MaxCap Group

REAL ESTATE DEBT AND INVESTMENT

CRITICAL CHANGE – A CRISIS, CHALLENGE OR CATALYST FOR PROPERTY INVESTMENT

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Critical Change

Crisis, Challenge or Catalyst

"Say hello to the banks that won't lend. Petrified by the royal commission, terrified of making a mistake… it would be entertaining, if it didn't matter so much."

- James Kirby, The Australian, March 20, 2019

AN OPPORTUNITY – NOT A CRISIS!!

- Background - Investment Lending. 15 years at Westpac Institutional Bank – most recently running the Institutional Property business in Victoria
- Past 2 years at MaxCap as an Executive Director responsible for Commercial Lending and with geographic responsibility for WA/SA
- There is ongoing Critical Change in Debt Capital Markets – presenting both new sources of financing and alternative Investment Classes. Multi Billion $ Opportunity
- Given the continued retreat of the Australian Banks from Commercial Property Lending, Alternative Lenders are now prevalent in Construction Finance & Subordinated Finance. They are becoming increasingly prevalent in Valued Add and Core Plus and will ultimately move more heavily into Investment Finance
- Alternative Lenders are however, primarily Investment Managers and the availability of capital is Demand driven – the greatest risk adjusted investment opportunity has for some time been Residential Development Finance – this is now evolving

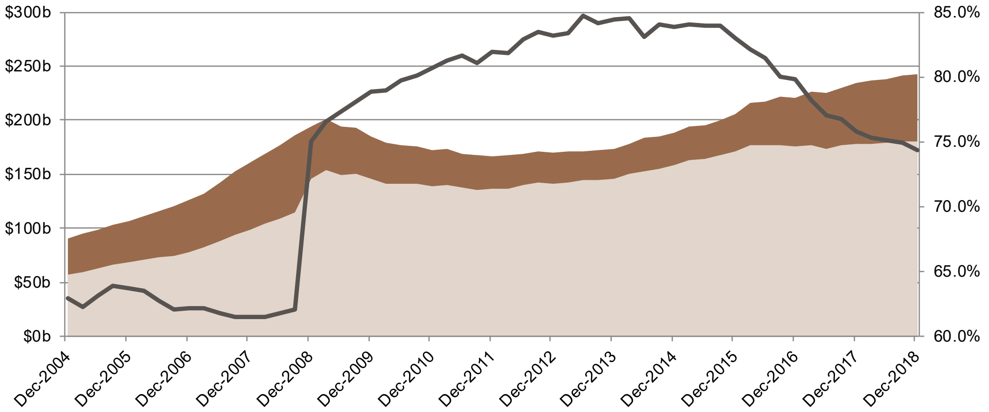
An overview of MaxCap Group

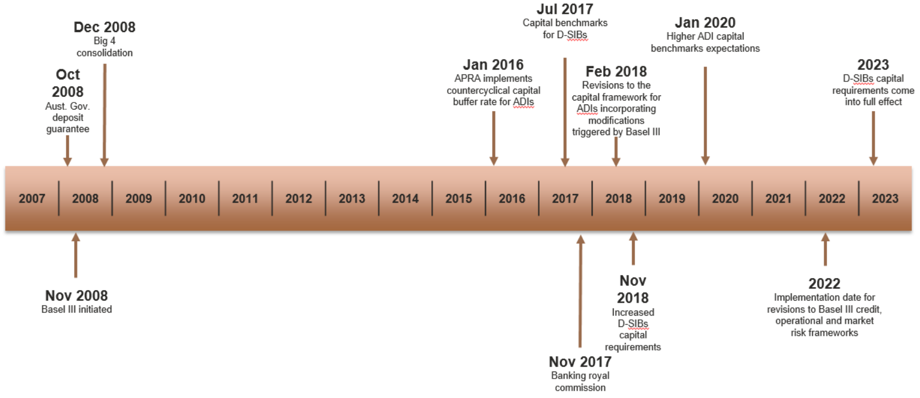
MaxCap is an Australian commercial real estate (CRE) investment manager, managing a suite of funds and mandates. Founded in 2007, we have originated and managed more than $6.6 billion of Australian CRE debt, with current funds under management and advice in excess of $3.2 billion.

