

Gersh launches \$500m fund as banks retreat

Nick Lenaghan

Melbourne businessman Joseph Gersh has launched a fully underwritten \$500 million real estate development finance fund, as the latest non-bank lender to plug the gap left by the banks' retreat.

To be known as the Gersh Finance Fund – and understood to be backed by overseas money as well as local family office-style capital – the vehicle is already in negotiations in a series of deals.

The fund will target first mortgage and structured debt financing in the residential, commercial, industrial and mixed-use real estate sectors. It will focus on residential subdivision projects as well as development finance and restructuring opportunities.

"We think it's a good time. Even at \$500 million, we think the business is scalable," Mr Gersh told *The Australian Financial Review*. "There would appear a window of opportunity that doesn't appear to be closing soon."

Mr Gersh, the ABC board member and prominent dealmaker who heads Gersh Investment Partners, said the non-bank, or secondary, lending market was "already blossoming" before the banking royal commission triggered a further squeeze on credit.

"It's because the banks for prudential reasons or availability-of-capital reasons were retreating from commercial property development lending," he said.

"So a secondary market developed and developed quite quickly and professionally among a number of houses, many of them in Melbourne.

"The other driver was as interest rates fell there was a hunger for yield.

"But the banking royal commission has had the unintended consequence of forcing the banks to become more



Joseph Gersh: "We think it's a good time." PHOTO: JESSE MARLOW

conservative, or making them feel they needed to become more conservative.

"It has quite serious ramifications across the board. If they are more conservative in development lending then there will be less stock and prices will go up."

As interest rates fell there was a hunger for yield.

Joseph Gersh, Melbourne businessman

The Gersh fund joins a growing field of non-bank lending, including MaxCap, Qualitas, Wingate and the Liberman family-backed CVS Lane, which has former prime minister Julia Gillard on its board.

Australia's major banks account for

about 85 per cent of the \$270 billion commercial property finance market. On some estimates that could shrink to about 70 per cent during the next decade, fuelling further demand from developers for new sources of debt.

Gersh Investment Partners has itself committed a substantial co-investment in the fund, which will be headed by Gersh executive directors Theo Axarlis and Paul Davis, both real estate finance veterans.

The fund is expected to focus on financing in the \$15 million to \$50 million range, although it has the capacity to strike deals outside that range.

Gersh already has a mandate with Supalai, a Bangkok-listed residential developer, which has invested into local ventures including a \$200 million project near Geelong.

A number of further investments are being negotiated for the Supalai mandate, Mr Gersh said.