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# A quick guide to the rise and rise of non-bank lending in property

Australia's non-bank lending sector is booming and becoming increasingly important for the property industry, while creating a new asset class which is bringing new opportunities to investors, and perhaps a few risks along the way.

This is a huge development for non-bank lending, until recently associated predominately with mezzanine finance. Why the change?

The mainstream banks have become less active in property lending for several reasons: regulatory pressure is the big driver, with banks now needing to satisfy new capital requirements and trimming their loan books; banks are placing higher hurdles for securing finance, and are now concentrating mainly on the larger developers while turning off the tap for smaller developers.

Consider the link to finance and pre-sales for new residential development: five years ago, banks typically required 60% of apartments to be pre-sold in a development; this has increased dramatically and, in some cases, the banks are demanding 100% pre-sale before they lend.

Banks have also been highly conservative around office and industrial property. One recent report suggests banks were "unlikely to touch anything in the industrial or office space that had a sub two year weighted average lease expiry or substantial vacancy".

These requirements have prompted the property industry to seek financing alternatives, and seen dozens of non-bank lenders emerge, everything from large corporate to boutique and family office operations.

Previously, the only opportunities for non-bank lenders were via mezzanine finance, which would bridge gaps in lending at higher rates. All developers would go to major banks.

It's now arguable that many property projects around Australia would have stalled without non-bank lenders, as billions in finance has been brought to market.

**A new asset class**

This is bringing new opportunities for investors, and introducing another viable asset class for high net worth investors. There is opportunity to tap into the first mortgage or "senior lending" market, the type of lending traditionally provided by the major banks but with potential to lend at rates around 10-11%.

Some groups are raising funds from large superannuation funds and institutions. Projects vary in size and there are many opportunities at the smaller end, including $10-15 million projects, but some non-bank lenders are issuing finance in the many hundreds of millions. There is a growing number of small funds with relatively short timelines of around 12-18 months.

Most opportunities currently exist in residential property, but there is growing commercial property potential and it is expected more non-bank finance will flow through to other property sectors.

While these potential double-digit returns present significant opportunity, some risks may be present. Most risks with non-bank lending will hinge on the developer, and may include circumstances where a developer is declared bankrupt or cannot repay the loan.

Many non-bank financiers have the ability to step in and complete a development where things go wrong. But investors need to do their homework, and carry out appropriate research on both the non-bank lender and the developer, and choose wisely.

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