Welcome to APAA Workshop

We will start from 19:00

COLIN BIGGERS & PAISLEY LAWYERS

AUSTRALASIA PROPERTY ADVISORY ASSOCIATION

MaxCap Group

Acknowledgement

APAA would like to acknowledge the Wurundjeri people who are the Traditional Custodians of this Land. APAA would also like to pay our respects to Elders past, present and emerging.

AUSTRALASIA
PROPERTY ADVISORY
ASSOCIATION

AUSTRALASIA PROPERTY ADVISORY ASSOCIATION

We are a not-for-profit organisation creating a community for property developers and multidisciplinary leaders that operate across the entire development lifecycle.

Event Partners

Colliers Engineering & Design

Tract

M3 PROPERTY

MaxCap Group

COLIN BIGGERS & PAISLEY LAWYERS
BRISBANE | MELBOURNE | SYDNEY

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Our Team

MAX LAM
Chairman

SHAUN CHENG
President

FANNY LU
Executive Committee

RAY WANG
Executive Committee

HUI LI
Executive Committee

KEVIN LI
Executive Committee

TREVOR DU
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SHARON LI
Executive Committee

TZE CHIANG GOH
Executive Committee

CHRISTINE CHIN
Executive Committee

CHERYL CHEN
Executive Committee

HAN LIU
Internship

AUSTRALASIA PROPERTY ADVISORY ASSOCIATION

APAA Professional Workshop

Reimagining Residential Built Form Developments

Wednesday 12 April 2023, 6:30 pm – 9:00 pm

Colin Biggers & Paisley,

Level 23, 181 William Street, Melbourne VIC 3000

The Speakers

Michael Lanyon

Partner of Colin Biggers & Paisley

Property due diligence & transaction structuring

Bill McWilliams

Chief Investment Officer of MaxCap Group

Capital Solutions for Diversified Commercial Real Estate

Event Sponsor

COLIN BIGGERS & PAISLEY LAWYERS

Our Speakers

Michael Lanyon

Property Due Diligence and Transaction Structuring
(Buying a commercial property or a build to rent site)

APAA Professional Workshop:
Reimagining Residential Built Form Developments

AUSTRALASIA PROPERTY ADVISORY ASSOCIATION

COLIN BIGGERS & PAISLEY LAWYERS

Buying a Commercial Property or a Build to Rent site - the Legal Due Diligence

CONTENTS

- The Due Diligence process
- Section 12(d) of the Sale of Land Act
- What should your Due Diligence cover?
- Structure
- Taxes

The Due Diligence process

- **Can you bind the Vendor whilst you do your Due Diligence?**

- **Options:**

1. **Heads of Agreement**
2. **Contract with a Due Diligence clause**
3. **Due Diligence and exclusive negotiation period**

- **The Game Changer - Section 12(d) of the Sale of Land Act**

Section 12(d) of the Sale of Land Act

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Some examples:

- **Shopping Centre with medical centre**
- **Landlord had supported medical centre (in which it had an interest) by $72,000 pa.**
- **Medial Centre stopped trading after 2 years (loss of rent of $200,000)**
- **At a 5% cap rate, claim could be as high as $4,000,000.**

Annexure - Material Facts Guidelines

Section 12(d) of the Sale of Land Act

Another example:

- **Tier 2 Builder acquires sites in a proposed Display Village**
- **Plans show Tier 1 Builders acquiring sites (important for Tier 2 Builders)**
- **Tier 1 Builders in fact have not acquired.**

Can client avoid contract?

What should your Due Diligence Cover?

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- **Establish your essentials**

- **Build to Rent:**

- **Land Tax / Planning / permit status**
- **Structure Service providers (so costs can be passed on)**
- **Exit Strategy - or hold for ever (Single line?)**
- **Form of lease (little room to move)**
- **Building Contract - Today's problem - how do you choose your builder?**

What should your Due Diligence Cover?

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- **Existing Commercial**

- **Lease review (note case above)**
- **Do leases recover all that they can? (Essential Service Costs)**
- **What concessions have been given?**

- **State of repair of lifts and air conditioning - how long to replacement**

Annexure **Due Diligence questionnaire**
Due Diligence Report

Structure

- First things first - what is the best structure to buy in?

- Hold or sell

- Investors - local or overseas - considerations

1. Stamp Duty
2. Land tax
3. FIRB
4. Overseas buyers - where do you want to pay tax?

Taxes

- Income Tax
- Capital Gains Tax
- Stamp Duty
- GST
- Land tax
- GAIC
- Windfall Gains Tax
- Vacant Residential tax
- Thin capitalisation rules
- Car levy central Melbourne

Buying the shares or units? Another level of complexity

Contacts

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Our Speakers

MaxCap Group

Bill McWilliams

Capital Solutions for Diversified Commercial Real Estate

APAA Professional Workshop:
Reimagining Residential Built Form Developments

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MaxCap Group

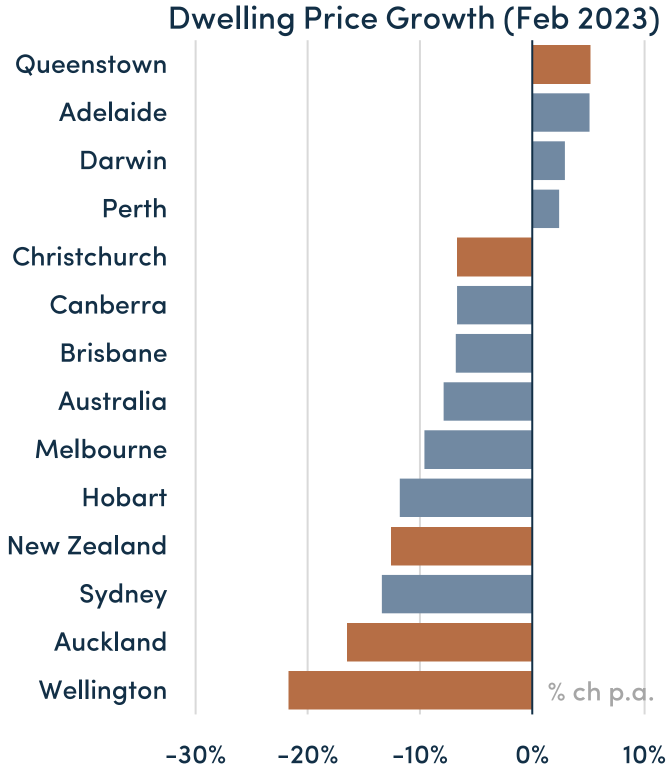
Capital Solutions for Diversified Commercial Real Estate

