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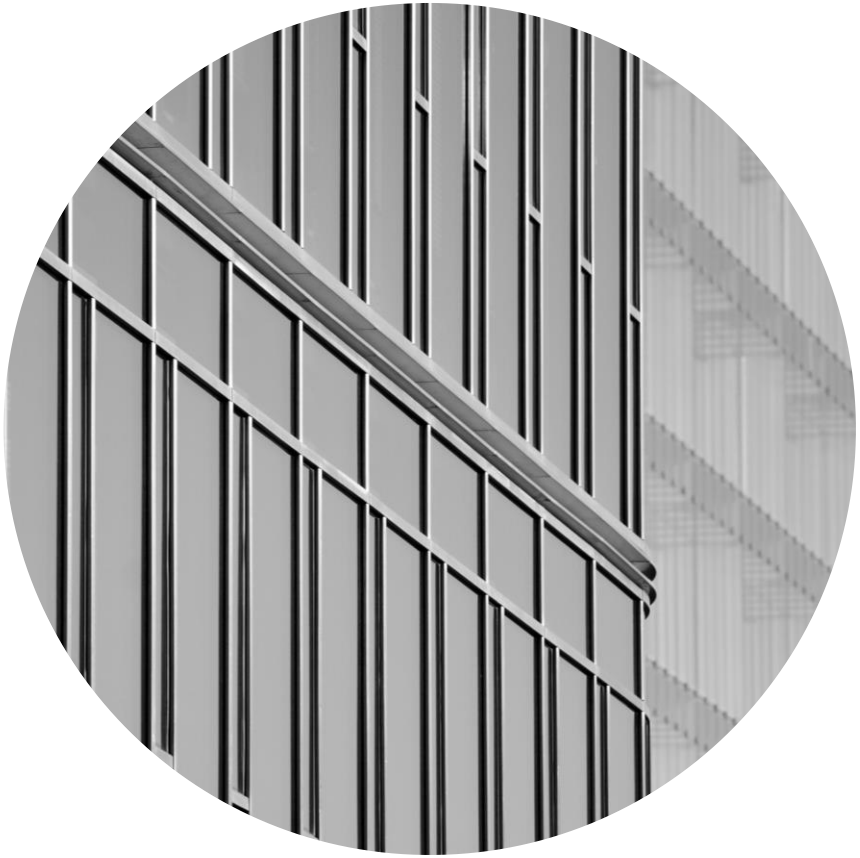


Debt Markets Insights

Perspectives from a borrower, lender and debt advisor

PFA
Property Funds Association

Mackwell - a brief introduction

Investments

Mackwell is a **private equity real estate investor** with a specialist focus on core plus, value-add and development assets located in South East Queensland. Our leadership team leverages their local property and finance expertise to unlock value from assets on behalf of institutional and high net worth investment partners.

Capital

Mackwell writes loans to, and makes equity investments **alongside** industry-leading **sponsors** in the South East Queensland real estate investment and development space. We recognise the value of carefully selecting our partners and backing their capabilities to deliver investments and projects and grow their businesses.

Advisory

Mackwell provides strategic advisory services to a select group of clients in the real estate industry, with a particular focus on **capital raising and portfolio strategy**. Our team has assisted clients across Australia and New Zealand on the procurement or deployment of over A$1.6 billion of investments over the past 5 years.