MaxCap Group Overview

- Business established in 2007 – 12 year track record. Highly experienced team with extensive industry experience
- Focus on Australian real estate debt and investment, including:
  - Secured senior debt
  - Secured mezzanine lending
  - Preferred equity
- Originated & managed more than 260 loans (equivalent to $6.6bn*), of which over 100 loans (equivalent to $3.2bn) relate to construction debt
- Vertically integrated platform comprising more than 48 professionals specialising in real estate debt. MaxCap is Research led and this underpins our increasing focus on Commercial Construction, Land and Transitional Commercial Investment
- Offices in Melbourne (headquarters), Sydney, Perth and Brisbane
- Track record of financing only top-tier sponsors and top-tier assets. Deal sizes typically range from $5-300M and have typically been Construction focussed. Market opportunities have tended to present in segments where the Banks have restricted their lending, creating Borrower demand
- Investors range from Private HNW to large Wholesale Investors, including major global and domestic Superannuation & Pension Funds

Overcoming Tradition





- Post GFC the 4 domestic majors >80% of Australia's Commercial Lending –exacerbated by consolidation within the Australian Banking market and the exit of Foreign Banks
- Out of kilter with global debt capital markets
- Significant pressure on the domestic majors lending, notably
  - Pressure on return on capital
  - Significant Regulatory pressure given ADI status
  - Sustained weak corporate lending
  - Focus on Residential Construction lending
  - Focus on FIRB
- The initial and most significant segment impacted was Residential Construction – banks moderated significantly in terms of leverage, sponsor, presales coverage, FIRB
- This created a significant demand for Alternative Lending noting
  - Most developers are more sensitive to leverage than price
  - Progressive draw/self liquidating nature - attractive to IRR focussed investors

CRE Debt market has fundamentally changed and this will be sustained.

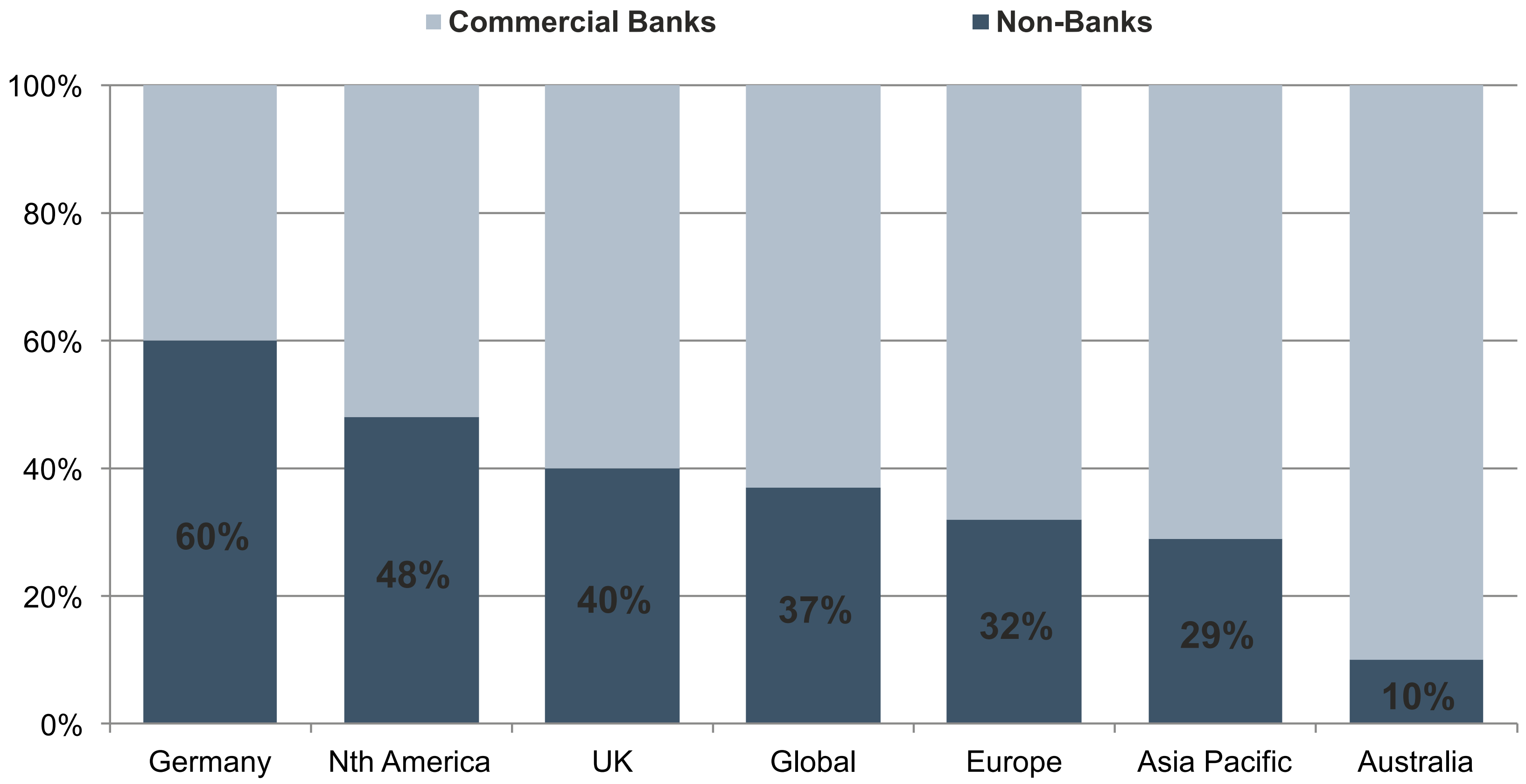
Trend will continue:

