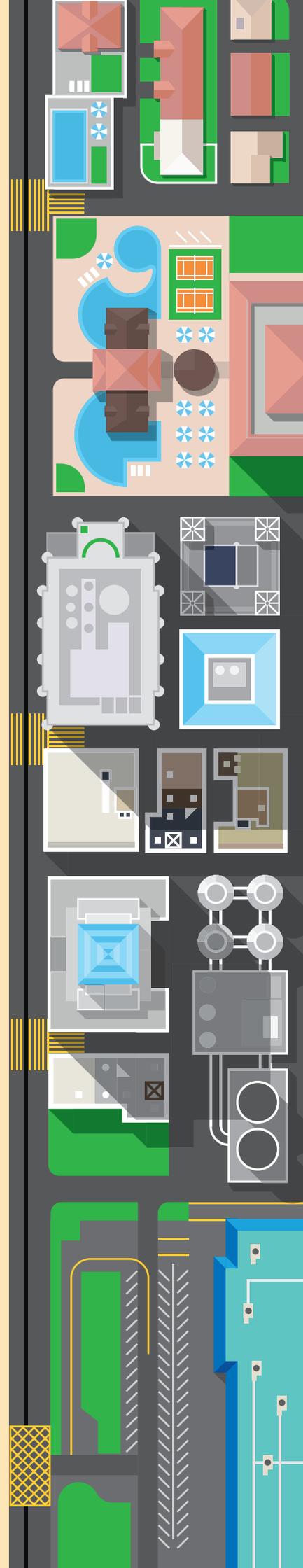




Property Lending Barometer 2018

**A survey of banks
on the prospects
for real estate sector
lending in Europe**

kpmg.com







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9th

annual edition
of the survey

Interviews
conducted with
banks from

14

European
countries

Close to

70

banks
surveyed

Dear Reader,

It is our pleasure to present the Property Lending Barometer 2018, which is the 9th edition of our annual survey of banks' real estate financing. This report reveals insights into lending market conditions in a range of countries in Europe and also gives a separate snapshot of the participating countries to highlight their unique market characteristics.

The purpose of our report is to assess the prospects and sentiment for bank financing in the real estate sector in Europe based on interviews conducted with bank representatives from 14 European countries.

The recently positive growth period of the European economy is likely to continue, though at a more moderate pace. Unemployment is decreasing, disposable income is expected to increase, but inflation has begun to increase and interest rates may not remain unchanged for the medium term. Tensions in global trade, slow Brexit negotiations and the unresolved refugee crisis in Europe overshadow long term prospects for growth.

A sustained growth tendency of lending activity in Europe is likely to prevail in 2018, supported by eased lending conditions and stable demand since 2014. Competitive pressure in the financing sector and favorable outlook regarding risk have also spurred overall growth in lending. Further easing of credit terms and increasing loan demand are expected to have a positive effect on financing both corporations and households. The European market for loan portfolios saw a return to growth in 2017. The total value of real estate-backed loan portfolio sales reached over EUR 100 billion for a third consecutive year, at a record EUR 114 billion.

This report is an analysis of the findings of our survey of the leading banks active

in these countries. The 2018 Barometer includes input from close to 70 banks active in these markets, collected primarily via in-depth interviews and online questionnaires. Representatives from leading financial institutions have provided their views on the key issues influencing property lending.

The first half of this report provides an overview of the European market as a whole, by focusing on key issues such as the strategic importance of real estate financing for banks, the proportion of impaired loans and bank representatives' views on how to manage these loans. We also consider areas such as various banks' average and preferred loan size, as well as the length of their loan contract term. Furthermore, we have also taken the opportunity for new financing and banks' asset class preferences into consideration.

The second half of the report includes a profile for each country surveyed. In those sections we have addressed the prospects and terms available for developers and investors to finance new real estate developments and income-generating properties, and survey participants' expectations for the next 12-18 months.

We would like to take this opportunity to thank all of those who participated in this survey. Their co-operation was key to the success of this initiative.

We hope you will find our report informative and enlightening in supporting your future business decisions related to real estate financing. If you would like to receive any clarification or discuss this year's survey results, please feel free to contact us or any member of KPMG's Real Estate Advisory Practice.