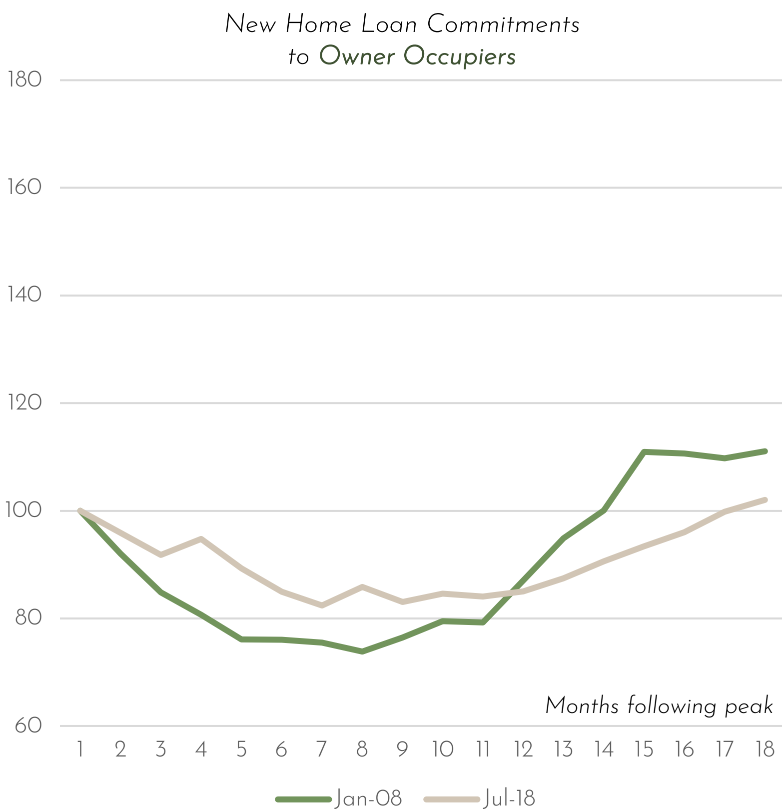
Agenda

Perspective	Sector addressed	
Borrower	Bank Lending	Retail Credit Availability
		Commercial Credit Availability
		Changing Commercial Terms
Lender & Debt Advisor	Non-Bank Lending	Maturation of Market
		Current Appetite

Forward Predictions

Bank Lending: Retail Credit Availability

Rebounds in credit availability through previous downturns

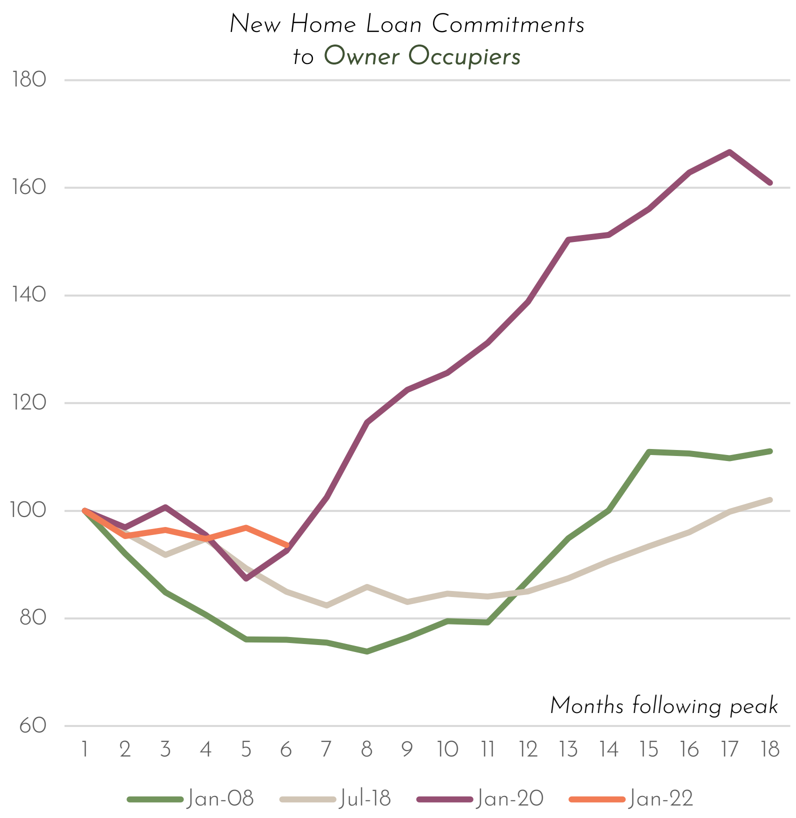


Source: ABS (5601.0 Lending Indicators, Table 1. Series A108268693J)

