WHITE PAPER

2017 Property Professionals Sentiment Survey

The Urban Developer

Development Finance Partners

Turning plans into reality

About the survey

In April 2017 Development Finance Partners, in partnership with leading industry publication The Urban Developer, conducted an online survey to gain a deeper understanding of the market sentiment and perceptions of property professionals.

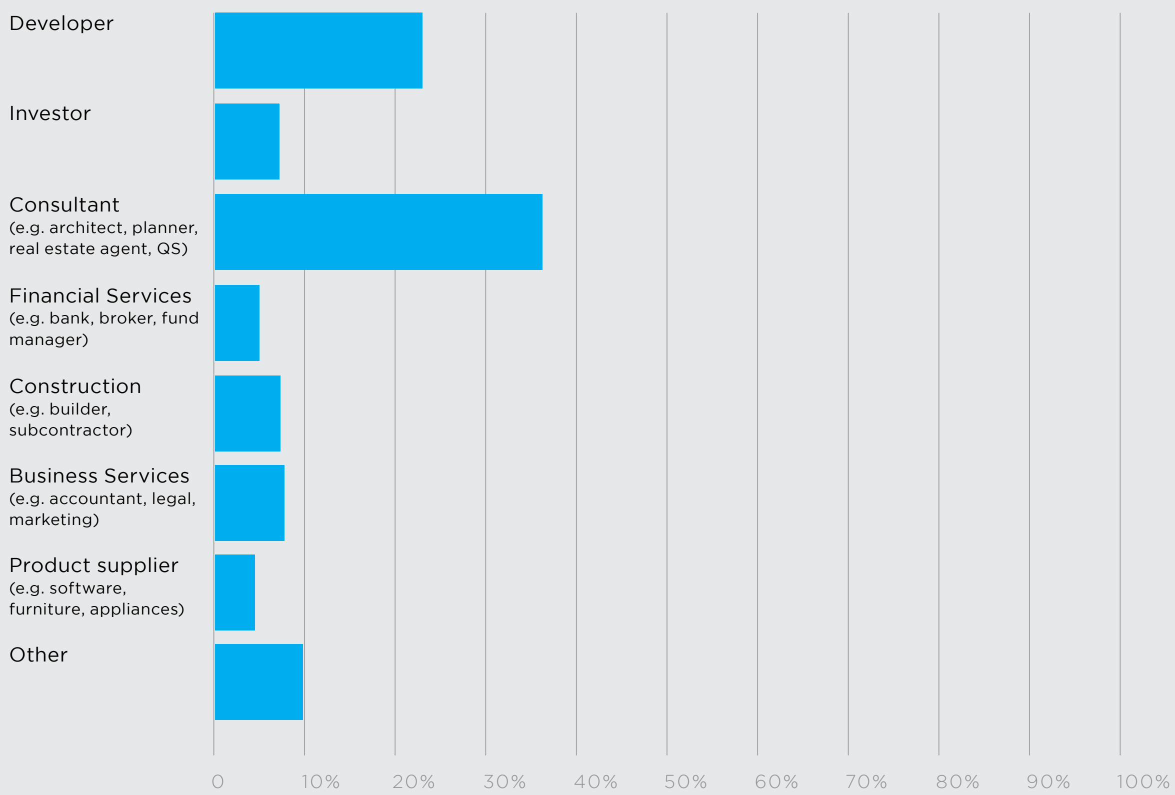
Close to 1,000 professionals participated in the survey (928). The survey follows on from a previous survey conducted in 2016 and provides us with important insights and benchmarks relating to the property development industry.

Who responded?

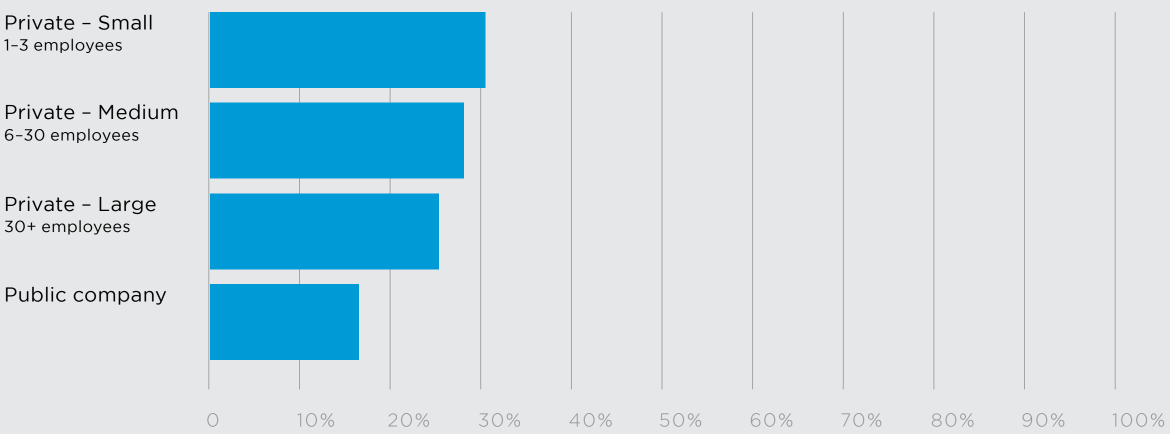
The majority of respondents were industry consultants and property developers with around 75% of respondents small-medium organisations.

The remaining respondents were made up of large and corporate organisations and both private and public companies with the bulk of respondents involved in residential development.

