

Asian lenders step up

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Asian banks and institutions are taking a greater role in lending to Australia's commercial property sector as traditional lenders have pulled back and some foreign groups exit.

Groups including the Bank of China and Singapore's OCBC Group have lent to developers and to large institutions that own Australian properties.

They are being joined by lenders from Japan and the United States drawn into the market by the high returns on offer.

The tight grip on the property finance market held by Australia's big four banks has left many property groups looking for alternative sources of finance.

Some foreign lenders, like the Bank of Scotland International that had supported them, are also winding back.

Arrangers of property finance say that Asian banks have been more active in the past few months. "We've seen a number of new entrants or existing banks increase their activity in the course of this year," Stamford Capital director Michael Hynes said.

Foreign lenders see the Australian economy as sound and core real estate as performing well. The domination of the property lending market by the big four banks means they are able to set high margins. But some of these lenders are facing aggregation issues with their property clients, opening the way for new lenders.

Jones Lang LaSalle head of corporate finance, Asia Pacific, Nick Crockett, said: "There are a few banks and non-banks who haven't been in Australia who are actually chasing this chance to enter the market."

Banks like JPMorgan had provided mezzanine finance for some projects and Mr Crockett said: "We're now seeing it on the senior debt side."

Shaun Bonett's Precision Group recently struck a \$250 million refinancing with the Bank of China, believed to be the largest private property refinance this year.

Mr Bonett said that the Precision Group had completed loan facilities with the Bank of China of about \$250 million in refinancing its two flagship assets, Adelaide Central Plaza and MaCarthur Central.

The Bank of China refinanced former Suncorp loans which the Precision Group had for almost 10 years. Mr Bonett said: "Whilst the banking relationship with Suncorp remained on excellent terms, the Bank of China presented us with a large international bank that would provide opportunities to expand Precision's business both within Australia and overseas over the medium term."

It is understood the facilities are long term but the bank and the property group declined to comment further.

The wave of foreign groups, particularly from Malaysia, that have bought residential sites in Melbourne, are backed by banks in their home country.

The banks are also lending to buyers in the towers.

Malaysia's largest developer, SP Setia, has picked up two major sites in Melbourne and is planning to develop about \$700 million of apartments.

SP Setia chief executive Liew Kee Sin said he was dealing with OCBC but also wanted lending relationships with local banks.

"We would love to borrow from Australian banks but we have no credit standing with them at all. We are the only developer with a AA credit rating in Malaysia," he said. "Over the long term we want to go and borrow from the local banks and I'm sure they can give us better terms."

Other developers are getting a mix of local and foreign lending. Japan's Sekisui House and Singapore's Frasers Property won the backing of a combined syndicate worth up to \$500 million for their recent joint venture to develop a \$2 billion project in Sydney.

Listed groups are also benefiting with Australand Property Group setting up a new \$550 million unsecured syndicated bank facility this month.

Australand managing director Bob Johnston said the syndicate was led by National Australia Bank but it mainly comprised foreign banks, with some Asian and European lenders participating. "It brings a bit more

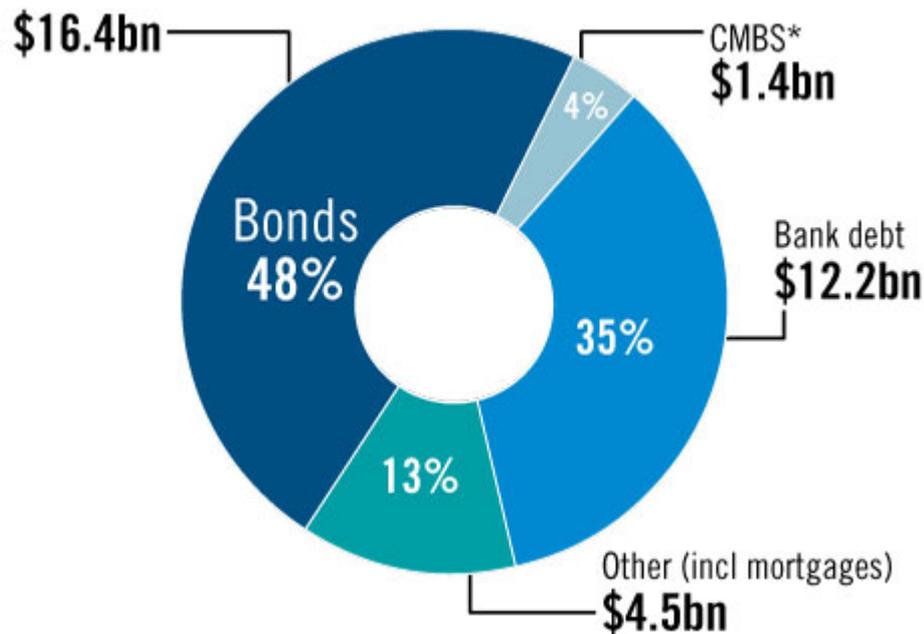
competition back into the market," he said. "It provides you with some diversification away from the local banks."

However, not all foreign groups are turning to foreign lenders. China's HNA Group, which bought 1 York Street office tower this month, is looking for finance from Australian banks.

But foreign lenders are providing more competition, with OCBC financing LaSalle Investment Management's acquisition of Sydney's Sofitel Wentworth on better terms than local banks.

Banking on property

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*Commercial mortgage-backed securities

SOURCE: JPMORGAN

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