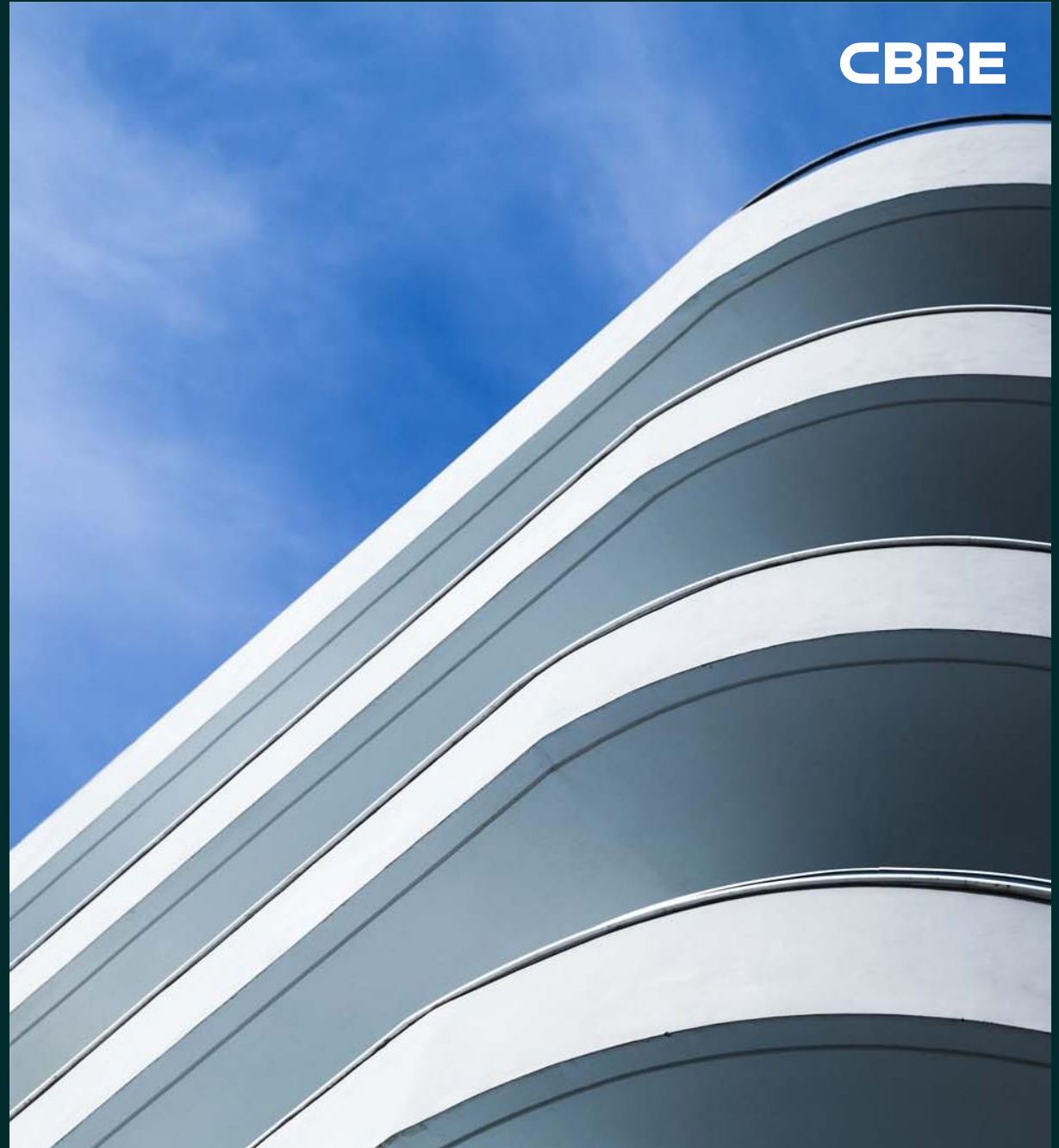


Intelligent Investment

H2 2023 Australia Lenders Sentiment Survey

REPORT

CBRE RESEARCH
NOVEMBER 2023



Executive Summary

Continued appetite to provide funding amid volatility... but with higher levels of credit scrutiny....

CBRE Research's H2 2023 Lenders Sentiment Survey received responses from 40 commercial real estate lenders across local banks, international banks and non-banks. We find:

- Appetite for new loans over the next three months is flattish for the majority of lenders, 37% want to grow and 10% decrease their book.
- Lender investment preference continues to be dominated in the Industrial & Logistics sector, followed by Residential. Lenders have increased their caution towards Office.
- For new developments, there is a sizable bifurcation on pre-commitment and pre-sales by asset class:
 - Almost no pre-lease required for Industrial lending
 - >60% pre-lease required for Office assets by most respondents
 - Largest cohort of lenders require 80%-100% of debt funding covered by pre-sales for Residential
- The cost of debt, influenced by the official cash rate and bank bill swap rates (BBSW) remains at elevated levels. Official forecasts and surveyed lenders expressed no clear consensus view as to whether rates have peaked, and their expected trajectory over the next 12 months.
- Credit margin expectations normalised following H1 2023's survey, with 95% of respondents in H2 2023 expecting <20bps movement in credit spreads over the next 3-months.
- A slight increase in hedging requirements, presumably in response to recent interest rate volatility
- Preferred LVR requirements remained stable around 40-60% but this may come under pressure as assets are revalued in the next 6 months
- ICR requirement of 1.5x for new investment grade lending remains a preferred metric amongst lenders. There has been an uptick in respondents requiring a 1.35x ICR to support new deals.

Cost of Debt Continues to Rise at a Decelerating Pace

In November 2023, the Reserve Bank of Australia (RBA) increased the target cash rate 25bps to a 12 year record of 4.35%. This followed consecutive decisions since June to hold rates steady. The main driver, noted by the RBA in their November decision is the persistence of high inflation and the desire to avoid inflation expectations becoming entrenched.

Rate forecasts amongst major Australian banks are currently divided. One of the major banks has a forecast for one further rate hike in Q1 2024. Forecasts are for rate cuts to commence in second half of 2024 and into 2025.

Of lenders surveyed, 45% indicated that BBSW will sit between the range of 425-474 bps as of December 2024. Majority (72%) of our lenders responded that BBSW will be above 400bps in 12 months. Institutions, regardless of type, held varied perspectives on BBSW movements in this edition of our survey.

