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## **Banks make it hard to build high-rise apartment complexes**

New apartment projects across the country are being put on ice as development finance becomes scarce.

The strict new lending criteria imposed by many banks has in effect turned off the finance tap for lots of developers.

The collapse in starts could lead to a worsening of the country's housing shortage, particularly for the growing number of smaller households and in areas such as the inner city and around transport nodes, where governments are hoping for substantial population increase.

Reed Construction Data found that \$12.5 billion worth of residential apartment projects was deferred in the first three months in 2009.

The two most active lenders in the market are National Australia Bank and Commonwealth Bank of Australia.

High on the banks' hit list are precommitments. Whereas in the past preselling 60 per cent of apartments was enough to get development out of the ground, some banks are now demanding the whole project be sold.

Banks are also calling for increased equity contributions - or "hurt money", as one source describes it - while imposing extended sunset clauses for off-the-plan sales.

Westpac Banking Corporation has cut its maximum loan to valuation ratio for development funding regardless of presales, according to Morgan Stanley research, while second-tier lenders such as Suncorp have become priced out of the market thanks to higher margins.

David Sinn, a partner at law firm Freehills who advises developers seeking finance, says banks are now demanding double the buffer between the scheduled completion date of a project and the elapsing of a purchaser's sunset clause to 12 months.

He says discussions with clients reveal that some lenders are now demanding the unrealistic figure of 100 per cent precommitment.

"This is very difficult to achieve and creates a high risk to developers that, if one purchaser falls over, the developer would be in default of its loan and its bank would be entitled to renegotiate fees or call in the whole loan," Sinn says.

He says banks are being far more selective in who they lend to. "I don't think it's the withdrawal of the mezzanine funders. I think it's that the mezzanine funding has become much more expensive. They're there, but their margins have gone up as a result of the economic climate in some cases it makes (their services) unviable."

**Property consultancy Charter Keck Cramer director Robert Papaleo** says banks are hesitant to finance individual projects to more than 70 per cent owing to fears they will overexpose themselves to a single developer in one location.

"The banks are now wanting developers to tip in a lot more equity. They want a lot more skin in the game - and as a private developer, you haven't got a corporate balance sheet you can rely upon. From what I'm hearing, banks are basically discounting the value associated with any sales overseas, because they fear that a foreign purchaser may walk away from a contract easier than an Australian might."

He said that the reduced supply would further squeeze the housing market. "We're already seeing rents escalating. Vacancy rates are at 1 or 1.5 per cent and that situation is not going to turn around until there's supply on the ground," he says.

"It's a structural problem now. I can't see there being enough supply on the ground in the CBDs."

In Brisbane, the company behind the ambitious Vision tower is in the hands of receivers after Royal Bank of Scotland pulled finance in the latter part of last year, reportedly due to a lack of presales.

Melbourne's Barton Tower has been held up owing to chief financier NAB demanding syndication of lending and the location of a tier-one builder.

A spokesman for the project, Mathew Abraham, says that construction is expected to commence within several months. Elsewhere in Melbourne, Baracon's Wrap development in Southbank is believed to have faced funding difficulties owing to precommitments.

Also in Southbank, Central Equity's 37-level residential building tower at 110-120 Kavanagh Street worth \$88 million has been deferred.

In Perth, developer Saville Australia went into administration along with its Altus and Capital Square residential developments. The site is now on the market and attracting the interest of private developers, according to John Corbett of Knight Frank.

Similar developers on the east coast, armed with a strong balance sheet, are already cashing in on the downturn, picking the eyes out of development sites with holding income and positioning themselves for the next upturn.

However, building activity in the interim is likely to slow and costs to slide as contractors reduce their margins.

April's building approval numbers show just \$288 million worth of apartment projects were approved in developments greater than four storeys, according to the figures from the Australian Bureau of Statistics.

The Reserve Bank of Australia's May statement on monetary policy found that tighter credit conditions were being felt most acutely in the property development industry as lenders adjust their criteria in light of perceived credit risk.

Activity in the commercial property market has also bottomed, according to the RBA.

Banks are seeking to reduce their exposure to commercial property, with Westpac's standing at about \$60 billion following its merger with St George, slightly behind NAB, which has about \$70 billion.