Time to take a few risks

Russell Emmerson

ADELAIDE has been identified as a key property market in the year ahead but finance experts have called on banks to open their books for more lending.

Macquarie Group global economics head Richard Gibbs last week told the Property Council's Invest SA conference Adelaide was one of the country's promising property markets but banks needed to step up to the plate to improve their own performance.

"Banks have got to be where the action is. You have got to be writing loans and doing business, and that is in Western Australia and South Australia," he said.

"If you are stuck in laggard NSW, you are exacerbating your risk."

He said companies must embrace more debt to make their business work harder as the market improved.

"If you get caught with a defensive balance sheet in the next 12 months, your investors are likely to call on you to give that money back," he said. Real estate investment trusts and other companies were forced into a corner in the global financial crisis when credit became more expensive or dried up for highly leveraged companies. This caused a plunge in the share price of exposed companies and the collapse of companies such as Allco Finance Group, which was unable to refinance almost $1.1 billion of debt.

UBS Investment Banking real estate head Tim Church said the appetite for risk was returning to the real estate investment community. "The ability to get debt above 25 per cent is now being sought by investors," he said.

"They are being attracted by the risk because the reward for that risk is return. Banks now need to work on relationships. Small private developers are finding it very difficult to get funding. We think that will persist for some time."

While he forecast Australia's superannuation funds – a key to the country's financial stability during the global financial crisis – would grow from $US996 billion today to $US2 trillion by 2015, he said the REIT sector faced its own difficulties during the recovery.

"The sector has been decimated. Our biggest risk is we don't rebuild our credibility with mum-and-dad investors," he said. "They went into stocks at $10 that are now traded at 15c. I'm surprised the syndicate market hasn't taken off more."

Anvil Capital director Adam Learmonth said the sector needed to address some key economic issues before private interest would return to favour. "The returns out of REITs have been woeful," he said. "Retail investors are not taking off in syndicates because they are not getting the reward at the end that covers their risk."

Upfront fees for financial planning, stamp duty, debt origination and other syndication costs wiped out any potential return, he said, cutting any incentive for small retail investors to move into property syndication.