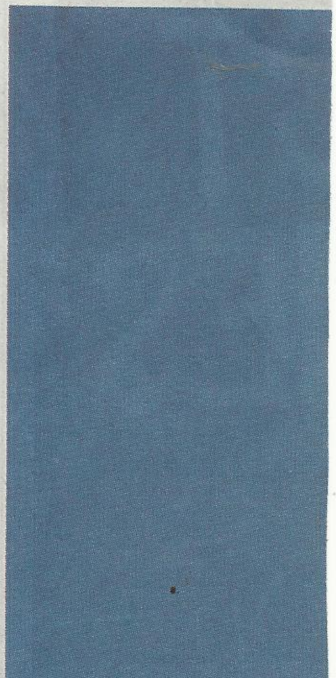
TOTAL DEBT COVERAGE DEMANDED TO LIMIT RISK

Lending tightens for unit projects



The global financial crisis means banks are not quite as willing

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BANKS that continue to tighten lending to property developers are imposing strict financial criteria on some apartment and housing projects in Sydney.

But developers in other states are reporting that banks are starting to free up their lending rules.

The managing director of Sydney-based Ralan Group, William O'Dwyer, who develops up to 600 apartments annually, says banks started changing their attitude towards lending to developers in Sydney's suburbs five years ago.

"There is absolutely no doubt that in the last few years, as a consequence of the global financial crisis, banks have certainly tightened up dramatically in their willingness to lend money to developers for projects," says O'Dwyer, who has completed 2500 apartments in Sydney in the past four years.

"The banks are demanding as little risk as possible, and how that manifests itself is the banks are demanding they have as a minimum 100 per cent debt coverage before they are willing to lend."

That means if a developer is borrowing $50 million for a project, the banks will demand at least $50m in pre-sales on that project and in some cases a bit more, he says. Although Ralan concentrates on developing in Sydney's inner suburbs — it won't build north of Hornsby or west of Strathfield — O'Dwyer reckons bank lending is even tighter further out.

However, he stresses that he is no bank basher. "I have no issue with the fact that the banks have tightened up their lending criteria because look what has happened overseas when banks have been less than prudent and reckless in their lending practices — it has ended up in tears," he says.

Matrix Property Group director Andrew Antonas backs O'Dwyer. "Banks openly say it, they are not lending down there in Sydney's southwest," he says.

However, major banks including Westpac and the Commonwealth Bank dispute this.

CBA says it still supports development in Sydney. "While there is no negative sentiment towards residential development from a geographic perspective, the fundamentals of experience, an ability to deliver, as well as a demonstration of market acceptance of the property remain important elements for Commonwealth Bank," a spokesman says.

Westpac strongly denies it has curtailed lending to developers planning projects particularly in Sydney's outer suburbs.

"Westpac is seeing some good deals out there," a Westpac spokeswoman says. "We are actively supporting developments — from duplexes to townhouses to large unit blocks — that make commercial and financial sense."

She says this includes a number of sizeable deals in southwest Sydney across the past 12 months, where it has been prepared to lend in the future.

Queensland-based Consolidated Properties managing director Don O'Rorke, who is developing $500m worth of apartment and housing subdivisions from Toowoomba to Melbourne, reckons banks are lending as long as developers satisfy the criteria of pre-sales and are carrying con-