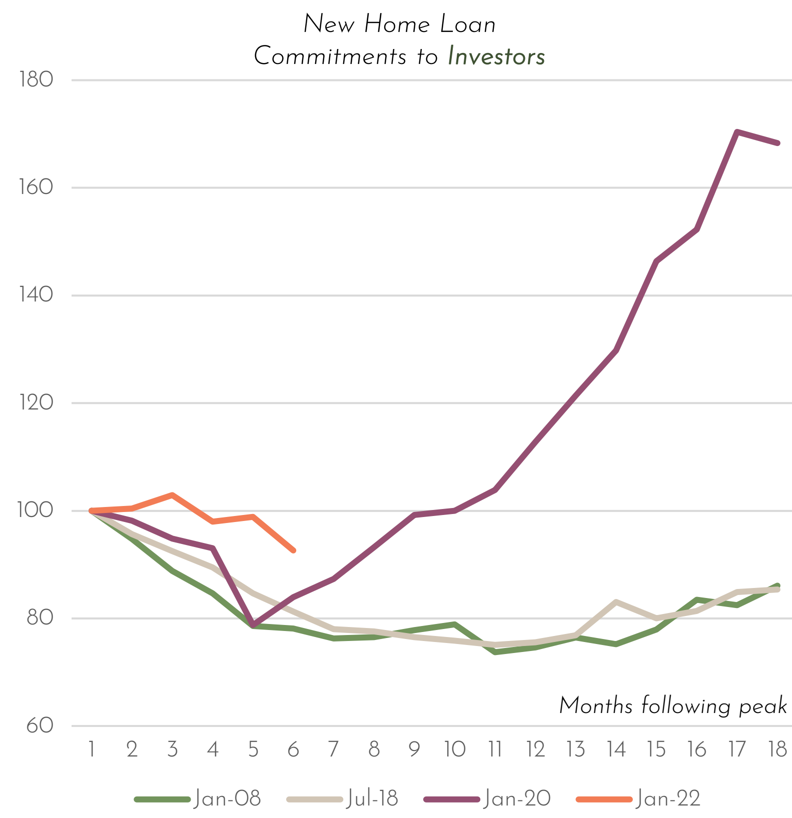
Source: ABS (5601.0 Lending Indicators, Table 1. Series A108273775J)

Bank Lending: Retail Credit Availability

Rebounds in credit availability through previous downturns



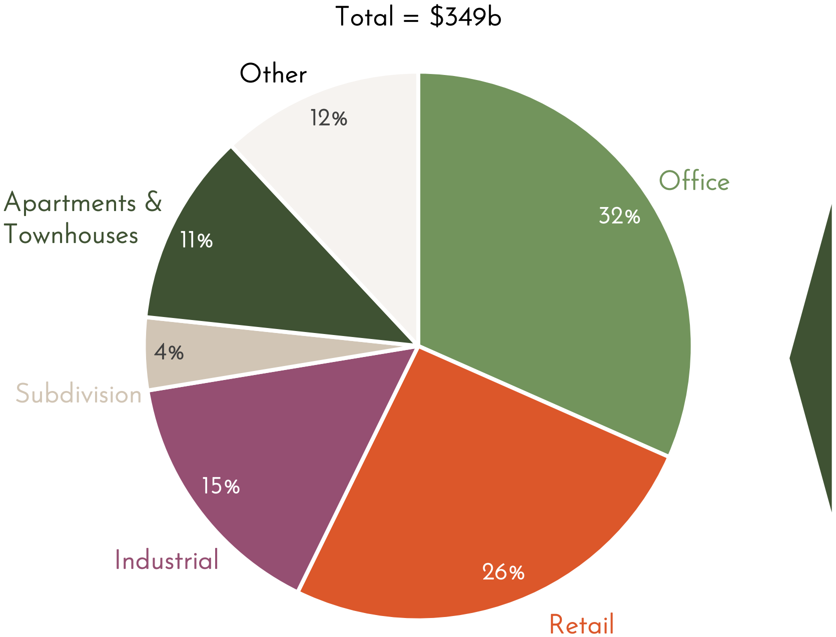
Source: ABS (5601.0 Lending Indicators, Table 1. Series A108268693J)



