The Sydney Morning Herald

Institutional funds provide welcome market support

Author: DAVID SCARDONI - David Scardoni is associate director of Stamford Capital Australia Pty Ltd.
Date: 22/06/2013
Words: 376
Source: SMH

Publication: Sydney Morning Herald
Section: Commercial realestate
Page: 42

The past six to nine months have been dynamic for the commercial real estate lending market, in particular the non-bank lending sector, where reduced competition during the GFC stagnated growth and hindered access to capital.

Last year, Banksia Financial collapsed, while more recently, LM Investments was handed to administrators. As a result of this, and similar funds collapsing, the commercial lending pool was reduced by $1.8 billion.

In an environment where the major banks and their subsidiaries continue to remain cautious and selective about who they lend to, it's a good sign that institutional capital remains active, but more importantly, competitive in the commercial real estate funding market.

Post-GFC, new institutional capital has typically sought large exposures with higher yields (some 200-400 basis points over normal bank interest rates).

Recently, however, we have seen institutional capital prepared to consider smaller commercial loans at pricing levels competitive with the prime bank market.

This capital is available over a medium term without a price premium, and is providing a real alternative to the major banks.

This is certainly a positive given the structural issues created by pre-GFC retail-funding vehicles that were financed via short-term capital but lent long term. In addition to the institutional players, a number of smaller, non-bank lenders are active in the market - typically operating via warehouse structures.

Such lenders are by no means "low doc", however, they have the flexibility to complete transactions that fall outside the banks' typical lending criteria.

With interest rates at historic lows, the cost of these funds relative to asset yields provides a viable alternative to bank funding. Interestingly, a number of non-bank lenders are also active in the smaller end of the construction market, offering attractive lending products with no pre-sale requirement.

We have also seen some of the regional banks re-entering the market seeking commercial real estate exposures. The change has been driven by these institutions looking to balance the risk within their loan books. Exposure to this sector is a means of doing so.

Despite the shake-up in the non-bank sector, institutional capital combined with active non-bank players suggests competition and liquidity are improving. Commercial property investors should take comfort from these encouraging signs, which we have already seen translate into increased transactional activity this year.