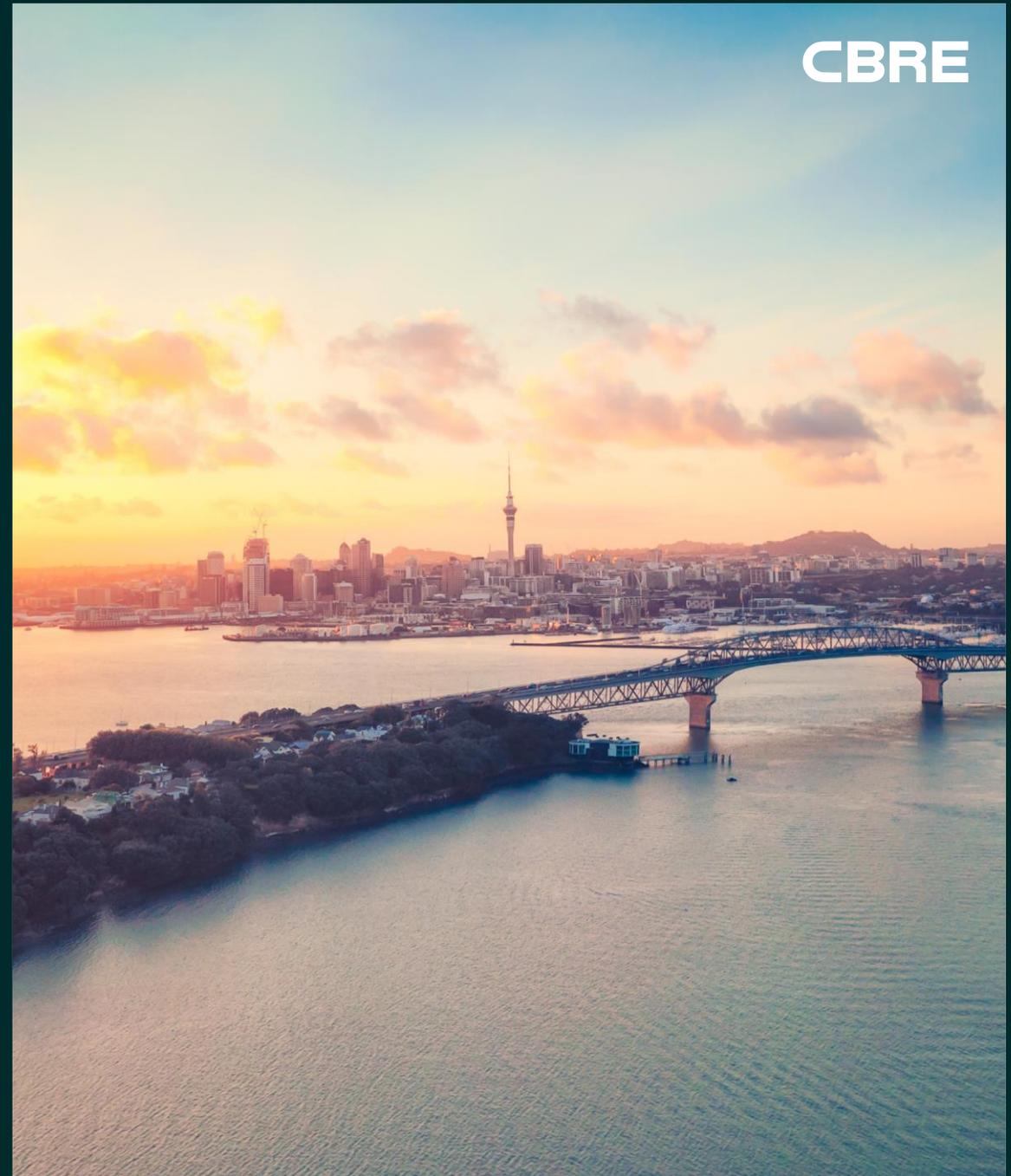


Intelligent Investment

New Zealand Lender Sentiment Survey 2024

LOCAL RESPONSE
NEW ZEALAND

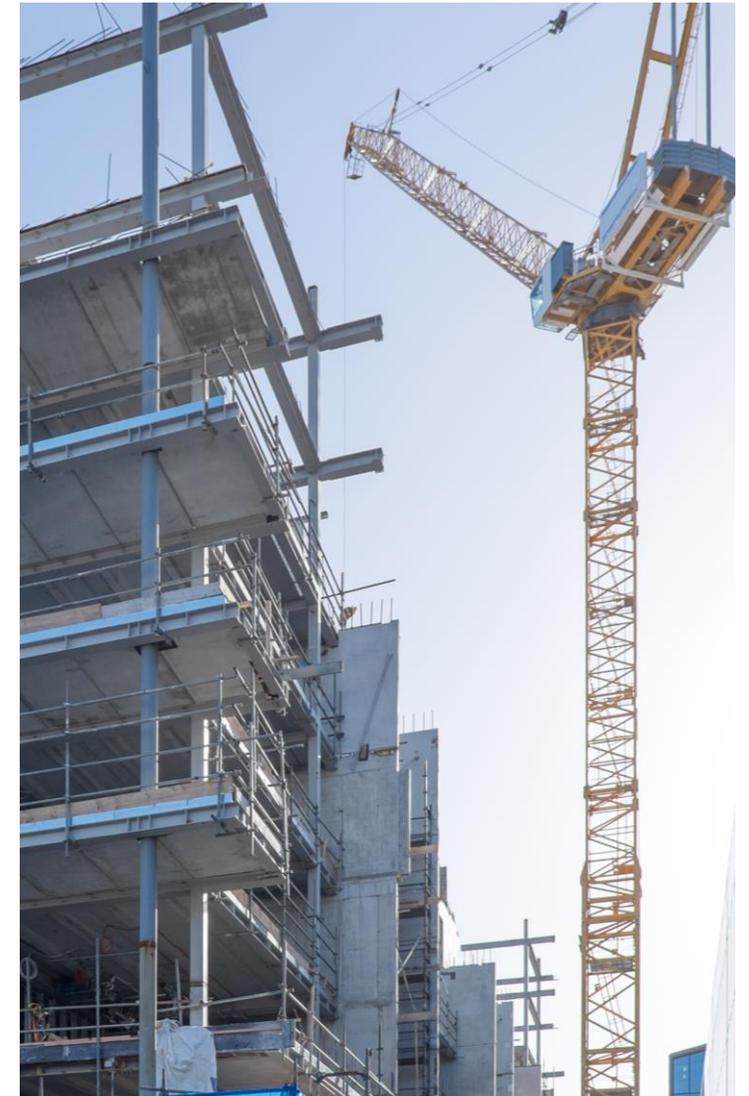
CBRE RESEARCH



Lender sentiment is positive, but will this result in increased activity for 2025?