Yours sincerely,

Andrea Sartori

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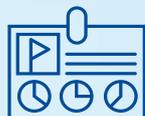
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Methodology and sample profile

This survey aims to provide an analytical overview of the current approach of banks to real estate financing in Europe. Lending institutions from the following countries are represented in the 2018 survey: Austria, Bulgaria, Croatia, Cyprus, the Czech Republic, Hungary, Ireland, the Netherlands, Poland, Romania, Serbia, Slovenia, Slovakia and Sweden.

The data for the survey¹ were primarily collected through in-depth interviews with bank representatives and via online questionnaires. Depending on the survey participants' organizational structure, interviewees were the heads of real estate, project financing or risk management departments. Banks were selected from among the leading financial institutions operating in each individual country. The survey participants entailed nearly 70 banks, all of which were active in the real estate market in Europe over the last year. Data collection for this survey took place from May to July 2018.

Almost two-thirds of survey participant banks were local, i.e. those operating predominantly within one European country, whilst the rest were mainly regional banks; some multinational banks also participated.

Comparison of surveyed countries

Based on the countries geographic locations, we have created the following two categories for the purposes of our analysis:

Central & Eastern European (CEE) economies: These countries are located either in Central or Eastern Europe, including the Balkans. Due to their geographic proximity and comparable stages of economic development, it is our assumption they share similar advantages and challenges. The grouping includes Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia and Slovenia.

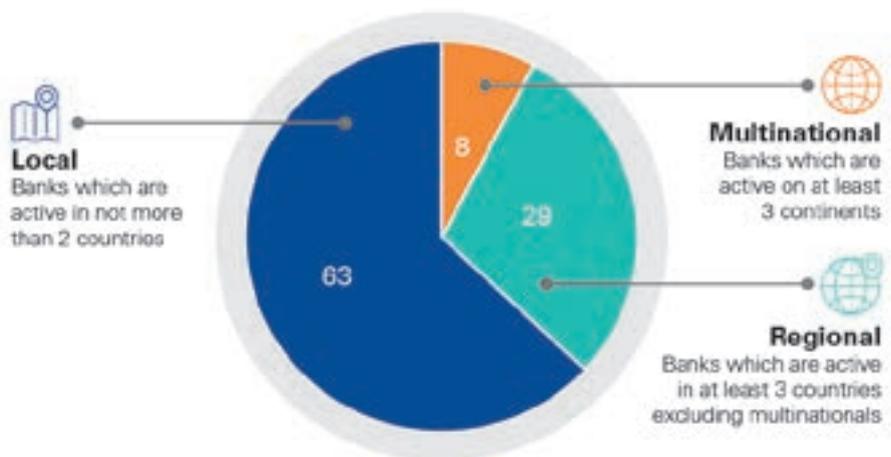
Other European economies: In contrast to the CEE markets, the category "Other European Economies" consists of countries from across Europe, most of them representing more mature real estate markets. Due to their economic capabilities, they provide a benchmark for assessing data from CEE. This category includes Austria, Cyprus, the Ireland, the Netherlands and Sweden.

Survey limitations

The following limiting factors should be noted:

- When the answers given to specific questions were not sufficient to provide reliable information on a specific country, we have indicated this, or the country was omitted from that part of the analysis.
- In the case of some parameters and cross-tabulations, survey findings may be considered indicative but not representative due to the low number of responses to some questions.
- As in previous years, our assessment of the residential sector excluded residential projects whose construction costs were below EUR 10 million.

