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Investors and developers face mini credit crunch

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Commercial property investors and developers can expect a mini credit crunch from Australian banks this year as the rising cost of funds and new regulations start to bite.

Intermediaries between banks and investors, as well as several non-bank lenders, are already seeing conditions tighten despite the latest data from the Australian Prudential Regulation Authority showing banks increased their commercial property exposures by $5.46 billion in the December quarter to a record $244 billion.

Stamford Capital executive director Domenic Lo Surdo said funding costs have increased in the past month or two.

"The writing has been on the wall for some time. In mid-2015, we could see market conditions driven by APRA were leading banks to reduce their appetite for construction and development," Mr Lo Surdo said.

"This is the first time since the onset of the GFC where we have seen margin pricing increases in the banking market on property investment loans as well as development and construction loans.

"This trend is growing and market indicators all point toward further margin increases in the short term, and securing finance in the next six to 12 months will be critical, as setting finance now will lock in margins at historic lows and avoid any potential credit crunch issues."

Stamford Capital's Domenic Lo Surdo says funding costs have increased.

A deal to buy an office tower in Brisbane owned by the Australian Workers Union at 333 Adelaide Street fell over on Monday because financiers backed out.

"Unfortunately, debt has proven difficult, with debt market conditions worsening since we started dialogue with the banks," the purchaser said in a letter to investors.

Banks continually refuse to comment on their credit policies. Late last year, *The Australian Financial Review* reported that Commonwealth Bank had started to tighten its lending to apartment developers because new capital requirements – particularly the restrictions on lending to investors – increased the settlement risk at the end of the project.

Development finance broker Dan Holden of Holden Capital said there was a lag on the APRA data showing how much banks were lending to commercial property.

"If you look at the amount of construction deals that have settled at the banks, you can now expect there will be a dramatic decrease," Mr Holden said. "Where banks would lend $32 million for a $40 million, 150-apartment development, they are now lending only $26 million."

The distinct pull-back from banks has opened up opportunities for non-bank lenders such as Challenger, Credit Suisse and Alceon to provide debt to developers.

Alceon's Trevor Loewensohn said there had been a noticeable change from banks.

"We are getting approaches left, right and centre for funding," Mr Loewensohn said. "The banks have reduced lending at the consumer and developer level and that is really a cyclical tightening."

Deloitte's national director for real estate transactions, James Walsh, has also seen a shift.

"We are noticing a reduction in senior debt gearing generally on larger apartment projects, although our clients with a strong track record and quality projects are still able to secure senior debt from Australian and offshore banks, albeit at a slightly reduced loan-to-value ratio compared to 12 months ago," he said.