- Lending appetite is growing, especially for construction/development lending. The most notable change from last year's survey is the more positive attitude of domestic banks.
- For investment lending, Industrial is the most preferred asset class by international and domestic bank lenders. Core office is also well supported by domestic banks, less so by international and non-bank lenders. Non LFR retail, value add office and alternative asset classes outside of student accommodation are not extensively sought by most lenders
- Appetite for development lending is improving towards land subdivision and apartments.
- Lender capacity has lifted on 2023, with increased LVR capacity and lower ICR requirements across the board. Notably 65% of lenders have the capacity to lend at a LVR of 60% or more, a capacity just 50% of lenders reported last year. Bank lenders have lowered their ICR cover requirements from 1.50x -1.75x in 2023 to 1.25-1.75x in 2024
- Sales and loan metric requirements becoming less stringent on construction loans. The distribution of maximum LTR and LTC requirements on construction loans have shifted over the year to allow greater leverage on construction projects.
- Green Financing important for banks, of little importance to non-banks. Of those respondents who would offer green loans (mostly banks), margin discounts are the preferred loan benefit, with 75% of respondents indicating they would offer a margin discount of <20 bps and 25% willing to offer >20bps. One third of respondents would offer a softened ICR threshold.

23 lenders participated in the survey (up from 20 in the previous edition) including ten international lenders and thirteen domestic lenders. Of the ten offshore lenders, three were banks and seven were non-bank lenders. Of the thirteen domestic lenders, four were banks and nine were non-banks. Similarly to last year, there is an obvious weighting towards non-bank lenders. As a consequence it is reasonable to assume the results fall towards the higher end of the risk appetite spectrum.



Credit margin pressure dissipating

For investment loans, 83% of respondents predict credit margins will remain flat with 13% expecting them to come down. In last year's survey, there was a 50/50 split between those that expected it to increase vs those that thought that it would remain stable. In combination with falling wholesale rates, stabilising to falling margins bode well for all on debt costs.

There is greater margin pressure on construction loans with 20% expecting margins to increase although this is down from last year's survey.

FIGURE 1: Credit margins on new **non-construction** loans are likely to move

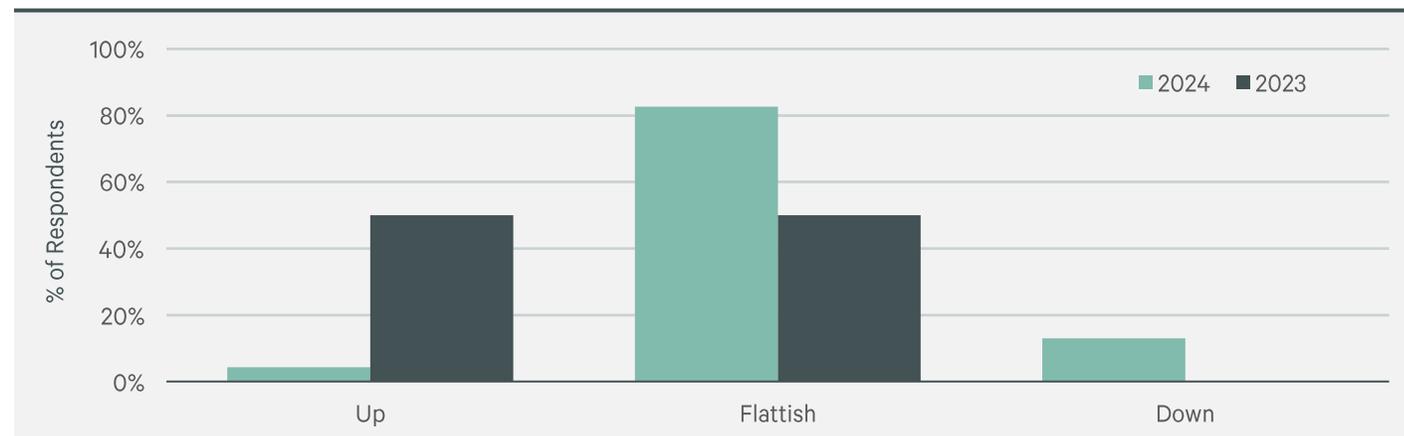
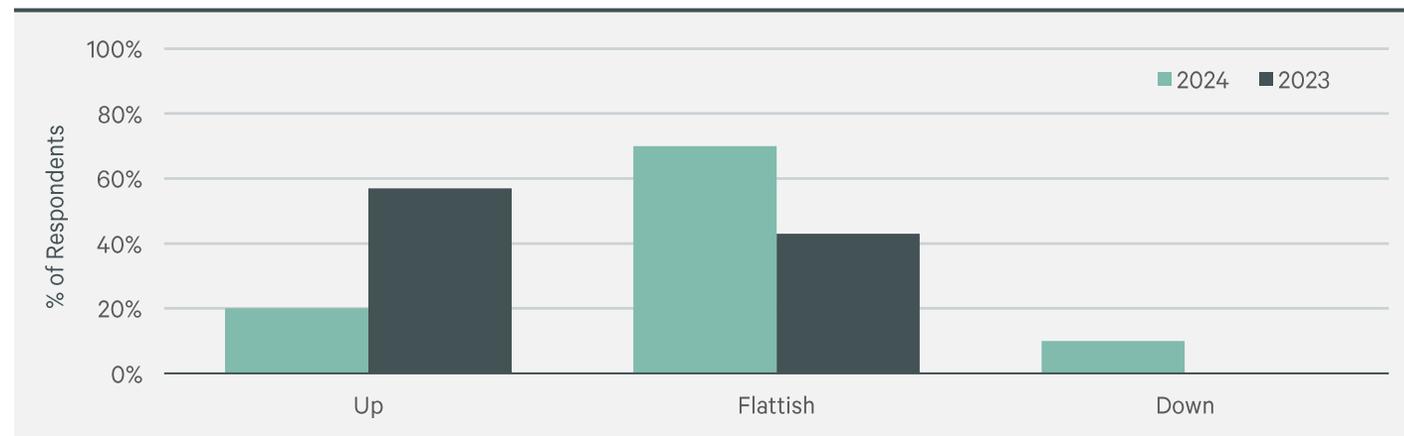


FIGURE 2: Credit margins on **new construction** loans are likely to move



Lending appetite is growing

Appetite to lend has increased over the year, with lenders predicting increased appetite for both construction and investment loans in the next 3-months. The net improvement in appetite is especially strong for construction loans, up 16% yoy.

