



PFA 2019 Conference

Funding Challenges

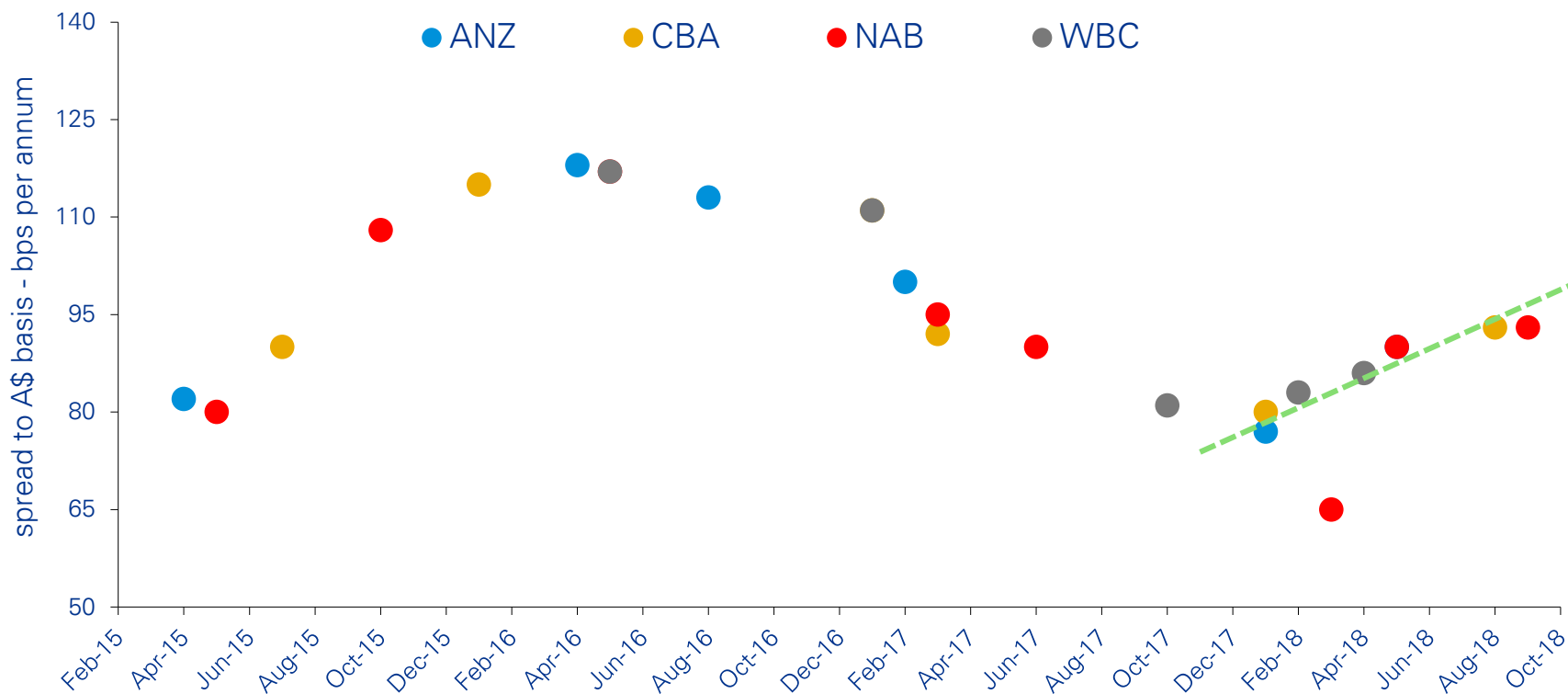
The catalyst for change and expansion

6th – 7th May 2019

Increasing major bank wholesale funding costs



Bank funding costs on the increase will be passed onto borrowers....



Source: Bloomberg and KPMG Analysis

\$19b worth of new property loans breach tough lending guidelines



There has been an 85 per cent, or \$9 billion, increase in loans approved by lenders that fall outside their own tough new lending criteria, with the major banks the biggest offenders, according to analysis by the prudential regulator.