FIGURE 1: Key Rate Movements (Jan 2022 – Nov 2023)

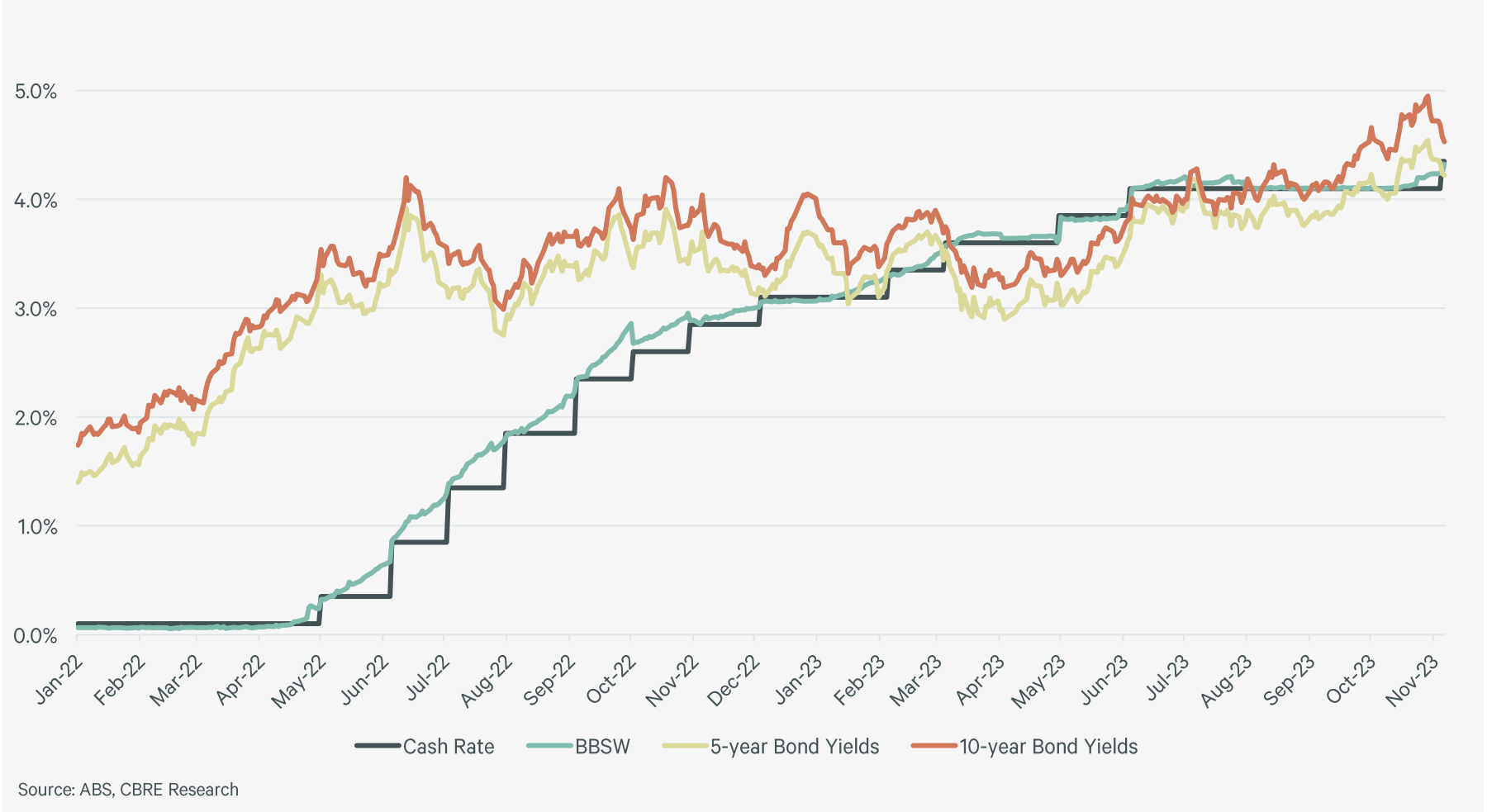
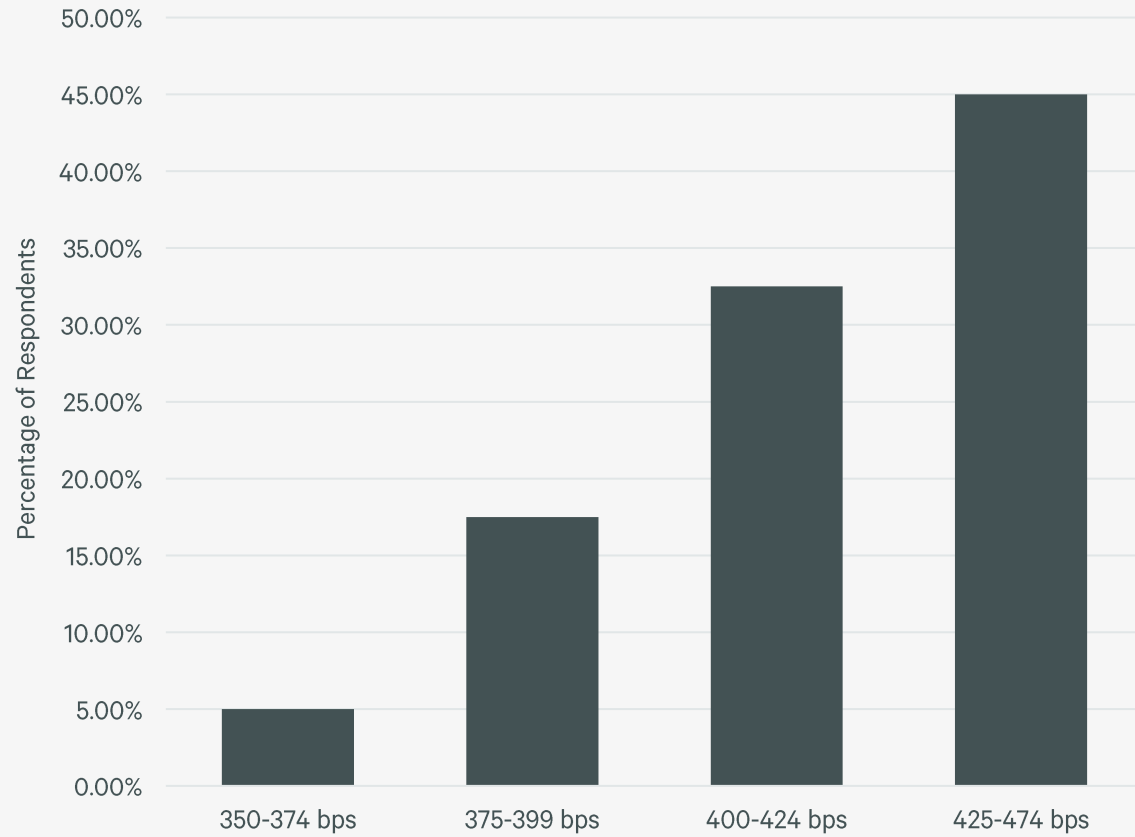
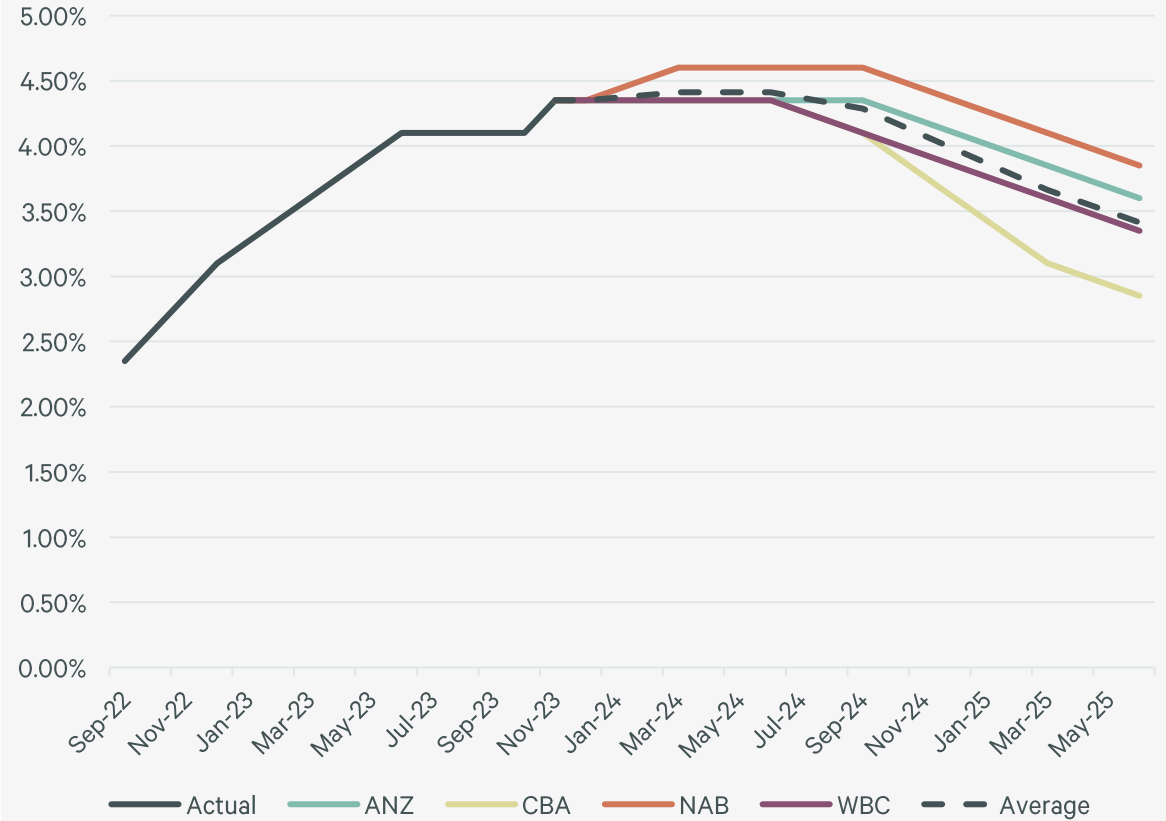