Last year's survey results indicated that banks were primarily focused on servicing existing clients and remained conservative when considering new transactions. This year banks, especially domestic ones, are indicating an increased appetite to lend. This complements the already positive attitude from the non bank sector towards new lending.

The increase in lending intentions is more marked for construction/development, although there are still lenders that see this area contracting.. Similarly to investment lending the most notable change from last year's survey is the more positive attitude of domestic banks.

FIGURE 3: Our appetite for new **non-construction** loans is likely to move

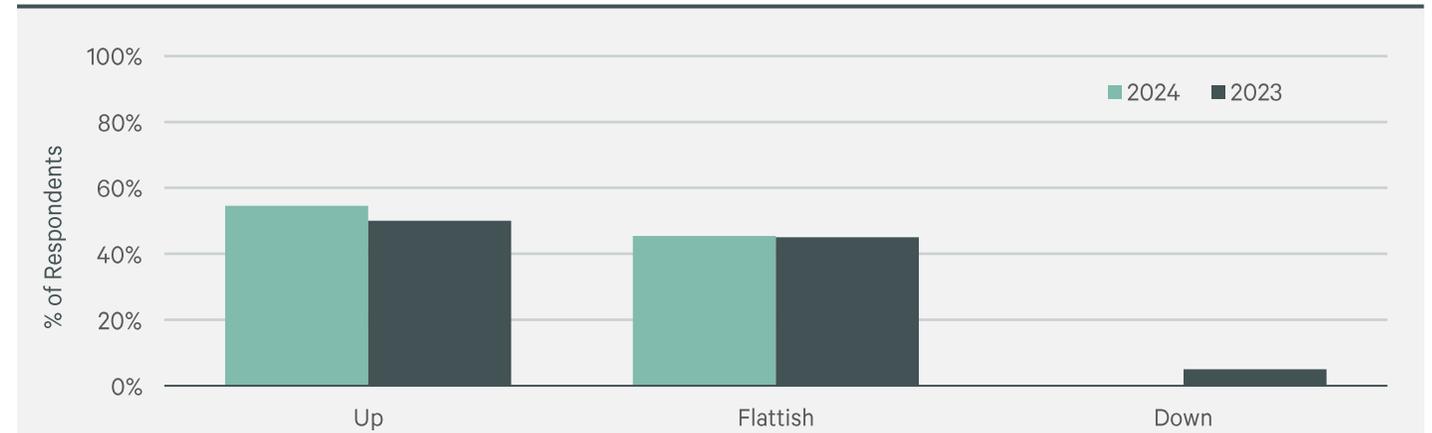
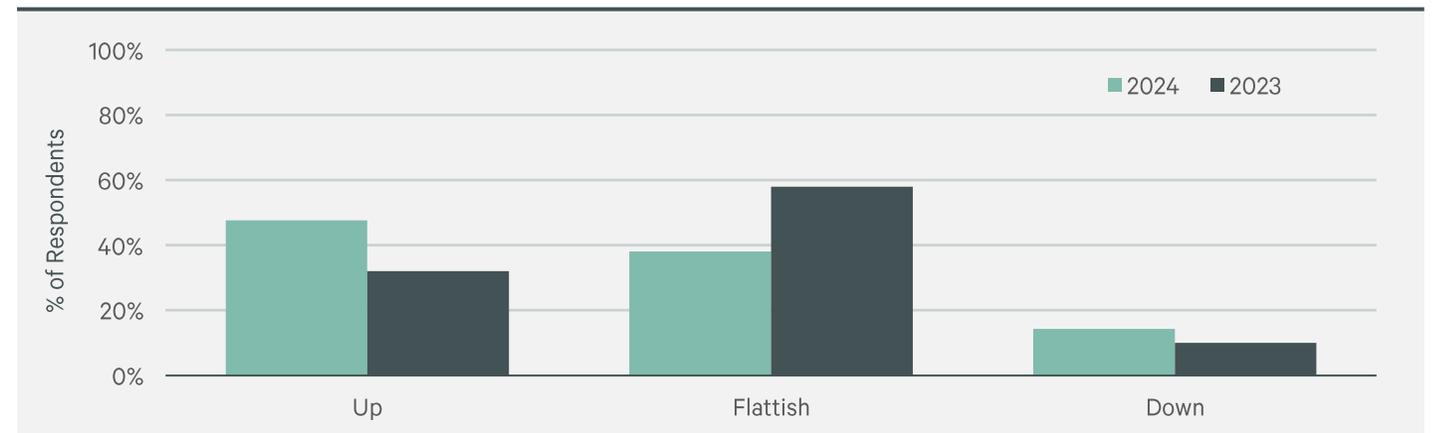


FIGURE 4: Our appetite for **new construction** loans is likely to move



LVR and ICR requirements are easing

Lender capacity has lifted on 2023, with increased LVR capacity and lower ICR requirements across the board. Notably 65% of lenders have the capacity to lend at a LVR of 60% or more, a capacity just 50% of lenders reported last year. This is especially true for domestic non-bank lenders (all of whom in our survey indicated maximum LVR capacity of 60% and above) and to a lesser extent international non-bank lenders. Bank lenders tend to be more conservative.

Bank lenders have lowered their ICR cover requirements from 1.50x -1.75x in 2023 to 1.25-1.75x in 2024. Non-bank lenders are more concerned with an achievable Exit then they are with LVR and ICR. An acceptable exit is generally considered refinance, amortisation, development or divestment.