- Mixed Use, Hospitality & Commercial Construction
- Investment – initially transitional assets, then traditional Investment Assets

Banks have been forced to moderate on the higher yielding portion of their Books – they are now heavily weighted to Office & Retail investment lending – often significant utilises of capital at modest returns – longer term Domestic Banks may not be the logical source of capital for Investment Loans

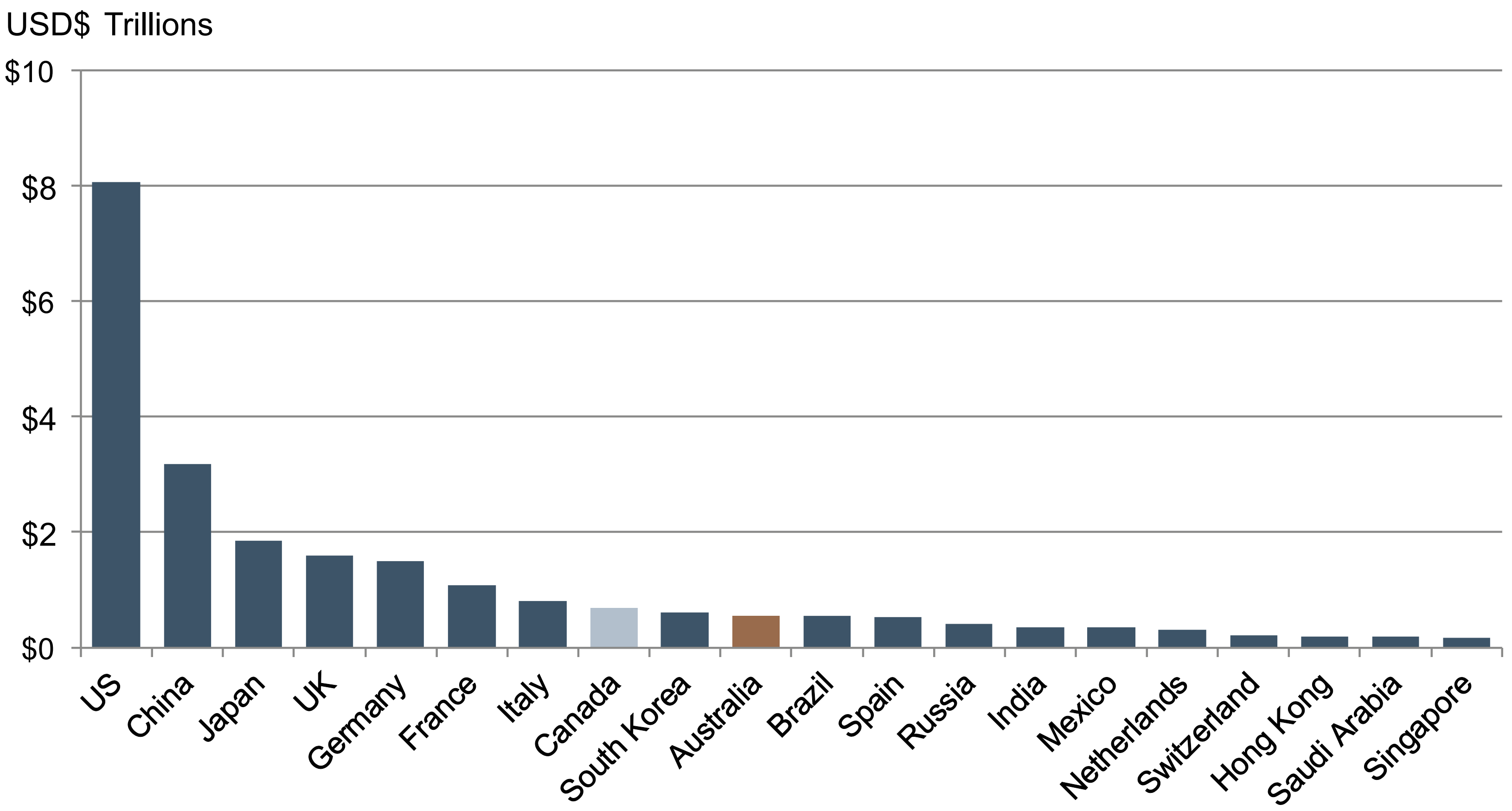
Overcoming Tradition

- Globally non-bank share approx 37%
- The US commercial real estate debt market is the world's largest CRE debt market, estimated to total USD$3.97 trillion.
- North American market approx 48%.
- Australia relatively immature approx. 10%
- Significant ongoing change expected. A weight of capital looking at Australia for strong risk adjusted returns



Overcoming Tradition

- Australian CRE market is the 10th largest CRE market globally with around USD$500 billion of investable assets.
- Approximately $250Bn of Commercial Lending – growing broadly in line with CPI
- On average around $20Bn of refinancing and $10Bn of new lending annually
- In 2018 this was approximately $40Bn – close to a historical high – but the composition of lenders continues to change



Overview of Alternative Lending

Overview of Alternative Lending

Traditionally Borrowers have accessed:

- Investment Grade Investment Debt - Low Risk
- Sub Investment Grade Investment Debt – Medium Yield
- Construction Debt – modestly geared, pre-committed
- Subordinated Debt – typically Construction linked

Historically Alternative Lenders have focussed on Construction and Subordinated Debt - Banks would not provide. High yield appealed to Private Capital.

