



Australian CRE Debt Market Introduction

Seoul, South Korea
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PALLAS CAPITAL



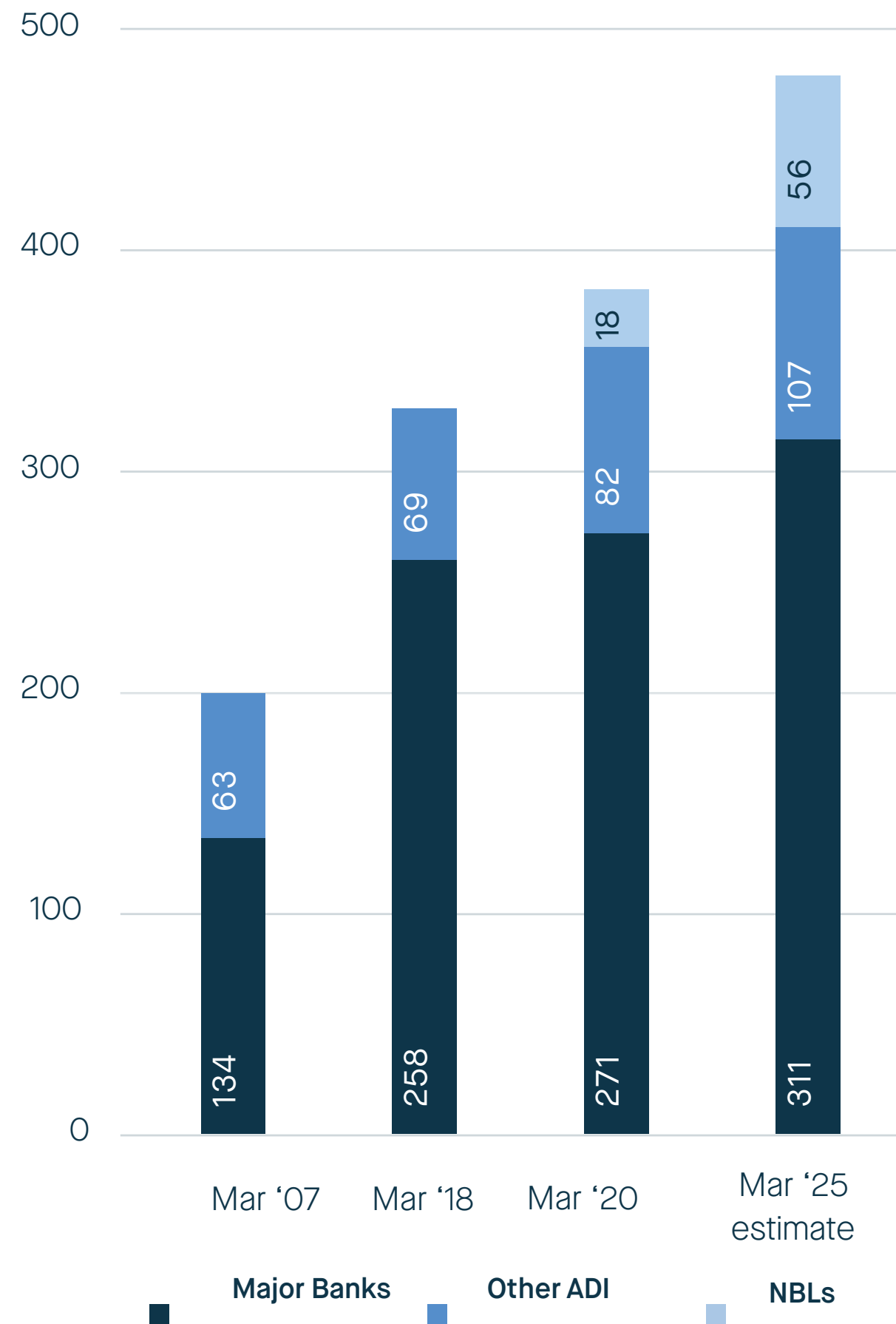


Introducing Australian CRE Debt

- Australian GDP (US\$1, 300 billion) is about 81% of South Korean GDP (US\$1,600 billion).
- The total of debt securities issued in Australia (US\$2,500 billion) is about 95% of the total in South Korea (about US\$2,630 billion).
- CRE Debt, as an investment asset class, is relatively new in Australia.
- The total of CRE Debt in Australia is about US\$270 billion and about 10% of this is held by **Non-Bank Lenders (NBLs)**
- NBLs offer an investment either in individual CRE Debts or in a 'warehouse', i.e., a pool of CRE Debts
- Previously most CRE Debts were at a fixed rate of interest to the borrower but increasingly these monies are loaned at a margin over a benchmark (typically BBSW).



