

# Thoughts on Commercial Lending | July 2022

## Investment in Industrial and Commercial Property

The primary constraint remains the banks' requirements for a 2x interest cover ratio. When the bank is looking just at the rental stream from the asset, this limits LVRs to around 40% in the prime centers, a little more in the provinces where yields are higher.

We are seeing several clients with large, relatively low-g geared portfolios somewhat astounded that their long-standing relationship bank won't support their next purchase due to the interest cover ratio not being met!

The moral of the story is do not assume your client doesn't need to divest because they are relatively lowly geared - they may have just come from their bank following an annual review and been told to deleverage to meet interest cover requirements.

If interest rates rise again this week, the banks may use a higher rate in their security calculations or get more realistic around the 2x ratio.

## Property Development Finance

The vast majority of requests for development funding relate to housing – apartments, stand-alone and terraced townhouses. The banks remain primarily closed to most developers other than those with substantial balance sheets or those that are small enough to fit in the retail side- generally five houses or less.

We are seeing a lot of "dumping" of resource consented single brownfield sections purchased by inexperienced developers looking to build 7 – 9 houses which now cannot make the number stack nor secure the funding they need.

The biggest challenge for many developers now is presales – with FOMO no longer in play and increasing availability of complete or nearly complete stock for purchasers, this is a significant challenge.

We have access to funders prepared to fund deals with no presales but expect the advance rates to be 50% LVR or less and the pricing to be relatively high. In some cases, we have agreed to a non-presale facility, moving to a facility with presales later.

Funders are also insisting on the total of 10% deposits to be counted as a "qualifying" presale,

Second-tier pricing varies but has increased, with non-bank lenders starting from around a 2% fee, 8% interest rate and a 1.5%-line fee up to a 4% fee, 8.75% interest rate and a 3% line fee. Funding options remain limited, although we continue to see new funders coming to market.

### Pricing changes

	Previous	Now
Fee	2 %	4%
Interest Rate	8%	8,5%
Line Fee	1,5%	3%

The key to getting funding costs down remains to build and settle as quickly as possible.

## Speak to a Vega Commercial team today to find out more

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