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# MaxCap Group

## Innovative Financing Solutions

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Insights from

# Brae Sokolski

Founding Partner & Chief Investment Officer

Following the global calamity of the Global Financial Crisis, Australian banks understandably closed ranks and many large-scale residential development projects failed to get off the ground because of lack of primary funding support. Throughout this difficult period, founding partner and CIO of MaxCap Group, Brae Sokolski saw opportunities to assist developers with strong projects to fill their funding needs in a way which was both innovative as it was necessary.

**T**he future seems nothing less than bright as Brae and his partners have continued to grow MaxCap Group through astute and disciplined deal making, to service a portfolio of leading local and Asian offshore developer clients, including developers known to Asian Executive as Golden Age Group, AXF Group, ICD Property and Sino-Ocean Land.

In this fascinating interview, Brae shares his thoughts on the business which he has, in many ways, pioneered and has ultimately benefitted housing supply in Australia.

### **TAE**

It would seem that MaxCap's finance solutions for developers were an extremely bold move into a space left bereft by primary lenders. Talk us through your thinking in those early years.

### **MAXCAP**

We saw a real opportunity to assist developers to achieve their optimal finance requirements during a period of

great complexity and dislocation in the finance industry. My assessment at the time was that the service that was needed most— that is, one that could assist clients procure an optimal, tailored, debt finance solution— was not being offered in the market. This was, in my view, the biggest single challenge for any developer in Australia. What we have done in effect, is to create a business and build a reputation around a service to developers to take that pressure off them so they can get on and deal with other priorities in relation to the development process.

### **TAE**

How have you been able to assist Asian developers in particular?

### **MAXCAP**

Many of our Asian clients had not yet established relationships with local banks but still wanted to use their services for good reasons. We have helped to manage these new relationships through negotiation and sourcing the finance that best fit our client's needs. Where there has been the inevitable funding

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gap, due to tight post-GFC lending criteria, we are able to fill this directly ourselves. Through our ability to fund up to 90% of the cost of development, it frees up developers' capital to spread across a wider pipeline of projects. MaxCap enables better capital management and allows the developer to get on with what they know best: delivering the project. Our relationships with Asian clients evolve to the extent such that MaxCap quite often act as a quasi-CFO for them in Australia.

#### **TAE**

Lending money to a large-scale project is serious business. What processes are in place to ensure that deals are solid?

#### **MAXCAP**

MaxCap are very rigorous with our credit assessments. Our team comprises half a dozen extremely experienced and serious bankers, whose reputations are as important to them as they are to us as a company. We need to ensure that we are completely comfortable that a project is bankable. MaxCap do a huge level of due diligence and we are very selective with the projects that we finally elect to support. For us, it is about backing the right clients.

#### **TAE**

Is it enough that a project has strong pre-sales alone?

#### **MAXCAP**

That's important for sure however, our preference is to deal with the client much earlier on, before they go to market to ensure that all other less obvious requirements to secure funding from local sources are met. Sales contract conditions and qualification of purchasers are aspects of a deal that are extremely important and which we can advise on.

#### **TAE**

Can you describe the banks' view of local borrowers versus overseas borrowers?

#### **MAXCAP**

Banks are naturally more conservative when dealing with overseas borrowers because it is more difficult to evolve a

relationship or establish the party's credentials. Where the borrower is domiciled overseas, a local guarantor is of probable less value because less reliable insight is gained into the offshore income streams and there is limited accessibility to offshore assets that provide security or recourse for a local project. Banks generally offer reduced gearing levels and increase their requirements for pre-sales for developers based offshore.

#### **TAE**

You mention the issues surrounding pre-sales. Could you elaborate further?