Image: R.Iconic

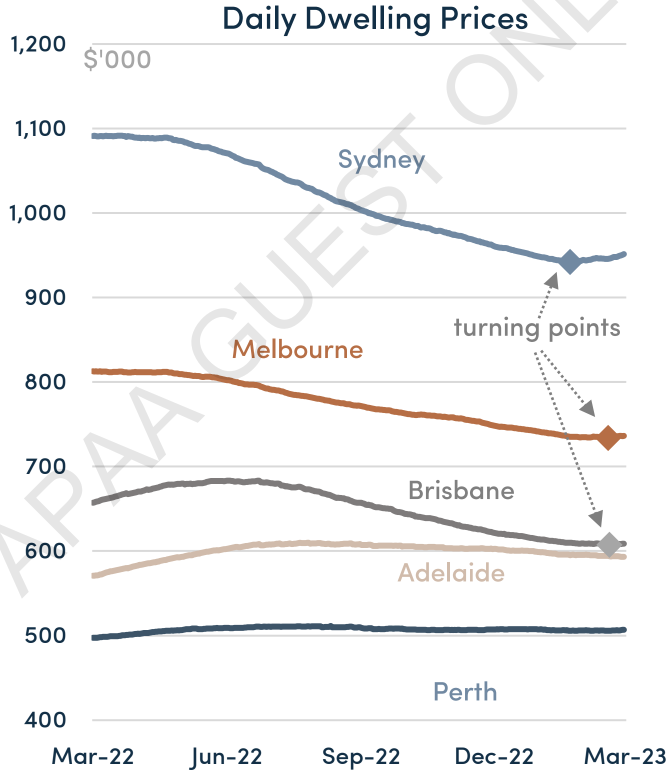
Residential & Commercial Market Outlook

Residential in focus

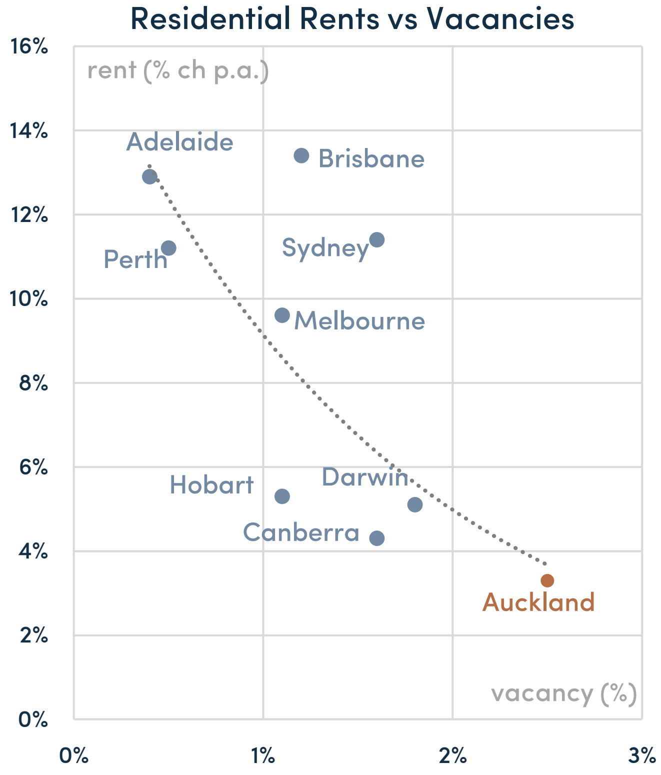
Higher mortgage rates have triggered a broad price correction



High frequency data are showing signs of turnaround in some cities



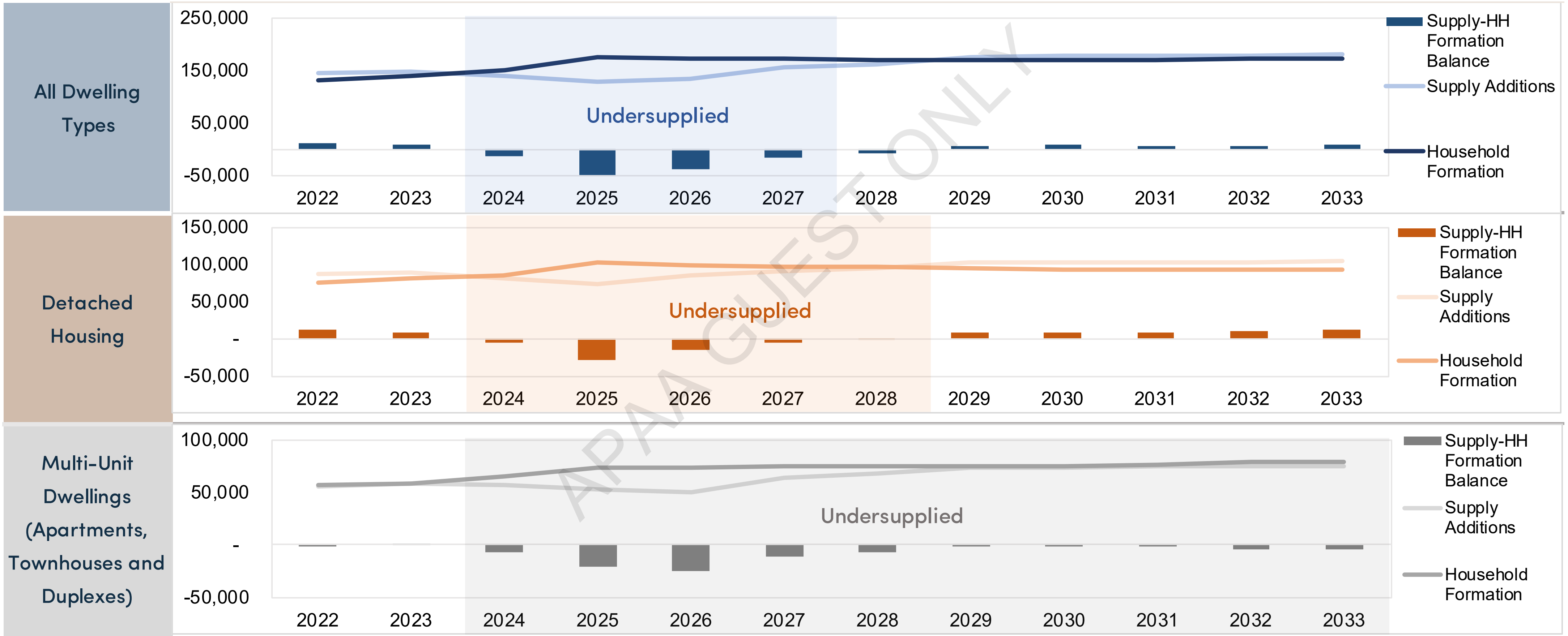
A rental boom is unfolding given low vacancies, more so in bigger capitals