FIGURE 2: Lender Expectations for 90 Day BBSW as of December 2024.



Source: CBRE Research

FIGURE 3: Official Rate Forecasts by Major Australian Bank as of November 2023.



Source: CBRE Research, Respective institution's Forecast Reporting.

Margins and Hedging requirements

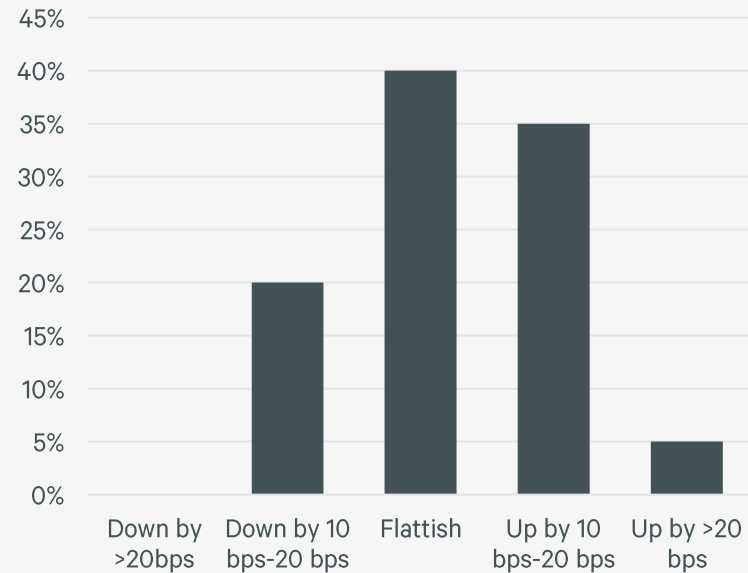
Credit margins are not expected to change significantly, with almost all lenders expecting a movement of less than 20bps over the next 3-months. Interestingly, now 20% of lenders expect credit margins on commercial real estate could recede over the next 3 months.

Interest rate hedging remains a popular requirement for lenders. Nearly two thirds of lenders require at least 25% of the loan to be hedged.

Lending appetite remains broadly consistent with our prior survey. Just over half of respondents indicated a desire to keep their loan book “flat”, one third want to grow and 10% prefer to reduce.