FIGURE 5: Current maximum LVR capacity

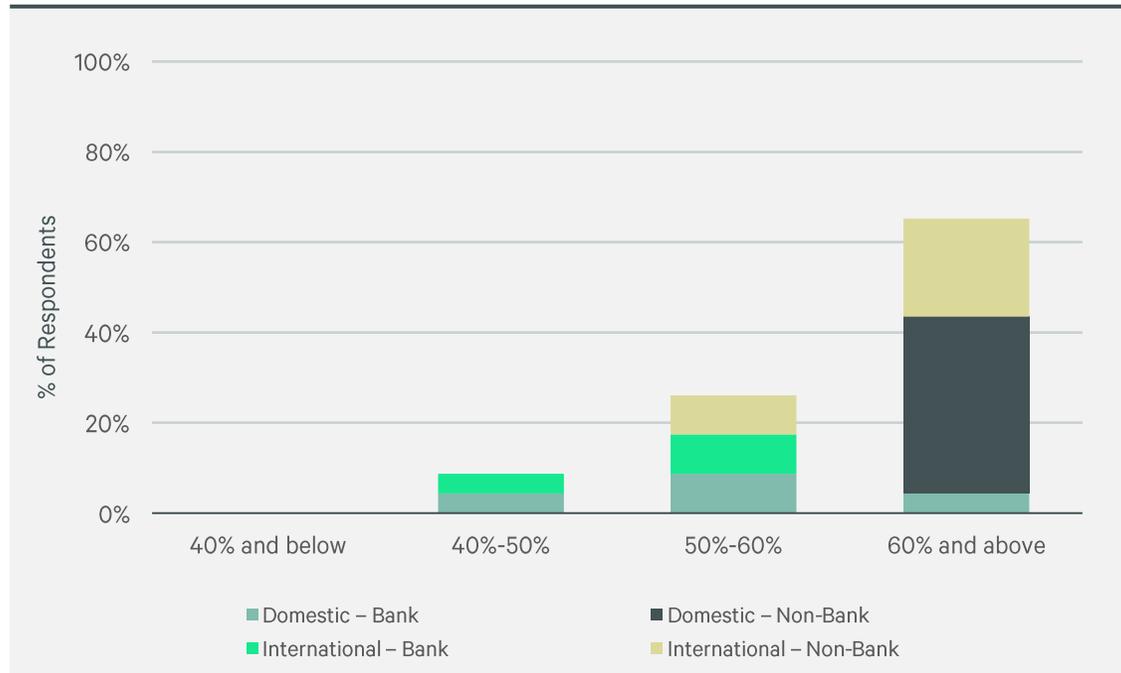
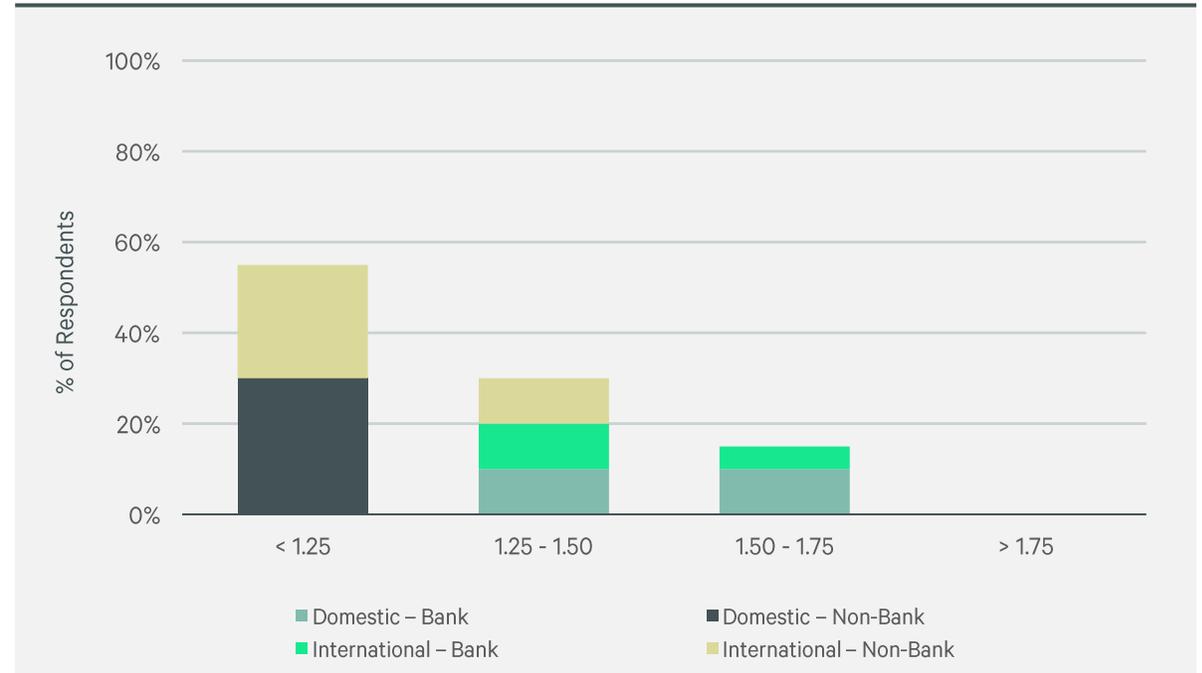


FIGURE 6: ICR requirement for new investment-grade lending



Hedging requirements are of primary interest for international lenders

Higher hedging requirements generally sit with international lenders. Those with more local resources are less conservative. Given debt servicing remains constrained for many assets, hedging as a condition of funding can be utilised to support transactions.

In terms of loan tenor, most domestic non-bank lenders prefer short-term loans (reflecting their focus on construction lending). Relative to the prior year, a number of lenders have shifted their preference from 12-24 month loans to 24-36 month loans given current rate forecasts. Lenders remain reluctant to provide terms beyond three years unless a clear hedging strategy can be demonstrated and agreed.