Sources: Australian Bureau of Statistics, Corelogic, Jonette, MaxCap Group (April 2023)

Residential Supply and Demand Forecasts

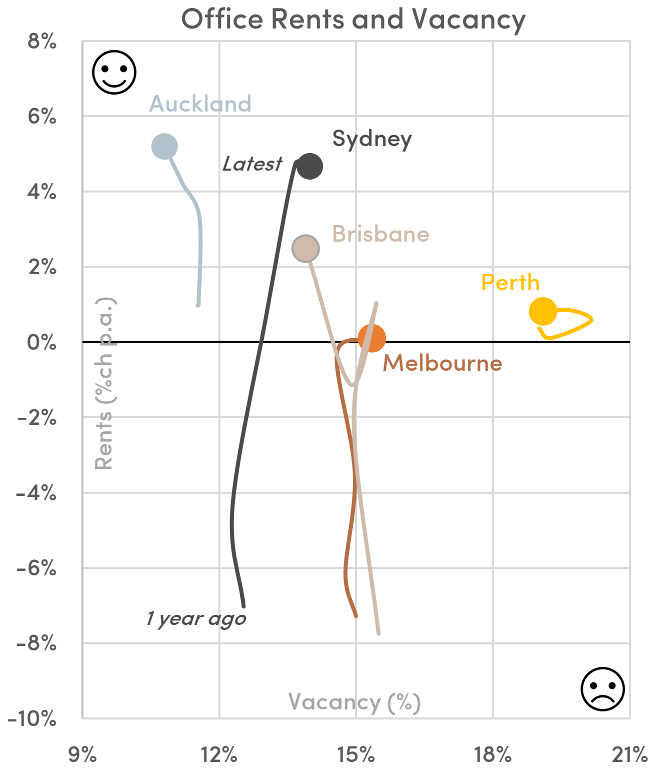
The Australian housing market is severely supply constrained



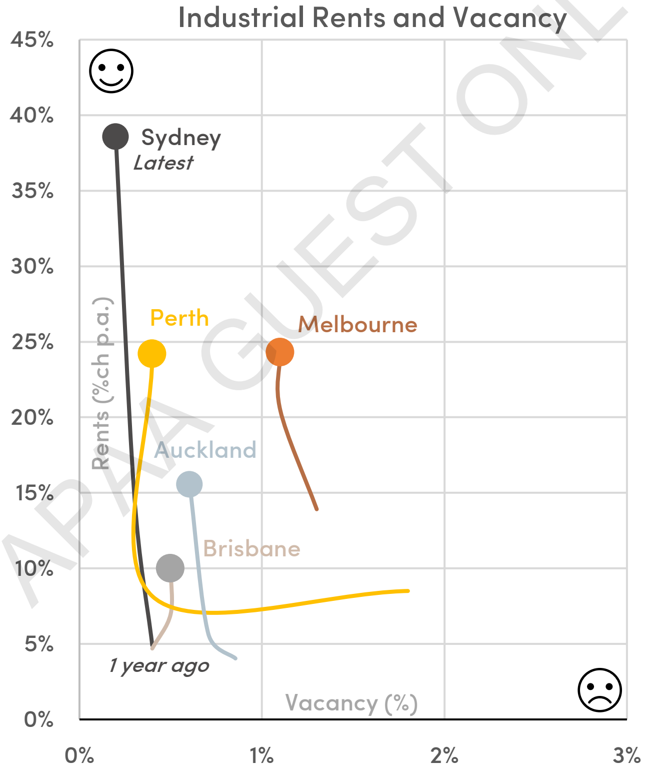
Source: National Housing Finance and Investment Corporation ("NHFIC") "State of the Nation's Housing 2022–23" report (Feb-2023)

Commercial - Rents are rising, even as occupancy lags

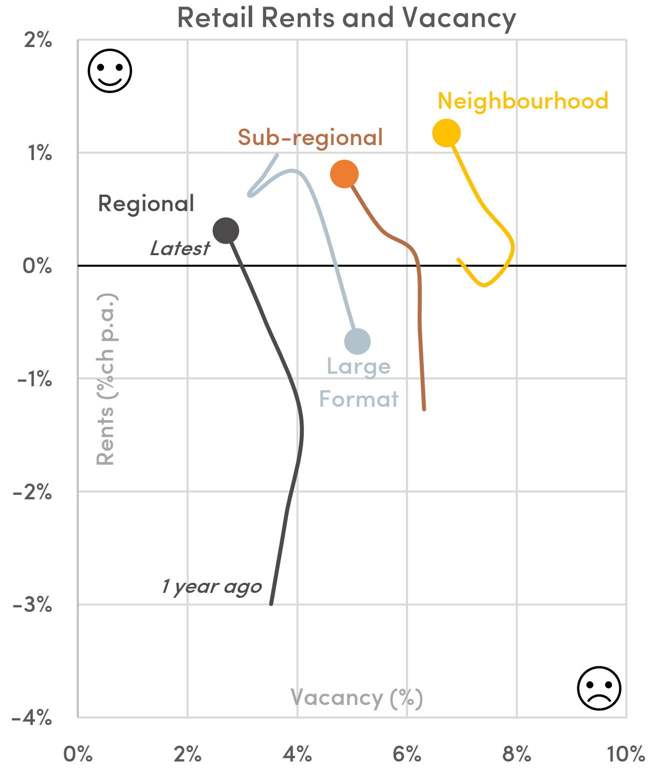
Office rents have rebounded, even without a recovery in occupancy