The Australian CRE Loan Market



Source: Australian Prudential Regulatory Authority (APRA), Quarterly ADI Property Exposures March 2020, RBA Market Stability Report 2019

The total of CRE loans in Australia is forecast to increase from \$371 billion in 2020 to \$475 billion in 2025 (CAGR of 5%).

The market share held by NBLs, i.e. non- deposit takers, is forecast to grow from \$18 billion in 2020 to \$56 billion in 2025 (CAGR of 25%).

This growth will take the NBL market share from 5% to 10%.

NBLs represent about 35% of all property exposures in Europe and about 50% in the USA.

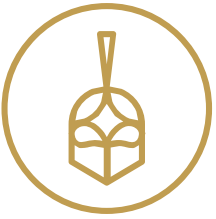


The Rise of the NBLs

The rapid rise in NBLs in Australia reflects the structural advantages of those lenders over traditional lenders.

CRE lending by the banks and ADIs has been restricted by a series of factors including:

- regulatory intervention (BASEL III and IV, APRA);
- macroprudential controls designed to ‘cool’ property markets); and
- scrutiny of prior lending practices (Royal Commission into banking, AUSTRAC proceedings against Westpac).



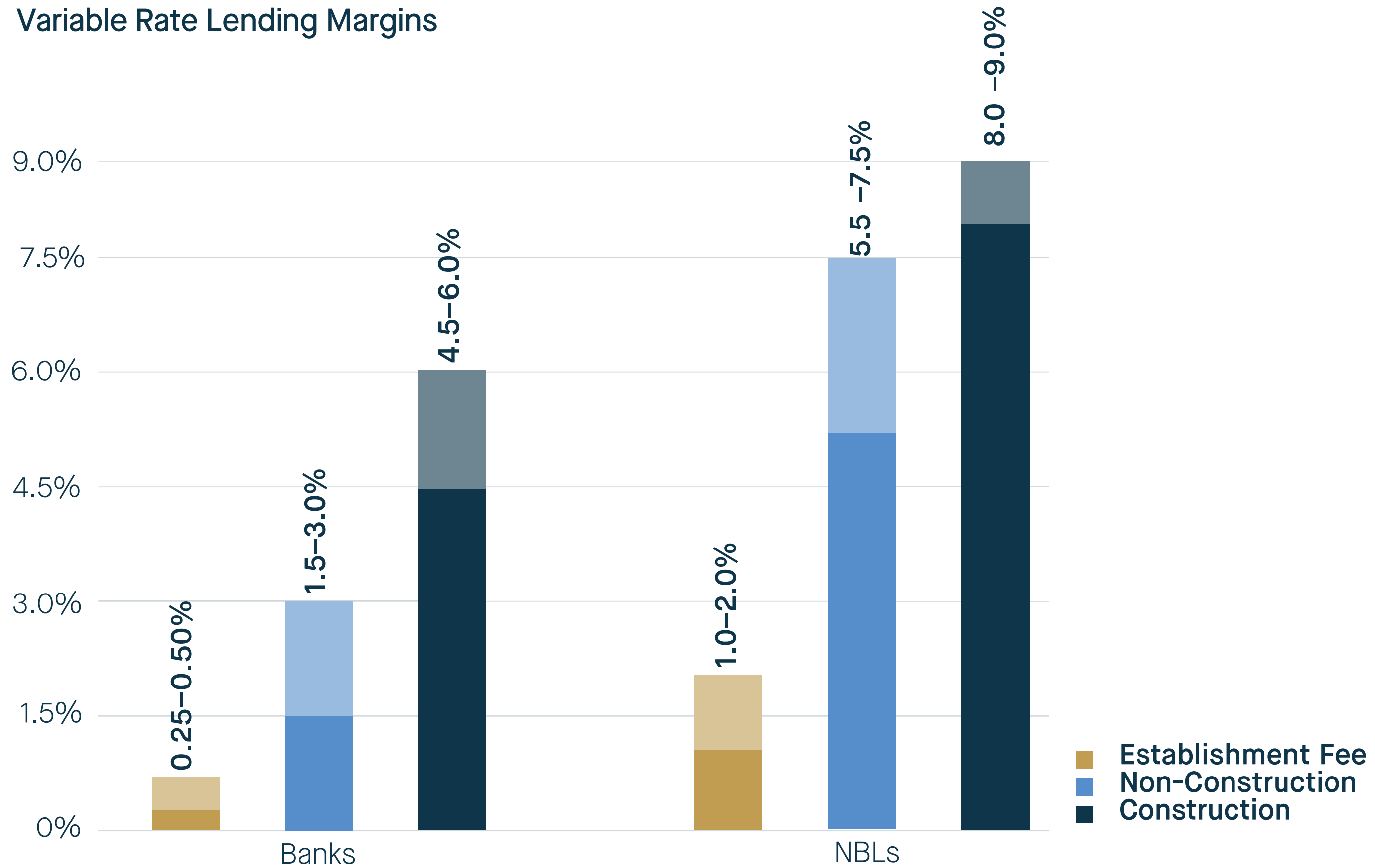
The Rise of the NBLs (Continued)