Source: Duncan Hughes, Australian Financial Review, November 2018

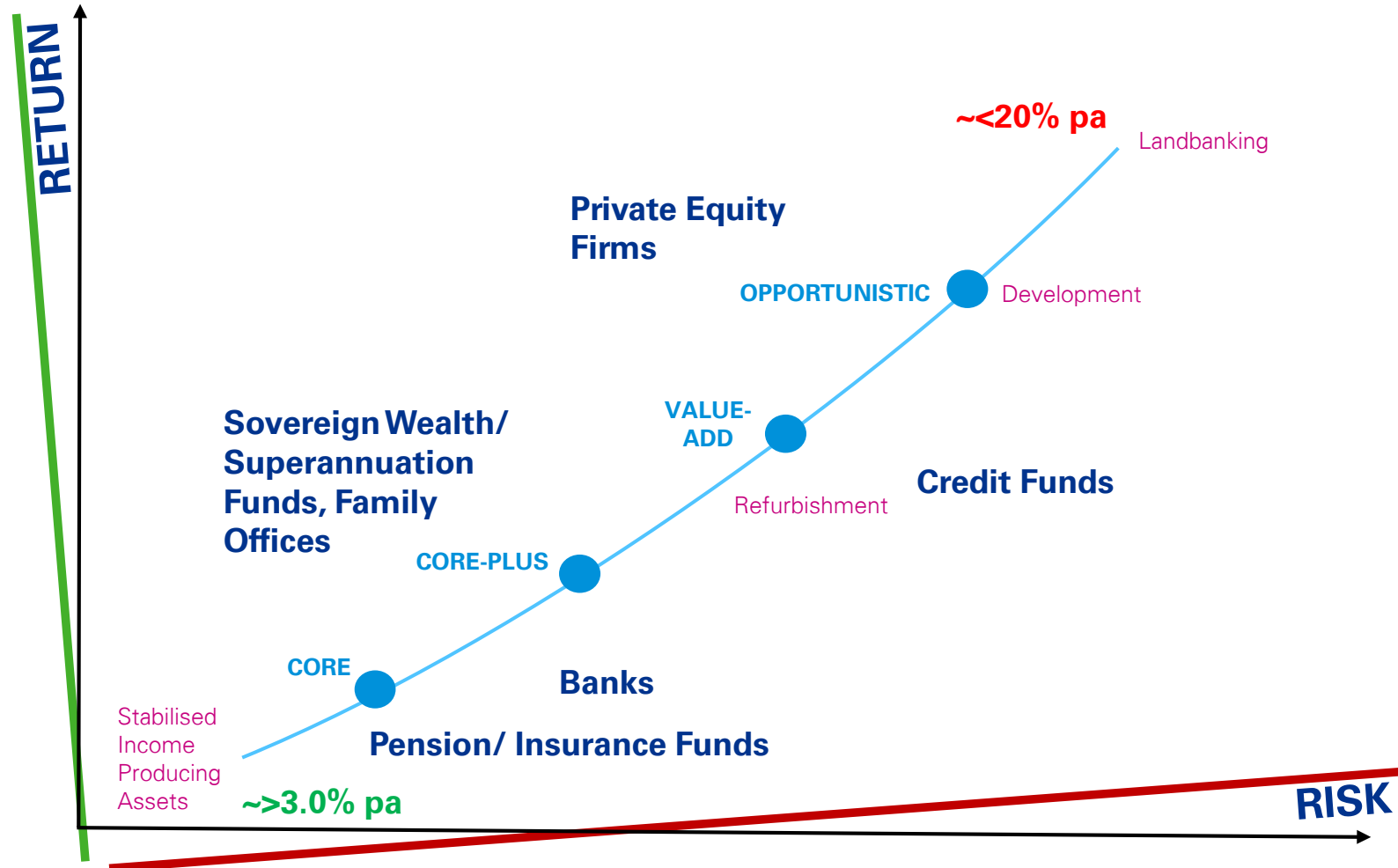
Domestic banks being forced by regulator to reduce exposure to property sector. Examples include:

- income producing property loans subject to 2x interest cover ratio
- developer loans limited to at least 100%+ pre-sales coverage
- unable to accept 3rd party credit enhancement for lack of pre-sales
- restrictions on lending in certain locations
- restrictions on loans to privately owned groups






















Key types of debt funders across risk spectrum

TAKE-AWAYS

- Bank conditions creating ongoing opportunities for alternate financiers.
- Range of non-bank financiers taking market share.
- Creating real choice for borrowers.
- Both ends of risk spectrum benefiting.