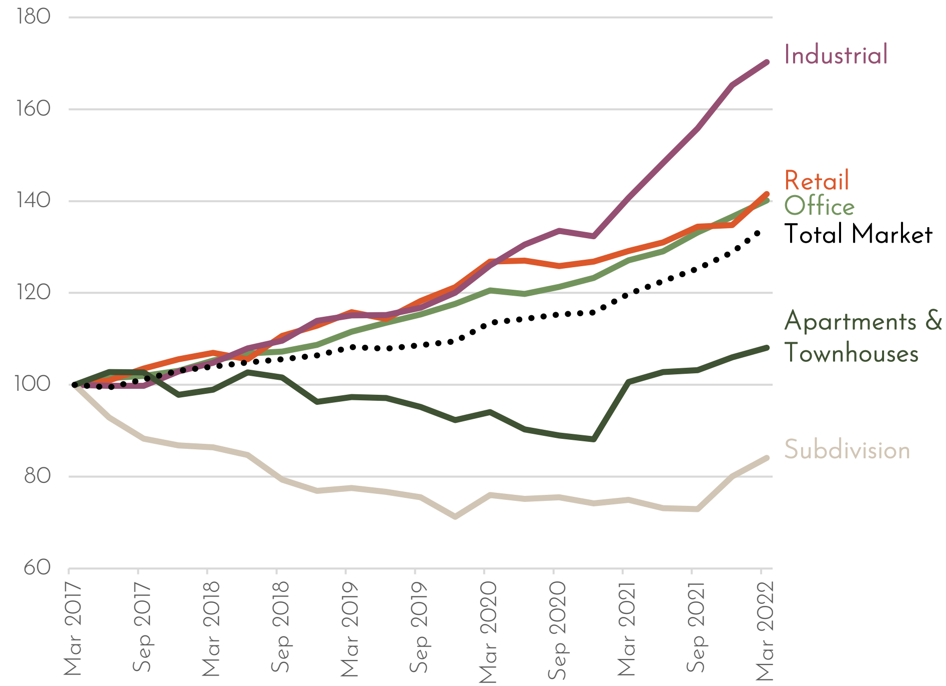
Source: ABS (5601.0 Lending Indicators, Table 1. Series A108273775J)

Bank Lending: Commercial Credit Availability

Share of Lending to Commercial Property by Sector – March 2022



5 Year Change in Lending to Commercial Property Sectors



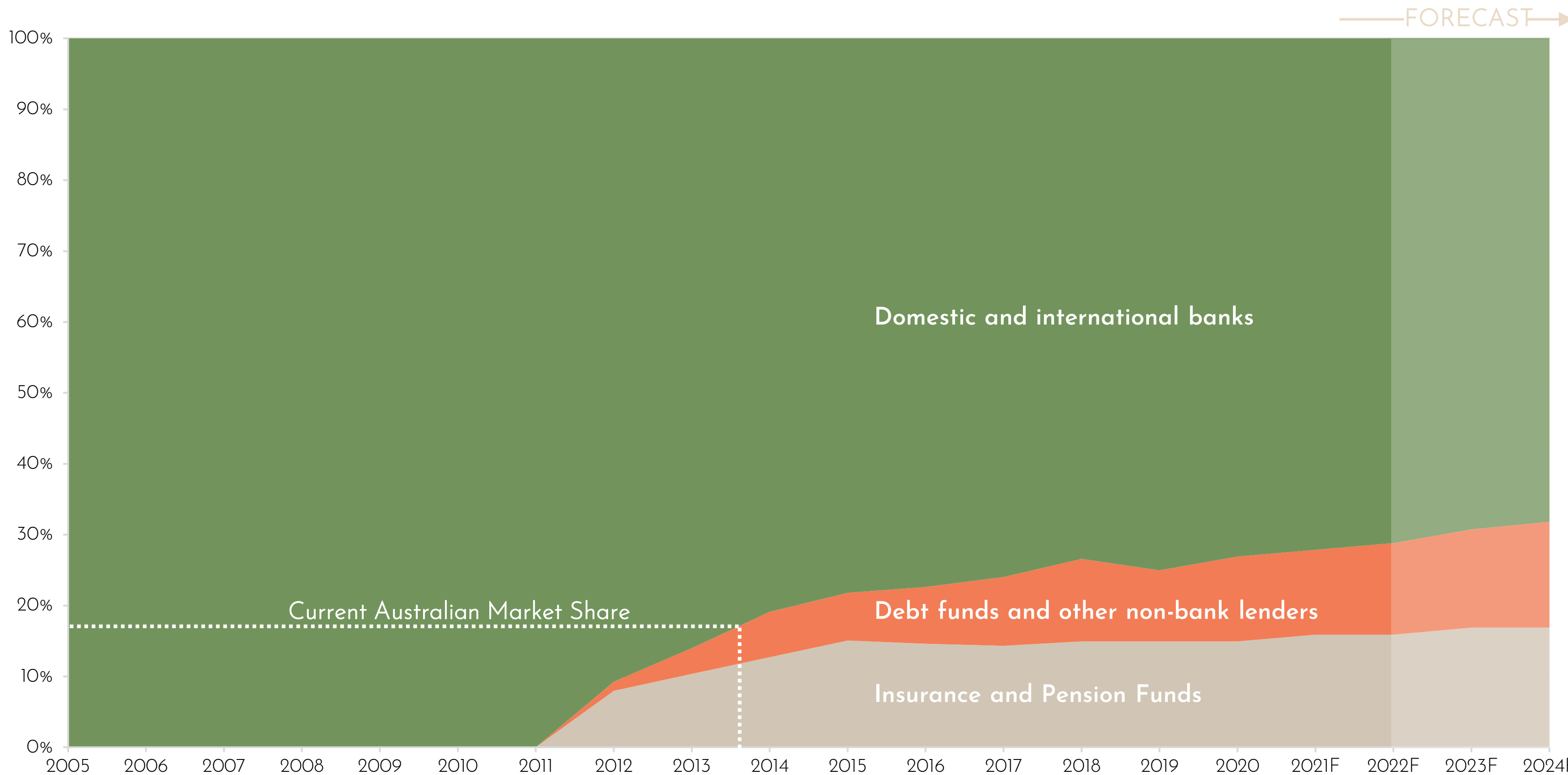
Source: APRA, June 2022 (Quarterly authorised deposit-taking institution property exposures, Table 1a) – Updated release due 6 September 2022

