Property Commercial Earnings season

Eureka's focus on build-to-rent for budget retirees pays off

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Aug 29, 2023 – 5.59pm

Retirement village operator Eureka Group's focus on the affordable end of the market, with a portfolio heavily weighted to Queensland, is paying off for its investors, with a 22 per cent lift in revenue to $36.4 million for the 2023 financial year.

While a relative minnow among the listed property trusts, Eureka's budget build-to-rent business distinguished itself with a healthy 33 per cent increase in its portfolio valuation to $229 million, a contrast to the asset write-downs experienced by many of its larger peers. [https://www.afr.com/property/commercial/rising-rates-spur-big-writedowns-for-office-retail-landlords-20230816-p5dwzw]

A dwelling at Eureka's retirement village at Brassall near Ipswich.

Driving that valuation uplift were increased village earnings along with a tighter capitalisation rate – an industry metric akin to an expected investment yield – which fell to 8.3 per cent from 9.4 per cent.

Those portfolio gains, added to earnings growth, took Eureka to a 134 per cent lift in annual profit at $19.2 million.

Executive chairman Murray Boyte said Eureka's platform – with 2551 units under management and an occupancy rate of 99 per cent – had undergone substantial restructuring over the past 18 months.

Three new villages had been acquired, adding 151 units to the portfolio, while two under-performing villages were sold. A new 51-unit village at Brassall, near Ipswich, is under construction.

"The like-for-like revenue and EBITDA growth of 10 per cent and 13 per cent respectively demonstrates the annuity nature of our income stream," Mr Boyte said.

"Eureka's occupancy rates consistently average 98 per cent across the village portfolio and at least 95 per cent of the rent is underpinned by government pension and rent assistance."

The fact that pension payments have CPI-linked indexing also gives Eureka's revenue a measure of protection against inflation, Mr Boyte said.

The portfolio uplift added 4.4¢ to Eureka's net tangible assets per share, taking it to 45¢. The stock traded flat on Tuesday, closing at 44.5¢.

Portfolio gains, combined with a $28 million capital raising last year, [https://www.afr.com/street-talk/eureka-chases-28m-equity-moelis-taylor-on-board-20221027-p5btca] shifted Eureka's gearing down to 32.1 per cent from 40.1 per cent previously. It is a timely reduction in leverage, as annual debt costs jumped from 2.26 per cent to 5.96 per cent.

Eureka's final dividend of 0.67¢, takes the fiscal 2023 total payout to 1.34¢, compared to 1.26¢ the previous year. While the group has not given guidance, it expects its underlying pre-tax earnings margin to improve in the 2024 financial year through organic growth, acquisitions and economies of scale, it said.

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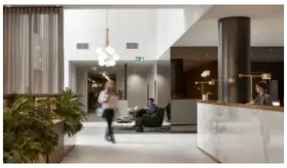

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