FIGURE 7: Current interest rate hedging requirement

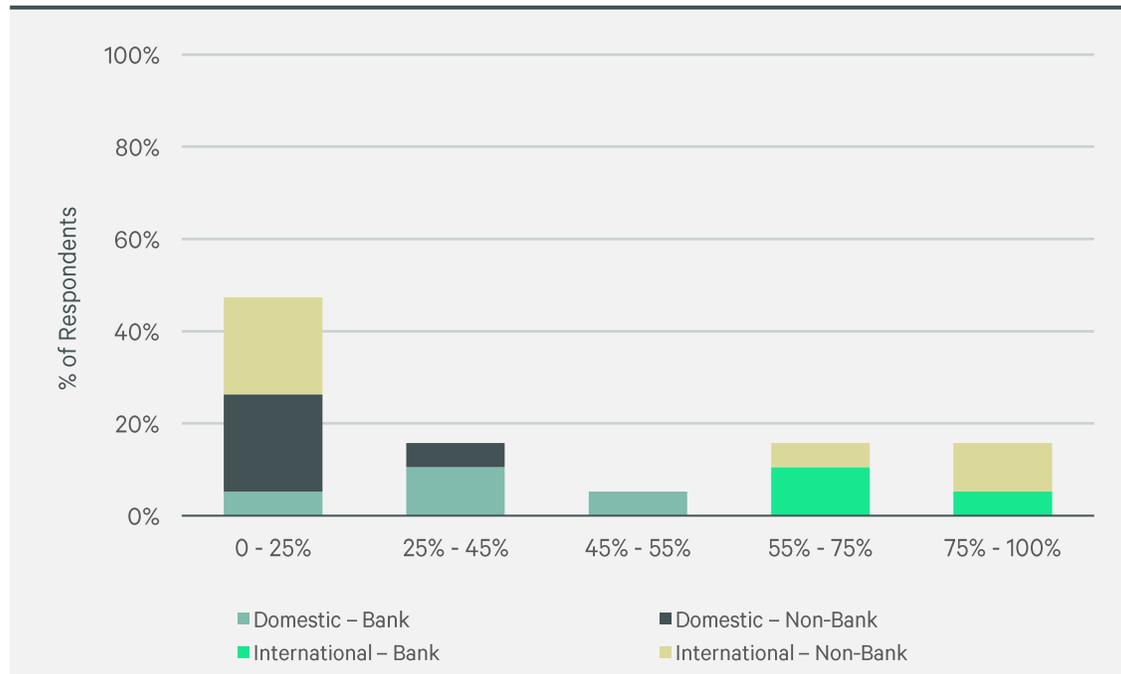
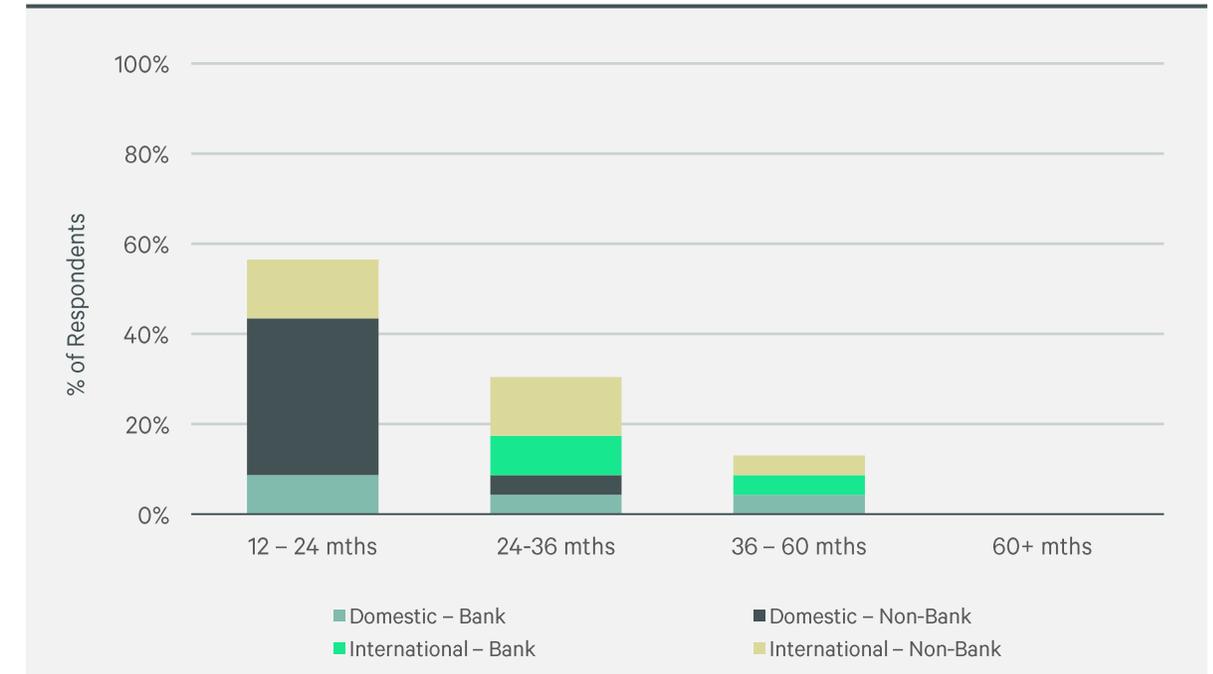