Bank Lending: Changing Commercial Terms

Terms	Current Status
General Appetite	• Accommodating • Looking for ways to write business but working with an evolving external market and internal policies
Pricing	• Base rates up but margins still competitive • Some line fees remain highly competitive • Anticipated increase in margin for construction facilities in 2023 with increased capital requirement for <100% presold projects
Leverage	• Reducing 3-5% while valuations recalibrate
Interest Coverage	• Generally reducing but differing methodologies across lenders
Tenant covenant	• Deeper look at supply chain impact; appetite for inflation-linked indexation • Single tenant risk increasingly in focus
Development Risk	• A heightened focus, but standard procedures still in place (but preferred builders are less prevalent and new starts are less frequent) • Builder-developers in a position to provide more transparency on cash flows & liquidity • Re-emergence of focus on pre-sale settlement risk
Stress testing	• Weekly moving target

Non-Bank Lending: Maturation of Market

Commercial real estate debt market composition



SOURCE: Cass Business School, Nuveen Real Estate

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Non-Bank Lending: Maturation of Market

Phase	Timing	Type	Cost	Risk
1.	2016-2018	Opportunistic funds, Investment Banks then UHNWs	High (20%+ IRR) then Mid (10-15% IRR)	Low (i.e. similar to bank gearing from preceding years)
2.	2018-2019	Institutional investors increasing competition	Low (<10% IRR)	High (i.e. higher gearing than banks and sometimes lighter covenants)
4.	2020-2021	COVID "shake-out" - longer term players settling and diversifying	Low-Mid (6-13% IRR)	Mid (i.e. higher gearing than banks and a mix of covenants)
5.	2022	Institutionalisation of sector; two-speed market emerging	Low (8-12% IRR) or High (13%+ IRR)	Mid (i.e. higher gearing than banks and low risk profile)

Non-Bank Lending: Current Appetite

Terms	Current Status
General Appetite	• Strong capital raising from well-resourced businesses meeting decline in deal flow driving good appetite
Pricing	• Competition for deals and wider margins has seen some non-bank lenders absorb some of the base rate increases • Re-emergence of higher cost facilities as some opportunistic lending re-emerges
Leverage	• Senior facilities reducing in a similar fashion to banks • Newer capital with appetite for equity-type exposure layering above senior
Interest Coverage	• Still flexible based on deal requirements
Tenant covenant	• Similar to banks – increased focus
Construction Risk	• New "battleground" to compete against the banks (previously pre-sale coverage flexibility): sometimes accepting builders than banks cannot