Geographic orientation of the banks included in the surveyed sample



Source: KPMG Property Lending Barometer, 2018

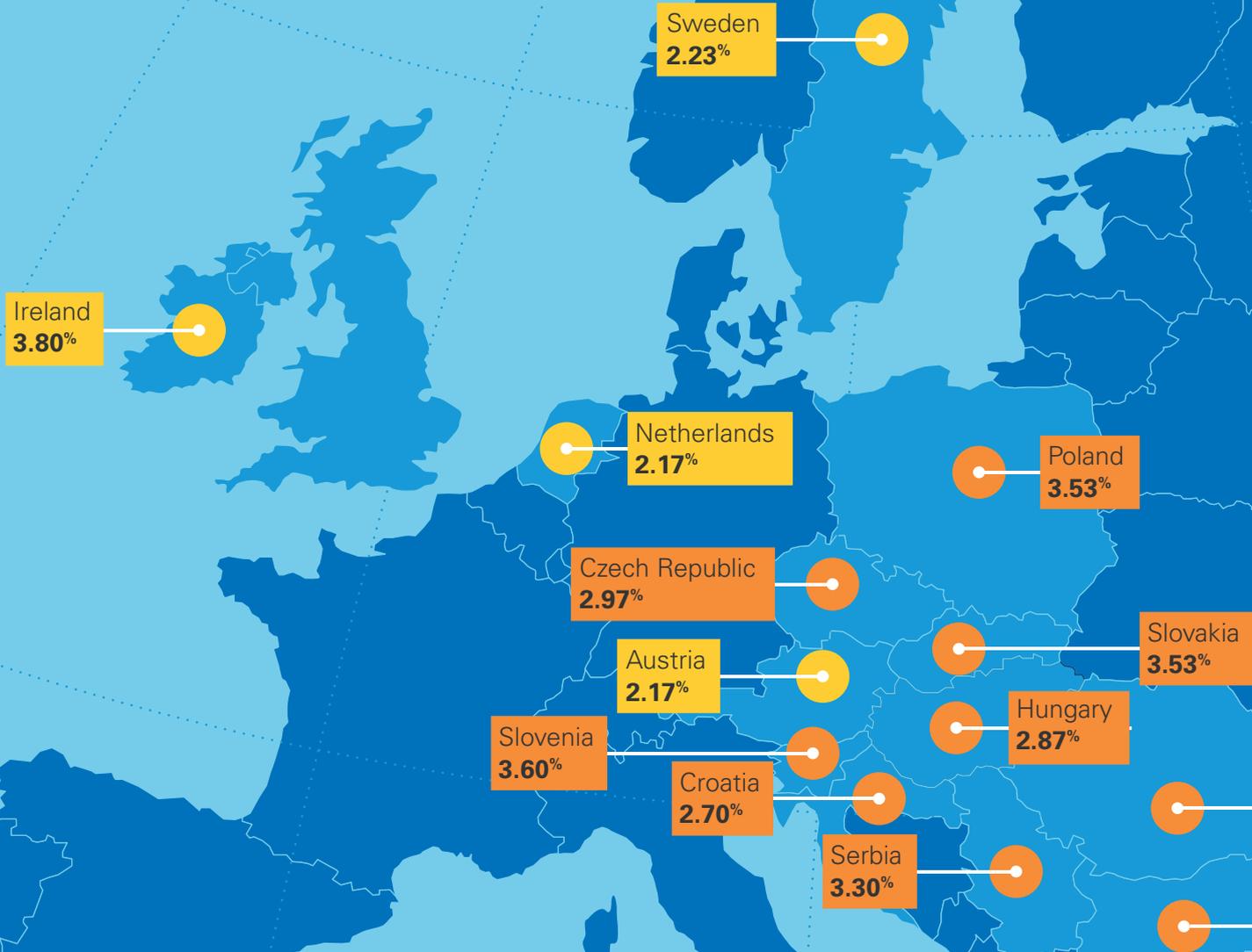
Geographic abbreviations

AUT – Austria; BEL – Belgium; BUL – Bulgaria; CEE – Central & Eastern Europe; CRO – Croatia; CYP – Cyprus; CZE – Czech Republic; DEN – Denmark; EMA – Europe, Middle East and Africa; GER – Germany; HUN – Hungary; IRE – Ireland; ITA – Italy; NLD – Netherlands; POL – Poland; ROM – Romania; SRB – Serbia; SVK – Slovakia; ESP – Spain; SWE – Sweden; GBR – United Kingdom; WE – Western Europe

¹ The survey also uses information obtained from public sources, which KPMG believe to be reliable. These market reports were published in 2017 and 2018 by BNP Paribas Real Estate, Colliers International, Cushman&Wakefield, Economist Intelligence Unit, EHL, European Central Bank, Jones Lang Lasalle, M&G Real Estate, Real Capital Analytics, IMF, OECD and Societe Generale.

