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Commercial lending back at pre-pandemic levels

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Stamford Capital Directors: from left Michael Hynes, David Scardoni and Domenic Lo Surdo. Supplied.

- Pre-sales lending criteria easing, deal competition increasing with more non-bank lenders
- Expectations are for price wars forcing non-banks to lower margins
- Dramatic swing back in survey results after the bleakness of a year ago

Commercial lending appetites are back at pre-COVID levels, with high levels of confidence and optimism across most property sectors, according to Stamford Capital's Real Estate Debt Capital Markets Survey 2021.

Other key findings include an easing of pre-sales lending criteria with an increase in deal competition from non-bank lenders. Expectations are for price wars forcing non-banks to lower margins.

“It is compelling to measure exactly how the pandemic impacted our finance markets and where the pain points were,” said Michael Hynes, Joint Managing Director at Stamford Capital.

“Our data has effectively tracked how dynamic the market has been throughout the various lockdowns and also how quickly it has bounced back as we move deeper into the recovery phase.”

“2021 is going to be as interesting as real estate can get and there have never been so many lenders in the market. With easier presales, banks are materially more affordable and there is a capital-savvy combination emerging with mezzanine debt,”

Michael Hynes, Stamford Capital

Stamford Capital said its survey results are a dramatic swing back from the bleak outlook a year ago which saw declining markets, leverage levels and lending criteria tightening. Unlike the GFC, COVID seems to have accelerated the flow of liquidity, if anything.

Industrial and Residential optimism

Image – Stamford Capital.

Overwhelmingly, the outlook for lenders is optimistic with 82% of survey respondents* expecting to increase the size of their loan books in 2021 – up from 71% in June last year.

Just 6% plan to decrease leverage levels this year, compared to more than a third during the peak of the pandemic.

While interest rates remain at historic lows, the residential market has surged with CoreLogic's March 2021 national home value index recording the fastest appreciation rate since 1988.

Savvy developers are ready to capitalise on this booming market with both non-bank and private lenders willing to take on a little extra risk and provide capital to developers struggling to meet presale or interest cover ratio (ICR) thresholds.

Interestingly, 40% of respondents expect non-banks to decrease margins to attract deal flow.

The outlook for construction lending has also improved and is back in line with pre-COVID expectations. Two-thirds of respondents expected non-banks to increase construction lending activity, up from 42% in June.

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.

A year ago, 41% expected major banks to increase their construction loan appetite, and this collapsed to just 11% holding that opinion in June 2020.

Most don't see crowdfunding as a serious alternative in commercial debt markets, with just 11% expecting to see these platforms become credible competition.

"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

Only 30% of respondents indicated they had plans to develop new products in 2021, and the majority of those are investment loans or stretched senior debt investments. Just 8% intend to develop 'build to rent' products.

The pandemic's lasting impact on working, lifestyle and property preferences is not yet clear although it could have continued effects on all property sectors – most notably commercial office and residential.

The office market, hotels/hospitality, retail (especially sub-regional centres) and student accommodation were identified as the sectors most likely to 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 office towers converted into residential apartments.

*** Methodology**

This latest Survey completes Stamford Capital's COVID-19 series with datasets providing comparison with insights into the market pre-COVID, during COVID and in the emerging post-lockdown recovery phase.

More than 100 active lenders participated in the national survey from major trading banks and non-bank lenders to super funds, foreign banks, private financiers and second-tier trading banks. Over half of participants have loan books of over $500 million.