The Australian Financial Review
7 April, 2021

Cheaper mezzanine funding on the cards for developers

Larry Schlesinger*Reporter*
Apr 6, 2021 – 6.40pm'

The resurgent housing market has delivered a double boost to residential developers in the form of cheaper debt as banks look to partner again with mezzanine lenders.

“Residential is back with a vengeance and, particularly over the last six months, off-the-plan developers are able to show the strong pre-sales needed to secure mezzanine finance through the main trading banks,” Michael Hynes, joint managing director of mortgage originator Stamford Capital, said.

Press Clipping

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

Mezzanine finance is a higher-returning – but riskier – form of credit that ranks behind the senior, or bank, debt for repayment. By combining bank debt with a mezzanine loan from a non-bank lender, Mr Hynes said developers could cut their borrowing costs by 15 to 20 per cent.

"We closed a $20 million capital stack recently using bank and mezzanine debt, which proved $250,000 cheaper than the alternative non-bank only [financing] solution," he said.

He added that banks were also incorporating mezzanine loans in the funding of existing investment assets, whereas traditionally they have favoured pre-sold developments for their lower risk profile.

"Mezzanine on existing investment assets is a new trend, no doubt helped by lower debt costs, post-COVID," Mr Hynes said.

As an example of the re-emergence of mezzanine funding, non-bank lender MaxCap Group has stepped in behind a global investment bank to fund the third stage of developer Geocon's $156 million Republic Precinct.

The third stage known as Nightfall is made up of 334 apartments over 22 levels as well as commercial and retail units. More than 90 per cent of the 390 apartments in stage one have been sold.

In another example, Stamford Capital closed a mezzanine facility behind a second-tier bank, which equated to a blended rate of 4.16 per cent a year.

"This was secured against a portfolio of quality income-generating assets, allowing the client to achieve terms more competitive than a stretched-senior facility from a single non-bank lender," Mr Hynes said.