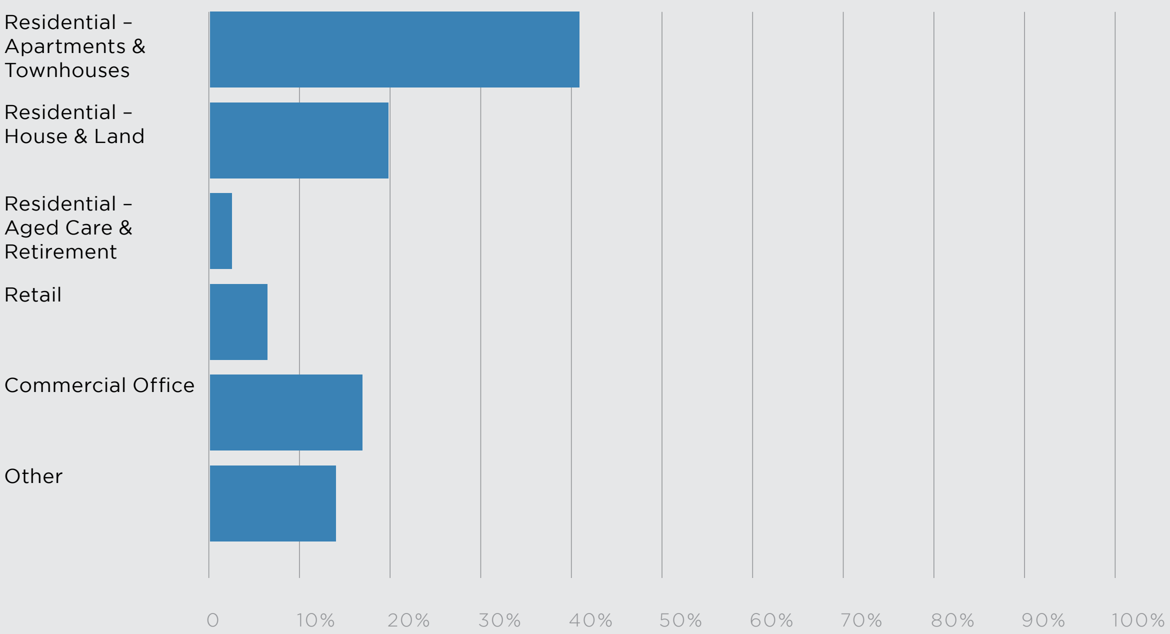
Q1 HOW WOULD YOU BEST DESCRIBE WHAT YOU DO?



Q2 HOW WOULD YOU BEST DESCRIBE THE SIZE OF YOUR ORGANISATION?



Q3 WHAT SECTOR DO YOU MOST ENGAGE WITH?



Small developers are active and optimistic...

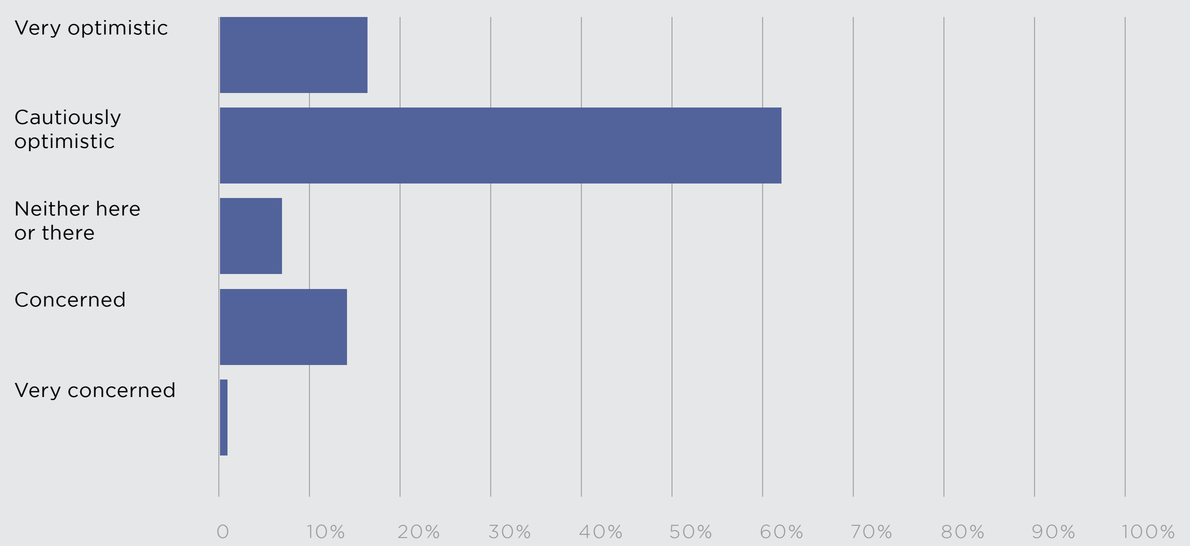
...despite all the reported doom and gloom about property development generally, and apartment development in particular. Smaller developers may be mitigated against a benevolent bank view of their financing needs, and given DFP's experience, we often find the smaller developers are highly innovative and responsive to external conditions.

Their preparedness to seek funds well outside the normal sources (banks) is an indication of that.