Industrial is in a sweet spot, as full occupancy drives a big rental boom



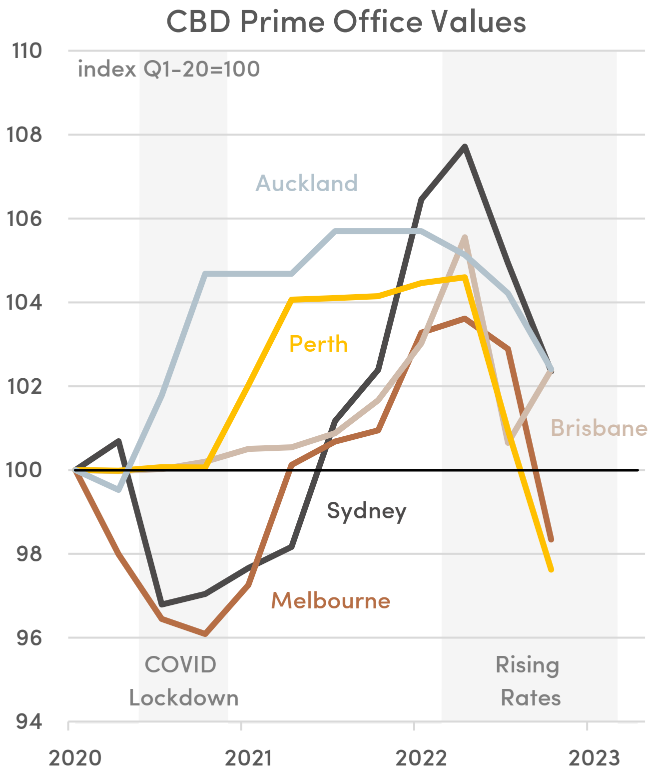
Retail rents are mostly growing again, albeit in a muted manner



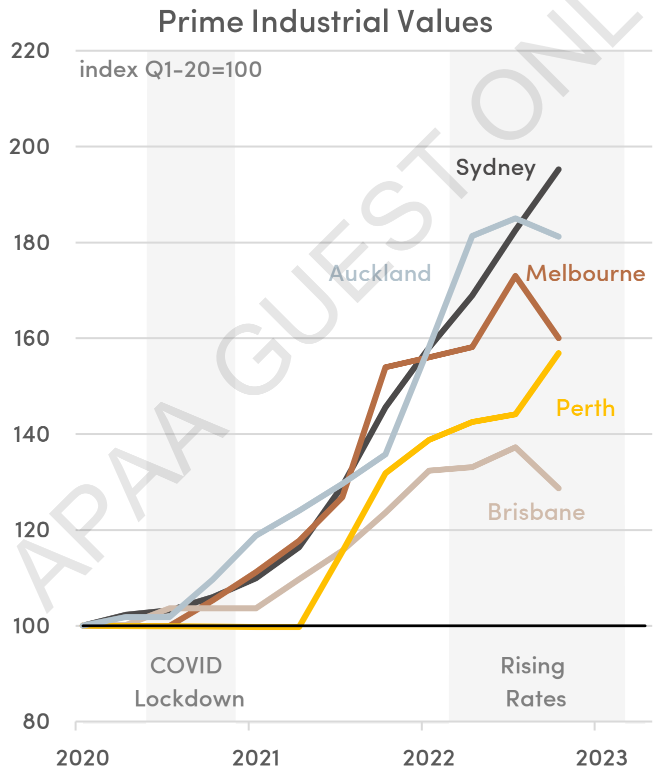
Sources: Jones Lang LaSalle REIS, MaxCap Group (April 2023). Neighbourhood and Large Format values inferred from cap rate and rental movements.

Commercial Asset values are diverging widely

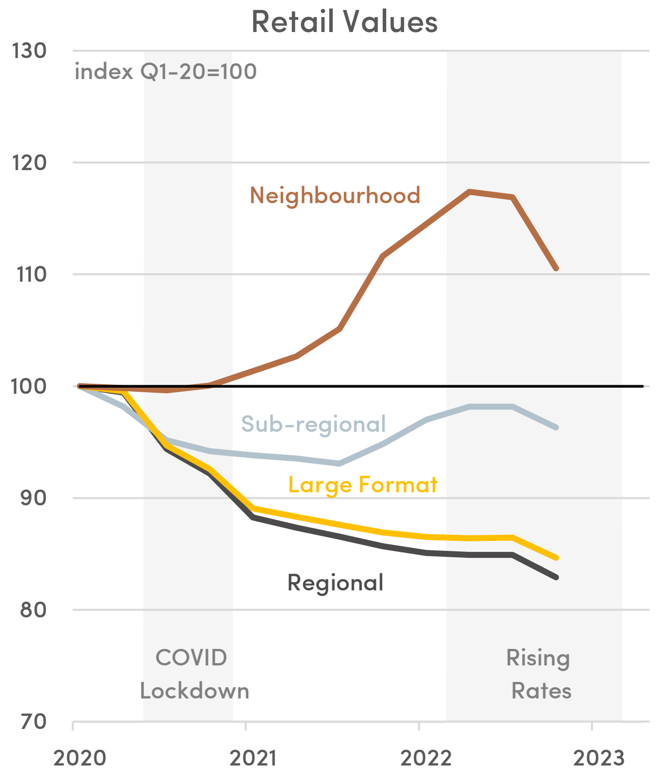
Office markets face a second price adjustment with rising interest rates



Industrial values surge as investors reallocate for an e-commerce boom



Beside neighbourhood centres, retail sectors have continued to struggle



Sources: Jones Lang LaSalle REIS, MaxCap Group (April 2023)