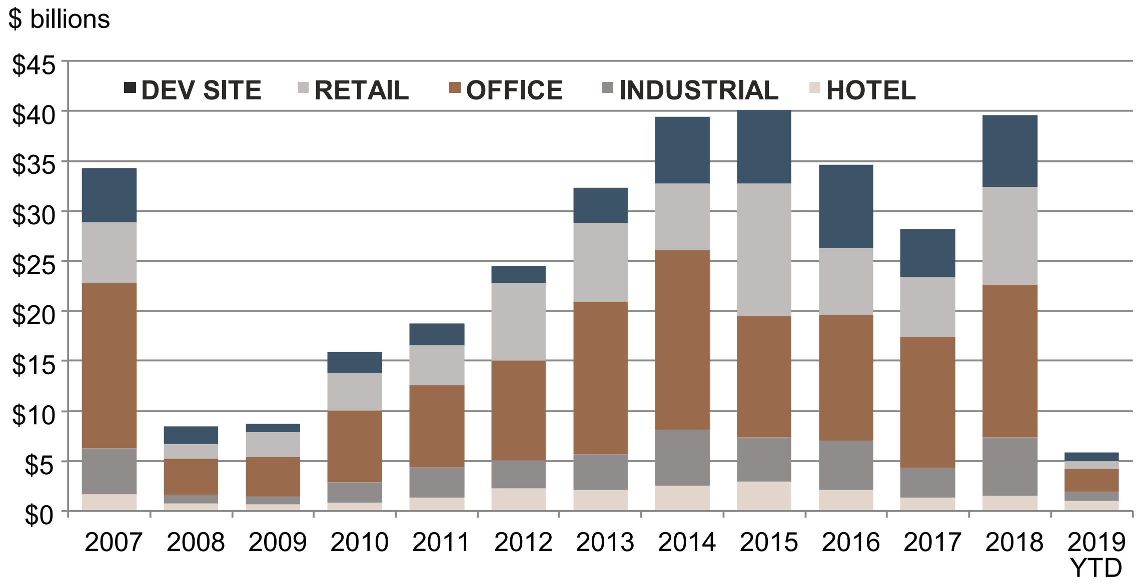
Senior Lender appetite has retreated – opportunity for very strong risk adjusted returns.

In the past 5 years we have seen an emergence of “Stretch Senior” or “Unitranche” lending - blended pricing & terms

We are now seeing demand for Mixed Use and Commercial Construction, and Value Add/Transitional Lending

Examples might include:

- A mixed use development with a combination of residential, hospitality and commercial
- An existing commercial asset that requires CAPEX and Incentive to re-lease or reposition the asset