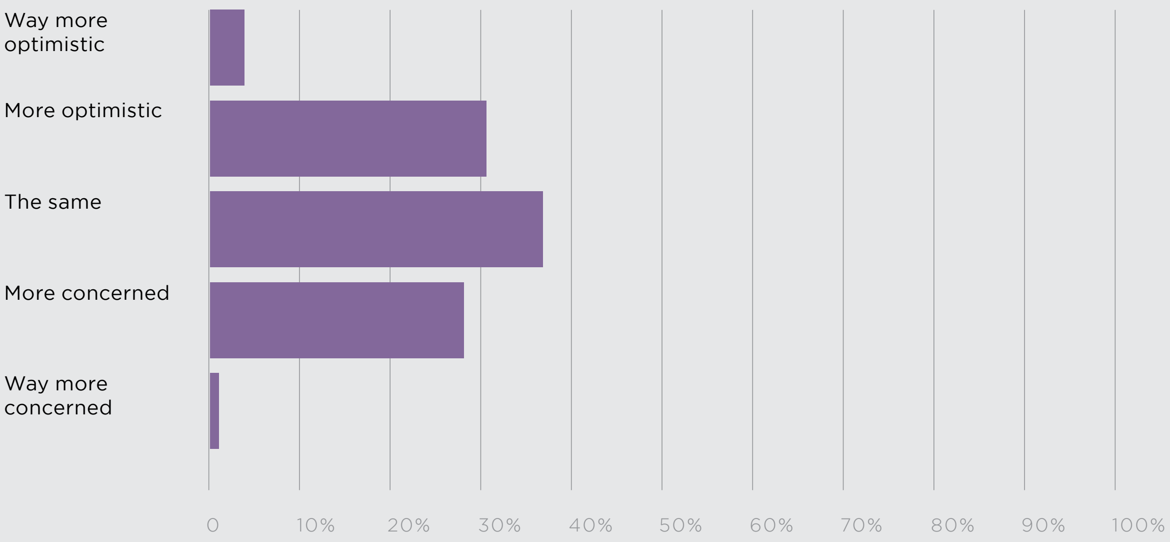
Overall, developers still feel the future looks bright despite tougher conditions.

Nearly two-thirds of the respondents were either optimistic, cautiously optimistic or were unworried either way. 62% are feeling cautiously optimistic compared with 40% in 2016. 14% are concerned in 2017 compared with 30% in 2016. Perhaps overall the industry is feeling better as a result of recent measures to cool the property market. 16% are feeling very optimistic compared with around 5% in 2016.

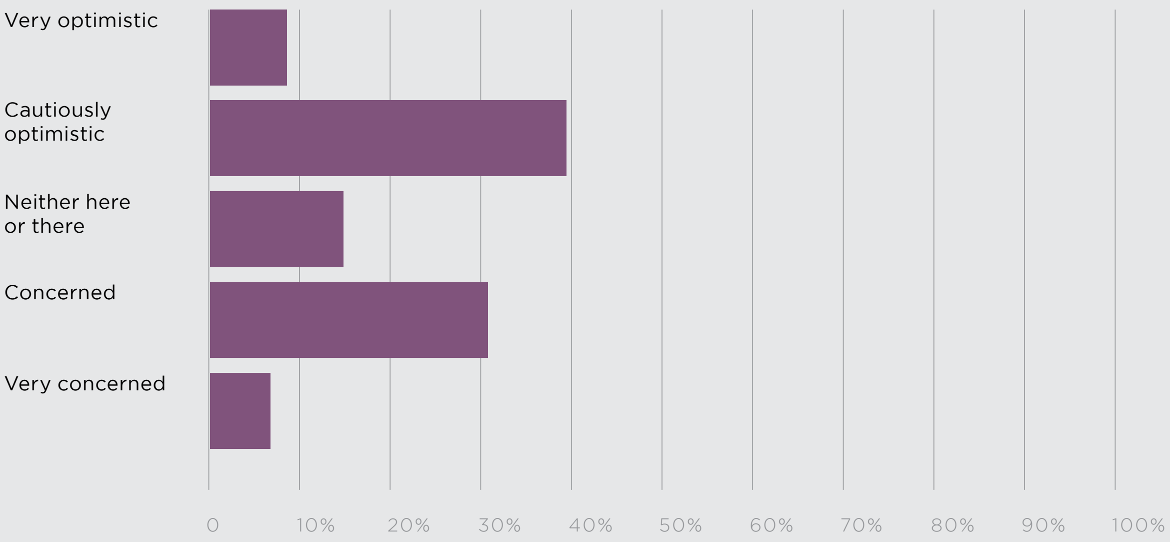
Q4 HOW WOULD YOU DESCRIBE YOUR OUTLOOK FOR THE YEAR?



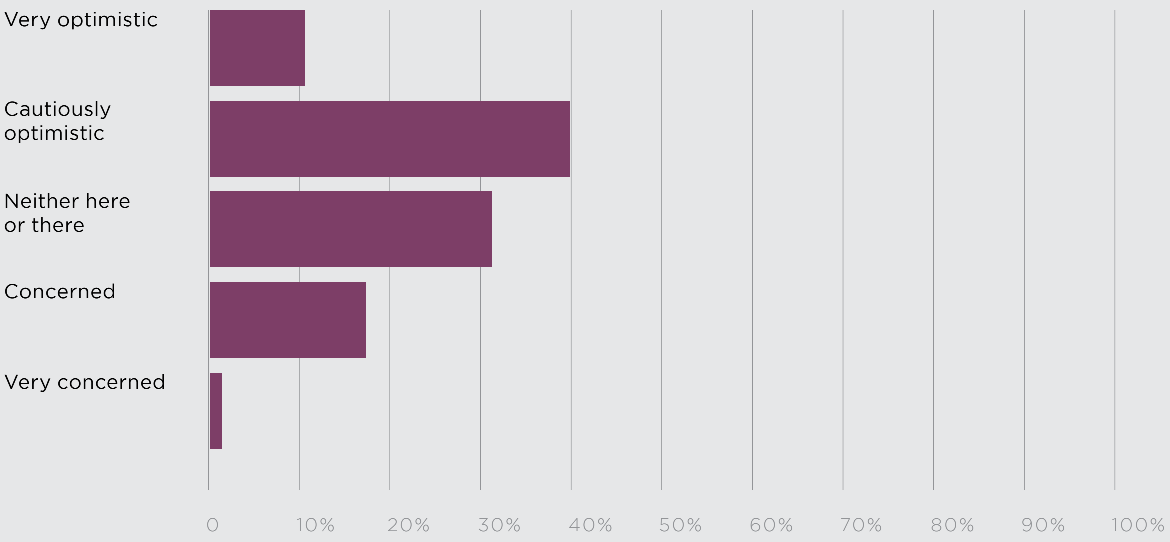
Q5 **HOW DO YOU FEEL COMPARED TO THIS TIME LAST YEAR?**



