

Private Credit is “providing a missing piece” in housing supply says CBC Centuria Bass Australian Property Development and Finance Index 2024 findings

- 75% of respondents say avg loan size increased in five years hitting \$10-20million
- Stalled projects creating ‘missing piece’ in capital stack; perceived cusp of equity gap closing
- Non-bank lenders playing a significant role as part of multi-lender strategy

SYDNEY (Tuesday, 12 November 2024) – New research from Australian real estate funding solutions provider, Centuria Bass Credit (CBC or ‘Centuria Bass’), reveals developers are taking on higher levels of debt to fund projects, many of which have been delayed due to challenging market conditions.

According to the inaugural Centuria Bass Australian Property Development and Finance Index 2024, which surveyed 67 developers, investors, fund managers and brokers, middle market loan sizes are increasing with the average loan now sitting between \$10 million and \$20 million.

Three out of four respondents (75 per cent) say their average loan size has risen in the past five years, indicative of higher construction interest costs.

Nick Goh, Centuria Bass Joint CEO, says internal data confirms the finding with the average Centuria Bass loan size more than tripling from \$8.35 million in 2019 to \$30.7 million in 2024, with the vast majority in residential housing projects. Centuria Bass currently manages c.\$2 billion in funds under management¹.

Mr Goh says many developers require further funding to get their projects out of the ground and a financial tipping point may be in sight.

“In the past three years, a number of projects have stalled, which means developers have increased their leverage to cover higher than anticipated costs. Subsequently, many developers are now facing severe constraints, further delaying project commencements. In short, they are left with a missing piece in the capital stack,” says Goh.

“For many projects to advance, we need to see stability in construction costs and sales prices need to increase to support the levels of bank debt funding required. Without these factors, developers need to find some equity.

“Alternatively, private lenders have the flexibility to take a higher risk position, providing a higher loan to value ratio by taking a view on improving market conditions in the future. This is where private lenders provide more flexibility.

“From discussions with our developer clients private credit is enabling developers to pass a tipping point with funding solutions to fill these equity gaps, which enables more sites to be acquired for impending project starts. Private lending is becoming a critical piece in enabling greater supply of residential housing construction.”

Across the Centuria Bass portfolio, Mr Charlie Robertson, Managing Director and Head of Origination, said there is sales momentum in the lowest price quartile – particularly house and land packages up to \$850,000 – while more spacious and expensive apartments in smaller, high-quality developments are in demand.

Developer Wayne Sun, Founder and CEO of Sun Property Group (SPG) is a beneficiary of Centuria Bass’ private lending flexibility. Wayne has successfully targeted the high-end apartment market in Sydney and Melbourne for the past decade, and believes this market niche has a long way to run, fuelled by the growing number of ageing downsizers.

Mr Sun says when it comes to large luxury apartments, where prices can exceed \$35,000 a square metre, buyers often want to see the completed product before buying, which means it’s crucial to secure a finance partner willing to back projects without pre-sales.

"I think that is one of the reasons why in the last couple of years non-bank lenders have played a significant role in the whole development scenario," Mr Sun says.

SPG's latest project is the recently completed *The Brookville*, a super-luxe 10-apartment development in Toorak, that has aroused robust interest among local homeowners who want to downsize but stay in the prestigious suburb close to friends, family and amenities.

He is optimistic the Victorian Government's recent decision (21 October 2024) to reduce stamp duty for all buyers purchasing off the plan projects over the next 12 months will stimulate property sales in Victoria.

"It's a great move that will save buyers money," Mr Sun says.

Other Centuria Bass Index findings include 69 per cent of projects respondents are involved with have multiple lenders, a reflection of project size and financial risk management, while two-thirds advised they or their clients plan to restructure or refinance their debt portfolio within a year.

Construction finance for land sub-division projects has been the loan type in the highest demand over the past two years, according to the survey, but there's a growing appetite for bridging and residual stock loans.

Mr Robertson says there is increasing anecdotal evidence more developers are willing to proceed with projects that have been delayed due to market conditions.

"A lot of developers seem to be getting prepared for the cycle to turn and the recent international rate cuts could be the trigger," he says.

"We expect demand for new homes to remain positive over the next few years because of the current significant undersupply of properties, government initiatives to alleviate the housing crisis and easing interest rates."

Centuria Bass was founded in 2016 and has since grown to c.\$2 billion in funds under management (FUM)¹. Since its inception, Centuria Bass has provided compelling returns to wholesale investors on secured private credit loans.

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About Centuria Bass Credit

Centuria Bass Credit Pty Ltd (A.C.N. 606 680 353) (Centuria Bass Credit) is a leading, Australian investor and alternative asset manager offerings its products to institutional, wholesale and sophisticated investors. Specialised in providing real estate funding solutions to assist mid-sized companies, entrepreneurs, property developers and investors. Headquartered in Sydney, with offices in Melbourne and Adelaide, Centuria Bass Credit is the result of a joint venture between Bass Capital Partners and Centuria Capital Group in April 2021. The Centuria Bass Credit group of companies includes Bass Financial Services Pty Ltd (ACN 617 409 588 AFSL 499339).

www.centuriabass.com.au

¹ As at 30 June 2024.