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Financiers step in as banks slow property lending

Other financiers are stepping as big banks retreat from commercial property. **afr**

by **Nick Lenaghan**

Local financiers and foreign banks are moving in to fill the gap left as the major banks tighten credit for the commercial property market, an industry forum has heard.

The squeeze on institutional lending may become a more permanent feature of the debt landscape, as banks reduce their exposure to commercial property to levels more in line with other global markets.

While regulators including the Australian Prudential Regulation Authority captured most attention through increased efforts this month to curb lending to retail investors, the commercial real estate debt market is also quietly being transformed.

"Most of the institutional market has been modifying our appetite and adjusting our business for the last couple of years," the Commonwealth Bank of Australia's Graeme Ross said.

Mr Ross, the bank's global head of real estate, was addressing a Property Council of Australia forum on property investment and development in Melbourne.

"It's not about pressure. We've been proactively moderating our demand, choosing geographies, choosing partners."

Mr Ross said a general tightening in lending parameters was most obvious in the development sector.

There was increased focus on the amount of leverage in a project relative to its development cost, he said.

There was also "an adjustment in the percentage of foreign buyers" that banks factor in as part of their lending on developments.

As well, banks were wary of areas where there may be an emerging oversupply of apartments.

"That will drive some of the alternative funding sources which we've seen from foreign banks and other alternative funding methods," Mr Ross said.

Already some big private projects are heading offshore for finance. In Melbourne last month the developers behind a $1 billion apartment tower in the CBD said they would seek offshore and non-bank financing

Real estate Investment manager Qualitas is another big player in the non-bank sector, providing mezzanine finance and preferred equity to developers and the commercial property sector.

Its chief financial officer, Kathleen Yeung, told the PCA forum there is a shortage of debt capital for residential development.

"It's as bad as, if not worse than, the financial crisis," she said. "The bank debt pull-back is leaving significant holes in capital structures."

Traditionally return on mezzanine finance is between 12 per cent and 20 per cent. Now it is around 17 per cent to 25 per cent, the forum heard.

"Altogether the picture for alternative financiers is very positive," Ms Yeung said.

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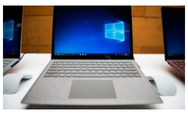

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