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Non-Banks Lenders Seize Resurgent Loan Appetite

Non-bank lenders are leading the charge to capture emerging capital flowing back into the property market as investors emerge from the depths of the Covid-19 crisis, financier Stamford Capital says.

According to a survey of 100 lenders conducted in August, lending activity is projected to remain stable, with 70 per cent of respondents expecting major banks and 84 per cent expecting non-banks to maintain or increase their investment loan appetite.

"Because the cash rate is so low, the spread between yield and borrowing cost has only widened, which should sustain capital rates," Stamford Capital managing director Michael Hynes said.

"The assets that have strong long-term income streams could potentially benefit, as investors want secure safe haven spots to park their capital.

"There is going to be wholesale wreckage from certain industries, but it's a question of how quickly things pick up once things settle down."

Despite a heightened degree of uncertainty about the state of the economy and the value of underlying properties and the true health of tenants, an enormous amount of financial and regulatory support has helped the sector through the pandemic.

More than 70 per cent of banks, non-banks and private lenders surveyed said they would now look to increase their loan books, albeit with tighter lending criteria, reduced leverage and higher interest margins.

One in three lenders are looking to decrease leverage levels, compared to only 3 per cent pre-Covid, while half of non-bank lenders are looking to do the same.

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▲ Construction lending appetite is slightly less optimistic, with 57 per cent of major banks and 68 per cent of non-banks expecting to maintain or increase it.

The other key finding of the Stamford Capital real estate debt capital markets survey was the increase in caution by lenders looking to lend money to the right clients.

While 60 per cent of all lenders surveyed require 60 per cent to 100 per cent pre-sales—a slight drop since 2019—17 per cent expect this to increase in the next 6 to 12 months.

The hurdle is tighter for banks, with over 90 per cent of major and second-tier banks requiring 60 per cent to 100 per cent pre-sales—an 8 per cent increase compared to the same time last year.

Stamford found that non-banks, not bound by APRA's regulations, are continuing to underwrite developments with limited pre-sales in order to increase their foothold in the market.

Half of non-banks surveyed require no pre-sales at all, although a quarter are looking to increase this in the next 6 to 12 months.

Stamford also said there is a clear intention across both banks and non-banks to increase margins.

"With comparatively lower basis points, major banks will likely be able to widen margins without much pushback as borrowers find it increasingly difficult to secure loans and become less price sensitive," Hynes said.

"It will be interesting to see if the market will support this.

"With a lot of liquidity still in market and an imbalance in supply and demand there will be more competitive tension in the non-bank market, which may prevent them from widening margins."

Stamford Capital's Domenic Lo Surdo said healthy amounts of liquidity remained in the market, thanks in part to the RBA, government support schemes and the empathetic actions of lenders.

"Private and institutional investors are seeing senior secured debt over real estate as a relatively attractive asset class, especially given essentially no return on cash," Lo Surdo said.

"However, there's still uncertainty that sits there which will result in lenders wanting to price for perceived risk and to reduce risk appetite."

Earlier this month, private real estate financier Qualitas struck a $150 million equity partnership with developer Tim Gurner in order to move on distressed assets hitting the market and spin them into successful development projects.

MaxCap also closed $170 million in construction funding for the first stage of a 235-apartment development in Melbourne's north-east planned by Carlton-based developer Blue Earth Group.

Meanwhile, private developer Kokoda Property secured funding for its $250 million Malvern Collective development in south-east Melbourne.