



Stamford  
Capital

AUSTRALIA

REAL ESTATE DEBT CAPITAL  
MARKETS SURVEY

---

# 2021 THE GREAT RE-SET



# ABOUT THE RESEARCH

## ONLINE SURVEY CONDUCTED IN MARCH 2021

- **Over 100 providers**
- Three distinct data sets now available for comparison – with insights into the market pre-COVID, during COVID and now the post-lockdown recovery phase.
- 32% major trading banks, 24% private lenders, 18% non-bank financial institutions and 12% second-tier banks
- Just over half are based in NSW, 17% in Victoria and 17% in Queensland
- 50% have property loan books larger than \$500million



### The capital swing back: competition for deals

What a difference six months makes. With Australia's residential real estate markets running red hot, interest rates at close to zero, and few alternatives for yield, real estate debt is certainly looking attractive. And private lenders are following non-bank lenders into the arena.

While there may still be pockets of concern, including commercial and retail yields, our survey respondents seem overwhelmingly optimistic. When we surveyed lenders in the midst of COVID (June 2020), almost one-third of respondents said they planned to decrease leverage levels due to market conditions. That's dropped right back to just 6%. Meanwhile, 82% expect to increase the size of their loan book in 2021.

This year, non-bank and private lenders made up 43% of our respondents – a greater proportion than major trading banks for the first time.

That's also where we're seeing a shift to reduce:

- presale requirements
- interest cover ratios and
- margins.

In this supply-driven capital market, quality developers will have the advantage. Sharper pricing terms are now available to them via the major banks, and we are seeing an appetite to combine bank debt with mezzanine loans – even for existing investment assets.

When we published our last survey results in September 2020, the underlying uncertainty was real. This year's results indicate a big swing back.

In March 2021, we surveyed over 100 banks, non-banks, private lenders, family offices and foreign banks to gather their perspectives for our fourth annual market survey.

Respondents' views help us understand how Australia's debt capital market has recovered post-pandemic, and where the opportunities lie in the year ahead.

The responses revealed five significant trends:

1. With an abundance of lenders, capital supply could outstrip demand
2. Lending appetites are back to pre-COVID levels
3. Lending criteria is easing as more alternative non-bank lenders enter the market
4. Non-banks are expected to decrease margins as pricing gets competitive
5. There are signs of optimism across all markets, despite pockets of concern



I think this year is going to be as interesting as real estate can get. I've never seen so many lenders operate in the market. With easier presales, banks are materially more affordable and there's a capital-savvy combination emerging with mezzanine debt.

.....  
**Michael Hynes**  
Joint Managing Director,  
Stamford capital



# KEY FINDINGS

1

## With an abundance of lenders, capital supply could outstrip demand

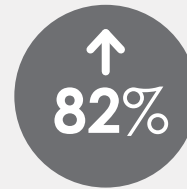
Unlike our experience during the 2008/9 Global Financial Crisis, COVID accelerated the flow of liquidity – and the volumes show no signs of abating.

This is a result of several factors. A range of Federal Government fiscal measures ensured capital remained available. Interest rates have been cut to historic lows, making real estate a more attractive risk/return proposition for lenders. While non-bank and private lenders are willing to take on a little extra risk – providing capital to developers struggling to meet presale or interest cover ratio (ICR) thresholds.

An overwhelming majority (82%) of lenders told us they plan to increase their loan books in 2021, up from 71% in June 2020.

Meanwhile, the housing market has surged. In March 2021, Australia's national home value index recorded the fastest rate of appreciation since 1988.<sup>1</sup> Having played a cautious game in 2020, many residential developers are now racing to launch stock so they can meet this extraordinary market demand. For smaller quality developments in good locations, presales may no longer be an issue. We may even be back to the heady days of house-and-land camp outs.<sup>2</sup>

This means there may be more funding options on the table than ever before. Developers who tick all the boxes could optimise their margins with cost-effective major bank lending. Private lenders and non-banks will compete for everything else – and 40% of respondents expect non-banks to decrease their margins to attract deal flow.



of lenders are looking to increase their books in 2021

1 CoreLogic data, April 1 2021

2 Security called as 40 buyers camp four days to get land in Sydney's southwest, Aidan Devine, March 3 2021, Daily Telegraph

## Lending appetites are back to pre-COVID levels

As Australia's largest commercial loan brokerage, the strong appetite to lend means Stamford has never been busier. Our respondents also believe growth will still be weighted towards the non-bank and private lending end of the market.

