lyone's father told him, and eventually he owned a small typewriter repair business.

Building on that Lyone started a local office stationery business in western Sydney where the top selling item was typewriter ribbon. COS is now the largest 100 per cent Australian-owned office products company, selling over 20,000 products with over 350 staff.

"At the end of the day what gets you over the line is absolutely sheer determination. Do it, do it, do it

again, you're more likely going to fail but failure is just an element of success," Lyone says.

At the other end of the scale are two massive businesses whose proposal to combine is causing concern in some quarters, not least that of the Australian Competition and Consumer Commission.

One is Platinum Equity, a \$US6 billion (\$7.5 billion) private equity player from America. Its billionaire chief executive Tom Gores paid a reported \$US325 million for the NBA team Detroit Pistons in 2011.

Included in the deal was an entertainment complex, the Palace of Auburn Hills and the DTE Energy Music Theatre.

Platinum bought its way into this fight in April 2017 when it acquired the Australian and New Zealand Staples business from its American parent Staples Inc for an undisclosed sum.

The America-based Staples giant was also founded on typewriter ribbon. Tom Stemberg was inspired to start the business after his ribbon broke on a public holiday and he couldn't get it replaced.

Prior to its sale, also to private equity, the America-headquartered Staples was posting quarterly sales in 2016 in excess of \$US5 billion.

Platinum renamed and re-branded the local Australian Staples business as Wine (short for "work incorporated") in September. The other big player in the Australian market is OfficeMax, a subsidiary of another American giant - Office Depot. In August, Office Depot announced quarterly sales of \$US2.4 billion.

But that company, as part of a series of global divestments, wants out of Australia and has been working to seal that deal since it was announced in April.

The company's chief executive

Continued Page 23

## Lew's Premier could save \$23 million in rent from Myer bid

**Commercial property**  
Carolyn Cummins

A takeover of department store chain Myer by Solomon Lew's Premier Investments could bring savings in rent of about \$23 million, according to Citi.

Retail analysts at the broker said if Premier were to acquire Myer, rental savings from shifting the footprint of 200 specialty retail stores into the department store could yield "about \$23 million in net savings", underpinning 28 per cent earnings per security (EPS) accretion at a \$1 takeover price for Myer, in our view.

Despite what appears to be at-



Myer: Under pressure. Photo: AAP

tractive merger economics, this would likely be outweighed by the risk of exiting about \$1.2 billion of long-term leases on 'mainstream' and 'community' Myer stores," the analyst said.

Mr Lew's retail business owns about 11 per cent of Myer and last week he requested the chain's share register, which was seen as a move to gain investor approval to agitate for change in the Myer management.

Post-Myer's results, Mr Lew said the group, which he ran when it was Coles Myer, had "lost its way", adding it was a "basket case".

Mr Lew's request and Myer's weaker results reflect the current volatile times for retail stocks and the underlying consumer market.

David Lloyd from Citi said he views the earnings revisions as a key indication of a stock's potential relative performance.

"Macro factors ... combined with sector-specific factors including downtime from remixing, decelerating store rollouts or store closures, and fixed-rental bumps greater than sales growth, leading to negative releasing spreads, continue to indicate EPS risk is skewed to the downside, in our view," Mr Lloyd said.

But JPMorgan's US analysts said they were now looking to switch back into retail REITs away from the industrial sector, which has had a big run in the past year.

Richard Jones, from JPMorgan Australia, said the most notable change is they now see a trading opportunity to swap out of indus-

trial REITs and into retail REITs, particularly the malls where short interest has spiked.

"This view is consistent with our overweight call on Westfield and underweight call on Goodman Group", Mr Jones said.

Goodman has been keenly watched in Australia with the rise of e-commerce, which has seen demand for warehouses rise dramatically.

It has been widely tipped that Amazon will look to develop a large fulfilment centre at Goodman's Eastern Creek, Okaldale Industrial Park in NSW. Goodman chief executive Greg Goodman has declined to comment on the speculation.



# \$10b battle for nation's stationery stocks

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Gerry Smith told investors on an earnings call that the company was "awaiting final regulatory approval in order to conclude our sales in Australia and New Zealand".

A tie-up between Staples and Office Depot in Australia would be an intriguing chapter to a deal with a history that traverses both the globe and numerous ownership changes.

In 1997, Staples Inc in America tried to buy the entire Office Depot Inc operation. This was blocked by American regulators on competition grounds. (Just to add to the complexity, Office Depot at that point did not own OfficeMax.)

Staples Inc was back again in 2015 trying to gobble up Office Depot Inc and its global web of subsidiaries, which now included OfficeMax in Australia.