Non-Bank Debt Market

CRE market share

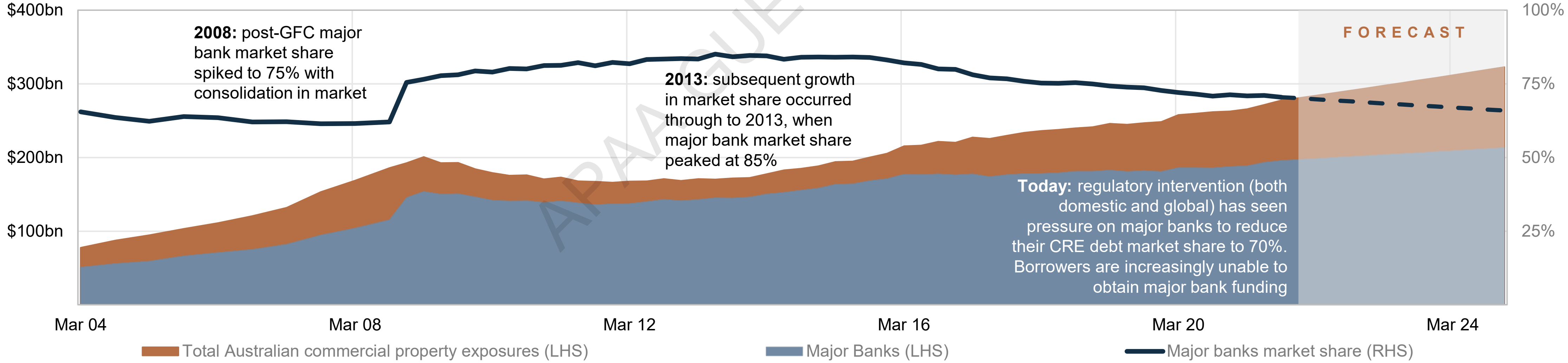
Regulation driving major banks' withdrawal from CRE lending market, resulting in market-share gains for non-bank lenders. Proven asset-class performance throughout COVID-19.

Australian banks share of CRE market expected to align with offshore markets

Drivers for non-bank CRE lending

Current Australian CRE exposures of USD ~$348bn (~$87bn by non-bank lenders)	Major banks market share in Australia of 75% vs. US at 50% and UK at ~40%	Further regulatory pressures projected to reduce banks share to ~60% by 2025	Borrowers increasingly unable to obtain bank funding due to regulatory oversight and aggregation limits	Reduced competition and market share gains for non-bank lenders (~$70bn funding gap over next 4-5 years)	Bank share of CRE market • Australia 75% • US 50% • UK 40%

Total CRE lending exposure in Australia



Source: APRA Quarterly ADI Property Exposure Statistics (September 2020) Note: Major banks include CBA, ANZ, NAB and Westpac. ADIs include the four major banks, other domestic banks, mutual banks, foreign subsidiary banks and foreign branch banks

Market opportunity exists across the lifecycle of the underlying asset and across key real estate sectors

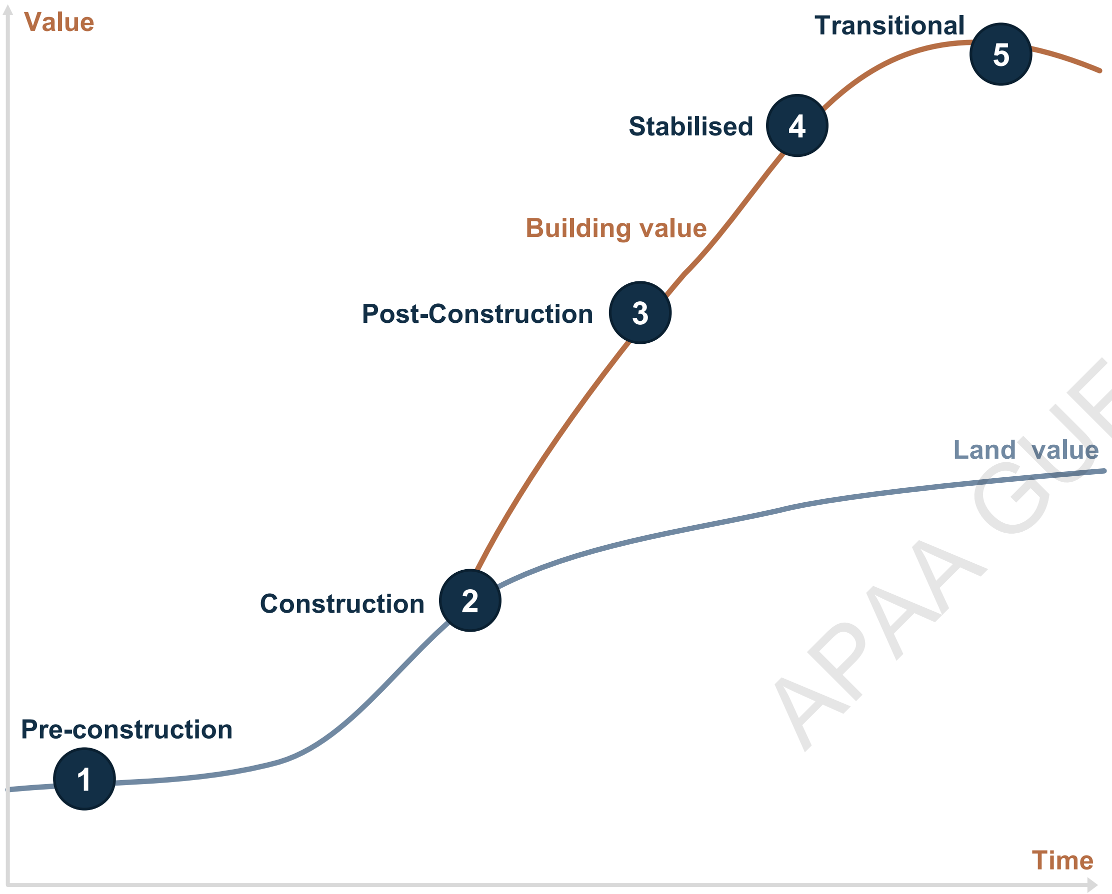
Market opportunity generally fit into six categories:

1. Early-stage project finance
2. Construction finance
3. New completed asset finance
4. Stabilised operating asset finance
5. Transitional asset finance
6. Hybrid capital solutions and special situations

1	2	3	4	5	6
Early-stage project finance	**Construction finance**	**New completed asset finance**	**Stabilised operating asset finance**	**Transitional asset finance**	**Hybrid capital solutions and special situations**
• Site acquisition finance • Project site refinance	• Residential Development (e.g. high density towers, low density house / land) • Commercial Development (e.g. office, logistics)	• Residential unit inventory loans • Trade up facilities against newly-operating assets (e.g. partially let office, hotel)	• Term debt facilities against operating / leased assets	• Finance against assets trading down towards refit • Capex and repositioning funding • Finance for ESG focused enhancements	• Mezzanine and bridging finance • Hybrid / structured debt / equity solutions • Distressed assets • Forward purchases