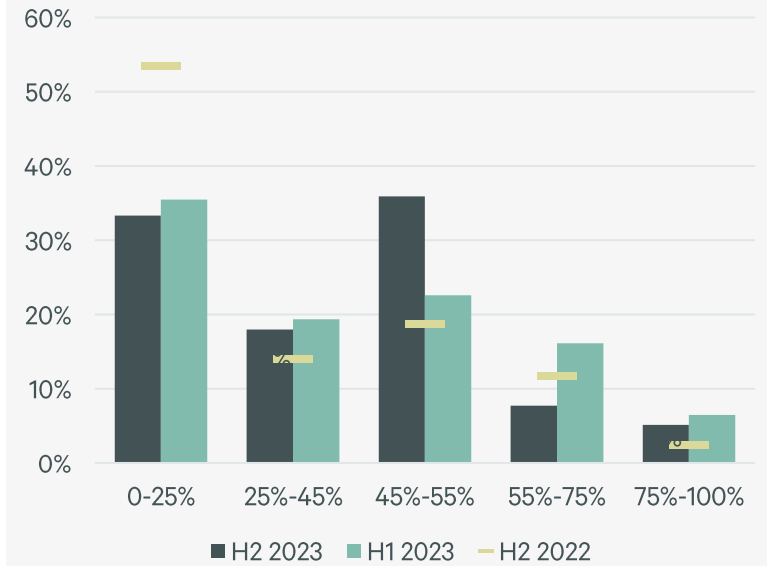
Increasingly certainty on the macro-economic outlook should support the case for increasing loan appetite, in our view.

FIGURE 4: Expectations for credit margin movements over next 3-months on new loans.



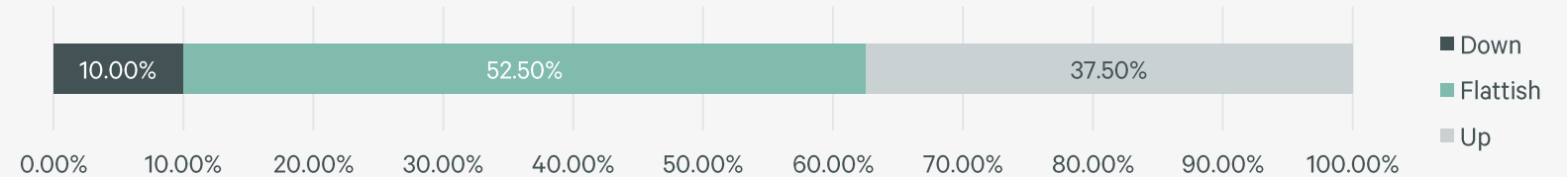
Source: CBRE Research

FIGURE 5: Current lender interest rate hedging requirements by survey period.



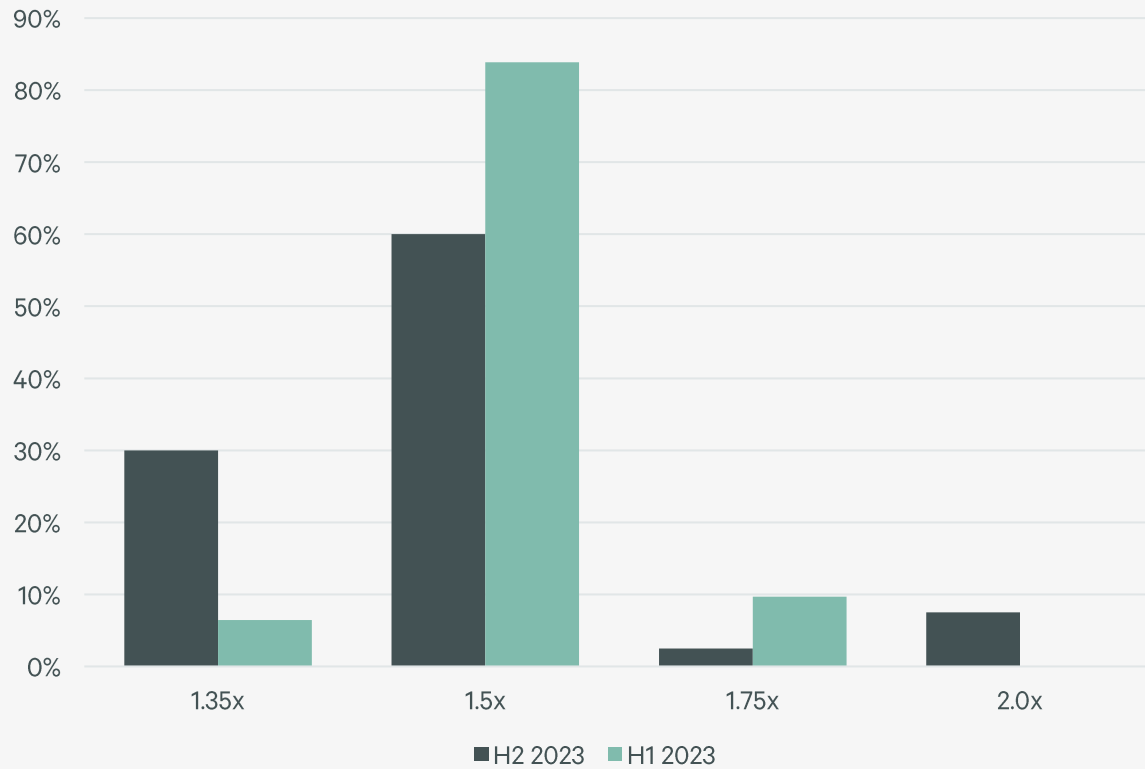
Source: CBRE Research

FIGURE 6: New loan appetite expectations over the next 3-months.