Two-thirds expect non-banks to increase construction lending activity, up from 42% in June 2020, and 71% expect them to increase commercial investment lending. But just under half (48%) expect major banks to grow their construction loan books in 2021, and 56% expect major banks to increase commercial investment loans.

This is back in line with the pre-COVID response.

In March 2020, 41% expected major banks to increase their construction loan appetite. That dropped right back to 11% in June 2020. And now the pendulum has swung around again.

There is little expectation foreign banks will increase activity in Australia, with 34% saying foreign banks and financial institutions might increase commercial investment lending. That number was at 50% pre-COVID. This year, only 28% expect foreign banks to increase construction lending activity.

We mainly see foreign interest at an institutional level, although one lender noted "new offshore debt capital entrants are looking to create platforms in Australia, and major pension funds will continue to invest directly – further pressuring non-bank lenders and trading banks."

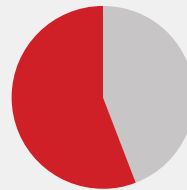
Nor is there any belief crowdfunding could pose a serious alternative in commercial debt markets, with just 11% saying they expect to see these platforms become credible competition.

Unsurprisingly for the new term, an overwhelming majority expect the RBA to hold cash rates, with a fraction suggesting rates might grow by 10 basis points.

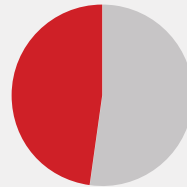


Real estate is so bespoke, it's hard for a platform to wrap an algorithm around it right now. I do think crowdfunding will come, but Australia's markets are not sufficiently mature enough to support a crowdfunding app.

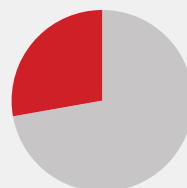
**Michael Hynes**  
Joint Managing Director,  
Stamford capital



expect major banks to increase commercial investment loans



expect major banks to increase construction loans



expect foreign banks to increase activity in construction lending, which is still below pre-COVID levels



Major banks are expected to maintain lending margins

## Lending criteria is easing as more alternative non-bank lenders enter the market

Given regulatory requirements, Australia's major banks are less likely to loosen lending criteria – but non-bank and private lenders are rushing to fill that gap. In March 2020, only 14% of respondents said they didn't need any presales to fund construction. That number has more than doubled now, to 30%. Over 50% of private lenders do not require any presales.

Presale thresholds have also dropped back. Just over half of all lenders (55%) now require presale commitments over 35% of debt coverage, down from 72% pre-COVID. However, the majority (88%) say presales hurdles are likely to be maintained.

ICR requirements have also eased. Just over a quarter have no ICR requirement, and half require an ICR of 1.5 or less. The vast majority are not looking to increase this hurdle.

With the weight of money looking for property exposure, we are certainly seeing stiff competition amongst lenders to win deals. As a result, they are being more aggressive with their leverage, with Loan to Value Ratios (LVRs) into the 70s and more flexibility around debt cover from presales.

As some government grants come to an end, it will be interesting to see how that affects presales. It's likely non-banks willing to offer zero-presale construction finance will become more attractive through 2021.

Anecdotally, lenders are telling us they are now looking at residual stock where they weren't before, so these competitive pricing and terms extend to those loans as well.



30%

of lenders do not require presales to fund construction in 2021



88%

of lenders say presale hurdles are likely to be maintained

## Non-banks are expected to decrease margins as pricing gets competitive

As well as easing presale criteria and ICR hurdles, non-banks are expected to compete more heavily on price.

While 71% of lenders expect non-banks to increase activity in the investment loan market, 40% also believe they will decrease investment margins, and 41% expect them to decrease construction margins. Plus, 48% expect APRA to increase non-bank oversight.