That deal fell over again in May 2016 on competition grounds in America and elsewhere.

Federal Trade Commission chairwoman Edith Ramirez is quoted in the *New York Post* as "likely to eliminate beneficial competition that large companies rely on to reduce the costs of office supplies".

It was also stopped by regulators in Canada and raised serious questions in Europe and New Zealand.

But the ACCC was happy enough to waive it through. Why?

"On the basis of its review at that time, the ACCC considered that the acquisition was unlikely to raise competition concerns in Australia," the agency said in a statement.

The ACCC did conduct a public review of that transaction. It concluded the Westfarmers-owned Officeworks would likely provide a large enough future competitor to a merged Staples/OfficeMax.

The regulator also noted there was not much in the way of objection from potential customers or competitors in the sector.

Fast forward a year though and there are signs of a fight. For this time the ACCC and others are worried about what a tie-up between Wine and OfficeMax might mean in this market.

"A higher level of concern is being expressed from market participants in the context of the proposed acquisition this time round," the ACCC says in a press release asking for submissions on the deal.

One factor that has certainly shifted is that the ACCC now doesn't seem to think Officeworks is a credible rival.

"Market inquiries suggest that Officeworks has not expanded significantly into the supply of large

## THE PLAYERS

Platinum Equity

OWNS

STAPLES

WINC

TO MERGE

Office DEPOT

OWNS

OfficeMax

"At the end of the day what gets you over the line is absolutely sheer determination. Do it, do it, do it again, you're more likely going to fail but failure is just an element of success."

- COS owner Dominique Lyone.

COS



customers and appears to have no plans to do so," the release says.

COS's Lyone is also certainly worried about the prospect of the ACCC approving the acquisition.

"COS is a family business. If Staples and OfficeMax were allowed to merge, they would be 10 times our size. It has taken us 40 years to get this far," Lyone told Fairfax Media via email.

The broader significance is that all Australians are customers of these companies courtesy of massive taxpayer spending on office supplies.

According to IBISWorld senior industry analyst Kim Do government departments account for

about 80 per cent of the \$10 billion revenue in the corporate office supplies market.

Do says master contracts are used to harness economies of scale and that those "arrangements with large office supplies dealers deliver substantial savings and efficiencies to government entities".

The process is managed at a national level by the federal Department of Finance. It handles stationery and office supplies for more than 140 Commonwealth departments and entities.

**They would be 10 times our size. It has taken us 40 years to get this far.'**  
Dominique Lyone, COS

The department establishes a panel of suppliers following a tender to make it easy when government goes shopping for things it uses regularly.

COS and Staples Australia are currently the two panelists on the new Whole of Australian Government Stationery and Office Supplies (SOS ID) Panel. That panel expires this month.

At the end of August 2017 Staples Australia had open contracts with the Finance department valued at \$112 million. While at the

same time COS's share of the pot was valued at \$24 million.

At the state level, the Victorian government commenced a three-year (with two one-year extension options) State Purchase Contract (SPC) sole supplier arrangement with COS, at a total value of \$36.5 million, in October 2015.

It is a good contract to win. Once an SPC is established it leaves very few other options when spending taxpayer's money to stock the departmental stationery and kitchen cupboards.

Therefore it is only COS who presently provides a basket of goodies to Victorian public servants filled with the likes of copy paper, printer cartridges, calculators, coffee, tea and cleaning supplies.

A Victorian public servant told Fairfax Media the sourcing and tendering process is very stringent in government.

"Don't think we went with them because they were cheap or Australian. We have all the process of approval documented, so that we can show how transparently we arrived at the decision," they said.

"The way that government teaches us to think is that they have gone through a fairness process, so the whole argument is that the reason we are now with one supplier is because we have gone through a process of getting all the tenders'

responses, [then] working out who's best for the country."

These contracts could well be where the ACCC focuses its attention.

"Preliminary concern is that the loss of competition between Staples and OfficeMax could result in higher prices and/or lower levels of service," an ACCC spokesperson told Fairfax Media.

"The ACCC is considering the extent to which other competitors will have the ability to compete with a combined Staples/OfficeMax for large customers after the acquisition."

This may give some comfort to Lyone.

"We simply want to protect ourselves from being dominated by an entity with a combined 85 per cent plus market share financed by a \$US6 billion private equity fund," he says.

"We live and breathe the office products. We are in this business for the long term. Our wish is to continue doing what we do, providing our customers with choice, good value and great service."

Not to be outdone, Lyone launched his own bid to buy OfficeMax - again for an undisclosed sum - in July.

That bid is also under ACCC review, which will no doubt consume quite a bit of paper.



Staples is owned by American billionaire Tom Gores.