Lending environment overview

AUM ~\$Bn		Lenders	Pre-GFC (2007)	During-GFC (2009)	Post-GFC (2010-now)	Current Trends/ Themes
~390	{	Domestic Banks				Regulatory, funding headwinds, selective business
		Offshore Banks				Local bank syndication driven or relationship focus
		Credit Funds				Flexible structures & terms, wide risk & cost range, big tickets, debt vs equity lens
		Pension/ Insurance Funds				Low cost, longer term, big ticket, FM tail-winds, debt vs equity lens
		Sovereign Wealth Funds				Flexible structures and risk appetite, partner via local funds
		Super Funds				Selective, organically developing
		Private Family Offices				Flexible structures, wide risk & higher cost range

Lending landscape takeaways

A number of financiers are providing genuinely better solutions than bank options

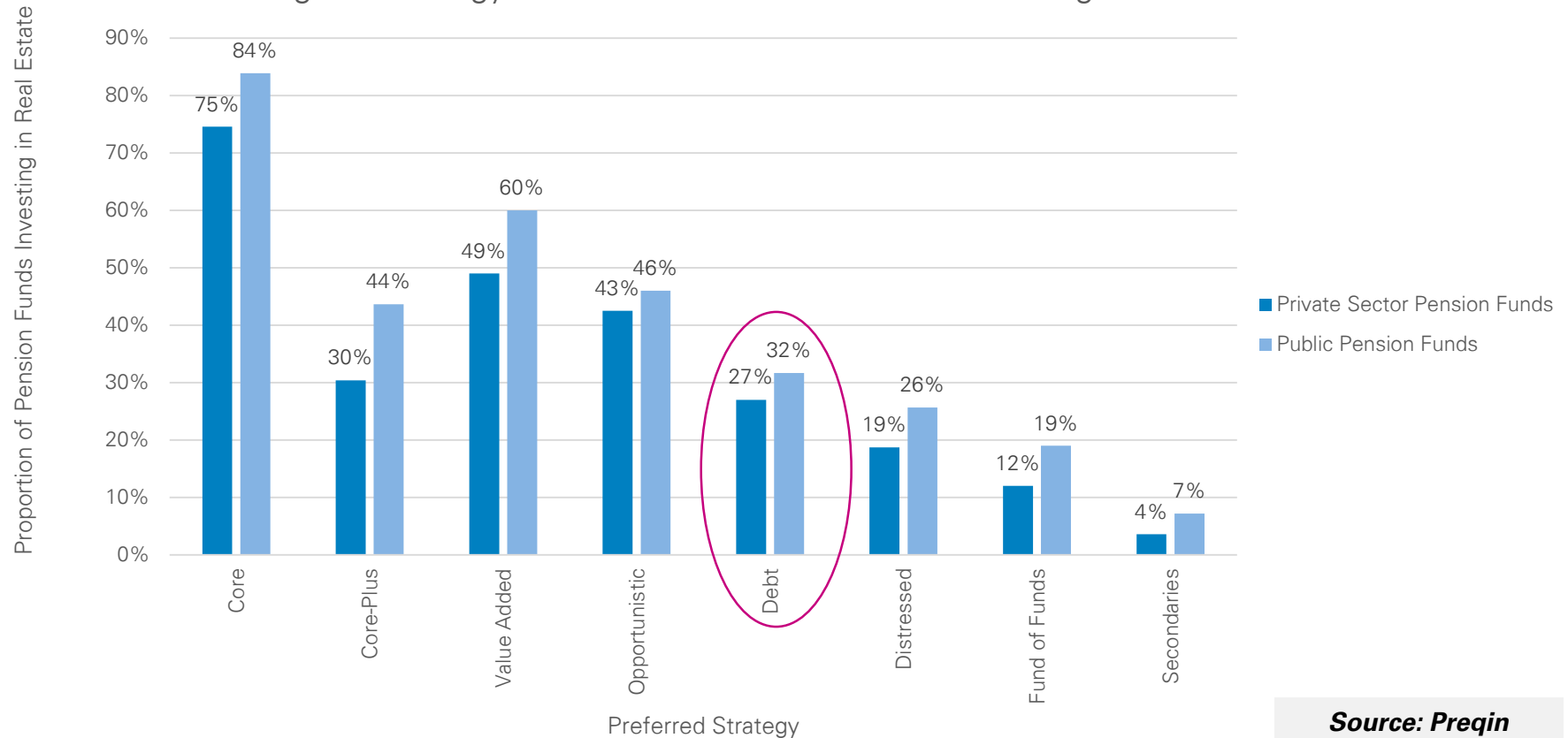
A majority are seeking higher risk/return financings in a congested segment – single vs double IRRs

In excess of 100 active financiers playing across the risk capital spectrum

Real estate debt as an asset class for instos here to stay...