Banks	Non-bank lenders
Slow turnaround times (3–6 months for these loan types).	Turnaround can be 3–4 weeks provided borrower information and current valuation on the security is available.
Typically require pre-sales to cover 50-100% of maximum construction loan balance.	Typically require pre-sales to cover 0-50% of maximum construction loan balance.
Reduction in Loan To Value ratio (LTV) from (say) 70% several years ago to 50–60%.	Non-banks can still lend to +65% of LTV subject to borrower assessment.
Typically require Interest Cover Ratio (ICR) of 1.75x-2.0x.	Typically require ICR of about 1.25x.
Inflexible loan terms, e.g., no cash available to be drawn by the borrower to meet other commitments, loans amortising and aggressive ‘sweep’ of realisation receipts to reduce loan balances.	Flexible loan terms, e.g., borrower can drawdown cash for other commitments, typically interest only with ‘bullet’ repayment at end of term, borrower may be permitted to retain a proportion of realisation receipts.



NBL Lending Rates

Variable Rate Lending Margins





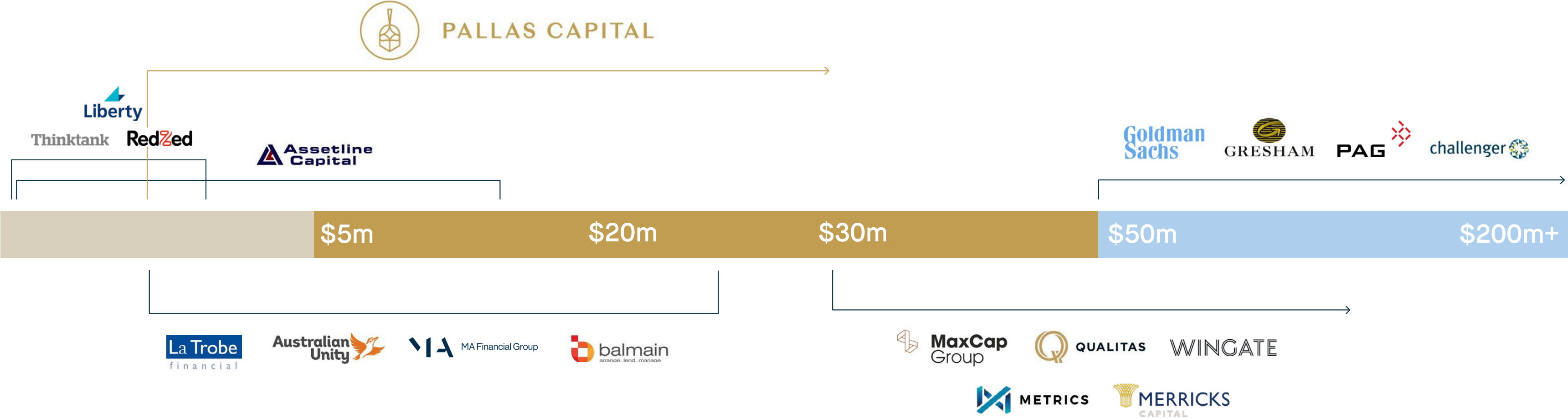
NBL Risk Profiles



Source: Pallas Management Estimates

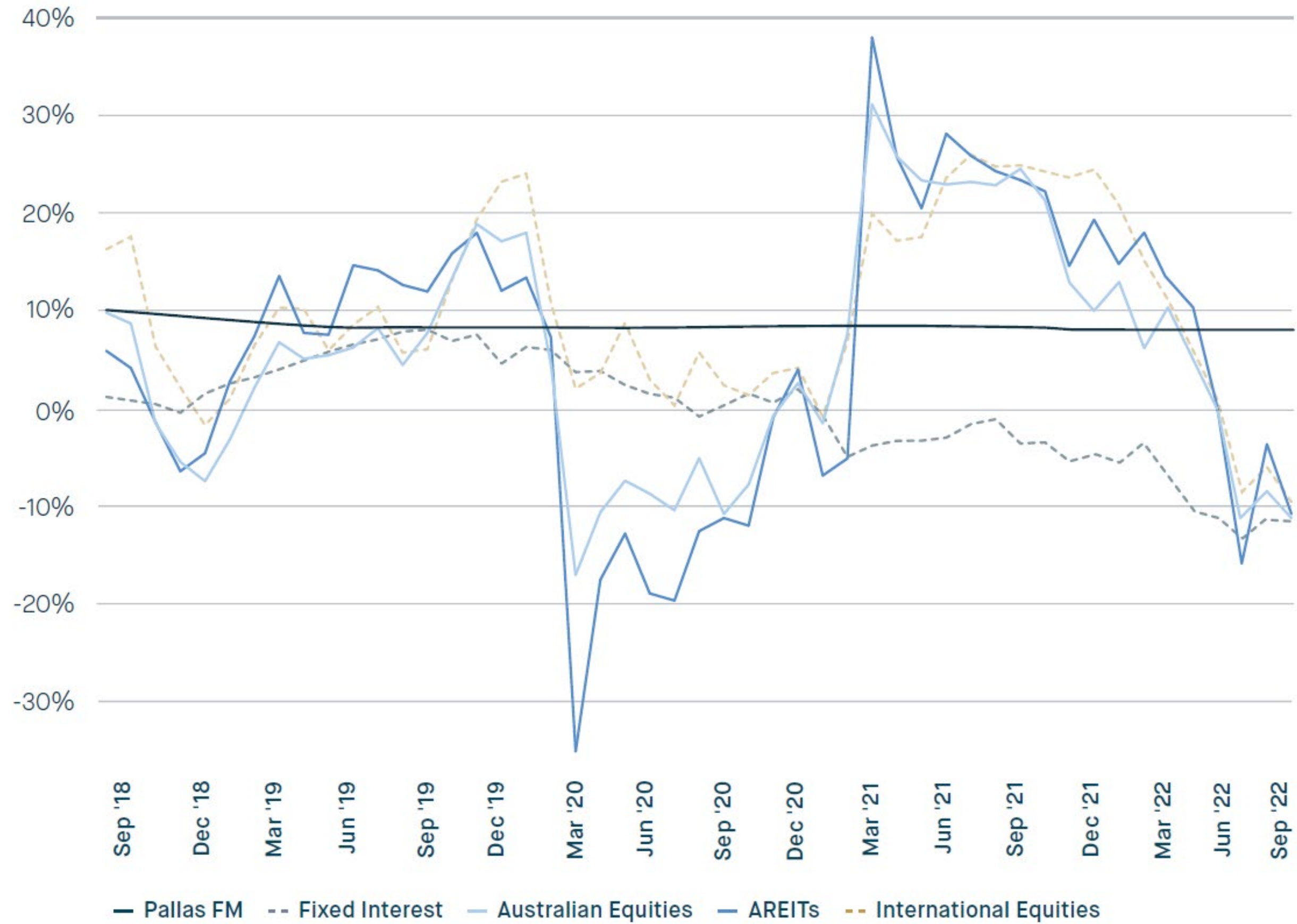


The Industry Landscape





CRE Debt – Comparison with other Asset Classes





Introducing Pallas Capital

Pallas has offices in **Sydney, Brisbane, Melbourne** and **Auckland** with **120 staff**.

Pallas Capital is part of a group of companies that includes **Fortis**, a specialist boutique residential and commercial development business with a current pipeline of 30+ projects having a value on completion of about \$4 billion.

