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NEWS

Conversation with Peter Shear and Ben Madsen – Archibald Capital

Funds management partner Langton Clarke chats with Archibald Capital managing partners Peter Shear and Ben Madsen about the new corporate collective investment vehicle (CCIV) regime, 'opportunistic credit', the 'Big Four Banks' and credit risk, and insights from their international property fund experience.

LC As a funds management business specialising in 'opportunistic credit' and 'special situations' across Australia and New Zealand, what are the key themes you have seen emerging in recent times?

PS and BM There continues to be businesses and developers looking for capital that doesn't fit neatly into a debt or equity bucket. Australia tends to have strongly established and deeper markets for traditional debt (through banks) or equity.

Australian investors have historically been attracted to and understand straightforward equity investments (in property or listed equities) and senior debt. Because investors do not have as good an understanding of hybrid funding that is riskier than traditional debt but can be structured to have downside protection, and therefore not as risky as full equity, this type of funding is not as easy to access.

LC Where do you see the opportunities in the current property market?

PS and BM There will continue to be opportunities for quality developments aimed at downsizers and affluent purchasers who are not heavily reliant on gearing for purchases. At the same time, some developers have projects that are less likely to be economic as input prices have increased significantly. These projects will need to be reset for new market conditions.

A larger theme that will play through the market is the stress with the underlying builders. An increased focus will be on the builder contractor for each project, understanding the other projects they are currently constructing, and whether they have contagion risk from late delivery or cost blowouts, which have been amplified by the rapid increase in construction costs.

LC In your experience with the Big Four Banks, is there a narrowing of the credit risk they will take on?

PS and BM The Big Four Banks have been progressively narrowing their credit risk for over a decade now. They have been more focused on key client relationships and certain sectors of the market. While they will always have a focus on property finance as a key part of the Australian economy, some have pulled back significantly in providing construction finance. This has created opportunities to 'fill the gap' which in turn has given rise to a broad range of alternate lenders with increasing presence in the market which has served them well. Given the downside risks in the economy now it's hard to see this trend reversing anytime soon as they will increasingly focus on credit quality through the cycle.

LC The new CCIV regime commences on 1 July 2022, with the key driver being aligning Australian investment products with those offered in other jurisdictions. Have you experienced or seen reluctance or confusion on the part of foreign investors (or distributors or advisers) with respect to Australia's trust structure? Are you expecting much uptake of the CCIV regime for firms raising funds from foreign investors? What are some of the benefits of the new structure, as you see it?

PS and BM One of the issues attracting investments from foreign limited partnerships is the managed investment trust concept is not familiar to them. It helps if we can make something 'look and feel' what they are used to. The new structure goes some way to meeting that objective which is definitely a positive.

Property fund managers are likely to be the early adopters of the structure and as it becomes better understood it will become commonplace for firms raising funds from foreign investors. However, it will take some time for people to become comfortable with the structure.

We also believe there will be advantages in streamlining dealings with large financial institutions providing working capital or leverage into a structure. It will simplify the onboarding process and therefore speed up the establishment of each fund.

LC Peter, you are currently a non executive director of a US based property fund manager. Can you share any insights from your international experience?

PS The size and scale of the US market creates a totally different market dynamic. Each subsector in the US market is significant and attracts specialist players, be they equity sponsors, debt financiers, developers, etc. The result is a much more competitive and efficient market. The reverse is true in Australia which is relatively uncompetitive for alternate lenders compared to the US market. That said, there are less players looking to enter the Australian market given its small size than would otherwise be the case making it very attractive for existing participants.

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