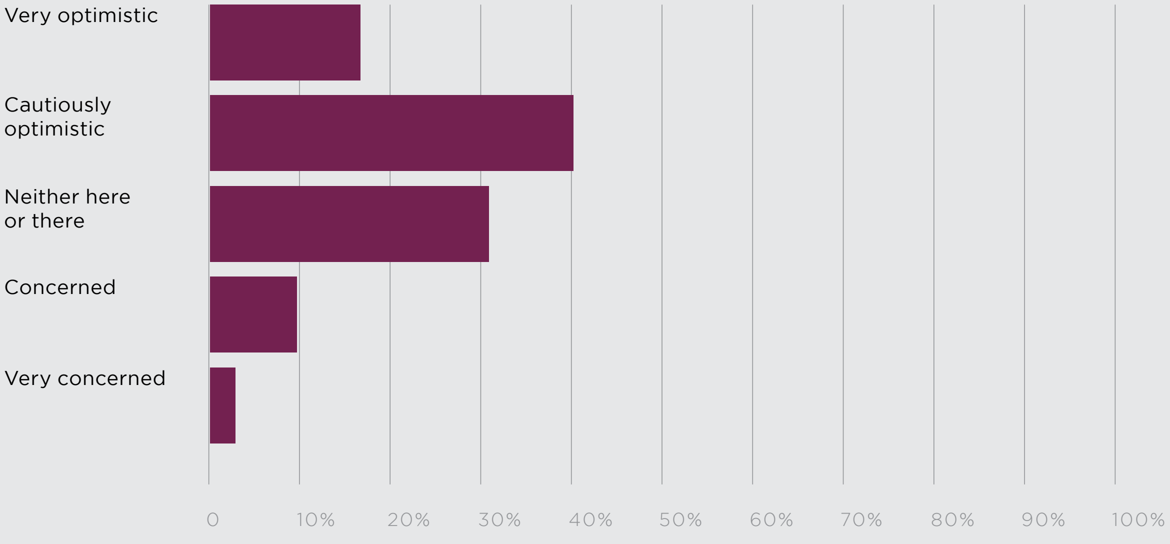
Q6 **WHAT IS YOUR OUTLOOK FOR THE RESIDENTIAL APARTMENT MARKET IN YOUR STATE CAPITAL CITY?**



Q7 **WHAT IS YOUR OUTLOOK FOR THE RETAIL SECTOR IN YOUR STATE CAPITAL CITY?**



Q8 **WHAT IS YOUR OUTLOOK FOR THE COMMERCIAL OFFICE SECTOR IN YOUR STATE CAPITAL CITY?**



Red tape is the biggest development issue.

For the second year in a row, developers cite their biggest development issue as gaining approval from local councils/authorities followed by finding viable development sites.

Getting finance for developments is a key issue arising this year as traditional funding becomes harder to get.

THE TOP 3 ISSUES IN 2017 WERE:

- Acquiring viable development sites
- Obtaining approvals from local authorities
- Obtaining development finance

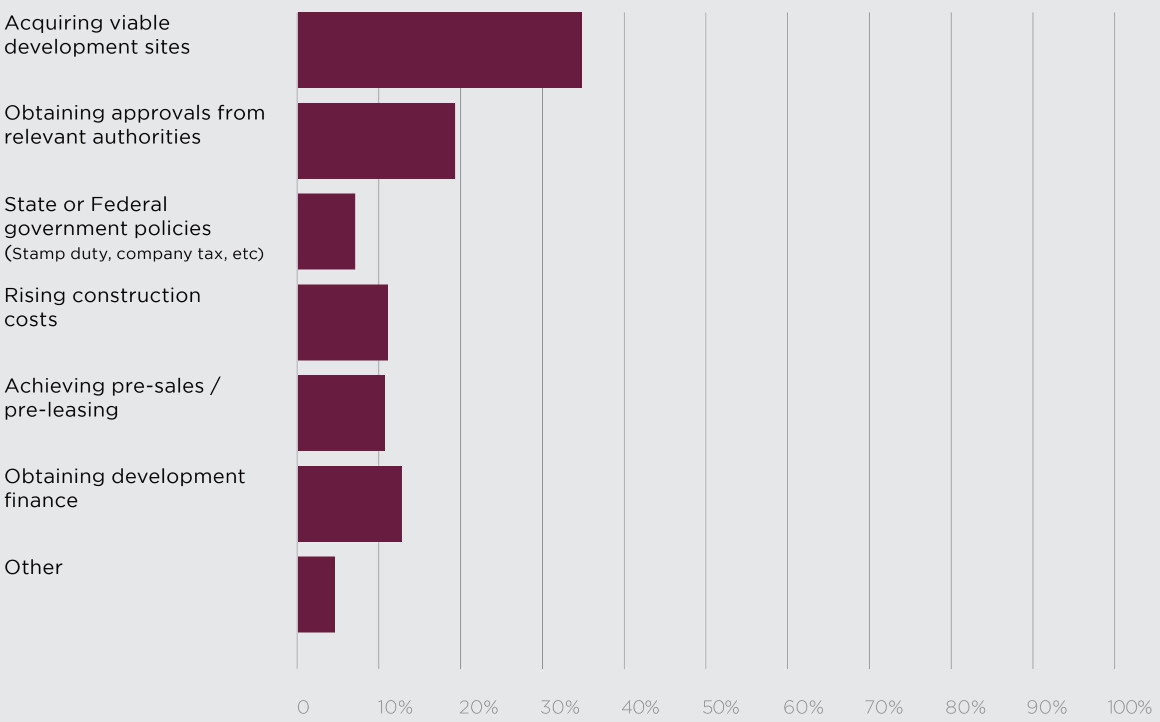
THE TOP 3 ISSUES IN 2016 WERE:

- Acquiring viable development sites
- Obtaining approvals from local authorities
- Rising construction costs

Other responses included:

- Both rising construction costs and LA consent times
- Leasing
- Tightening of lending by banks on the investor market
- Worried about privatisation of the Titles Office and money laundering/QE from China
- Rising costs, oversupply of apartments, failure to meet investor expectations
- Authority costs and inconsistencies
- None of the above. Just negative media hysteria affecting buying intent.

Q9 WHAT IS THE BIGGEST DEVELOPMENT ISSUE AFFECTING YOU AT THE MOMENT?



Finance related issues.

Obtaining alternative finance is a consistent theme across 2016 and 2017, along with buyers or individual properties struggling to get finance.

BIGGEST FINANCE RELATED ISSUES AFFECTING DEVELOPERS IN 2017:

- Obtaining finance from a major bank
- Investors or purchasers not being able to secure finance

BIGGEST FINANCE RELATED ISSUES AFFECTING DEVELOPERS IN 2016:

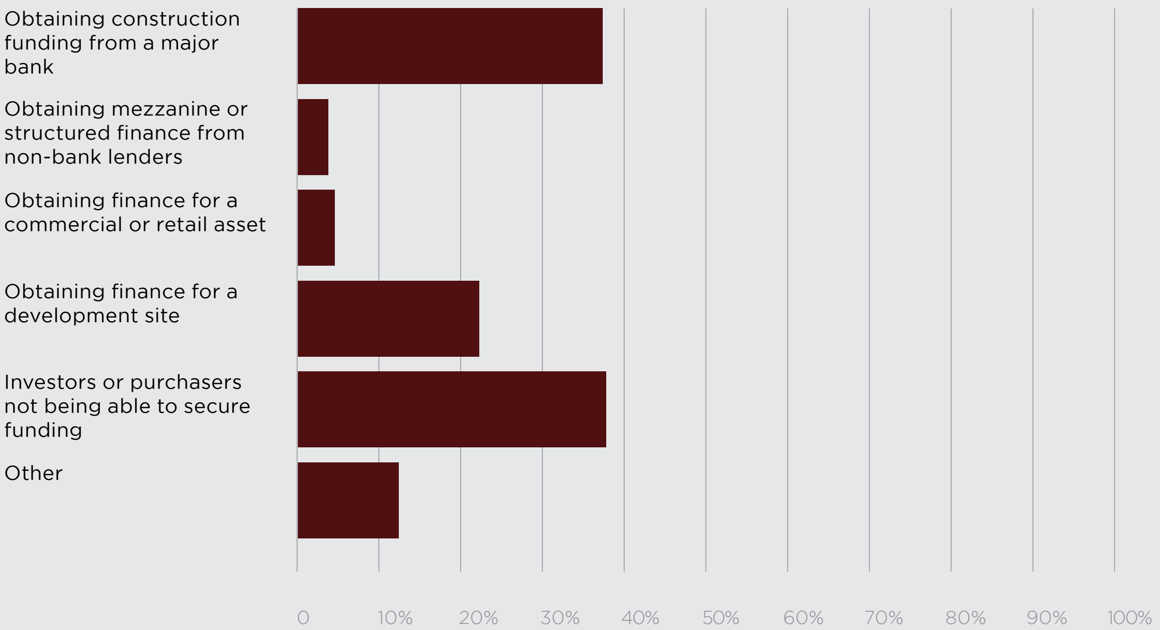
- Obtaining alternative finance
- Buyers not being able to secure finance

Given the responses here – various difficulties in getting funds for construction or to buy a site or to enable a purchaser to settle – it is even more interesting that so many developers remain positive about their businesses.

It seems that, despite these roadblocks, developers are (for the most part) confident that they can bring a project to fruition.

If a development is right for its location, well priced and properly marketed, funding becomes less of an issue.

Q10 WHAT ARE THE BIGGEST FINANCE-RELATED ISSUES AFFECTING YOU AT THE MOMENT?



Alternative funding.

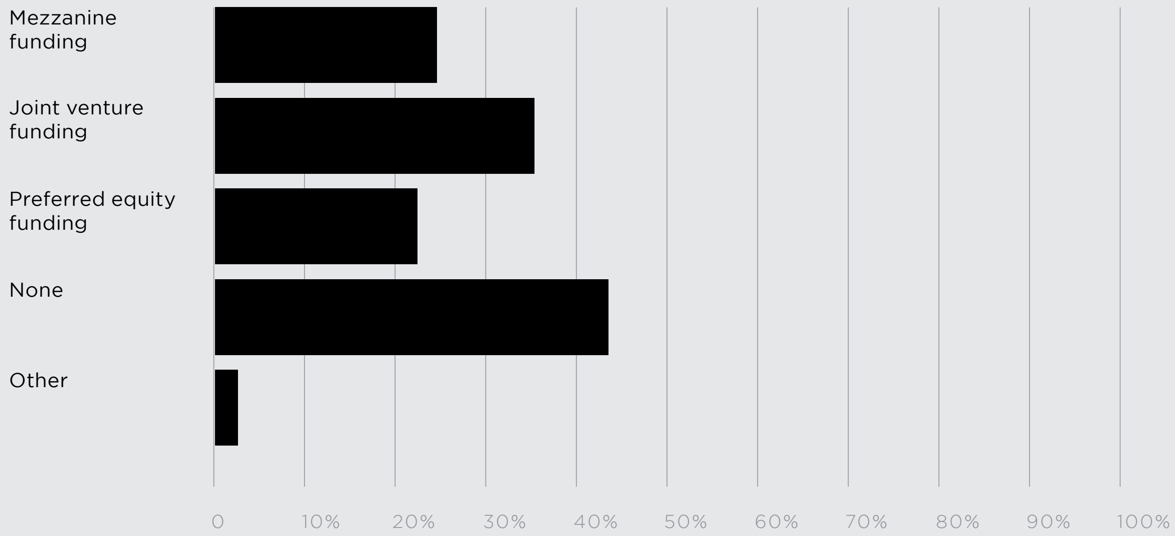
Joint venture funding is not as popular as it was last year. 35% used joint venture funding in 2017 - compared to 60% in 2016.