Perhaps ASIC will also start paying non-banks closer attention, given the volume of capital now flowing through this alternative.

While alternative lenders have certainly emerged in the last few years, we're seeing little innovation in product development. Only 30% of respondents told us they plan to develop new products in 2021, and the majority of those are investment loans or stretched senior debt investments. Just 8% said they planned to develop 'build to rent' products.



There is still such a gap between where the non-banks and banks play, and the non-banks have to close that gap to attract some of those customers. There's only so much premium they will pay for better leverage in this market.

**Michael Hynes**  
Joint Managing Director,  
Stamford capital



expect non-bank lenders to increase commercial investment loan activity



expect them to decrease investment margins



We're seeing strong appetite across the country and expect to do more subordinated-to-bank construction lending.

Lender survey respondent



## There are signs of optimism across all markets, despite pockets of concern

Although the residential boom, along with robust industrial demand, is fuelling the overall confidence in Australian property, respondents were generally optimistic with where all market sectors sit in the cycle.

It is still too early to determine the pandemic's lasting impact on property preferences. Perhaps people will pay a premium for the ability to both work and live in a larger home, in a neighbourhood where they feel more connection. However, the desire for shopping, education, community facilities, entertainment and jobs within 45 minutes' reach was true, well before the COVID-triggered 'working from home' experiment.

While regional residential has been caught up in the universal upswing, more than one lender noted "this will become over-valued as a one-off event."

There are certainly more complex factors to watch than in pre-COVID times, with one lender observing it's an interplay of "online sales, distribution channels, public transport, health and safety, international travel, state border controls, co-working space, metro commercial office trends, hotel developments, and foreign student enrolment numbers."

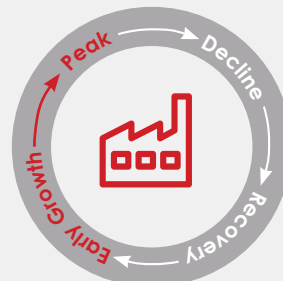


There will be future opportunities for investors willing to take on some risk, to reposition and create upside. That's not an easy thing to do in some sectors like commercial office – it's not for the faint-hearted.

**Michael Hynes**  
Joint Managing Director,  
Stamford capital



### Industrial



91%

say early growth to peak

### Residential



71%

recovery to early growth

### Retail



56%

say decline

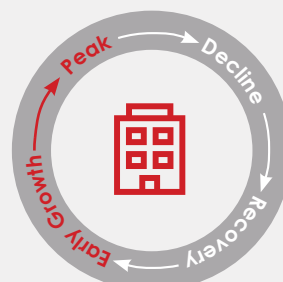
### Commercial



58%

say decline

### Apartment & Housing



67%

say early growth to peak



5

Asked whether any specific geographies or sectors concern them, there was general consensus that the office market, hotels/hospitality, retail (especially sub-regional centres), and student accommodation would still be subject to a range of pandemic flow-on effects.

Some expect further moves from retail bricks and mortar to online, fuelling further demand for industrial and logistics sites. Others suggested lower demand for CBD office space may see more towers converted to residential apartments.

As more physical services become available again, competing for the discretionary dollars that went to online retail during lockdown, it will be interesting to see what happens to retail. Private investors seem to be confident, given recent growth in shopping centre transactions – with quality assets selling in line with their pre-crisis values.<sup>3</sup>



Secondary locations are often more heavily impacted. It's important to ensure an appropriate breakeven analysis, and rates/sqm aren't over market, despite the current strong conditions.

.....  
**Lender survey respondent**



<sup>3</sup> Shopping centres coming back as private players swoop, Ben Wilmot April 6 2021, The Australian

# STATE PERSPECTIVES

## The local view

### New South Wales

Joseph Yu – Stamford Analyst

Strong buyer activity reflects a palpable change in Sydney's residential market sentiment – at a time when good stock is limited. Boom time auction clearance rates are fuelling FOMO as property values rise, and transaction numbers have increased considerably.

Multiple growth drivers are expected to propel the NSW housing market into 2022. Finance housing approvals are at record levels, and investors are once again squeezing out first home buyers. However certain market segments still continue to suffer – including CBD apartments and accommodation around universities, both reliant on students, tourists and overseas arrivals.