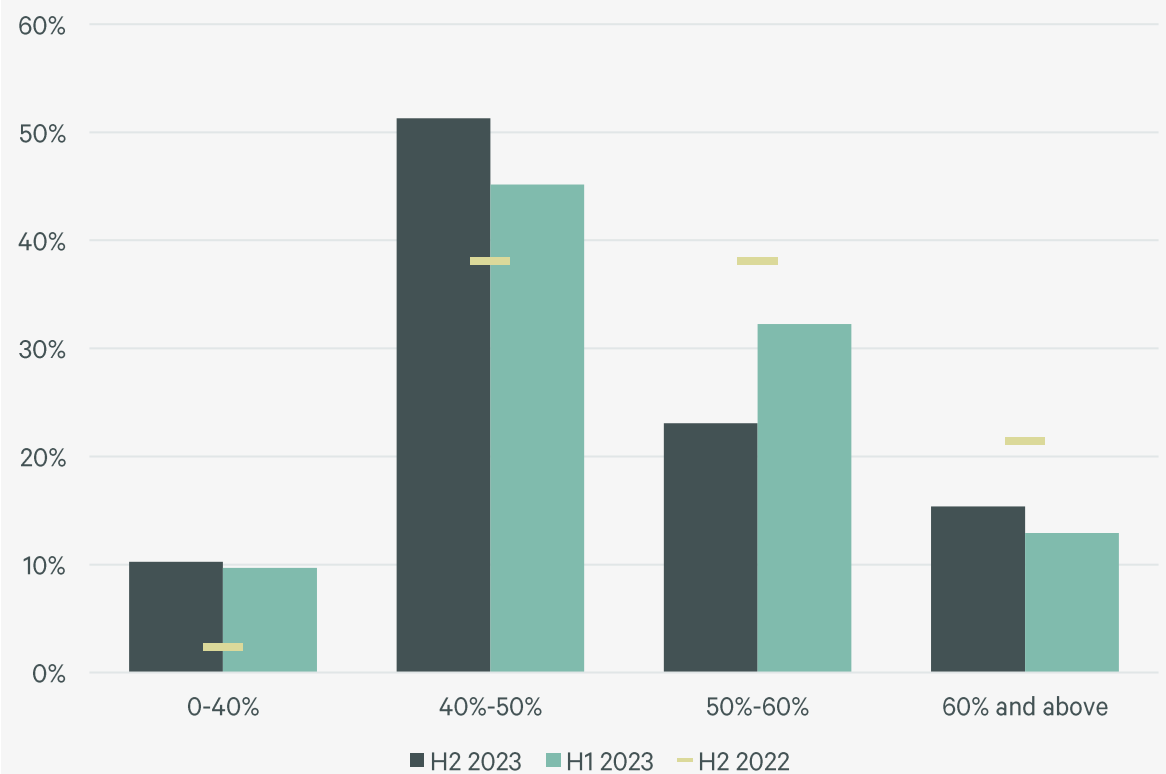
Source: CBRE Research

FIGURE 7: Lender ICR requirements for new investment grade lending.



Source: CBRE Research.

FIGURE 8: Lender preferred LVR requirement.



Source: CBRE Research

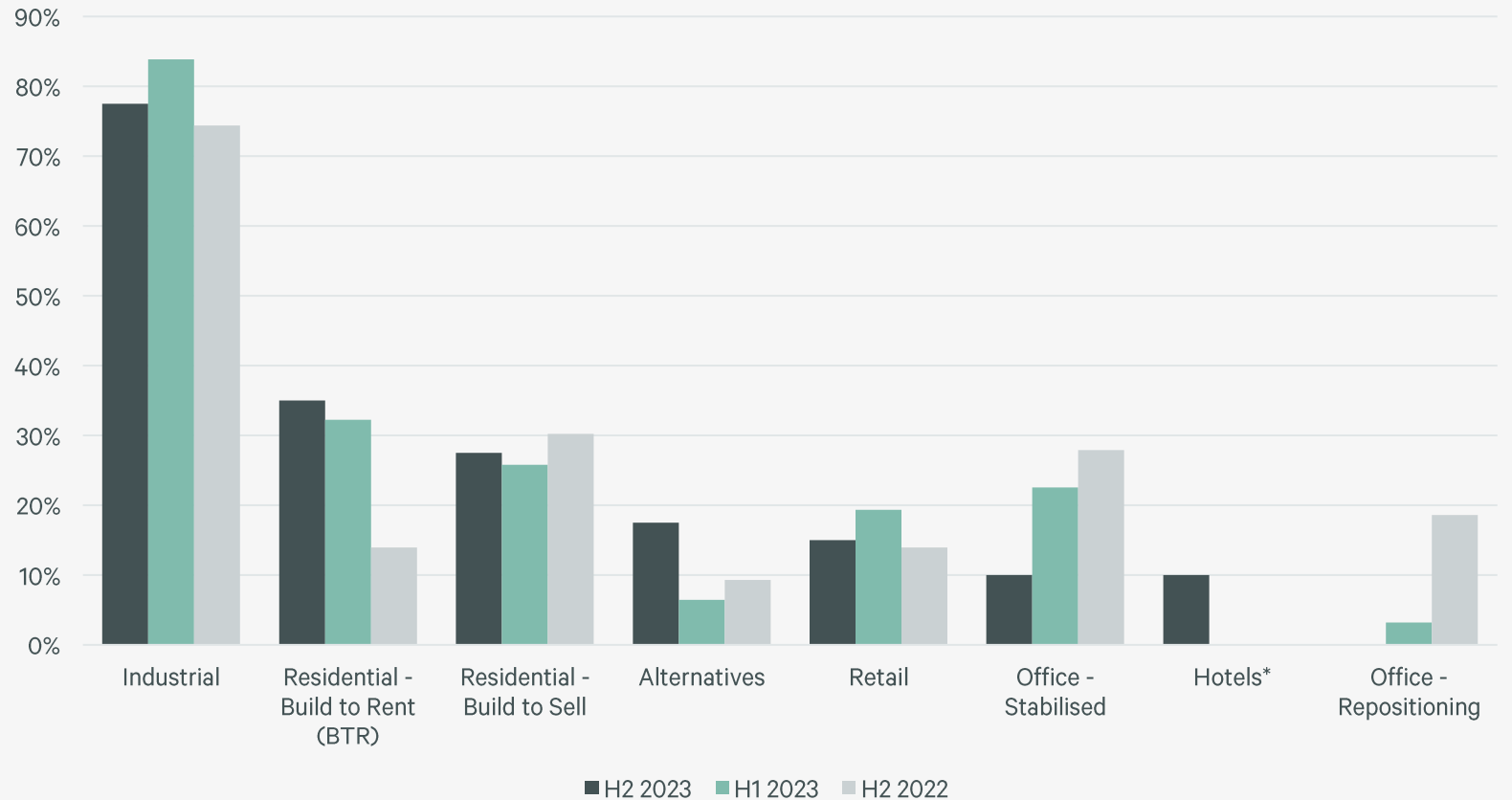
Industrial continues to attract lender interest

The Industrial sector has continued to attract lender interest as it is characterised by the lowest vacancy level globally¹ and strong rental growth.

Alternatives saw the largest half-on-half increase. CBRE Research indicates there is untapped investment potential in the sector of upwards of \$1.3 trillion, amidst growing demand requirements to meet renewable energy targets² and portfolio diversification.

Lender preference for office assets continued to decline and for the first time was surpassed by Retail in survey. Sentiment towards office has been compounded by a lack of sales evidence in the market which has delayed any data demonstrating softening of yield. Until lenders have certainty as to the impact on values, they will continue to have a conservative view on this sector.

FIGURE 9: Lender preferred asset class for new investment (top two responses).



Source: CBRE Research

Note: CBRE Research H2 2023 Lenders Sentiment Survey is the first time the 'Hotels' option has been provided to respondents.

