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RATE HIKES AND STRICTER LENDING POLICIES HERALD CHANGE FOR PROPERTY SECTOR

CBA's announcement of its tightening lending policies for developers and investors, coupled with the recent rate rises for property investors, herald changing circumstances for all businesses, most immediately the property sector, said Adrian Clerici partner at mid-market accounting and advisory firm Pitcher Partners.

"Banks reviewing their capital allocation creates challenges and risks to businesses. We are expecting banks will also put pricing increases through to other business lending, the commercial property sector, initially.

"These impending price increases make it imperative for all in the sector to be proactive in their banking relationships and understand what opportunities exist in managing this risk," Mr Clerici said.

He said in the longer term it is prudent for all businesses, property-related or otherwise, to review their facilities and, if thought necessary, seek pricing certainty through fixing rates given the many indications that we are at the bottom of the interest pricing curve.

The property sector was targeted last week for increased interest rate rises as a result of loans to investors being seen as riskier than home-owner lending. Publicly, the regulator and banking capital structures have been identified as the cause of the increases, along with mispricing of the risk.

"The banks are gambling that the increase is so insignificant and coming at a time of historical interest rate lows, the rise will be unlikely to cause their customers to review their options. But, we will be recommending to our clients who have received the interest rate rise above 40 basis points to discuss and challenge it with their banks, as there may be an opportunity to reduce the increase passed on.

"Banks are likely to have experienced an improvement in the required lending covenant conditions due to interest rate decreases and therefore a small increase in interest rates is unlikely to impact covenant performance.

"Again, noises we are hearing from banks is that these loans are cited as being too aggressively priced compared to residential loans and bank margins need to change to reflect this. It may be worthwhile for businesses to discuss with their banks options to limit such an increase from being passed on should this occur."

Mr Clerici said that the move by the CBA to review its loan funding for large residential developments was predictable.

"Currently, banks are continuing to participate in competitive lending in this strong sector, however, with increased scrutiny of foreign capital and purchases, combined with APRA pressure, it was inevitable the current strong levels would be impacted.

“APRA requires the banks to maintain a mix of lending across both business and property, and as we observed during the GFC, bank lending to property became limited due to lending to businesses contracting. Stagnant business lending causes a pressure on the lending limits a bank may have with the property sector.

“With the banks citing sluggish business lending conditions, this, combined with a strong property sector, may cause some banks headaches with their current levels of participation in property market lending. The result of this during the GFC was for our clients to look at accessing more diverse equity and funding options, and we recommend if they want to pursue similar avenues now, they do so, but with an abundance of caution,” Mr Clerici said.

Pitcher Partners is an association of independent firms located in Melbourne, Sydney, Perth, Adelaide, Brisbane and Newcastle. Pitcher Partners are independent members of Baker Tilly International.

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