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Stamford Capital courting overseas investors

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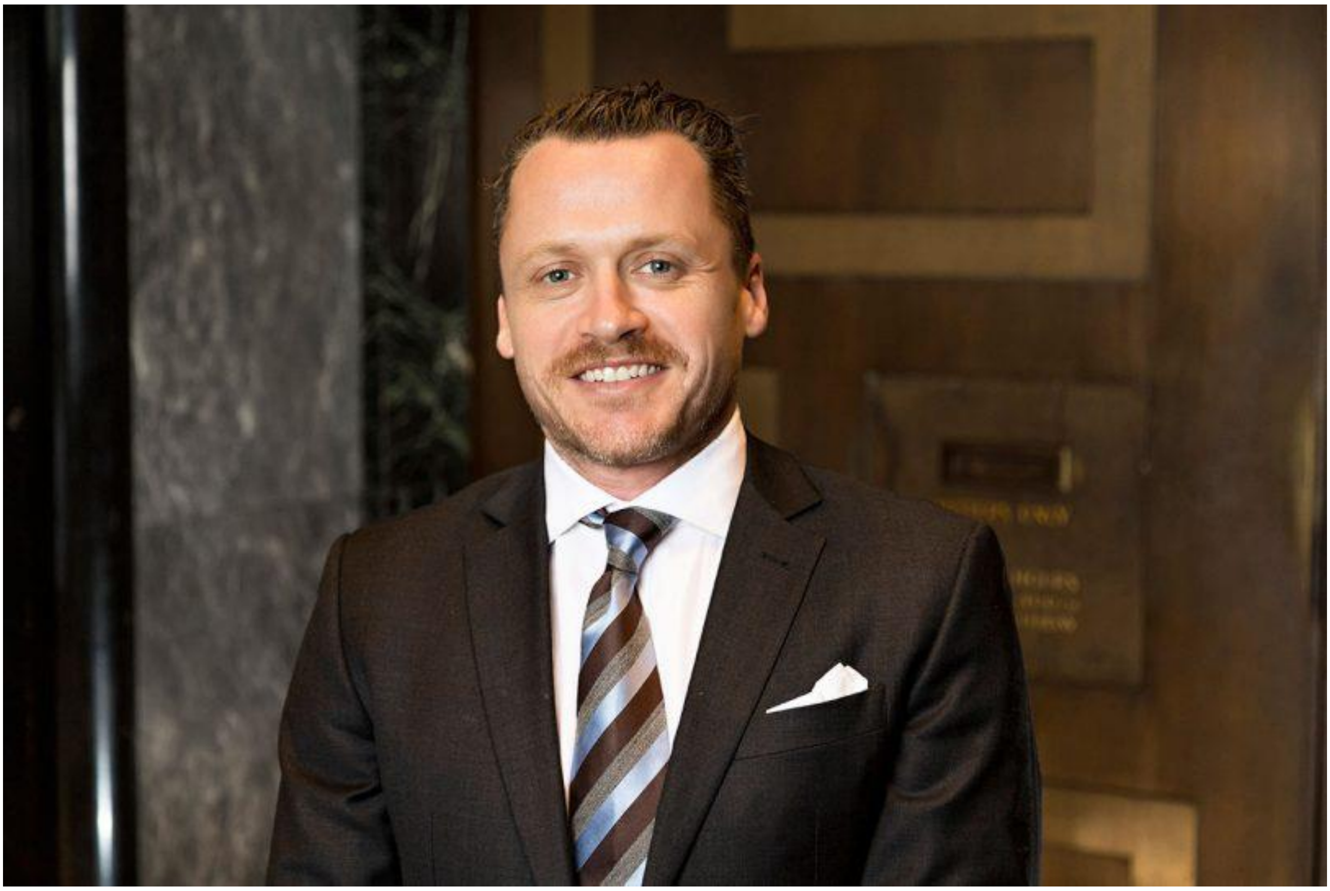

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WITH banks now requiring 100-120% debt coverage for overseas buyers and local appetite reducing for off-the-plan apartments due to Opal and Mascot towers incidents, non-bank lenders have developed zero presales product to cater to this market.

Commercial property finance arranger Stamford Capital said the current lending climate also presents a unique set of challenges for foreign investors. And property developers continue to battle a range of other challenges including tougher pre-sales commitments and weakened sentiment for off-the-plan sales.

Stamford Capital director Michael Hynes said the current lending climate also presents a unique set of challenges for foreign investors.

“Tightening measures such as stamp duty levies combined with limited lending appetite from banks for foreign apartment buyers has created pressure for developers to reach pre-sale targets before gaining access to bank capital.

“This is more prevalent for Chinese real estate investors in oversupplied districts such as Mascot and Macquarie Park in New South Wales. Banks have labelled these postcodes “high risk” suburbs, and pre-sales have become stagnant, with developers needing to secure funding via non-bank or private lenders.

“Borrowing costs from the non-bank sector are higher than the first-tier banks. We are seeing developers choose to hold sites and delay construction commencement or selling off projects with DA Approval. Some developers with projects underway opt to hold onto completed stock to unlock opportunity for capital for “build-and-hold” or “build-to-rent” products,”

Hynes said the residential sector has also seen reduced appetite for off-the-plan apartments in the wake of the Opal and Mascot towers incidents, which will add further pressure to developers.

But Stamford Capital believes the outlook for residential property is strengthening.

“Since the election investors have been secure in knowing negative gearing benefits remain untouched and continued cuts to interest rates have helped support the market. While we expect prices in New South Wales to pick up from 2020 there is already a lot of confidence in interstate markets including regional Victoria and South East Queensland.

“Other positive indicators in the current market include the influx of overseas funds for student accommodation and age care projects and the continued strong overseas interest in yield producing assets,” he added.

According to Stamford Capital, banks now require 100-120% debt coverage for overseas buyers, so non-bank lenders have developed zero presales product to cater to this market.

Hynes said while it is still difficult for developers to meet stringent borrowing criteria for construction finance, there is opportunity for foreign investors to shift their focus into income-producing investment assets such as office buildings, shopping malls, hotels and student accommodation projects.

“We have seen a number of significant commercial assets change hands with funds coming from overseas such as Hong Kong, Singapore, Thailand, Germany, and US,”

He also noted the increasing number of non-bank lenders that have entered the market and said new lenders from overseas usually start in the $5 – $10 million first ranking registered mortgage land bank space.

“There is capital coming from Hong Kong, Singapore, Malaysia, Korea and Japan. Funds previously contributed under the significant investment visa (“SIV”) of $5 million per household have also come into the game indirectly via the fund trustees.

“Many lenders have also launched new products such as “build-and-hold” or “build-to-rent” to cater to the changing property market.

“Non-bank lenders are often more flexible and willing to take on risk by offering products like senior debt plus stretched senior/preferred equity/mezzanine funding as well as zero presale construction finance.” Hynes said.