#### **MAXCAP**

Generally speaking, banks require a minimum of 80% of their debt covered by qualified pre-sales. If banks express some doubt over aspects of a project or the developer/sponsor, they may seek up to 130% coverage over their debt, which is quite a significant impost on the developer. MaxCap, in providing an additional layer of funding and acting as a second mortgagee, take a more commercial perspective: the biggest issue for developers is not so much the level of required pre-sales but the proportion of foreign sales that banks will tolerate. Banks generally allow up to 30% of sales to foreign purchasers, which is quite conservative in our estimation. Our research shows that, ironically, the so-called "fall-over rate" from foreign sales is actually much less than from local sales. As a second mortgagee, we take a commercial view in that we are more accommodating of foreign sales as a proportion of total sales to cover our second mortgage debt.

#### **TAE**

What is your view of the pace and sustainability of high-density housing in Melbourne?

#### **MAXCAP**

We have a huge amount of confidence in this market. We believe that the strength of the market is underpinned by growth in net migration, social changes and growing desire to be located near centres of business, commercial, cultural, sporting and entertainment facilities. We see significantly more demand for high density living in inner Melbourne than supply can currently meet; indeed the effect that the

*Brae Sokolski speaks at MaxCap's Developers & Dealers Forum in October, which brought together for the first time the Heads of Property from the "Big Four" Banks for a property finance panel discussion and was attended by Australia's top 150 property developers and key stakeholders.*



Asian demographic has in driving up this demand is going to be increasingly more significant when looking to a longer-term horizon.

#### **TAE**

The mainstream press in Australia highlight issues over the quality of high-density housing stock in Melbourne.

#### **MAXCAP**

MaxCap observe that in a competitive market, prospective purchasers are savvy shoppers and the quality of the offering from developers has improved over time to meet purchasers' increasingly higher expectations. Common areas in the newer projects are becoming ever more elaborate and generous in terms of the space and amenity offering. I think developers realise that it's not just about the apartment you live in but the total experience that the building offers.

#### **TAE**

What are your sources of finance to assist developers?

#### **MAXCAP**

Our core sources of finance are through institutional funds. Our business is at the forefront of bringing new institutional capital into that is highly innovative commercial property lending, which is hugely advantageous to both the finance industry and the borrower.

#### **TAE**

Much media attention has been made about land sales to Asian investors at prices that seem unrealistically high. If these assumptions are correct in all or most of the cited cases, do they not make their feasibilities unworkable? Would you care to comment?

#### **MAXCAP**

We have seen many feasibilities from Asian clients and they are, in our opinion, robust and strong. What the Asian developers are able to do, is take a piece of land that a local developer has perhaps a myopic viewpoint on what may be achievable on that land - or perhaps has more limited capital that determines what they can achieve on that land - and they're able to generate

a higher yield, which means that the price they're paying on that land per apartment is far less than what the perception is. MaxCap's developer clients aren't buying the land and making shallow returns; they're buying the land and making very, very strong returns. They're just creating a bigger building, or a taller building than the local developers would contemplate.

#### **TAE**

Many Asian developers' primary language is not English. How do you deal with this?

#### **MAXCAP**

Effective communication is addressed through our office in various ways. The real challenge is being sensitive to cultural idiosyncrasies of the people from non-English speaking backgrounds. It has been a real learning curve for us and I am pleased to say that we are making solid progress; our staff members receive Chinese language tuition and we feel that while they may not be perfect, the fact that we are making the effort is well received by our Asian clients. Personally, I have come to admire the integrity, entrepreneurial spirit and the importance of family values across all levels of Asian society.

#### **TAE**

Where do you see MaxCap Group in five years' time?

#### **MAXCAP**

MaxCap Group aspires to be in a position whereby it can offer the full suite of debt to our clients: this is markedly more innovative and responsive to developers' needs than what is available to them today from the major lenders. We would like to open offices in Asia in order to have direct access with potential clients and engage them in their own territories. The MaxCap executive team spend a lot of time in the region and so offices in China, Malaysia and Singapore with interstate offices in Sydney and Brisbane are all within the realm of probability.

As a closing comment, MaxCap Group is committed to growing its client portfolio and continuing to deliver market leading service. MaxCap welcomes the opportunity to meet with any new Asian developer with a view to starting a long-term partnership in the Australian market.