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The impacts of COVID-19

The coronavirus pandemic has shifted the way banks and non-banks are looking at lending

WHILE THERE was a fairly positive outlook for the lending market at the start of this year, COVID-19 has brought a tidal wave of uncertainty about real estate debt.

By January, the residential market had recovered almost all of the losses suffered between 2017 and 2019. Most lenders were looking for new opportunities to reduce their loan books, with 87% expected to maintain or loosen their investment credit criteria. But as new risks continue to emerge since the start of the pandemic, investors and lenders are likely to face ongoing uncertainty for at least the next 12 to 18 months.

Providing an overview of the current market, Stamford Capital's *Real Estate Debt Capital Markets Survey* compares its findings from February and August 2020, based on feedback from banks, non-banks, private lenders, family offices and super funds.

Among the key trends highlighted by the research are that the non-banks are moving in as banks tighten their lending criteria; there continues to be liquidity in the sector despite declining markets; and lending margins are expected to increase.

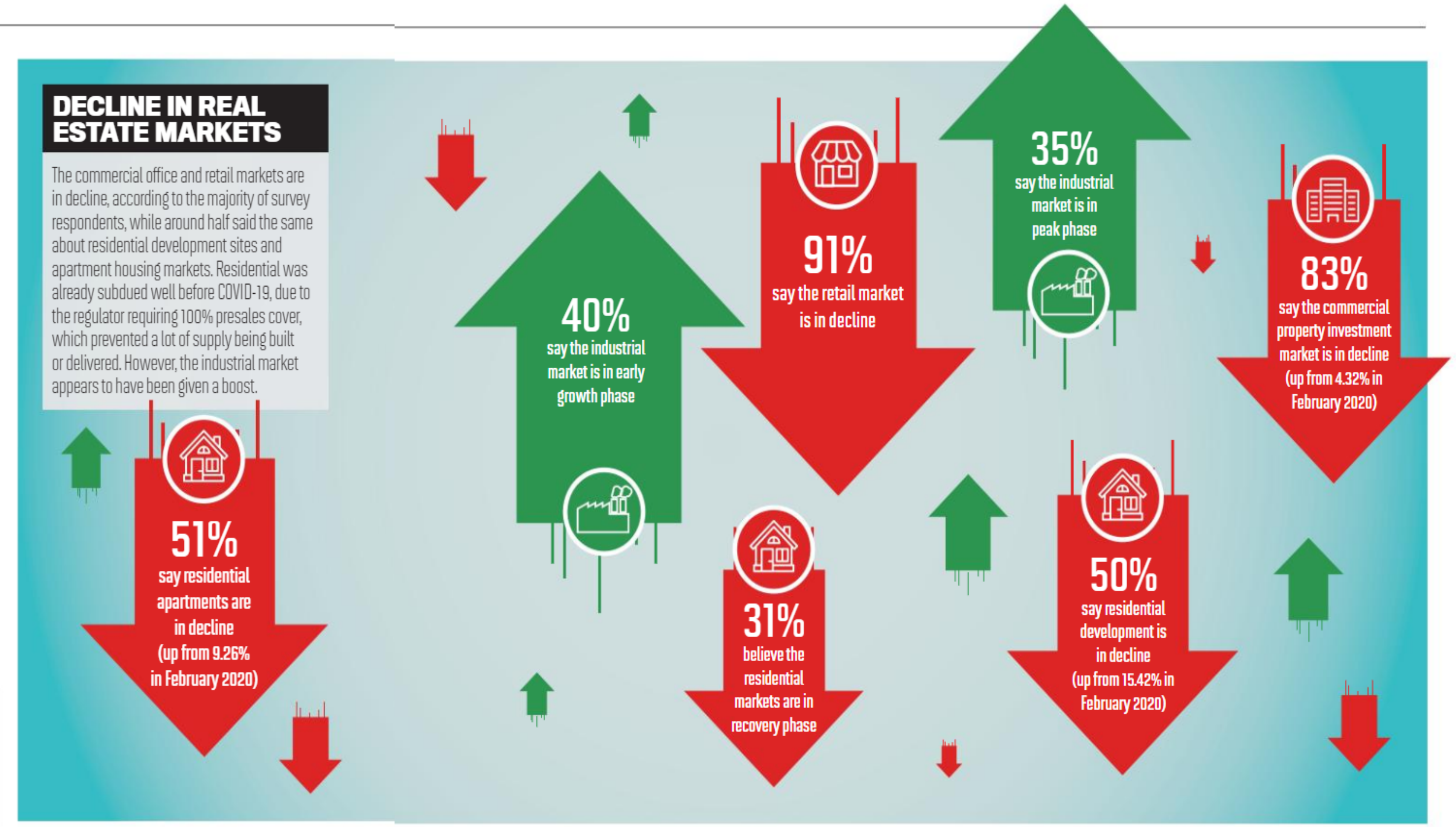
60%
of lenders require 60–100% presales

93%
of banks require 60–100% presales (+8% since 2019)

17%
of lenders expect presales to increase

50%