1. CBRE Research 'Australia Industrial & Logistics Vacancy First Half 2023'

2. CBRE Research 'Untapped Investment Potential in Australia's Emerging Renewable Energy Industry'

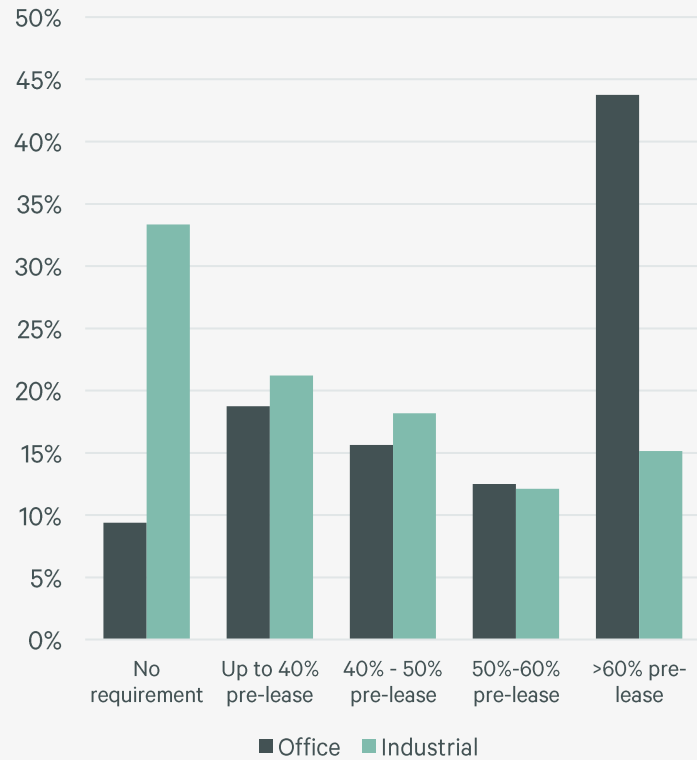
Bifurcation in requirements for new development finance

Commercial construction lending pre-lease requirements have bifurcated between Industrial and Office assets. The largest cohort of respondents indicated no pre-lease requirement for industrial construction lending. In contrast, the largest cohort of lenders to Office construction require >60% pre-lease.

We anticipate this will start to play a role in Office asset construction and re-development being pushed back or postponed indefinitely, except for the most well-capitalised landlords.

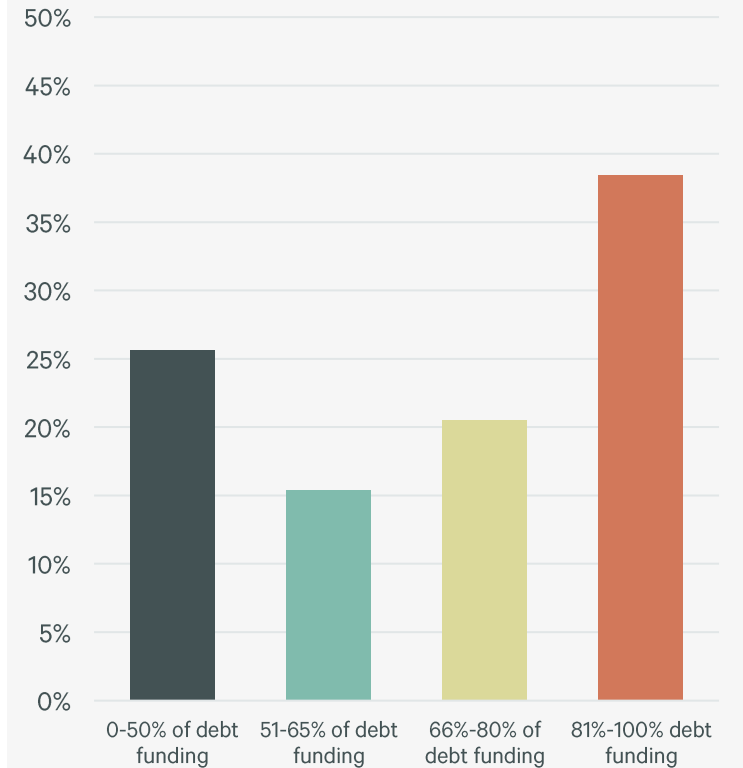
For residential, nearly 60% of lenders expect over two thirds of the debt component of construction finance to be covered through pre-sales. This is likely to continue to weigh on future supply.

FIGURE 10: Pre-lease requirements for construction lending by commercial real estate asset category.