\$2.2b

309 DEBT AND EQUITY TRANSACTIONS ACROSS
THE CAPITAL STACK – SINCE INCEPTION 2016

A\$100-150m

LOANS AND OTHER INVESTMENT TYPES SETTLED
PER MONTH

\$1.3b

OPEN AND PERFORMING INVESTMENTS

\$900m

125 FULLY REPAID INVESTMENTS
WITH NO LOSS OF CAPITAL OR INTEREST

\$127m

INTEREST PAID TO INVESTORS

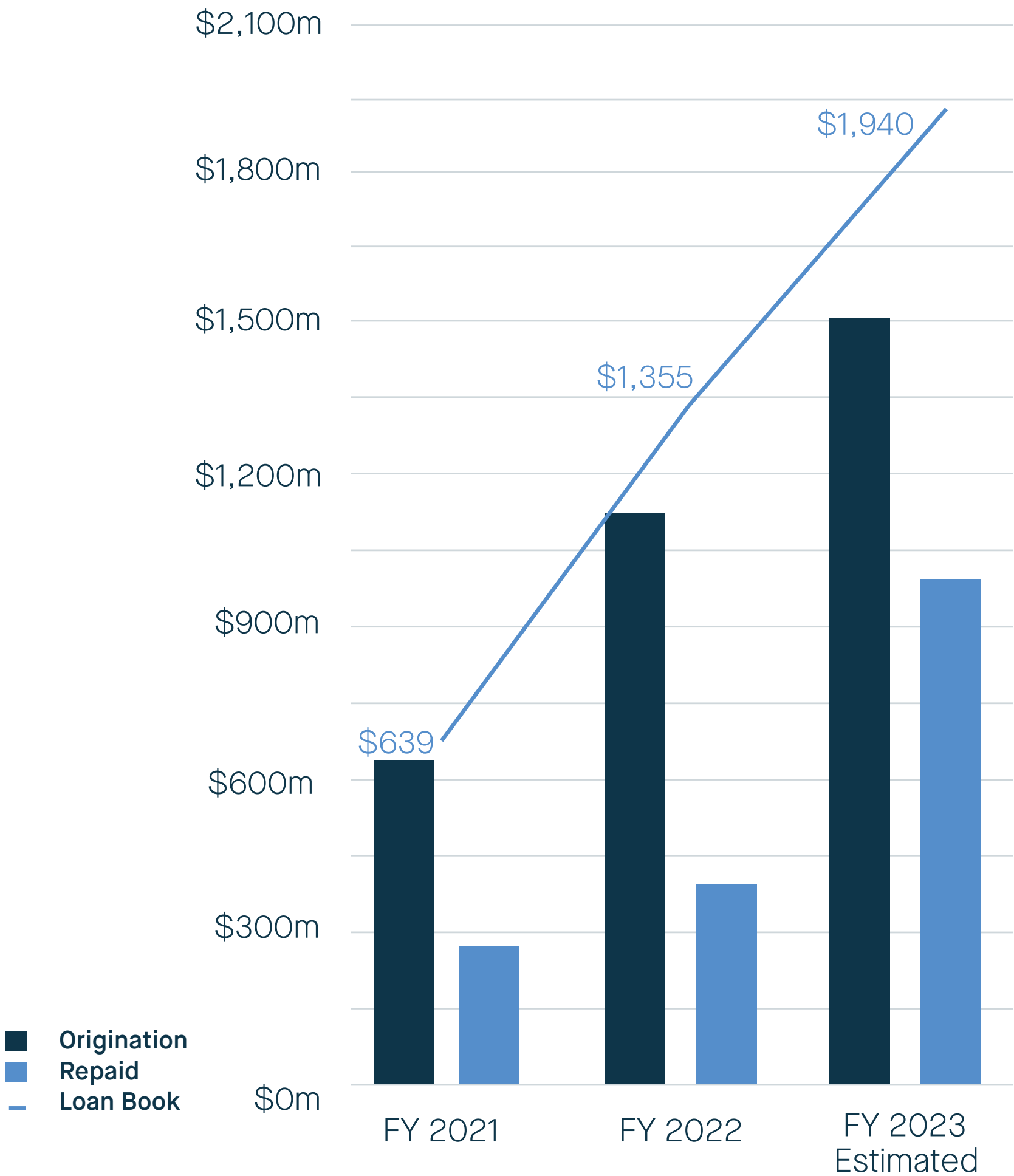
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LOSS OF CAPITAL OR INTEREST ON PALLAS
INVESTMENTS



Pallas Capital Origination

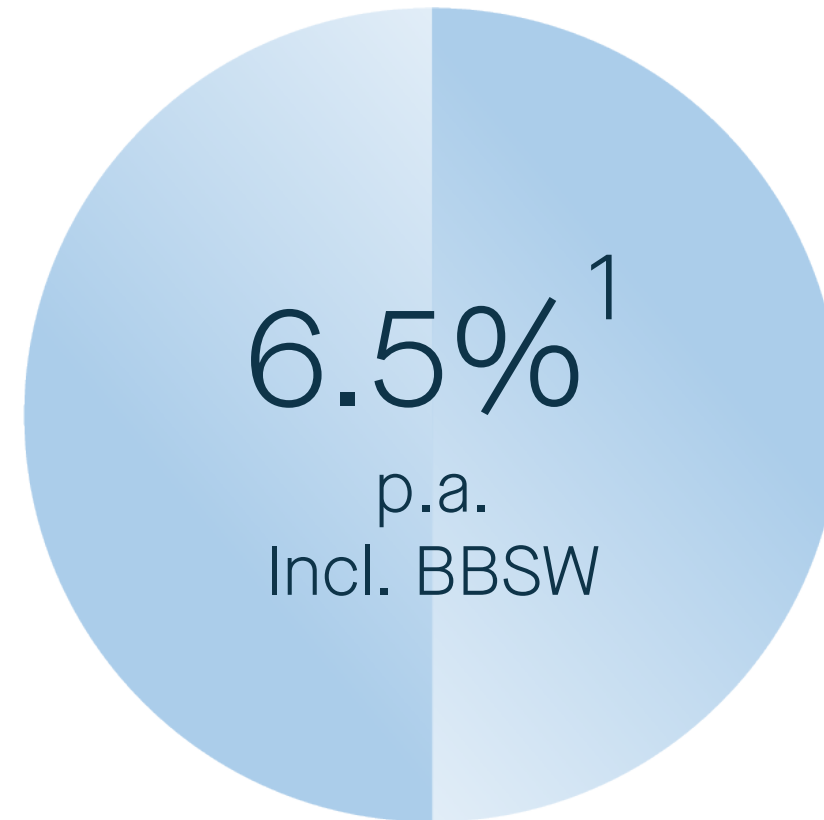
FUM has grown at 145%+ p.a. over the last 4 years, with about \$300 million of FUM currently under discretionary management by Pallas Capital.





