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Private capital floods back into real estate debt ‘like a boomerang’

Larry Schlesinger*Reporter*
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Private capital chasing higher yields in the booming property market has fuelled an explosion of new non-bank lenders offering construction and investment loans this year, according to one of the country’s leading commercial mortgage brokers, Stamford Capital.

“[Lending] has come back like a boomerang. There was a huge dip [last year during the pandemic] but then the market has swung back even harder compared to where it was 12 months ago,” Stamford Capital joint managing director Michael Hynes said.

“There’s more money, it’s cheaper and non-bank lenders are being materially more aggressive in chasing deals,” Mr Hynes said.

After more than 20 years arranging property finance, Mr Hynes said he had never seen so many non-banks operating in the market.

“It’s extraordinary. Every week [it seems] there is a new non-bank lender. We know because we are one of the largest commercial brokerages in the country and one of the first parties these new lenders approach to access our deal flow," Mr Hynes said.

This level of appetite and competition in the market is highlighted in Stamford Capital's latest *Debt Capital Markets Survey,* which tracks lender sentiment and the latest trends in the real estate debt market.

Seeing a new lender every week: Stamford Capital's Domenic Lo Surdo, left, and Michael Hynes.

Based on responses from over 100 lenders, including banks, non-banks and private financiers, the survey found a "dramatic swing from the bleak outlook a year ago" when capital dried up, leverage levels decreased and lending criteria tightened.

Carried out in March this year, the survey found lending appetites were back at pre-COVID levels with increasing deal competition from a growing pool of non-bank lenders expected to create price wars and force down interest margins.

Rising optimism across most real estate sectors and record-low interest rates are driving capital into debt markets, the survey found, with the supply of capital likely to exceed demand and lending criteria easing as more alternative lenders entered the market.

More than four-fifths (82 per cent) of lenders surveyed said they expected to increase the size of loan books in 2021 – up from 71 per cent in June – while the proportion of lenders requiring project pre-sales to secure construction funding dropped from 72 per cent pre-COVID to 55 per cent in March 2021.

Two-thirds of lenders surveyed said they expected non-banks to increase construction lending activity, up from 42 per cent in June, while over half of private lenders do not require any pre-sales to secure construction loans

“Banks are still miles cheaper than non-banks, and they will do deals if you meet their parameters, but it’s hard and painful.”

“For everyone else it’s a race to the bottom [to win business],” he said.

In one “crazy” example cited by Mr Hynes, a mortgage fund is seeking investors to fund an $18.5 million senior loan to a borrower that has acquired a vacant inner Sydney pub for $16 million.

The rationale for the 12-month loan is that the pub’s value will rise to $33.1 million once minor refurbishments are completed and a new operator moves in and starts paying rent.

“They’re looking to finance 110 per cent of purchase price with no equity,” Mr Hynes said.

“I’d be surprised if they raise the cash, but less surprised than I would have been six months ago.”