Source: CBRE Research

FIGURE 11: Pre-sale requirements for Residential-to-Sell construction lending



Source: CBRE Research

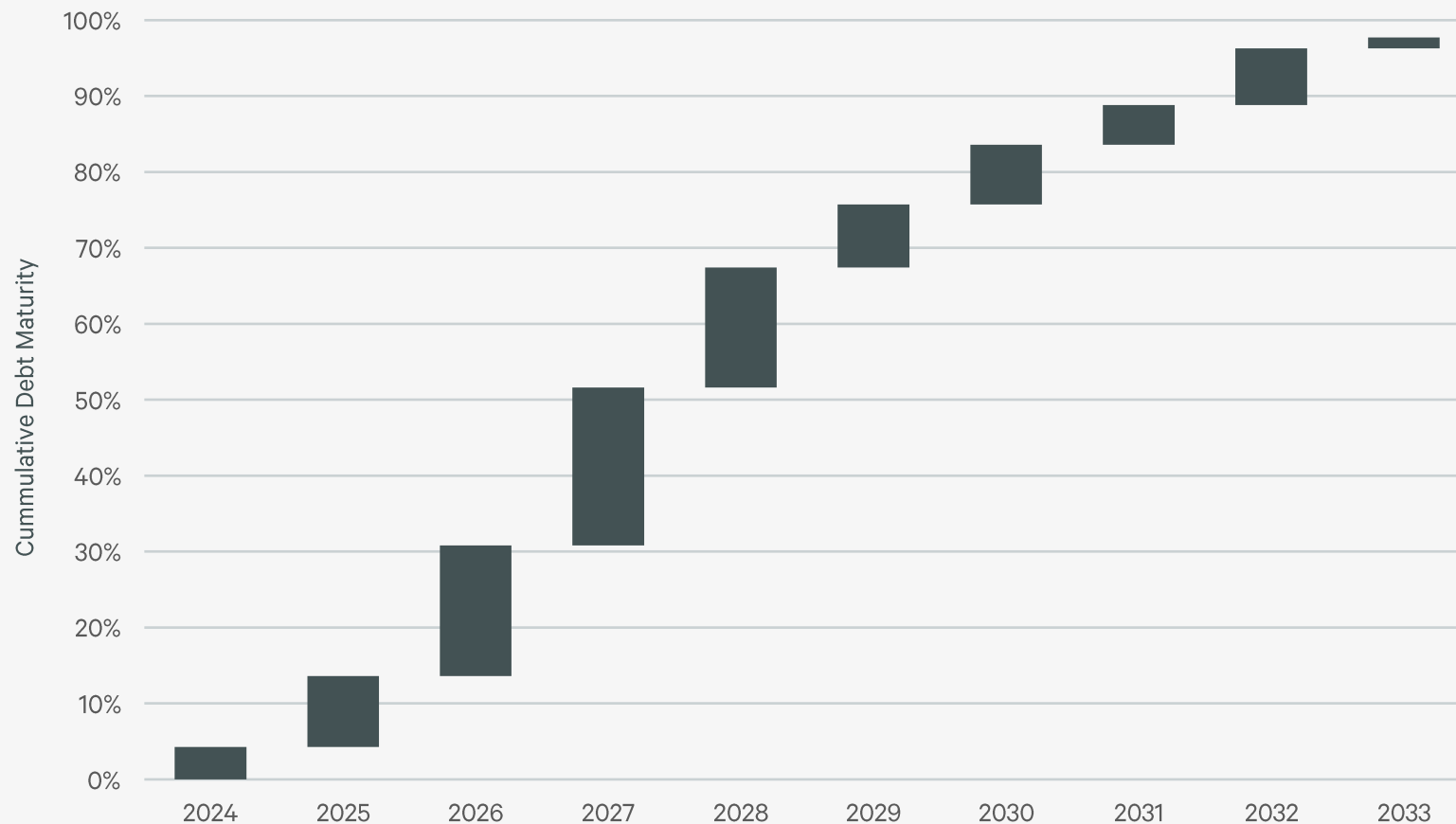
Peak CRE debt maturity over 2026-28

Approximately AUD 370bn of debt is supporting the Australian commercial real estate (CRE) sector. Concerns about a “debt maturity cliff” continue to be present, amidst the current rate environment. Through a CBRE analysis of maturity schedules across Australia’s largest commercial real estate listed REITs, these concerns seem largely unwarranted.

Our research indicates only 14% of debt expected to reach maturity by 2025. The highest concentration in any year is that of 2027, with 21% of debt maturing. The period from 2026 to 2028 indicate the highest concentration, however these figures remain relatively low.. CBRE Research notes an expected 2/3rd of debt is expected to have matured over the 5-year period from 2024-2028.

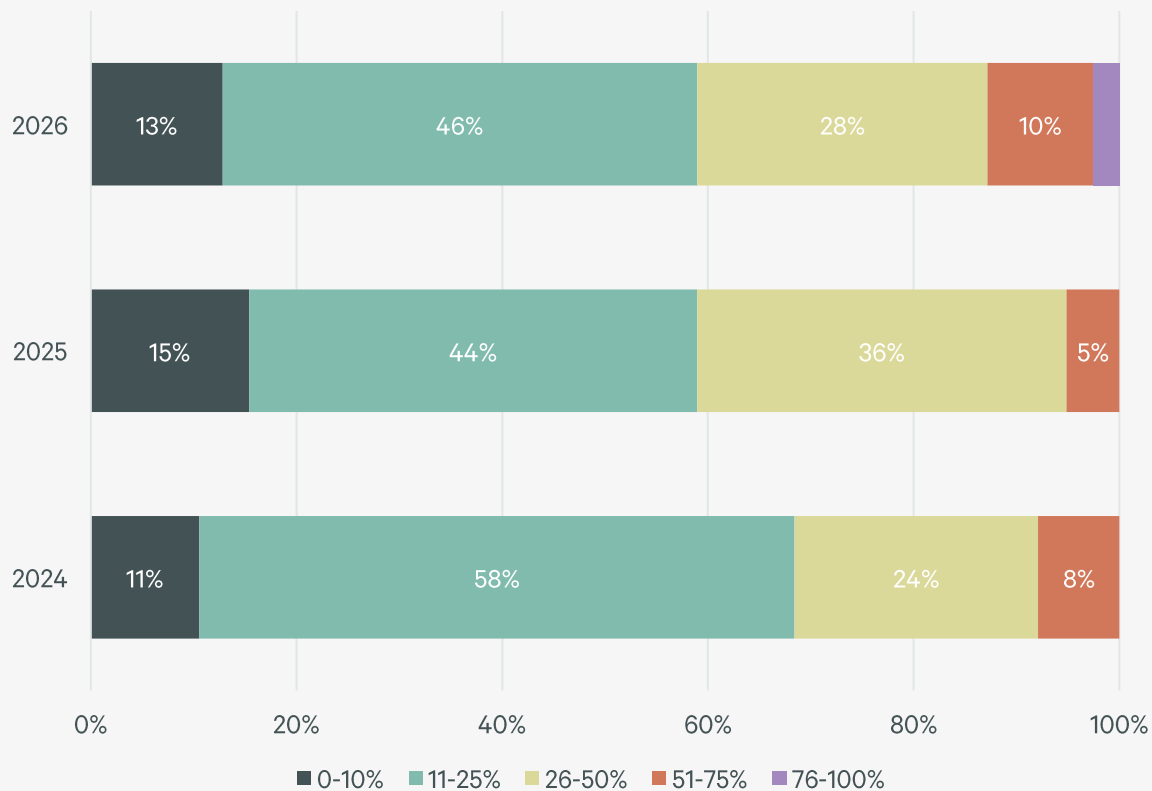
An analysis has been made on the individual debt maturity of lenders in Australia. The surveyed responses indicate that more than half of lenders indicating <25% of their loan book is expected to mature in any given year from 2024 to 2026. Similarly, these results indicate the lack of a significant debt-maturity cliff present locally in Australia.