Investment Products – Diversified Funds

The majority of our first mortgage funds benefit from an ‘Investment Protection’ mechanism constituted by a layer of first-loss capital. This additional credit enhancement creates a strong alignment as it represents an ongoing Manager co-investment.



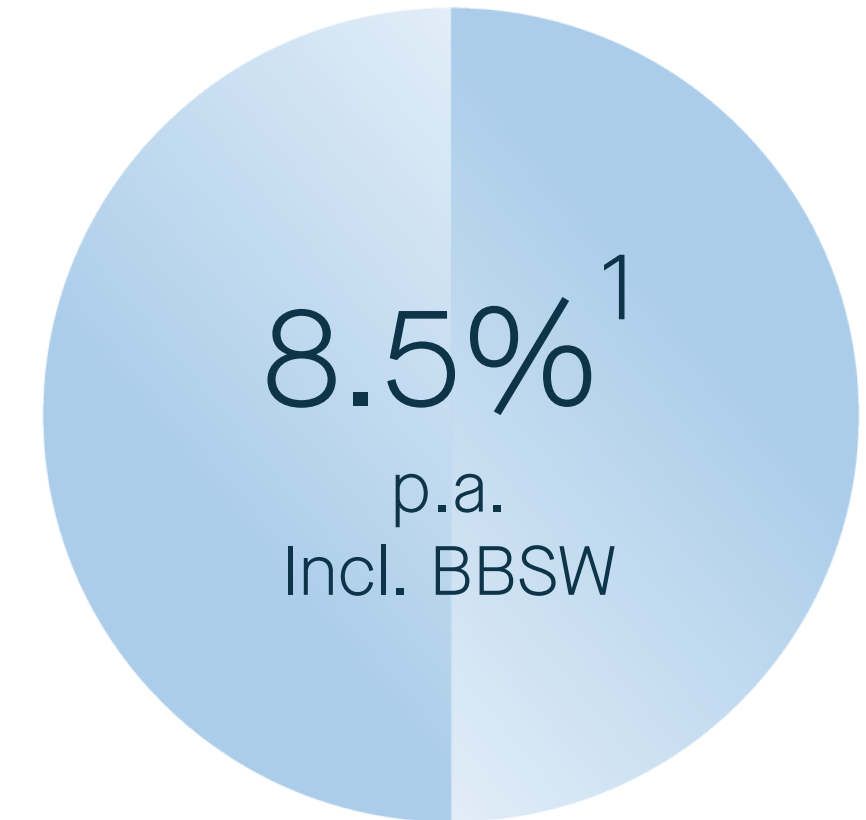
Pallas Short Term Fund

Fixed return, open-ended diversified first mortgage fund with a 3-month redemption period. The Fund has a 4-star superior ‘High investment grade’ rating from SQM Research.



PFT Feeder Fund

Fixed return, open-ended first mortgage fund, which invests in B and C Notes issued by PFT, a first mortgage warehouse facility majority funded by Credit Suisse.



Pallas Warehouse Trust No.3

Fixed return, diversified, open-ended first mortgage fund with a 4-star superior ‘High investment grade’ rating by SQM Research.