FIGURE 8: Preferred tenor of loan



Industrial remains lenders' sector preference for investment lending

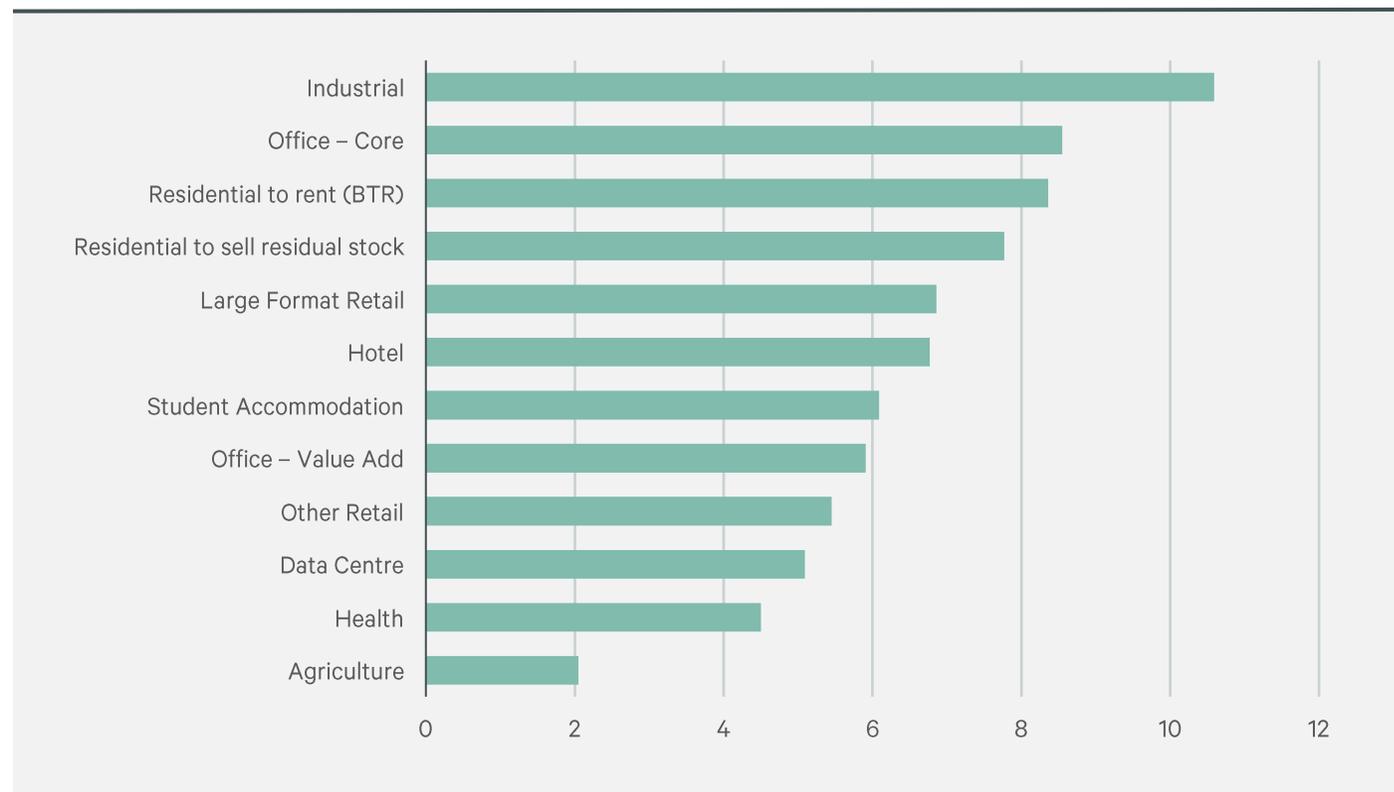
For investment lending, industrial is the most preferred asset class by international and domestic bank lenders. Residential to sell residual stock is the most preferred asset type for domestic non-bank lenders although it is less preferred by international non-bank parities.

Similarly to last year's survey, core office continues to be supported by lenders with several ranking it as their second or third most preferred choice. It is well supported by domestic banks, less so by international and non-bank lenders.

Lender appetite for the residential sector continues to be more polarised. Three quarters of domestic lenders ranked Built-to-rent in their top three preferred investment classes (of twelve). Residential to sell for residual stock (dwellings remaining unsold upon physical completion of a new development) is ranked as the most preferred asset by seven of our survey participants, six of which are Domestic lenders.

Non LFR retail, value add office and alternative asset classes outside of student accommodation are not extensively sought by most lenders.

FIGURE 9: Preferred asset class for new **non-construction** lending (ranked from 1 to 12)



Appetite for development lending improving towards land subdivision and apartments

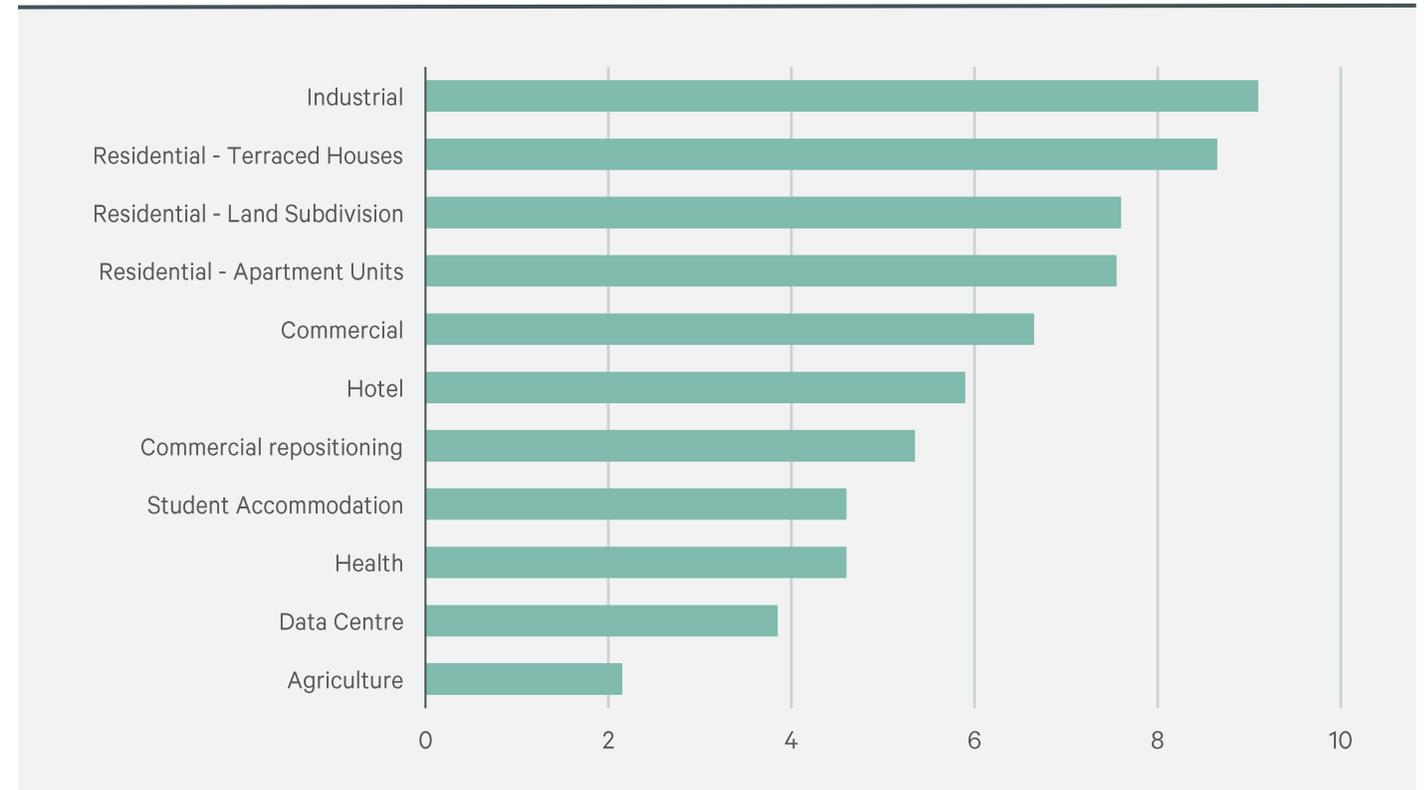
While industrial remains the most preferred asset class for development with 65% of respondents placing industrial in their top three asset exposures, with appetite particularly strong among international lenders, the most notable changes were for residential.