FIGURE 13: Australia commercial real estate debt maturity roll-off

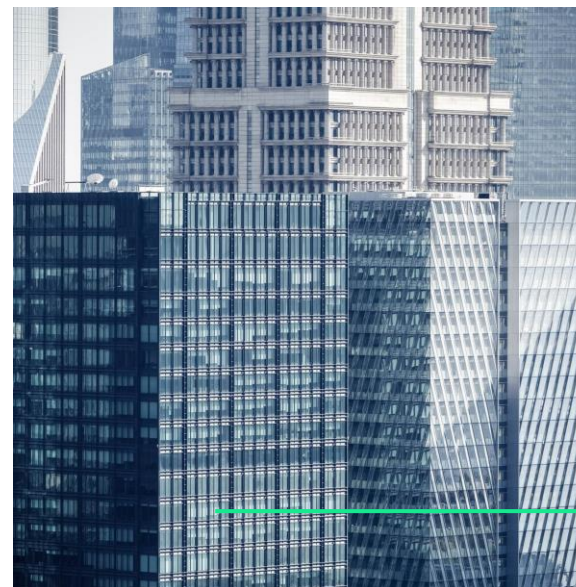


Source: CBRE Research

FIGURE 12: Expectations for percentage of book anticipated to reach maturity for refinance by year.



Source: CBRE Research



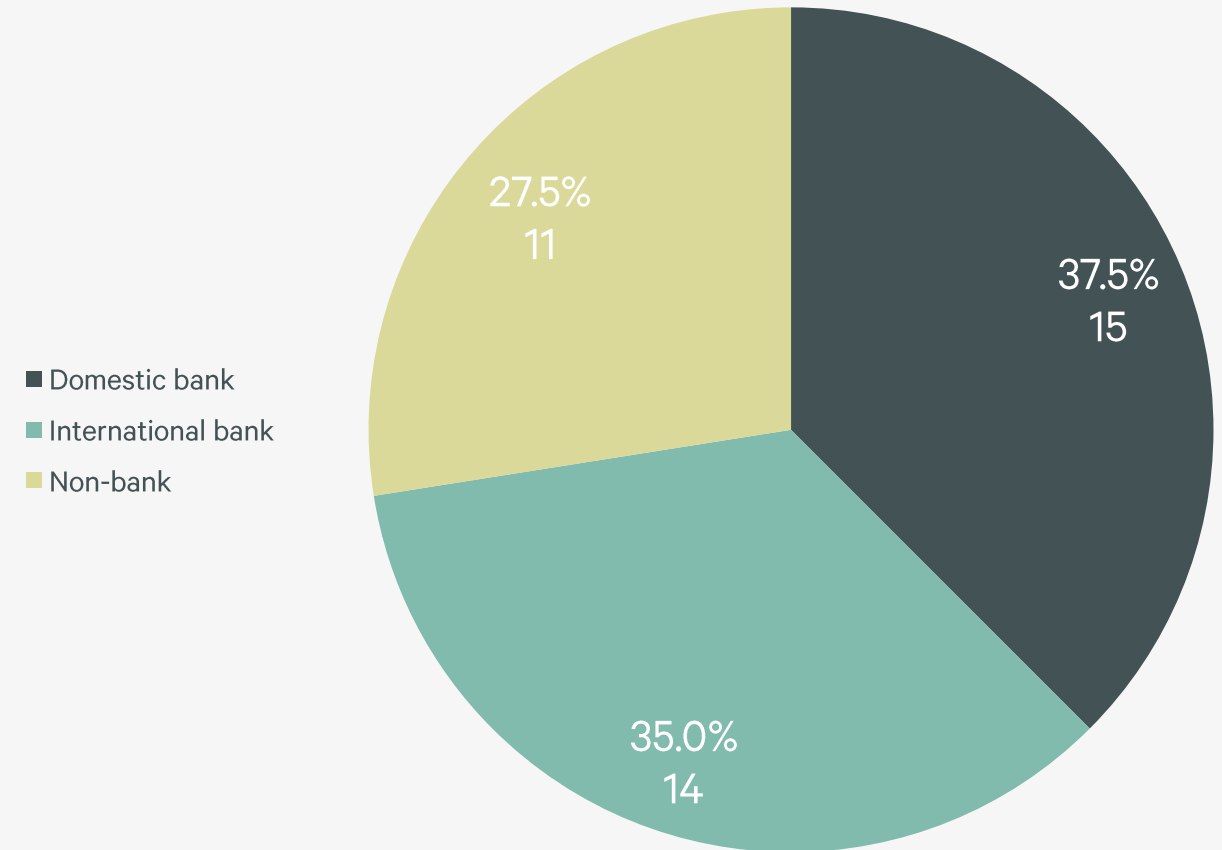
Refinance Risk

Given a flattish outlook on lending appetite, liquidity is not considered the risk associated with refinance. The immediate risk of refinance comprises serviceability and loan amount as valuations soften, effectively the ability to size loans meet existing debt limits without the injection of additional capital.

Survey Profile

The CBRE Research H2 2023 Lenders Sentiment Survey was conducted over the end of October 2023 and beginning of November 2023. A total of 40 Responses were received prior to the November 7, 2023, RBA Cash Rate Decision.

FIGURE 13: H2 2023 Respondent Profile by Type of Respondent Surveyed.



Source: CBRE Research

Contacts

Australia Research

Sameer Chopra

Head of Research, Pacific & ESG Asia Pacific

Sameer.Chopra@cbre.com

Cameron Douglas-Perrine

Research Analyst, VIC

Cameron.DouglasPerrine@cbre.com

Capital Markets

Andrew McCasker

Managing Director, Debt & Structured Finance

Andrew.Mccasker@cbre.com.au

Will Edwards

Associate Director, Debt & Structured Finance

Will.Edwards@cbre.com.au

© Copyright 2023. All rights reserved. This report has been prepared in good faith, based on CBRE's current anecdotal and evidence based views of the commercial real estate market. Although CBRE believes its views reflect market conditions on the date of this presentation, they are subject to significant uncertainties and contingencies, many of which are beyond CBRE's control. In addition, many of CBRE's views are opinion and/or projections based on CBRE's subjective analyses of current market circumstances. Other firms may have different opinions, projections and analyses, and actual market conditions in the future may cause CBRE's current views to later be incorrect. CBRE has no obligation to update its views herein if its opinions, projections, analyses or market circumstances later change.

Nothing in this report should be construed as an indicator of the future performance of CBRE's securities or of the performance of any other company's securities. You should not purchase or sell securities—of CBRE or any other company—based on the views herein. CBRE disclaims all liability for securities purchased or sold based on information herein, and by viewing this report, you waive all claims against CBRE as well as against CBRE's affiliates, officers, directors, employees, agents, advisers and representatives arising out of the accuracy, completeness, adequacy or your use of the information herein.