

Projects that work



Overview



- State of the Market
- What Lending is being achieved
- Different types of Debt and Equity
- Banking Marketplace
- Risks
- Strategies to Mitigate Risks

State of the Market



Observations

- Listed property trusts returning to the market.
- Prime commercial yields have stabilised (after softening by 100 – 175pts).
- Experienced high net worth investors are active.
- GFC has prevented construction of new stock in many areas which is likely to lead to supply issues in 2011.
- Qld lagging a little in property pick up, attributed to more reliance on regional lenders for construction deals (Suncorp, City Pacific, MFS)

Economic Overview



Some Observations...

- The global economic recovery is starting to take shape.
- Australia has weathered the downturn reasonably well due to commodities, population growth and the government fiscal stimulus.
- Australia is poised for growth in 2010 and we are being to see this reflected in the economic data.
- Property yields have begun to stabilise with confidence coming back into the sector.

Property Sector Improving

Tentative signs have emerged that the worst is behind us in the commercial property sector



Property Finance

Finance – Key Trends

- Banking competition has been substantially reduced
- The mainstream lending environment has ‘retreated’ to historical norms
- The loose lenders in the credit boom have retreated or disappeared, the lenders that remained consistent are the ones still lending now



Types of Debt and Equity

- Senior Debt
- Mezzanine Debt
- Preferred Equity
- Equity



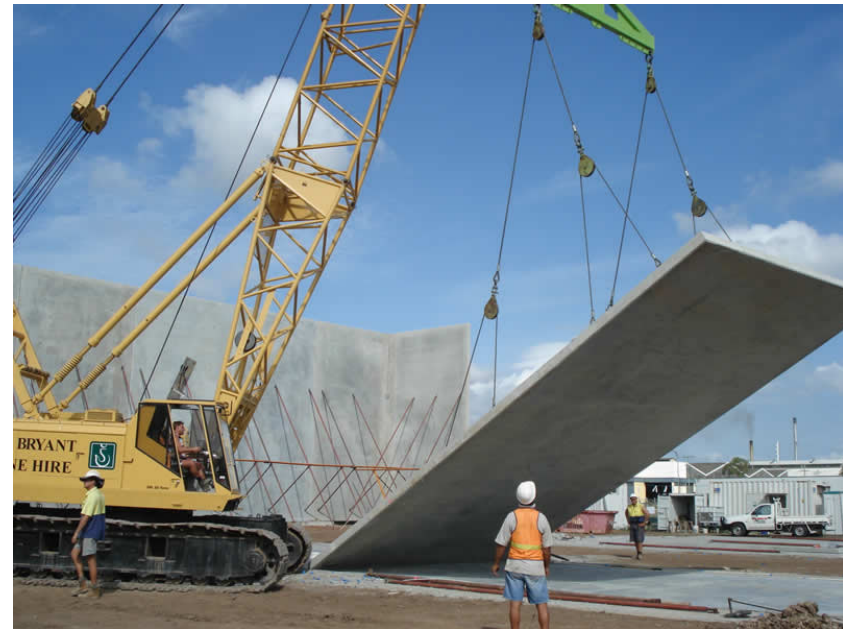
Mezzanine Debt



- Loan Agreement.
- Money earns interest (capitalised)
- Secured 2nd Mortgage position
- Personal Guarantees
- Repaid after Senior Debt in priority to other forms of equity

Preferred Equity

- Essentially mezzanine debt with a share of profits.
- Generally more highly geared with higher risk.
- Usually secured by mortgage
- Ranks after senior and mezzanine debt
- Receives coupon and principal prior to any other equity distributions.



Equity



- Ranks equally with all other equity.
- Ranks behind all other debt.
- Generally reliant on profits for upside.
- Implies ownership of project.