Strategy Preferences of Pension Funds Investing in Real Estate

Fig. 11: Strategy Preferences of Pension Funds Investing in Real Estate



Recent alternate financier activity in real estate

Investment longer term loans with more flexible covenants and low pricing

Mezzanine or whole loan financings with more flexible covenants and low pricing

Residential construction with low levels of pre-sales

Commercial construction with limited pre-lease commitments

Take out financing of unsold residual stock in residential developments

Take out financing of commercial components on completion

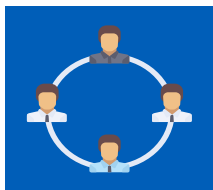
Land banking on a capitalising basis

Portfolio (head co) equity loans

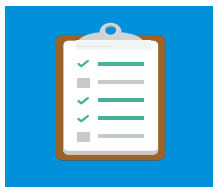
Overview of different alternate financier loan products

Loan type	Term	Construction	Residual Stock	Mezzanine	Land	Portfolio Equity
						
Tenor	3-10 years	1-3 years	1-3 years	3-5 years	Up to 3 years	Up to 3 years
LVR / LTC	<65%	<65%	<65%	<85%	<65%	<85%
ICR	>1.2x	N/A	N/A	<1.0x	N/A	N/A
Margin	1.5-3.5%	4.0-7.5%	5.0-8.0%	6.0-12.0%	6.0-9.0%	8.0-15.0%
Key feature	Shorter Wale / Make whole	Low presales	Non-income producing	Equity cure/ takeout senior	Equity release	Equity release

Creating competitive tension in using alternate lenders



Alternate financiers enter and exit on ongoing basis



Hard to source and compare lenders and terms on like for like basis – given bespoke unregulated nature of lenders and structures, unless dealing everyday

Established debt advisor (ie KPMG) can assist by:

- ✓ establishing funding objectives, preparing materials for lender review, targeting select financiers and running tight competitive RFP tender process;
- ✓ leveraging insight gained through having real visibility over what deals are being done, who is “kicking” and who is “doing” deals, and current market trends;
- ✓ using market knowledge to deliver best execution for their borrower clients – established debt advisor running competitive RFP tenders should know more about the market participants than the participants know about their competitors;
- ✓ leveraging digital platforms that streamline workflows and proprietary tools that capture property data in real time, to save management time, reduce deal execution times and financing costs.



Experience



Knowledge



Approach

What do these changes mean for property funds sector?

Market is developed so that there is capital appetite for every level of risk

Non-bank lenders have developed sufficient trackrecord

Role for banks will change overtime – focus on shorter term [working] capital solutions and big ticket [timely] underwrites for distribution ie “originate to distribute”

More “sophisticated” capital being provided as debt via an equity lens

Greater portfolio allocation of both “cheap’ and “expensive” global debt and equity to Australia

Local expertise being recruited and developed for debt funds via leveraging real estate equity fund platforms

Creates environment for further product development ie conduit loans, 30 year amortising loans, short term acquisition and IPO bridge facilities

Important to not just consider the right type of debt but also right source of debt for your needs

A low-angle, upward-looking photograph of several tall skyscrapers in a city, likely New York City. The buildings are made of glass and steel, reflecting the sky. A solid blue horizontal band runs across the middle of the image, partially obscuring the buildings. The word "Appendix" is written in white, serif font, centered within this blue band.

Appendix

KPMG's debt advisory core service offering

At KPMG, we can support our borrower clients in all facets of the investment cycle with our full range of service offerings. Its not a one size fits all approach, so by focusing on every client's specific needs allows us to tailor the right support to meet their requirements.

Partnering with us, you get...

Capital structuring & benchmarking

- Develop optimal capital structure in line with client's business objectives and risk appetite
- Consider client's requirements, market factors and timing – allowing sufficient headroom for unforeseen events

Arranging & executing financing processes

- Assist and advise on approach, responses and strategy to optimise terms and appetite from all markets
- Term sheet, information memorandum, financial model preparation
- Financier negotiations, assist through documentation

Funding options analysis

- Assess, model and develop strategies for various funding options (including sources and benchmarking)
- Leverage and / or asset based financing solutions
- Senior debt versus alternative financing options

Credit rating advisory

- Determine the likely outcome of the credit rating process having regard to financial and business risk factors and relevant peers
- Examine possible business and capital management initiatives to target a credit rating profile
- Assist with the formal credit ratings process