Asset Lifecycle Risk and Capital Structure

CRE asset lifecycle



Capital structure

Higher

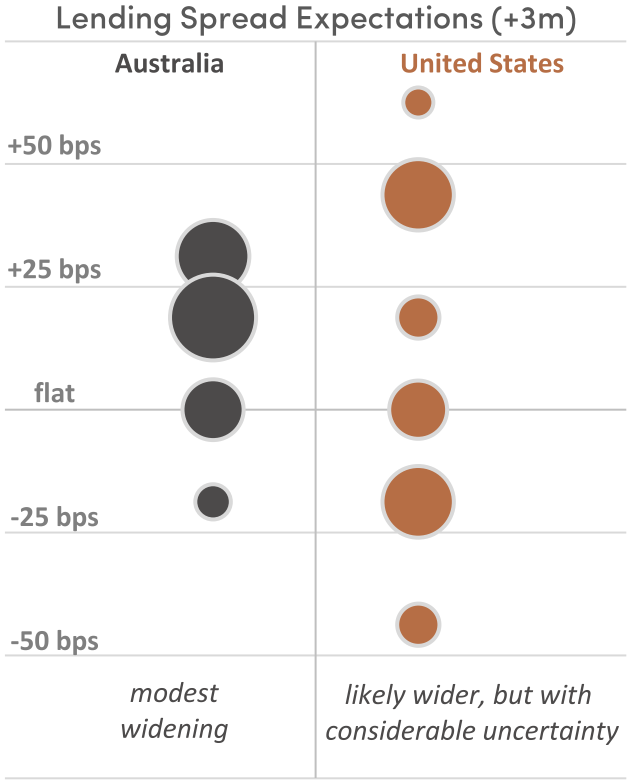
Level of protection

Lower

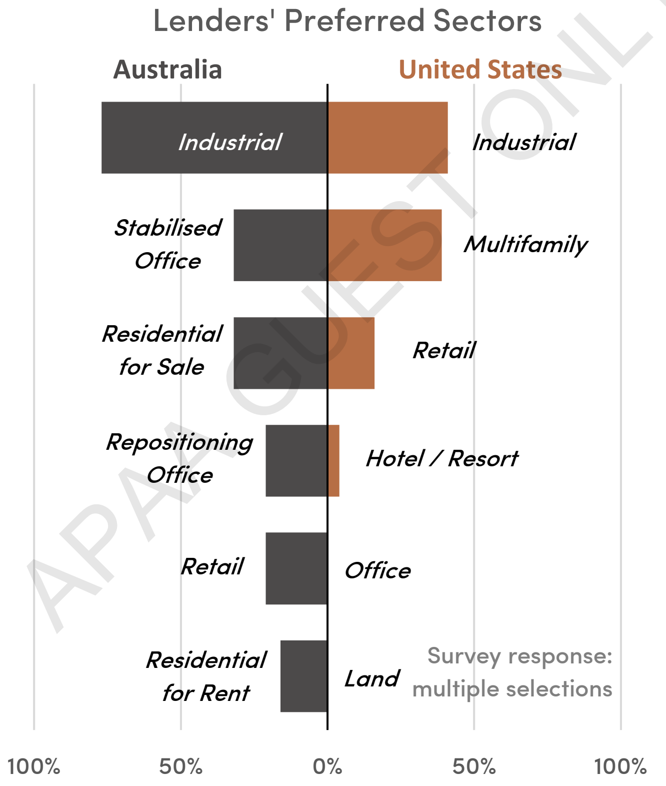
	Typical characteristics
Senior Debt	• First ranking security over property and first in payment priority in an insolvency event • Typical protections include covenants, minimum pre-sale or pre-lease targets • LVR typically 55-65%
Mezzanine Debt	• More active risk management vs. senior debt, ranks second in payment priority and security over property in an insolvency event • LVR typically 65-75%
Preferred equity	• Receives preferred payment in respect to dividends and repayment • Returns crystallise upon property settlement • Springing mortgage held in escrow • Ranks ahead of common equity in payment priority
Equity	• Returns crystallise upon property settlement • Repayment waterfall often contains preferred returns • Riskiest, but highest returning segment

Commercial lender expectations

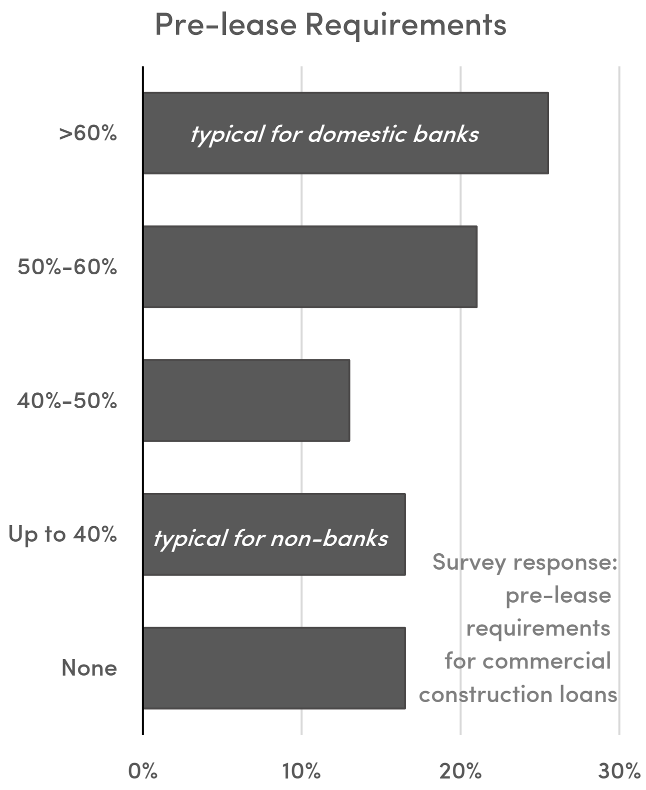
Expectations for real estate lending margins are generally widening



Sector preferences differ a lot across US and Australian commercial lenders



There is a bigger gap between bank and non-bank lenders on key terms



Sources: CBRE Lender Expectations Survey for Australia (Dec 2022) and the United States (Jan 2023), MaxCap Group (April 2023)

Where does non-bank capital come from?