Mezzanine Vs Preferred Equity

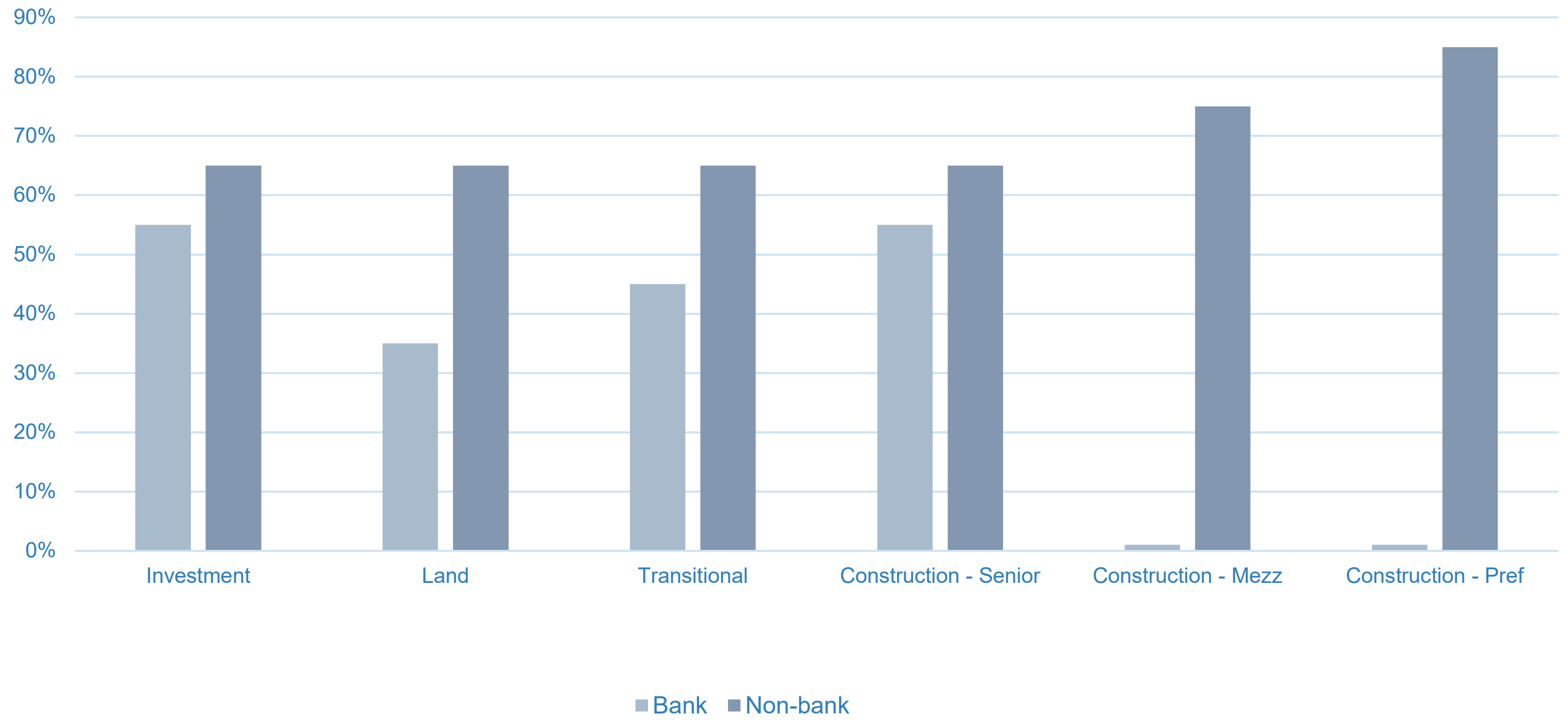
- Both forms of subordinated lending ranking in priority behind a Senior Lender – leveraged
- Common in Construction (defined exit strategy), some applicability in an Investment Lending context
- Increasingly MaxCap has been providing Stretch Senior facilities removing the need to involve the Banks at all – as opposed to, say, a 50% Senior LVR plus a Mezz Facility to 65% LVR, MaxCap will simply arrange a 65% Stretch Senior Facility