Half of domestic lenders named terraced housing as their top exposure for construction lending. Appetite for residential land subdivision is also strong among domestic lenders, with three domestic lenders naming it as their most preferred exposure.

In contrast, apartment developments were the top pick of only one international lender. However, there is appetite for apartment lending with half of lenders placing it in their top four preferred exposures (of eleven).

There is generally lower appetite for less mainstream areas such as data centres and healthcare, although there are exceptions with five lenders ranking data centres in their top four and one domestic lender ranking healthcare as their most preferred exposure.

FIGURE 10: Preferred asset class for new **construction** lending (ranked from 1 to 11)



Sales and loan metric requirements becoming less stringent on construction loans

Presale requirements have reduced over the year with 90% of banks willing to lend on residential projects achieving 80% or fewer presales, compared to last year where just 68% of banks were willing to lend at this level. Notably non-banks are the only lenders willing to finance residential projects with <50% presales.

As in last year’s survey, banks continue to require higher presale cover on their debt. However, depending on the metrics of each deal banks are willing to consider sub-100% cover for well positioned and well structured projects.

The distribution of maximum LTR and LTC requirements on construction loans have shifted over the year to allow greater leverage on construction projects. Generally, lenders are now more comfortable with market dynamics in New Zealand, particularly for Residential Development. In some instances lenders have considered funding up to 90%+ of total development costs, for transactions with higher margins and presales. The primary driver is quality of project and strength if exit/repayment.

FIGURE 11: For residential construction lending, the minimum presales to debt cover prior/upon finance close

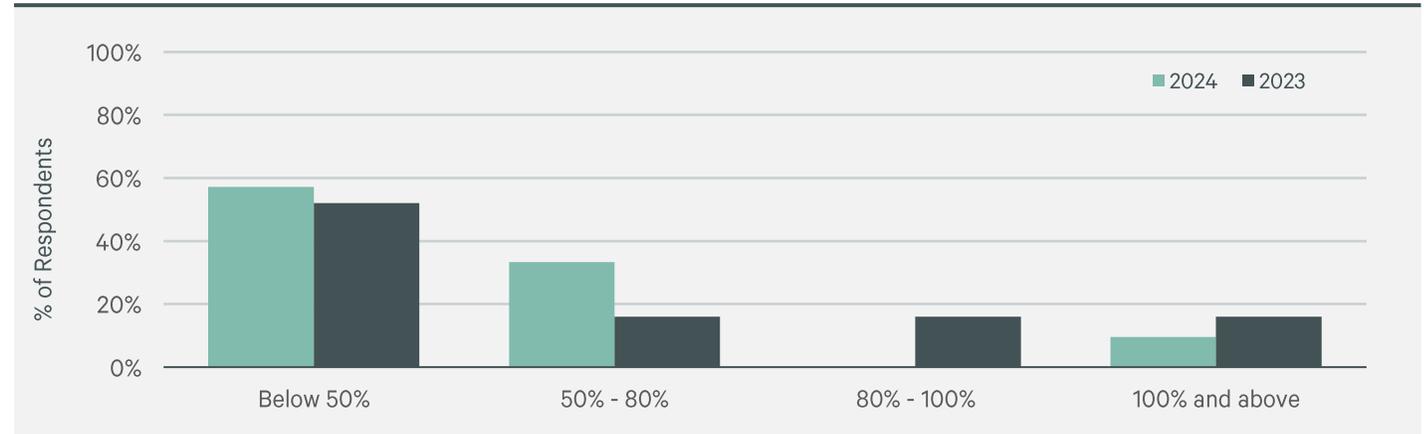
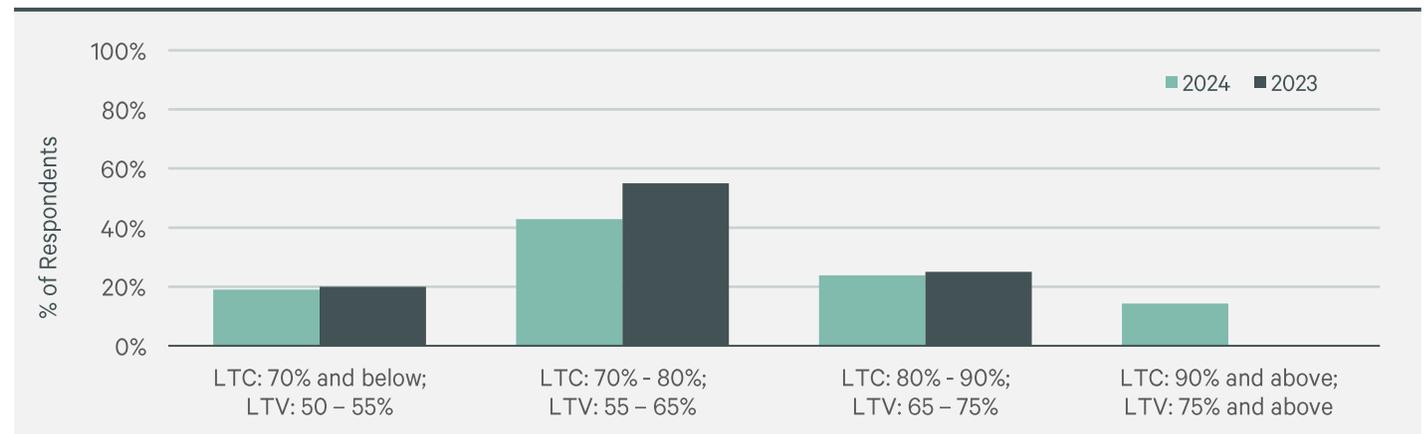


FIGURE 12: Current Maximum LTC and LTV Requirements for Construction Lending



Green financing important for banks, of little importance to non-banks

60% of respondents find green financing to have some importance, while 40% of respondents (wholly non-bank respondents) place no consideration or importance on green financing. Only bank lenders reported that green financing is very important, while lending decision for most non-bank lenders remain profit driven. Further, the survey revealed that currently International banks place greater importance on green financing than domestic banks.

