



New players in the lending market

Whilst the development funding market remains tight, with many of the leading players at full lending capacity, we are seeing the emergence of new players attracted by the increasing returns available. These funders are homegrown and overseas, particularly in Australia, where development capital is far more accessible.

We have seen a wide range of pricing on development funding offers, with the best request at an exceptionally competitive 2% front end fee, 6% interest rate and 1.35%-line fee for a six-house development with 50% presold. However, funds are generally 2 – 4% above this, and it remains a case of understanding the project and the client and matching the client with the most suitable lender and one with funds.

Options for clients looking to land bank or those looking for bridging finance are slightly better as the funder pool for these types of loans are much larger and includes institutional and private funders. We are also seeing smaller developers looking at options to settle infill sites contracted for purchase 6 – 12 months ago. Non-bank options for these types of loans start at 6 – 7% pa. We are also seeing the emergence of developers under duress seeking last minute funding often in settlement periods. Whilst not always the cheapest option, the second-tier market does have funders who can respond in very short time frames.

The investment market remains an area where only the banks can provide funds at rates close to or below property yields. Despite an increase in interest rates, we have not seen any evidence of the banks reducing their requirement for interest rate cover ratios. Whilst two times cover ratio was not restrictive in our former record low-interest environment, as rates climb, this has become more and more restrictive and is now the primary constraint on investment funding. Banks using a 6% rate equates to around 40% LVR. Increasing yields will assist leverage until such time as the banks return to a less stringent interest cover ratios of the past.

As a relatively large commercial brokerage, we can maintain dialogue with a wide panel of lenders, ensuring we are well in place to meet clients' needs.

Developing closer relationship with Bayleys commercial agents and the Vega commercial team has resulted in numerous listing referrals to Bayleys agents. In particular, for small developers with development sites who may be looking to exit their undeveloped but consented infill sites.

Speak to a Vega Commercial team today to find out more

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