We are seeing divergence in bank and non-bank deal structures, with non-bank lenders willing to consider zero presales and leverage of up to 70% with lower margins. Banks require 80% minimum debt cover, and their investment pricing is creeping up. LVRs remain conservative, at a maximum of 60%-65%.

The momentum for industrial asset acquisition continues, with increasing demand for warehouse space to manage surging eCommerce volume and record investment yields now in the 4% range. When anchored by supermarkets and liquor stores, retail remains a sought-after asset class. We expect rents will stabilise over the course of 2021. And while opportunistic equity investors and non-bank lenders are also eyeing COVID-impacted commercial assets, we expect more conservative lender positions in this sector.

### Victoria

Joe Tobin – Stamford Sales Associate

Residential momentum is well underway in Victoria. Melbourne saw a 2.4% rise in freestanding home values in February 2021, while apartments rose 1.4%. That's good news for the growing number of new residential apartment developments around metropolitan Melbourne, and for the sprawl of house and land sites – many of which were delayed by lockdown in 2020.

Non-bank lenders are meeting growing developer demand for zero presales construction finance, with various government buyer incentive schemes ending. These typically take the form of up to 75% LVR with a sub-2% establishment fee, and interest rates in the range of 9%-11%.

Bank lenders are more inclined towards LVRs in the 60%-65% range, with 100% debt cover (though sometimes as low as 75% debt cover). Pricing here hovers around 1.5% line fee plus 1.5% interest, and a 0.5% establishment fee. Both banks and non-banks are showing appetite for residual stock loans.



Strong buyer activity reflects change

Multiple growth drivers expected to propel

Momentum for industrial asset acquisition continues



Residential momentum well underway

CBD activity is finally on the rise

CBD activity is finally on the rise after commercial property was hit hard by the pandemic. We expect to see more transactions as companies reconfigure working from home requirements.

The industrial property sector was one of Victoria's few positives in 2020, with the eCommerce surge triggering demand for logistics and warehouse sites. We expect to see continued elevated activity here as investors reweight their portfolios to capitalise on demand, and landlords can expect robust rent growth.

Last year's lengthy lockdown was the final straw for many retail businesses, however – with a visible legacy in the number of vacant shops on Melbourne shopping strips. Victoria's 2020 retail property sales were the lowest since 2016, with this trend likely to maintain as online shopping habits become entrenched.

### Queensland

*Alex Stalder – Stamford Sales Associate*

With a COVID-triggered lag in development approvals, developers are now racing to catch up with pent-up buyer demand. Increased confidence in residential development means lenders have a strong appetite to get money out the door.

As a result, we're seeing a drop in lender pricing – and presale debt coverage adjusted back to 60%-80%. On sub-\$5million projects, some lenders say they require no presale hurdles if the project is with an experienced developer.

Non-banks are stepping up in the face of this competition. While pricing is typically 3% higher than major banks, their ability to offer higher leverage makes them an appealing alternative. Junior debt options are also more readily available.

Market perception of value has also shifted with more lenders accepting site valuations and development margins of 15%.

Despite the push towards remote working, recent DA lodgements show positive signs for the commercial market, particularly in city fringe areas. We expect an evolution in commercial office space, with communal and secondary uses impacting approval and funding. For assets in desirable fringe locations, we are seeing construction funding with leverage around the 55% mark – even without a committed tenant. While rents remain low and incentives high to retain tenants, there are opportunities to secure WALEs of 5+ years.

Retail sector activity remains low, but is set to increase through 2021 with banks showing clear mandates to grow their books. Construction lending can be a simple bank-funded deal, with optional mezzanine or preferred equity as junior debt. Deals with DA and pre-commitment can attract equity partners to increase developer leverage across the market.

With lower funding hurdles and higher leverage across all asset classes, developers are reigniting southeast Queensland's development and investment market. And with high levels of inbound migration along with the potential promise of the Brisbane Olympics, the market is likely to continue growing.



CBD activity is finally on the rise after commercial property was hit hard by the pandemic. We expect to see more transactions as companies reconfigure working from home requirements.