Debt structuring & covenant negotiation

- Assist with liquidity and working capital management
- Secure optimal pricing, terms and conditions
- Maintain control of the negotiation / financing process

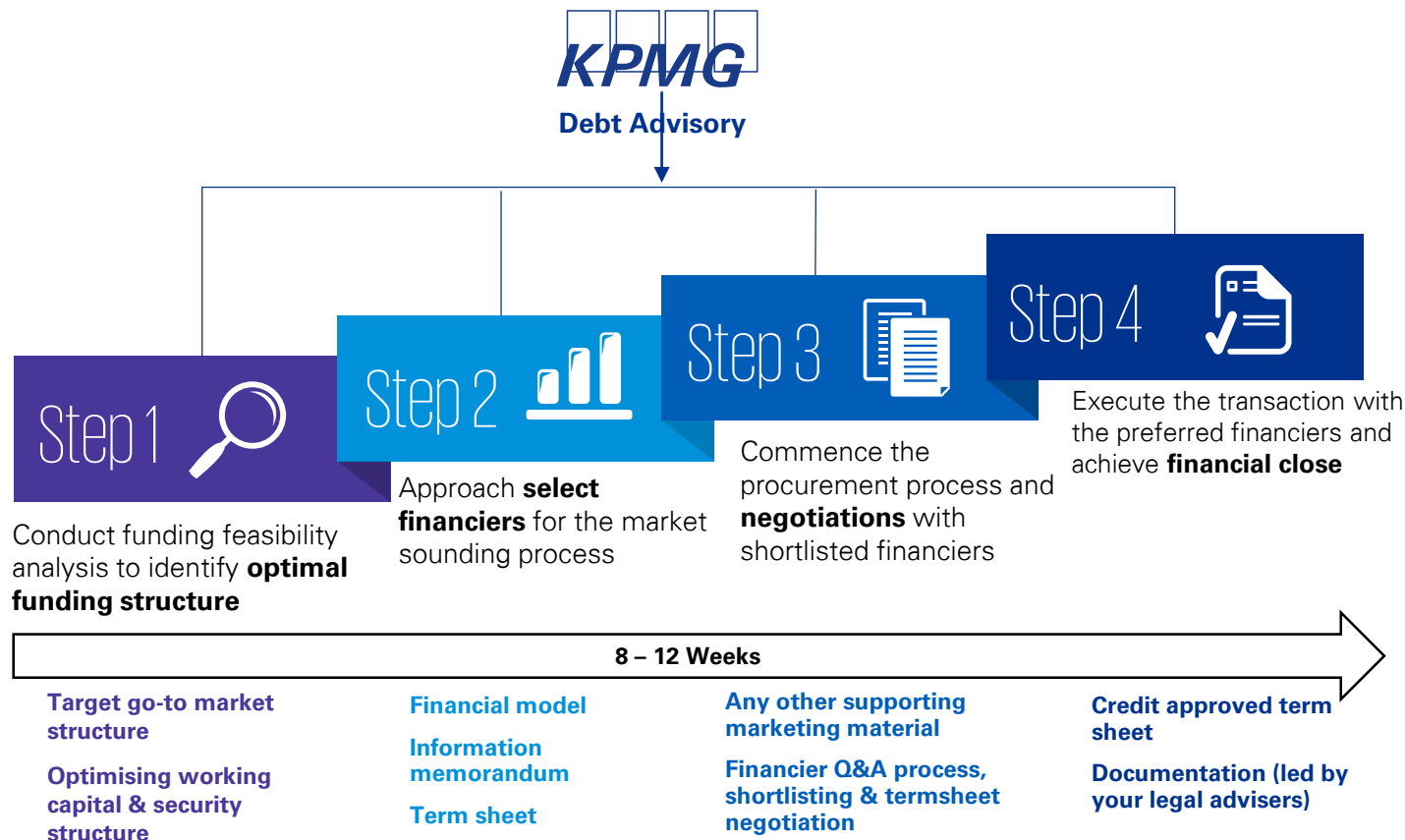
Alternative capital sources

- Provide access to investors across all debt and equity instruments (banks, funds, institutions), including alternative investors
- Senior, unitranche, subordinated, mezzanine, hybrid capital instruments, local and global market options

Typical debt raising approach

KPMG's debt advisory team can provide the real estate borrowers with **complete end-to-end support** throughout the financing process. This typically begins with a **detailed feasibility analysis** and **market sounding process** to assess different funding structures and alternative sources of capital available in the market.