Of those respondents who would offer green loans (mostly banks), margin discounts are the preferred loan benefit, with 75% of respondents indicating they would offer a margin discount of <20 bps and 25% willing to offer >20bps. One third of respondents would offer a softened ICR threshold.

FIGURE 13: Importance of green financing

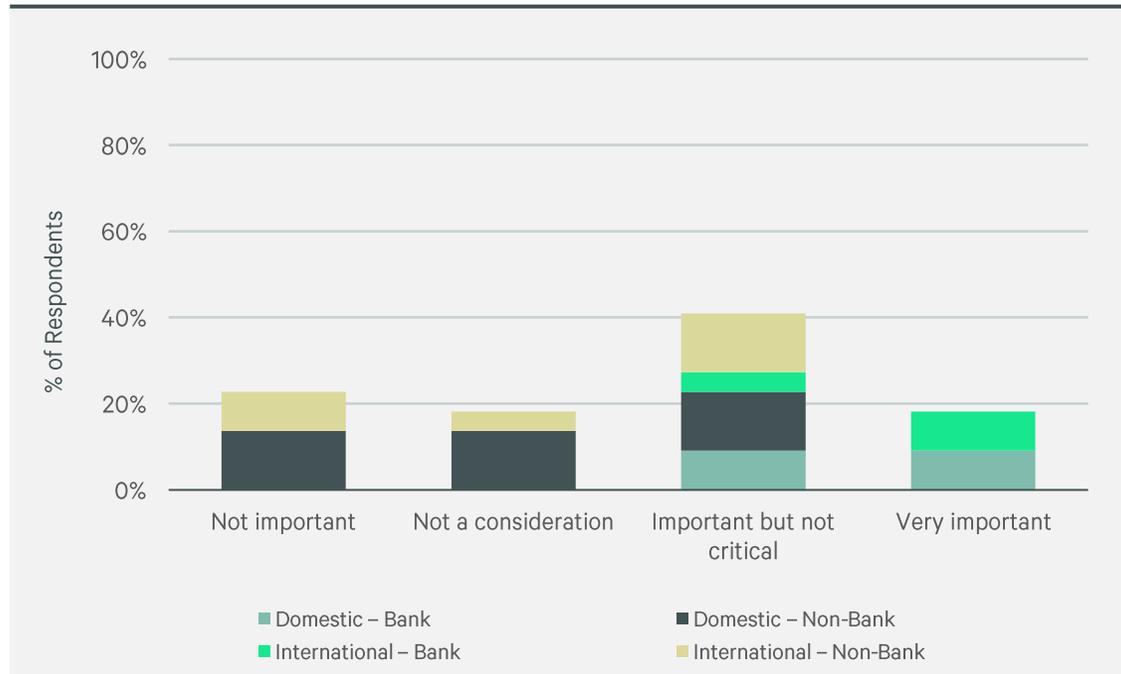
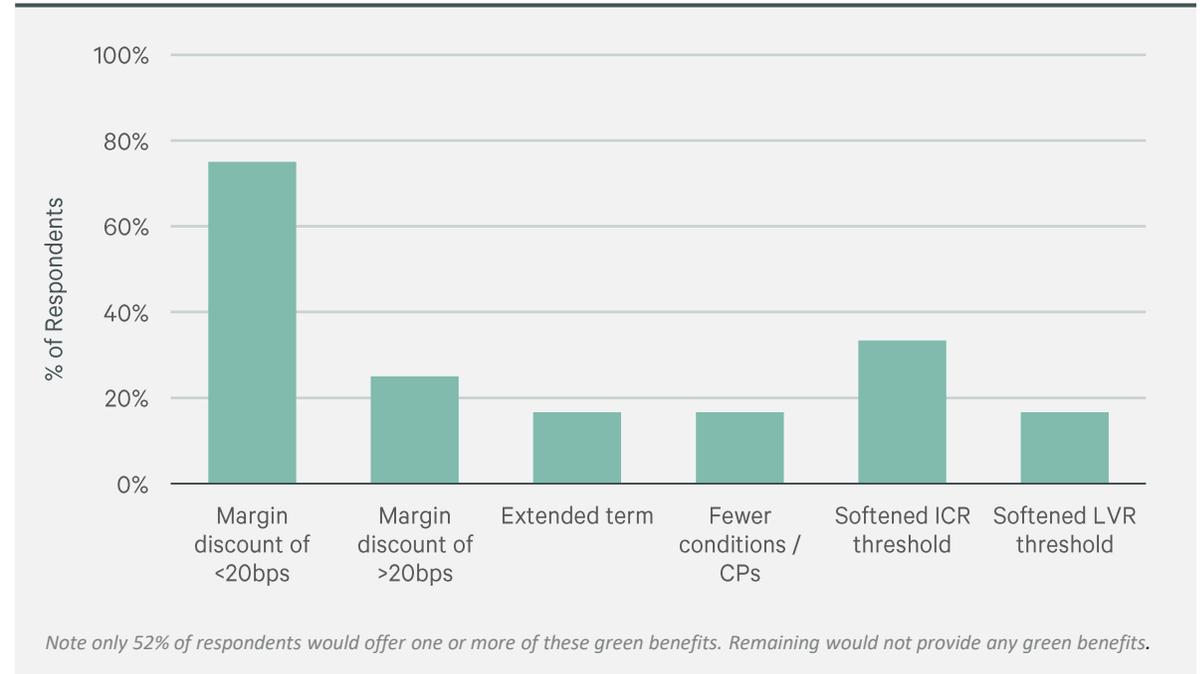


FIGURE 14: Green benefits offered on green loans



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