**Joe Tobin**  
Stamford Sales  
Associate  
Victoria



Developers are now racing to catch up

Market perception of value has shifted

Positive signs for the commercial market

## The local view

### South Australia

Adam Miller – Stamford Director

South Australia weathered the COVID storm relatively well, with minimal impact on its local economy. The residential market shows good price growth and solid demand, and the builder stimulus has been a catalyst for new starts. Along with other smaller capital cities, Adelaide is now seen as an attractive option for new residents and investors. Gross rental yields remain higher than most major markets, with only CBD apartments an area of concern due to the short-term loss of foreign students.

The office market was fairly stable compared with Australia's major capitals, with no evidence of yields softening. State-wide confidence in South Australia lifted 30 points in the December 2020 quarter.<sup>4</sup> As its office market is dominated by government and small-to-medium businesses, it was also relatively immune to subleasing.

South Australia's industrial sector is underpinned by defence and associated industries, and rents remain steady here.

However, its retail sector was relatively flat – depending on tenant composition and covenants. Neighbourhood centres in established suburbs, with good anchor and service-based tenants, performed well.

We continue to see banks fight hard for quality credit, taking selective risk on some residential development presales. There has also been an unprecedented lift in lender enquiries, with a number of East Coast-based lenders now interested in supporting Adelaide transactions.



Residential market shows good price growth

Office market was fairly stable

Industrial sector is underpinned by defence



The office market was fairly stable compared with Australia's major capitals, with no evidence of yields softening.

**Adam Miller**  
Stamford Capital Director  
South Australia



<sup>4</sup> Confidence in SA returns to pre-COVID levels, Property Council of Australia, December 2020



# PROACTIVE PARTNERS IN A STRONG MARKET

The property market is awash with capital. Lenders are under the pump to get money out the door and into projects, and the resurgent housing market shows no sign of slowing down.

In such a competitive site market, developers will need to watch the underlying financial fundamentals. It's one thing to secure your pipeline, but another to ensure it's an attractive funding proportion, feasible and saleable. With lower presale hurdles and a rush to launch, there's a risk these assets could be over-priced and result in residual stock.

As the volume of opportunities expand, investors also need to remain diligent in their market assessments – with greater leverage available, the temptation is to take on more risk than necessary.

In both cases, working with a broker can make a material difference to your ROI.

Lenders also continue to see originators as an important source of deals – with 62% believing they will continue to grow as a percentage of commercial loan volumes.

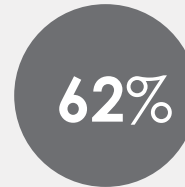
We are seeing multiple deals on the table, with opportunities to combine bank debt with a mezzanine finance. This means many developers can get equivalent leverage at a lower cost. Money is money, and it makes sense to source the best value from your capital.

According to our survey respondents, the outlook is positive.

"The next two years look to be the sweet spot," one told us. "Interest rates are low, credit availability is relaxed, there's a plethora of non-bank providers, and buyer demand seems strong for residential products."

However, speed to market is the critical factor – and banks may need to lift their game here. "Some of the majors have blown out to eight weeks just to pick up an application – even for existing clients," noted another survey respondent.

If you're ready to make the most of these opportunities, there's no time to waste. Now more than ever, you'll need the support of an experienced capital funding partner.



of lenders believe originators will continue to grow as a percentage of commercial loan volumes.



# Stamford Capital

AUSTRALIA

---

**NEW SOUTH WALES  
SYDNEY**

+61 2 9046 8900  
Level 9  
16 O'Connell Street  
Sydney NSW 2000

**Mailing Address**

GPO Box 1607  
Sydney NSW 2001

**QUEENSLAND  
BRISBANE**

+61 7 3198 2090  
Level 12  
270 Adelaide Street  
Brisbane QLD 4000

**VICTORIA  
MELBOURNE**

+61 3 8375 9664  
Level 3  
257 Collins St  
Melbourne VIC 3000

**SOUTH AUSTRALIA  
ADELAIDE**

+61 8 7087 2134  
Level 2  
70 Hindmarsh Square  
Adelaide SA 5000

