AFR on-line
28 September, 2020

Non-banks drive surge in real estate funding liquidity

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Sep 28, 2020 – 5.31pm

A fresh wave of capital has poured into real estate debt markets in the post-COVID-19 age, according to a survey of 100 lenders, and non-banks are leading the charge to fund investors and developers.

More than 70 per cent of the banks, non-banks and private lenders surveyed in August by mortgage originator Stamford Capital said they wanted to increase their loan books, albeit with tighter lending criteria, reduced leverage and higher interest margins.

Stamford Capital's co-managing directors Domenic Lo Surdo , left, and Michael Hynes.

Michael Hynes, joint managing director at Stamford Capital, said the big surprise to come out of the August survey (after the firm deemed its February lender survey irrelevant) was the amount of liquidity in the market.

"When the pandemic struck in March and April, we thought, oh gosh, this is the GFC on steroids," he told *The Australian Financial Review*.

"Parts of the market were frozen, but the volume of capital that has come back into the market is incredible … we've been surprised at how much there is.

"There's plenty of liquidity – that's one of the things our survey has evidenced."

The other key finding of the Stamford Capital real estate debt capital markets survey was the rise of non-bank lenders, he said.

The survey found 82 per cent of non-bank lenders wanted to increase their loan books – most by more than 10 per cent – and with less onerous conditions than those imposed by the big banks, where a still-high 70 per cent said they wanted to expand their loan books.

Real estate debt capital market outlook, post-pandemic

LOAN BOOKS

- **71%** of all lenders want to increase their loan books
- **82%** of non-banks want to increase their loan books
- **86%** of non-banks want to grow their loan books by 10%+

PRESALES

- **60%** of lenders require 60-100% presales
- **93%** of banks require 60-100% presales, up 8% since 2019
- **17%** of lenders expect presales to increase
- **50%** of non-banks require no presales, up from 34% in2019

LOAN MARGINS

- **67%** expect major banks to increase loan margins – up from 11% in February
- **53%** expect major banks to increase for investments
- **57%** expect major banks to increase for construction
- **64%** expect major banks to increase for investments
- **70%** expect non-banks to increase for construction

SOURCE: STAMFORD CAPITAL

"Every second [non-bank] person wants to do a residual stock loan – there will be 10-plus lenders who will fund a credible deal," Mr Hynes said.

It's never been easier for non-banks to find investor capital.

— Michael Hynes, Stamford Capital joint managing director

Similarly, appetite was high for construction loans of up to $20 million.

"Non-banks will go back to their investors and syndicate the loan with private capital," he said.

Driving this appetite has been the high-net-worth investors and institutions chasing higher yields.

Mr Hynes said these investors were seeing senior debt secured over real estate as a "relatively attractive asset class, especially given essentially no return on cash".

"It's never been easier for non-banks to find investor capital. What alternatives are there? You can't be in cash, and equities are all over the place," Mr Hynes said, noting that prominent lenders such as MaxCap, Qualitas and Wingate had all swung back into the market.

Highlighting the liquidity in the market, this month Qualitas committed as much as $150 million of equity to new acquisitions and projects by developer Tim Gurner, while MaxCap partnered with a Hong Kong-based institution to provide $170 million in construction financing on an apartment project in Melbourne's Box Hill.

"There's definitely enough liquidity in the system," MaxCap co-founder and chief investment officer Brae Sokolski told *The Australian Financial Review* in August.

Although the vast majority of the major and second-tier banks surveyed by Stamford Capital require 60 per cent to 100 per cent presales, half of the non-banks (up from 34 per cent surveyed last year) require no presales – although a quarter are looking to increase this in the next six to 12 months.

But Stamford joint managing director Domenic Lo Surdo said it was getting harder for big developments to secure funding, with banks seeking significant levels of presales.