Typical Investor Profile

- CRE debt still relatively nascent asset class in Australia – has only started to build any scale within last 5-7 years

- Originally commenced with private capital and predominantly for subordinated/junior positions behind the major banks (Mezzanine, Preferred Equity, Equity)

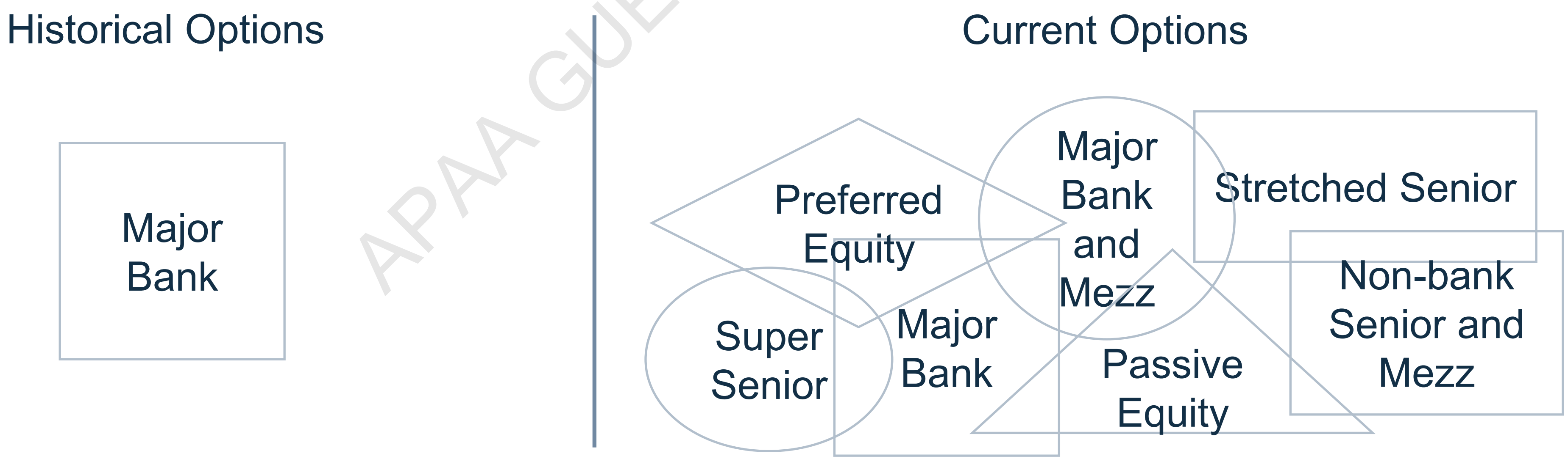
- Over time we have seen semi-institutional and institutional capital including Australian Superannuation Funds, Offshore Pension Funds, Sovereign Wealth funds, Global Investment Management Groups and Investment Banks

- As more institutional capital has flowed into the asset class we have seen pricing come down and the type of investments come down the risk curve to include now majority senior positions / first mortgage positions.

Investor Appetite

Investor Appetite

- Good news for property developers and investors is that the diverse range of investors ensures there is NO typical appetite.
- Different investors have different risk thresholds and return expectations ensuring borrowers have considerably more optionality than they did 5-10 years ago



Case Study – Residential Apartment Project

Option A – 60% LVR / 100% Debt Cover

Gross Revenue	$	100,000,000
Less GST	$	10,000,000
Less Back-ended Sales Comms	$	2,500,000
Net Revenue	$	87,500,000
Total Development Costs	$	74,000,000
Total Profit	$	13,500,000
Return on Cost		18%
Funding		
1st Mortgage - 1% / 1.9% / 1.9%	$	52,500,000
Equity	$	21,500,000
Return on Equity		62.8%

Option B – 75% LVR / 50% Debt Cover

Gross Revenue	$	100,000,000
Less GST	$	10,000,000
Less Back-ended Sales Comms	$	2,500,000
Net Revenue	$	87,500,000
Total Development Costs	$	76,353,313
Total Profit	$	11,146,688
Return on Cost		15%
Funding		
1st Mortgage - 1.25% / 2.5% / 2.5%	$	65,625,000
Equity	$	10,728,313
Return on Equity		103.9%

Case Study – Residential Apartment Project

Option A – 60% LVR / 100% Debt Cover

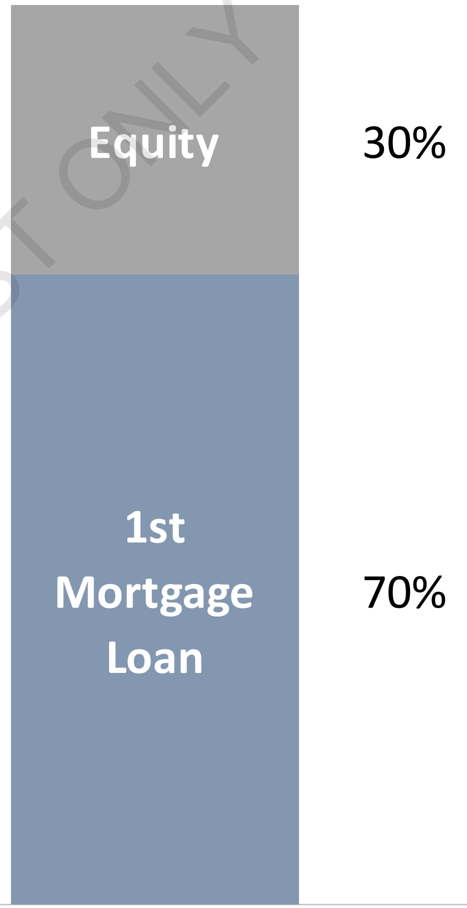
- $21.5m Equity
- 62.8% Return on Equity
- 100% Debt Coverage
- Construction commencement delayed whilst presales being achieved (risk with construction price)
- Line Fee commenced while equity is still being injected
- Early presales sunset dates have less time post practical completion

Option B – 75% LVR / 50% Debt Cover

- $10.7m Equity
- 103.9% Return on Equity
- 50% Debt Coverage
- Construction commencement earlier (able to lock away costs)
- Line Fee commenced at first drawdown
- Longer sunset dates on early presales