Notes

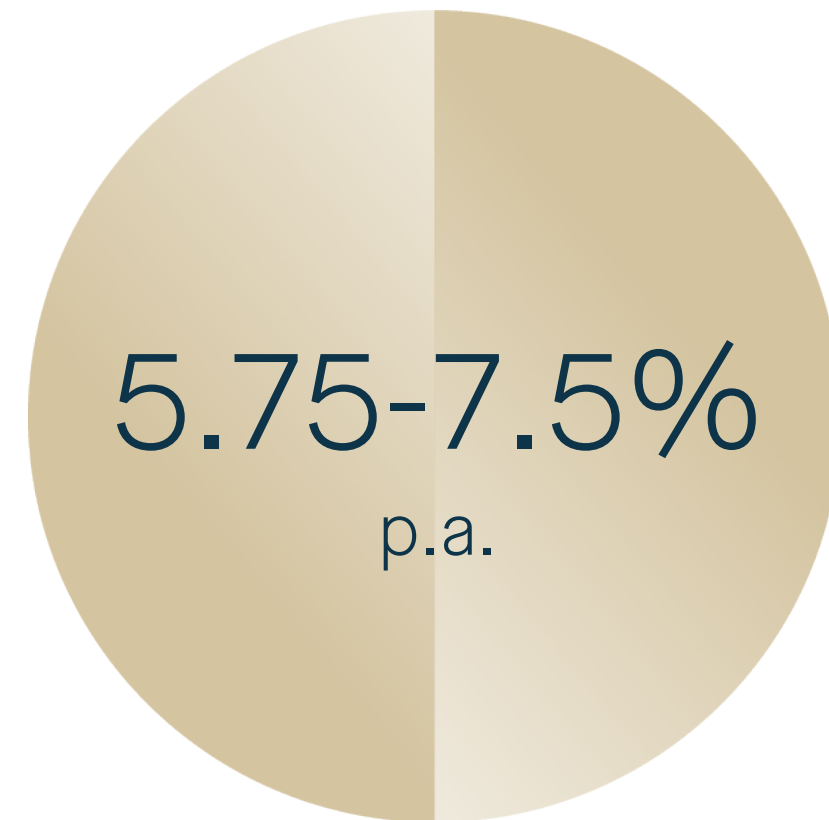
1. As at 1 November 2022, based on one-month BBSW at 2.905%



Investment Products – Single Assets

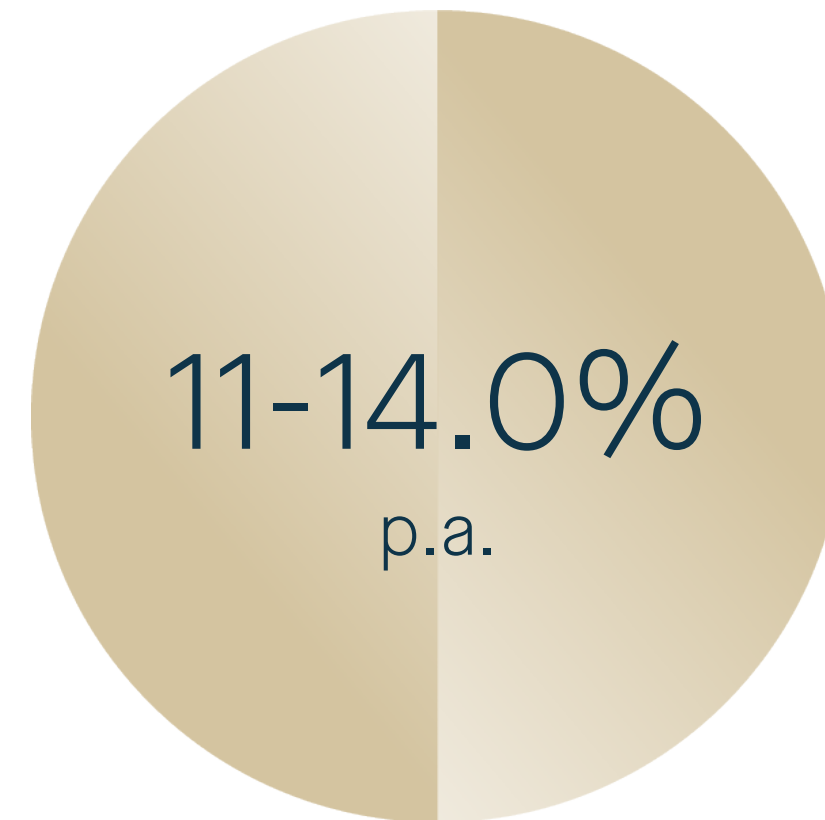
Our stand-alone property loans / investments allow self-directed investors to select opportunities they participate in based on their own risk / return profile and cash flow considerations.

Investors set their own risk parameters and are able to focus on any preferred sub-asset classes or geographic areas.