24.5% used mezzanine funding in 2016 compared to 30% in 2017

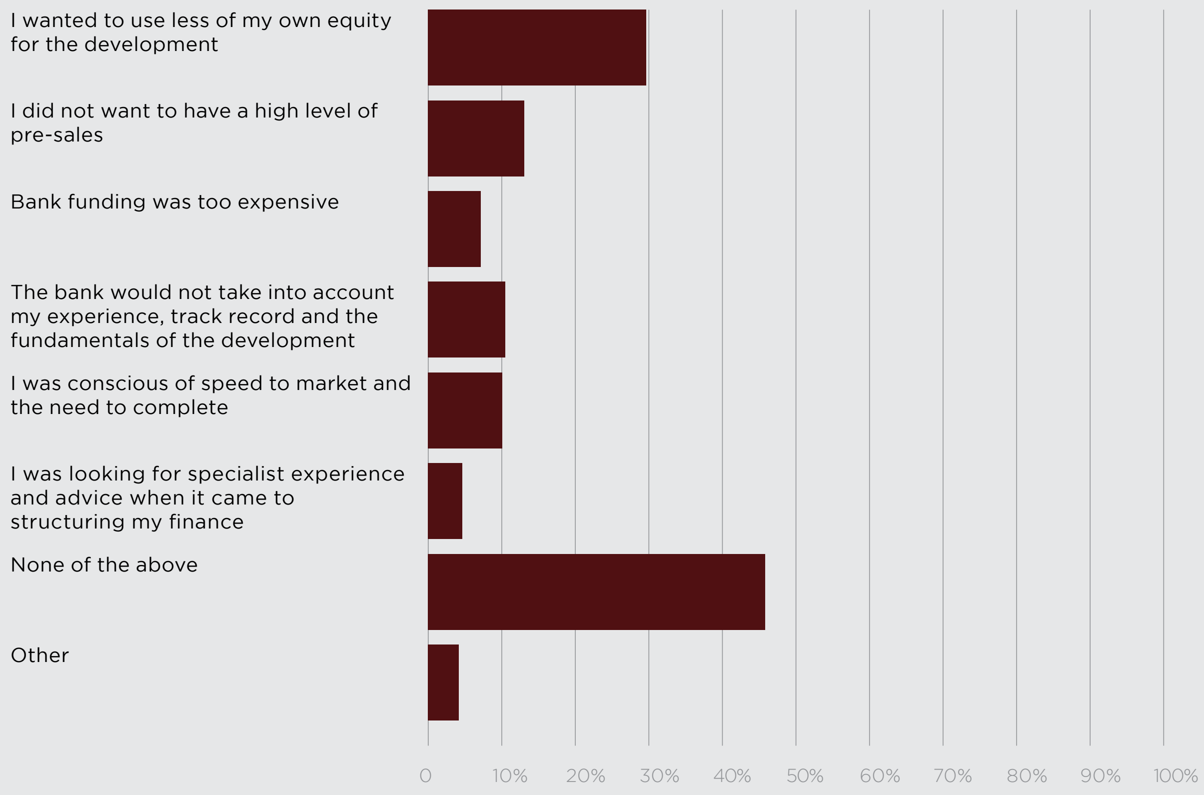
Alternative funding options continue to be popular with other sources of funding including offshore private loans, private funding and bonds.

In 2016, 50% of developers listed 'using less of their own equity' for using non-bank finance compared with 29% in 2017. This indicates that other reasons are driving the push to non-bank funding, such as the high level of pre-sales required by banks and banks not taking into account experience and track record, along with the need for speed to market and completion.

Q11 **IN THE LAST 12 MONTHS, HAVE YOU INVESTIGATED ANY OF THE FOLLOWING NON-BANK ALTERNATIVE FINANCE FOR YOUR DEVELOPMENTS?**



Q12 IF YOU HAVE ACCESSED NON-BANK ALTERNATIVES, WHAT ARE THE MOST RELEVANT REASONS FOR SEEKING ALTERNATIVE FUNDING?



Other responses included:

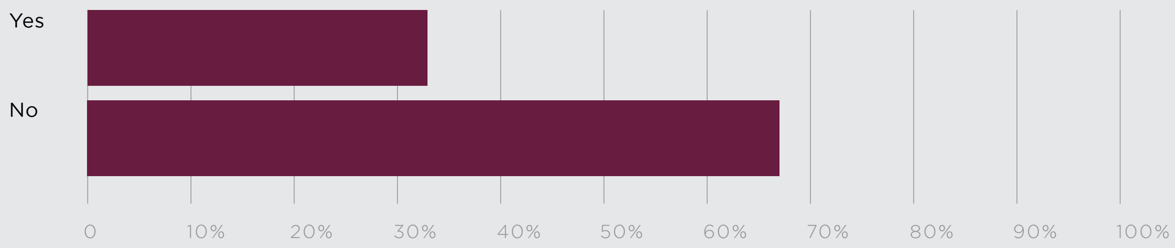
- It is our business model to fund the site, to be unencumbered
- We have not accessed non-bank alternatives yet
- Local Australian banks are too difficult to deal with and do not have a reasonable approach/ appetite to fund major developments
- The bank lending limits and rules were becoming too restrictive
- JV partner had a tenant, we had the building!
- Diversification of funding sources

Bank funding was not as flexible. Competitive advantage.