From there, KPMG can assist clients to run an efficient and **targeted procurement process** with financiers. This can be tailored as necessary but typically includes preparing an **information memorandum and term sheet** to send to financiers, advice on key commercial terms and **negotiation** with financiers, through to assistance in legal documentation with lawyers.



KPMG acts as an independent advisor for its borrower clients

KPMG's fee structures are flexible and can be based on either retainer, milestone, success, or a combination of these.

We have the largest debt advisory team in Australia

We are the leading independent debt advisory practice with a **global** Debt Advisory team of over **120 professionals**, and we have **30 professional** staff based throughout Australia. Our local team have an in-depth knowledge of debt markets having extensive experience with all the Big 4 Australian banks, numerous international investment banks and other relevant institutions that regularly access the debt capital markets.



Tony Moussa – Director



Tony Moussa

*Director, Debt Advisory,
Deals Tax & Legal*

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Function and specialisation

Real Estate: Financial Services, Fintech, Private Equity, Venture Capital, Technology & Digital Media, Blockchain, Infrastructure, Tourism & Leisure, Consumer & Beverage, SME

Education & Qualifications

Bachelor of Economics
Bachelor of Laws
Grad Dip Applied Finance
Grad Dip Legal Practice

Admitted Supreme Court of NSW,
Federal & High Courts of Australia

Legal (Corporate) Practising
Certificate (NSW)

Background

Tony has over 25 years of experience gained across all aspects of:

- **real estate** investment banking, corporate advisory, global markets, debt and equity products, securitisation, structured and leveraged finance;
- institutional and family office debt and equity investing;
- private equity, venture capital, mid market corporate restructurings and recapitalisations, startups and fintechs;
- M&A, JVs, business development, digital disruption, go to market strategy, B2B & B2C marketplaces, operational optimisation, leadership; and
- managing complex stakeholder interests of funders, industry, customers, shareholders, board and management,
- and with particular focus on the **real estate**, financial services and technology sectors. Tony has significant experience in working with Chinese developers on complex and large transactions including landloans, construction, residual stock, take out and portfolio equity financings.

Prior to joining KPMG in early 2018, Tony:

- since 2012 was involved as a Founder and Managing Director in both his own capital advisory and placement consultancy which included significant mandates for clients such as CHAMP Private Equity, as well as an innovative proptech startup which is a live communication platform for **real estate** agents and consumers where he was (until 2016) responsible for operational, capital, legal, and strategic transaction execution;
- between 2010 - 2012, was the founder and Head of the Private Capital Group at ANZ Bank Global Markets, where he had responsibility for the origination, structuring and execution of private institutional capital mandates across the institutional, corporate and commercial client base, with a particular focus on **real estate**, natural resources, technology, sme and agri businesses in growth and financial distress circumstances. The role also included responsibility for relationships with domestic and foreign private institutional capital investor clients;
- in 2000, commenced employment at Deutsche Bank AG where he remained for 10 years, and was for the last 5 years (2005-2010) Australian & NZ Head of Global Commercial **Real Estate**. In this role, Tony was responsible for **real estate** leveraged finance and special situations principal investing. Prior to this role, Tony was a Director for the first 5 years in Deutsche Bank's Securitised Products Group where he worked on a multitude of innovative and highly structured on and off balance sheet structured finance solutions across a range of industry sectors with particular focus on **real estate** and project based asset financing.

Earlier in his career, Tony worked for Westpac Banking Corporation in securitisation origination, as well as senior legal counsel roles servicing M&A, equities, property, infrastructure, project & structured finance. Tony commenced his professional career as a corporate finance and **real estate** lawyer, initially with Clayton Utz. Tony also has direct experience in founding and being CEO of one of Australia's first early online portals in the late 1990s for fundraising which enabled Australian companies to electronically host prospectuses for raising capital.

Professional and industry experience

- Tony has extensive experience advising institutional, corporate and private equity clients on a range of financing related initiatives associated with specific and portfolio acquisitions and divestments, corporate mergers and acquisitions generally, refinancings, restructures and recapitalizations.
- His clients and relationships have included all major Australian listed, private and international groups investing in Australian **real estate**, private equity/venture capital firms and select family offices investing in mid-market corporates and scalable phase startups.

Tony is a current member of the Expert Network for Accelerating Commercialisation, which is part of the Australian Commonwealth Government's AusIndustry Innovation Programme.



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