Mezzanine	Preferred Equity	Features
2nd Mortgage	Unregistered Security	Security
Senior Lender Consent	Not disclosed	Consent/Disclosure
Yes	No	Intercreditor
< 70% LVR	< 80% LVR	Typical Gearing
Construction, Bridging	Construction, Bridging	Lending Type
>10% pa	>15% pa	Typical Pricing
>10%	>15%	IRR

Where does MaxCap sit in the Capital Stack

- MaxCap provides Property linked facilities across the entirety of the Capital Stack, including Equity.
- Bank are constrained - narrow band of underwriting standards
- Non-banks are more flexible

CAPITAL STACK

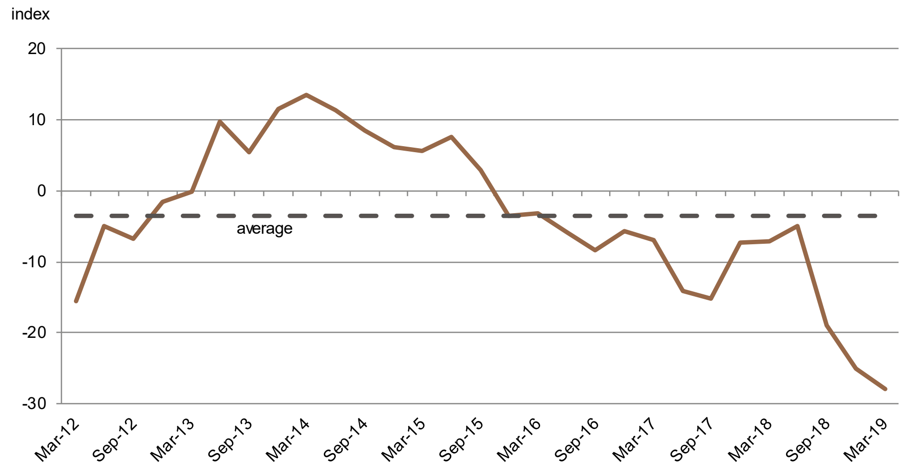


What does MaxCap Provide and to Whom?