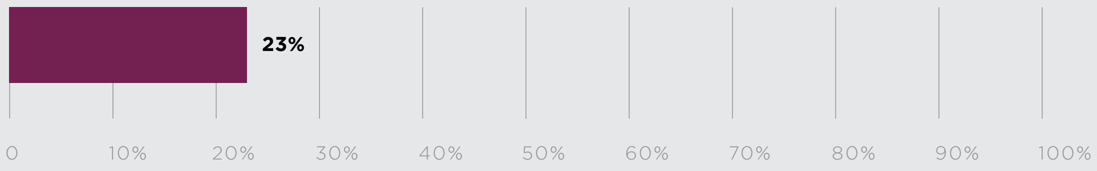
Foreign Investment Review Board Legislation effects

One-third of respondents say FIRB restriction has hampered them. Settlement risk is definitely on the increase with almost 33% of respondents being affected by FIRB laws around half of those affected looking for funding solutions for FIRB buyers.

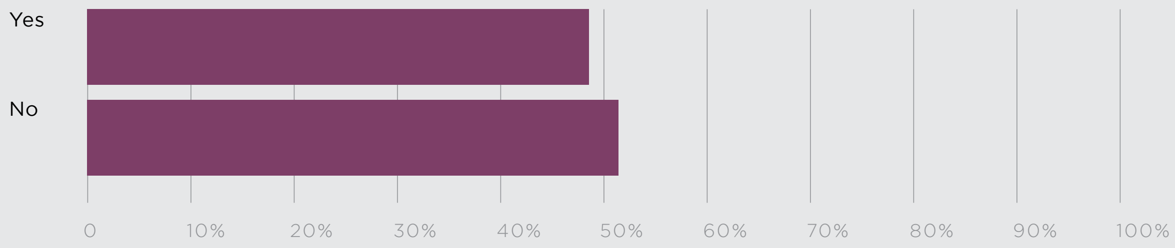
Q13 HAVE ANY OF YOUR SALES BEEN AFFECTED DUE TO THE RESTRAINT OF FUNDING FIRB AND INVESTORS?



Q14 HOW MANY WERE AFFECTED AS A PERCENTAGE OF YOUR DEVELOPMENT?



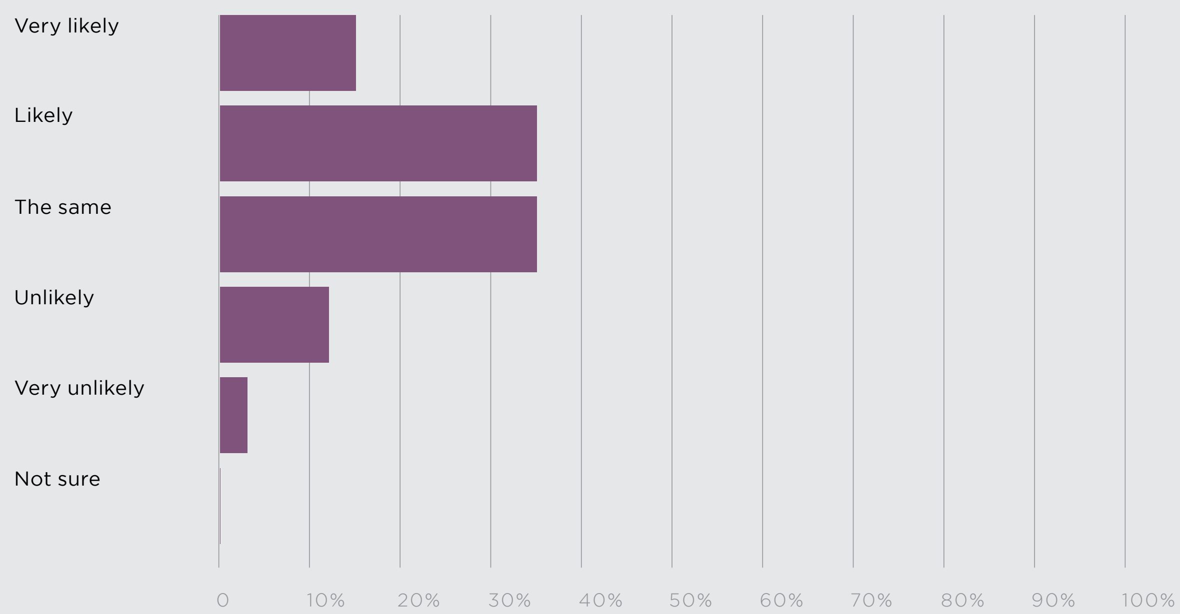
Q15 DID YOU LOOK FOR FUNDING SOLUTIONS FOR THE PURCHASERS OF SALES?



Construction sector to experience some turmoil.

Despite an overall positive outlook for the property sector in general, over 50% of respondents predict that liquidations and receiverships in the construction sector are either likely or very likely in the coming year.