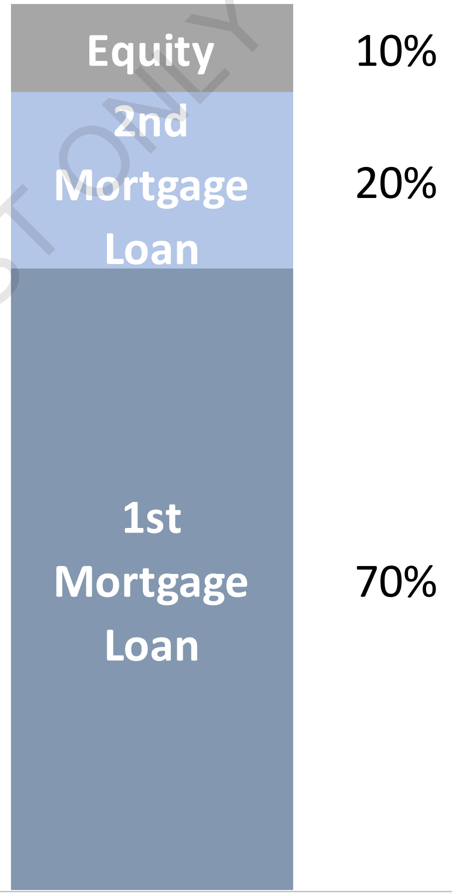
Appetite - Typical Capital Options

Standard 1st Mortgage



Appetite - Typical Capital Options

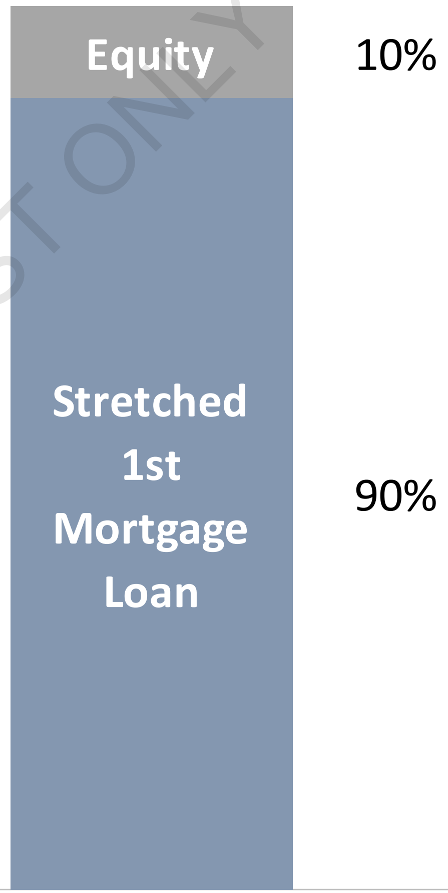
Standard 1st Mortgage and 2nd Mortgage



Appetite - Typical Capital Options

Stretched Senior

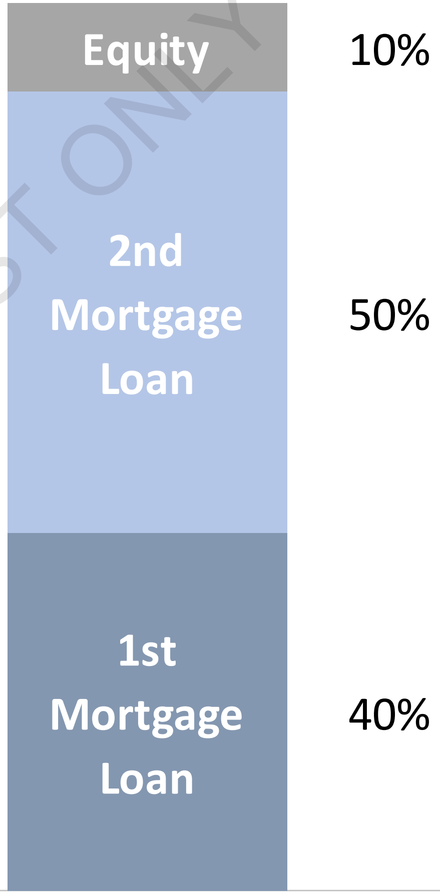
As bank appetite has receded there has been stronger demand for stretched senior / unitranche facilities



Appetite - Typical Capital Options

Super Senior and Mezz

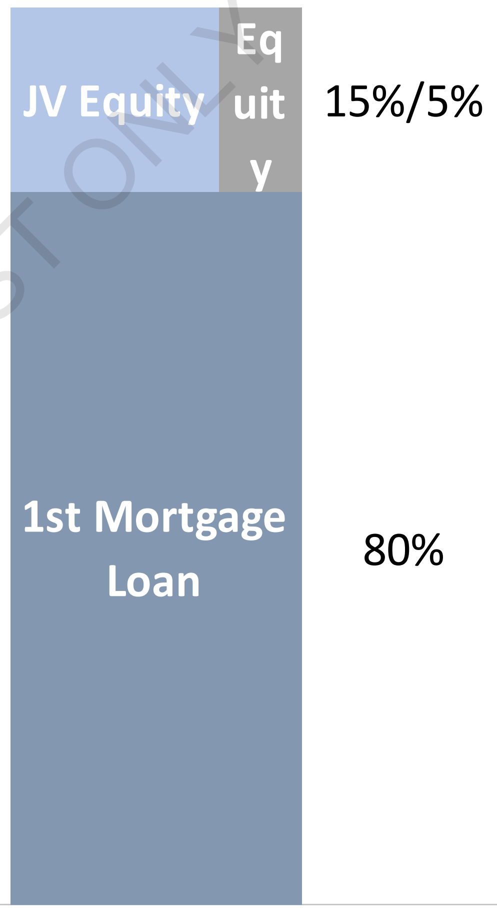
Can provide greater flexibility, but higher blended funding costs



Appetite - Typical Capital Options

1st Mortgage and Equity

Strong demand for Equity Solutions in current market



Sectors

- Capital partners are looking for a diversified portfolio – therefore we do not rule a line through any sector. Every opportunity is reviewed on its own merits.
- Key considerations/options by Sectors:

Residential

- Site Acquisition / Development / Residual Stock
- Flexibility on LVR, Presales (Debt coverage, purchaser profile)
- Peak debt for staged projects

Office

- Site Acquisition / Development / Term Debt / Value Add
- Flexibility on LVR, pre-commitments
- Options for trade-up term facility post construction

Hotel

- Site Acquisition / Development / Term Debt
- Flexibility on LVR
- Options for trade-up term facility post construction

Industrial

- Site Acquisition / Development / Term Debt
- Flexibility on LVR, pre-commitments
- Options for trade-up term facility post construction

Retail

- Site Acquisition / Development / Term Debt / Value Add
- Flexibility on LVR, pre-commitments
- Options for trade-up term facility post construction

AUSTRALASIA PROPERTY ADVISORY ASSOCIATION

Q & A Time

Appreciation

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