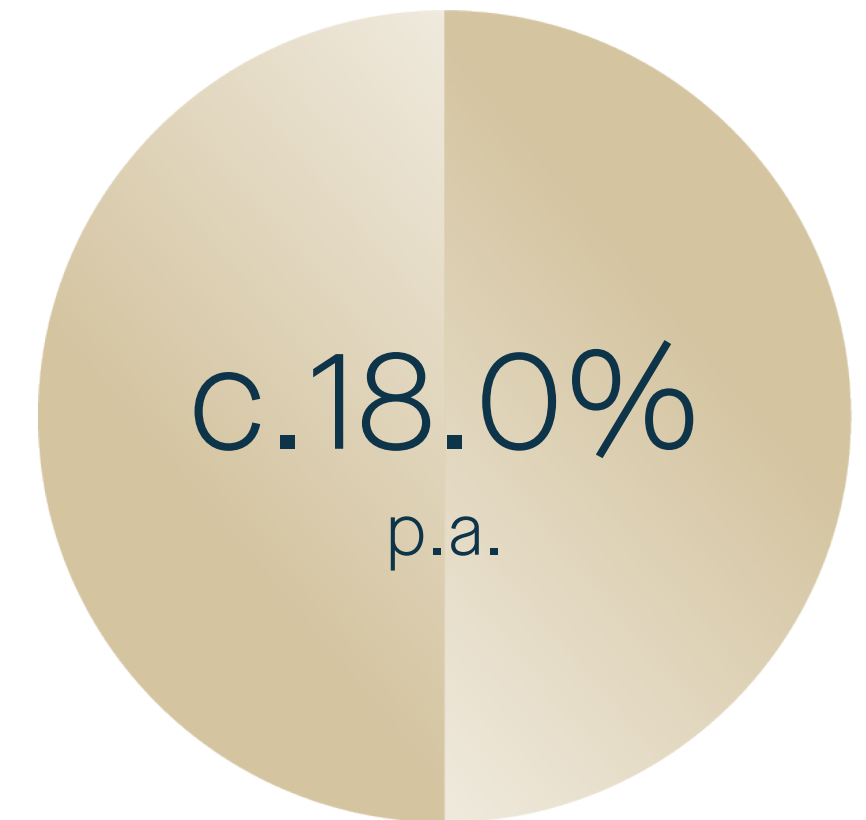
Fixed returns with our senior debt, registered first mortgage investments up to 65% LTV.

Terms 6-24 months.



Fixed returns for Preferred Equity investments in Fortis projects.

Terms 18-36 months.



Target returns for Ordinary Equity investments in Fortis projects.

Terms 24-48 months.



Case Study: Investment (Dev Potential) Loan

Real Estate Sector	Mixed use
Location	103 Beach St, Port Melbourne VIC 3207
Description	Commercial property with DA for 12 luxury apartments with ground floor supermarket
Security	Registered first mortgage, GSA & personal guarantee
Facility Size	\$7,500,000
Valuation	\$14,975,000
LTV Term	50% 6 months
Primary Exit	Refinance via construction facility
Alternative Exit	Sale of the property with the benefit of DA





Case Study: Construction Loan

Real Estate Sector	Luxury Residential
Location	66 - 68 Wilberforce Avenue, Rose Bay NSW 2029
Description	Development of a three-storey residential building comprising eight apartments over the basement level carparking
Security	Registered first mortgage, GSA, Personal Guarantee
Facility Size	\$20,800,000
Valuation	'As is' Market Value - \$11,305,000 (excl. GST) 'As if complete' GRV- \$29,709,091 (excl. GST)
LTV Term	65% 21 months
Primary Exit	Sale of completed apartments
Alternative Exit	Refinance with a residual stock loan





Case Study: Investment Loan

Real Estate Sector	Retail
Location	284 – 294 Albert Street, Brunswick VIC 3056
Description	Eight strata titled ground floor retail shops. Two shops are tenanted, borrower will progressively lease up the balance
Security	Registered first mortgage, GSA & personal guarantee
Facility Size	\$3,400,000
Valuation	\$5,095,000
LTV Term	67% 12 months
Primary Exit	Refinance with bank debt for long term hold
Alternative Exit	Refinance into residual stock loan





Case Study: Residual Stock Loan

Real Estate Sector	Luxury Residential — Residual Stock Loan
Location	520 Old South Head Road, Rose Bay, NSW, 2029
Description	Residual stock loan over 15 unsold apartments on newly completed 22 unit development
Security	Registered first mortgage, GSA, Personal Guarantee
Facility Size	\$21,476,583
LTV Term	65% 9 months
Primary Exit	Repayment from the individual sale of the security properties





Case Study: Vacant Land Loan

Real Estate Sector	Commercial
Location	175 Burnley St, Richmond VIC 3121
Description	Vacant land with planning permit for a city fringe premium grade office building
Security	Registered first mortgage, GSA, Personal Guarantee
Facility Size	\$10,855,000
Valuation	'As is' Market Value - \$16,700,000 (excl. GST)
LTV Term	65% 12 months
Primary Exit	Refinance with a Construction Facility
Alternative Exit	Refinance with another Land Loan; or Sale of the Property at \$5,468 per sqm





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