Q16 **IN YOUR OPINION, WHAT IS THE LIKELIHOOD OF COMPANY LIQUIDATIONS / RECEIVERSHIPS IN THE CONSTRUCTION SECTOR THIS YEAR?**



From the experts:
What property developers need to improve when applying for finance

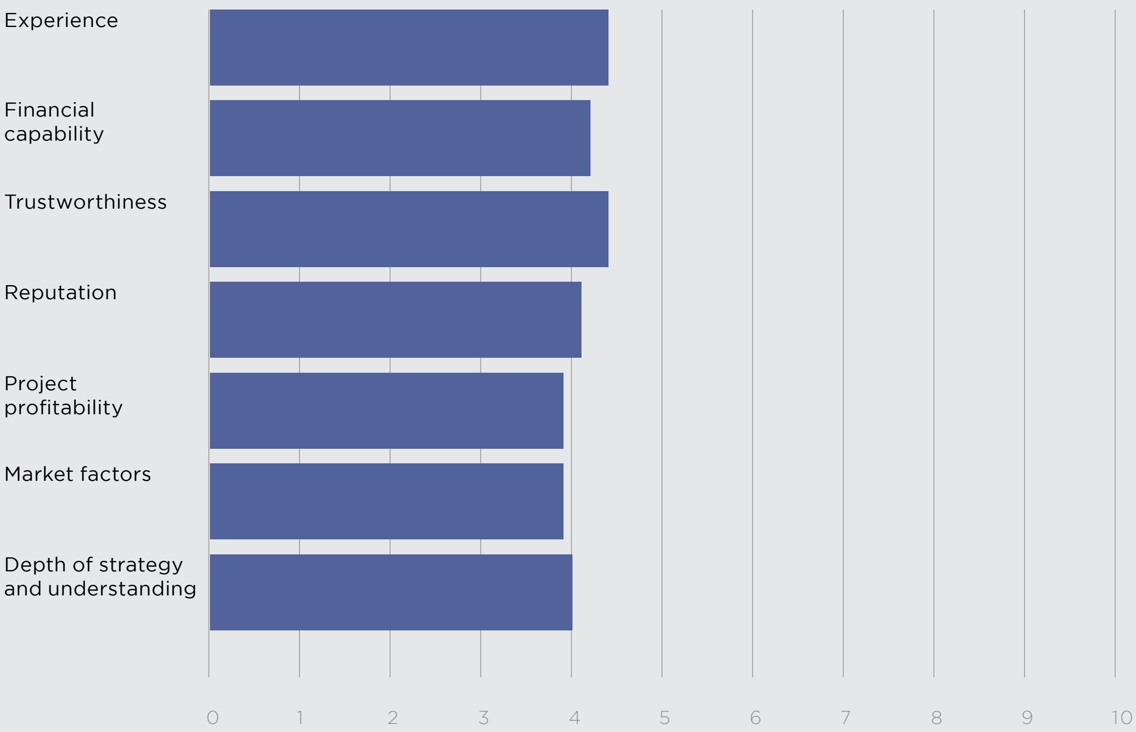
Key themes suggested by finance experts to improve the likelihood of obtaining finance surveyed include:

- Better due diligence and information provided to funders
- Providing more detailed information and scenarios to funders

Full responses included:

- To look at the sensitivities to show downside has been considered and is adequately protected.
- Use brokers that know what they are doing and come prepared with all their ducks in line - proposing for finance when the developer has a limited background or poor consultants leads to refusals. Also understand where LVRs sit for different asset types and apply accordingly. Projects that make limited profit or with limited equity on the developers side will always struggle, likewise with those with limited pre-sales.
- Having appropriate consultants and budgets prepared with a clear strategy to deal with 'unforeseen' issues.
- Should have more than enough equity
- Quality of pre-sales for residential development applications
- Financial feasibility
- Good product, good location, good delivery team and offtake secured. Reasonable expectations on debt terms.
- Non-bank market is totally different to traditional banks. Adapt and take advice.
- Higher pre-sales and more cash in - said like a true banker!
- Model the downside
- Diligent self-assessment of all risks of their project & position, understand how to deal with them
- Good business LAN that assesses the pattern historically market movements. Also follow the large privates - they have skin in the game
- By displaying a better understanding of the risks associated with their transaction and demonstrating the mitigants around those.
- Reading the APRA review of the banks report. Our ability to finance is dictated by APRA's recommendations.
- Have more equity
- Detailed Feasibility Analysis on Projects. Understanding key risks with respect to construction Investor market need to consider quality of tenants and location when purchase new assets.
- Clear Assessment of Product assessment and competitive analysis.
- Being able to provide quality information
- Demonstrate a de-risked, non-speculative position and on completion strategy for either on-sale against conforming pre-sales or retained with confirmed pre-leasing.
- Detailed information - the biggest hurdle at the moment is people who remember applying for loan 5 years ago and are now faced with providing the family budget, bank statements and multiply proof of income documents
- Expect lower LVR and provide greater security.
- Proactively derisk and reduce gearing sought.
- Remember that the financier, generally, wants to provide finance. The questions asked and information sought should reflect the due diligence a good property investor or developer has undertaken in respect of their acquisition or project. If they aren't able to provide answers, it's hard to provide funding.
- By paying their bills on time
- Have a strong track record
- Be better prepared. Speak to financiers before committing to transactions and leaving themselves at risk
- Have equity
- Providing all information on request and coming to terms with the changing financial environment
- Acknowledge that banks like cash equity in deals (not valuation uplift alone)
- Improved knowledge base and providing all information not bits and pieces at a time
- Understand all the risks and challengers that involved with building/creating value.

Q17 **HOW WOULD YOU RANK THE FOLLOWING ATTRIBUTES OR QUALITIES WHEN ASSESSING AN APPLICATION OF FINANCE?**



Insight:
Whilst financiers want to see experience, trust factors and a good reputation when it comes to funding projected.

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