Lender Type	Security	Limited Partner Type	Borrower Type
Private Syndicates	Senior, Mezzanine & Pref Equity	HNW Investors	Developers
Private Institutional Accounts	Senior	Institutional Funds	Developers & Investors
MaxCap First Mortgage Fund	Senior	MaxCap Discretionary Fund	Land/Residual Stock
MaxCap First Mortgage Construction Fund	Senior	MaxCap Discretionary Fund	Developers
Separate Managed Accounts	Senior – Construction & Transitional	Pension & Institutional Funds	Developers & Investors
Separate Managed Accounts	Mezzanine	Industry Funds	Developers

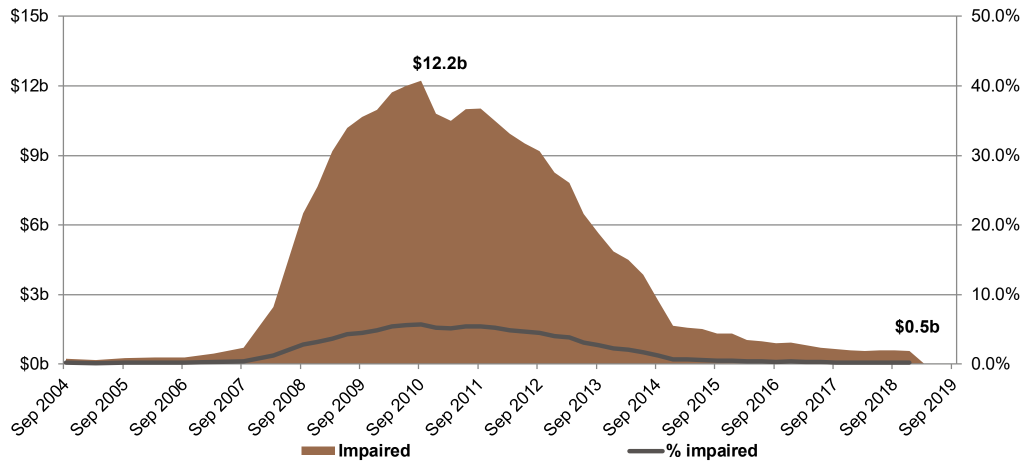
Opportunities after the Royal Commission

Debt availability expectations (PCA Survey) 2012-2019



- Heightened regulatory pressure on banks has reduced CRE exposure to construction sectors.
- Royal banking commission has led to a more cautious environment generally
- Survey respondents expect the availability of debt finance to worsen.
- The outlook for credit availability is now at its worst in the history of the survey

Australians CRE Debt impairments 2004-2018



- Historically low level of loan impairments - 0.2% of total CRE debt in Australia
- CRE Debt requirement continues to grow
- Composition of Lenders continues to change

Opportunities after the Royal Commission

Opportunity!

- A fundamental and ongoing change to CRE Debt market
- Banks are ADI's – level of regulation reflects the nature of the capital.
- Banks will continue to moderate their exposures and focus on the return on limited capital.

Opportunities Include:

- Equity/Mezz/Pref – Banks do not provide this capital
- Land – Banks at 25-35% LVR on Land
- Residential Construction – Banks require >100% presales and <55% LVR
- Commercial Construction – Banks require >75% precommitment and <55% LVR
- Hospitality/Student Accom/BTR – Banks are generally adverse
- Transitional – Banks are generally adverse
- Investment – Banks are now substantially overweight low yielding Commercial Investment lending – over time they are unlikely to be the natural provider of this capital

Conclusion

- Critical change is ongoing in the CRE Debt Market
- Banks have moderated - Opportunity!
- Sustained and ongoing change - opportunity is very significant
- Construction focussed at this point
- Over time both Borrower Demand and Investor Demand increase
- Alternative Lending will continue to move down the capital stack
- Ultimately will also be a source of both Value Add and more traditional Investment Lending
- Ultimately the Banks are regulated and constrained with regards to provision of CRE Debt and increasingly they may not be the natural provider of debt capital
- Wholesale Investors and particularly Superannuation & Pension Fund capital filling the void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