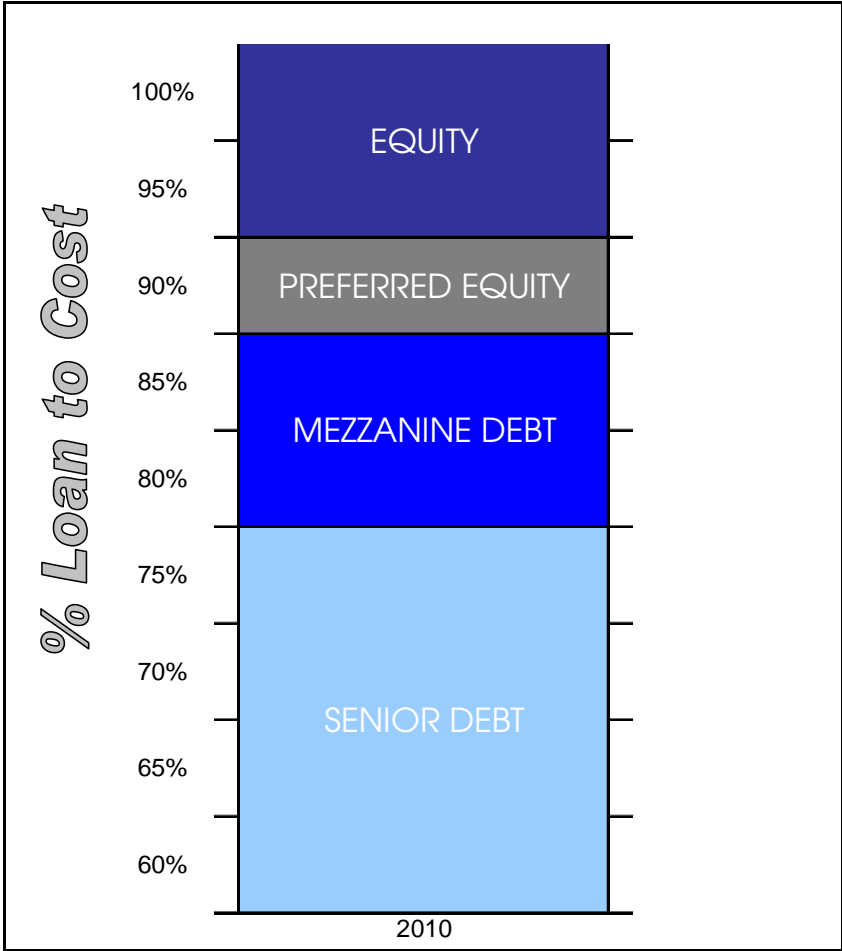
What Lending is being achieved



Construction Lending

	Senior	Mezzanine	Pref Equity
Gearing (% of cost)	70 – 75%	up to 85%	up to 90%
Pricing	Margins of 2.75 – 4%, plus a line fee	20-25%	Profit share as well as coupon on money
% of Completed Value	60 – 65%		
Presales	Generally 100% of debt covered by sales (land sub divisions and small projects can be less)		

Current Construction Gearing



What Lending is being achieved

Investment Debt

	Senior	Mezzanine	Pref Equity
Gearing (% of value)	60 – 65%	up to 75%	up to 80%
Pricing	Margins of 2.35 – 3.00%	18-22%	Profit share as well as coupon on money



Risks



- SPONSOR RISK
 - Experience, Integrity and Reputation
 - Previous loan conduct
 - Does the developer have the professional and financial capacity for the project?
 - Alternative repayment sources in event of default
 - What other projects does the developer have on?

Risks

- MARKET RISK
 - Presales
 - Price point
 - Competing product
 - Demand for product
- CONSTRUCTION RISK
 - Builder reputation
 - Contract terms (LD's & retentions)
 - Maximum fixed price contract

Risks



- PROJECT VIABILITY
 - Greater than 20% return on cost
 - Sufficient contingency and interest allowance
 - Costs spent to date
 - Has enough been allowed for holding costs, consultants, marketing & interest.
 - Developer equity: cash VS land uplift (sweat equity)
 - Residual LVR after presales

Risks



- LENDER'S PORTFOLIO CONSIDERATIONS
 - Geographic concentrations
 - Property type concentrations
 - Adequate reward (pricing) for risk regarding margin, stab and exit/risk fee if required

Strategies to Mitigate Risks



- Essentially the bank is wanting to have as little risk as possible
- The onus is on the borrower to prove the quality of the deal:
 - Their delivery capabilities as managers
 - Market acceptance for the product
 - Reputable builder
 - Valuation and QS confirming revenues and costs

Making Deals more Attractive



- Deal size <\$20m of debt
- Residential projects with price points <\$600k
- Smaller stages to reduce presales requirements.
- Start sales and marketing early
- Provide comprehensive submissions to lenders
- Experienced builder with strong balance sheet

Banking Marketplace



- Big four still dominating market share
- Banks becoming more active
- Secondary funders looking for business again
- Private lenders looking for quality debt deals
- Mezzanine and equity funding still limited, but available for the right deals (AMW are active)
- Joint Ventures for larger corporate developers in flavour
- Deal size appetite increasing (AMW working on a handful of deals that are over \$50mil of debt)

The Future of Lending

- Whilst credit terms are still tight, there is definitely more activity
- More competition is needed to loosen terms
- Still 2-3 years of 'normal' lending
- At least 3-5 years until more aggressive lending comes back



Ashe Morgan Winthrop



- Largest commercial property finance advisor in Australia
- Located in Brisbane, Sydney, Melbourne
- Specialist teams of property professionals
- Arranged \$2 billion of debt in FY09
- Mezzanine and equity providers and arrangers
- Currently seeking opportunities

AMW Contacts

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