of non-banks require no presales

Source: Stamford Capital *Real Estate Debt Capital Markets Survey 2020*



Source: Stamford Capital *Real Estate Debt Capital Markets Survey 2020*

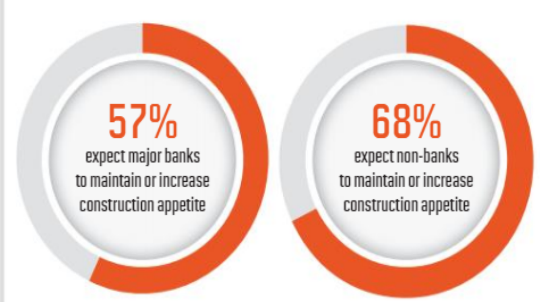
INCREASING LOAN BOOKS

The market expects lending activity to continue. Just over 71% of total respondents said they expected to increase their loan books, and when looking at non-banks in particular, this grew to 82%.

Source: Stamford Capital *Real Estate Debt Capital Markets Survey 2020*

LESS OPTIMISM ABOUT CONSTRUCTION

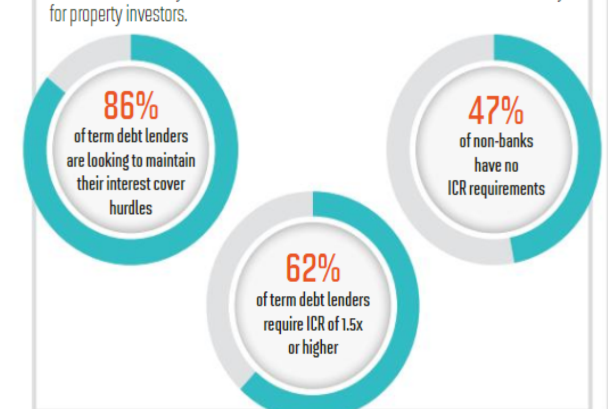
The proportion of respondents expecting to maintain or increase their appetite for construction loans is lower than the proportion that expect to increase their overall loan books.



Source: Stamford Capital *Real Estate Debt Capital Markets Survey 2020*

ICR NOT AS MUCH OF A ROADBLOCK

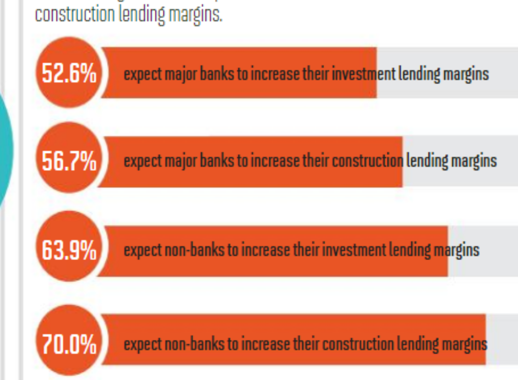
The interest cover ratio (ICR) – net rental income divided by the interest cost – is less of a hurdle this year as the RBA cash rate reduction has eased some difficulty for property investors.



Source: Stamford Capital *Real Estate Debt Capital Markets Survey 2020*

NON-BANKS MOVING IN

As uncertainty lingers, lenders expect the majors to tighten lending across the board, but larger numbers expect the non-banks to increase their investment and construction lending margins.



Source: Stamford Capital *Real Estate Debt Capital Markets Survey 2020*