Average GDP growth forecast (2018 - 2020)*

- Central & Eastern European economies
- Other European economies



*Source: Economist Intelligence Unit



Overview of the European real estate market

Macroeconomic outlook of the region

Following the weak growth period after the economic crisis, the global economy is in a phase of steady improvement. The unemployment rate in the European Union has been decreasing since 2013 and is anticipated to reach its lowest level in 40 years. In line with the relative scarcity of labour, real wages are projected to rise in several countries, while household income is likely to continue its robust growth trend manifested since the millennium.

Average real GDP growth in the countries included in this year's survey was 4.1% last year, which signals accelerated growth compared to previous years. Forecasts indicate more moderate-but-robust growth in the next few years, with all countries growing by less than 4% in 2019, and the average growth for these economies reaching 2.4% by 2020.

Inflation rates significantly increased in Europe over the second half of 2017. After a temporary decrease during the first quarter of 2018, inflation is entering a steady growth phase and is expected to reach a rate of 2.1% by the end of this year. Oil prices have been volatile and there are several unpredictable forces behind the change in today's oil prices. In November 2017 OPEC agreed to maintain oil production cuts throughout 2018 to put a floor under prices yet, there is no

common expectation regarding the short-term future of oil prices. Eased lending conditions, increasing loan demand and consistently low interest rates in previous years caused an increase in the value of certain assets, including real estate. In spite of the recently increased interest rates in the USA, European rates are not expected to increase this year, until the quantitative easing policy set by the European Central Bank ends, with the exception of the UK where the Bank of England raised interest to its highest since 2009. In this context, the trajectory of the European economy may be influenced by a range of risk factors.

Besides the potentially detrimental impact of a slowing Chinese economy, there is also a risk of a deepening trade war between China and the USA, with far reaching consequences on global trade. Political uncertainties and threats to economic growth appear to prevail, such as slow Brexit negotiations, and Europe's still unresolved issue of a potentially enduring refugee crisis. Although the Macron reform program in France has had a positive effect on investments and given the country higher growth potential, the social support of the program may not be strong enough to allow for a sustained economic impact. Meanwhile, the German economy is booming, with increasing savings and investment, fundamentally driving the growth prospects of the region.

Romania
3.73%

Bulgaria
3.03%

Cyprus
2.70%

However, outstanding questions related to the migrant crisis have put pressure on the government coalition, causing uncertainty in Germany's political environment that has not been in the country for many years.

Due to the diverse economic and social context of various economies in Europe, the extent to which the above macroeconomic and political factors may influence the actual economic and political trajectory of various countries is expected to vary greatly.

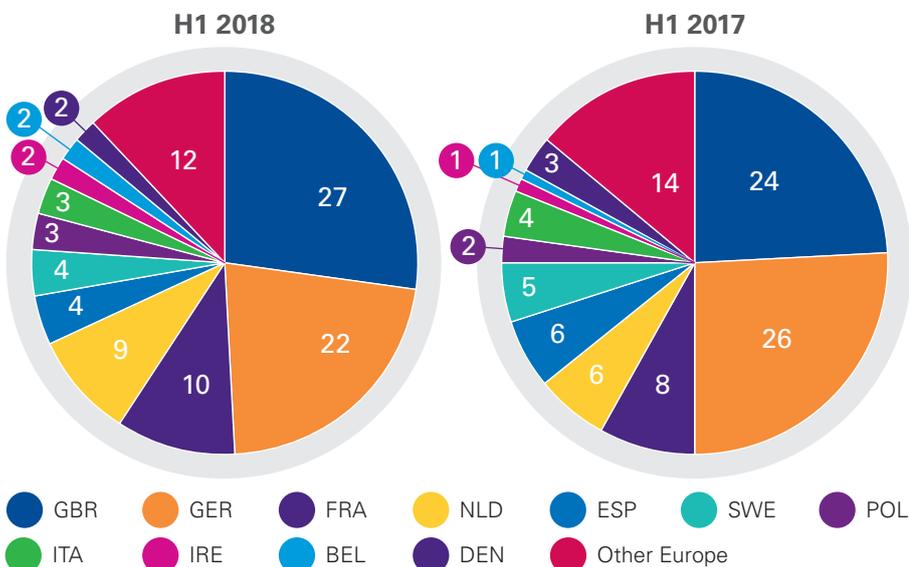
Bank lending

The sustained growth of lending activity in Europe has been supported by eased lending conditions and stable demand since 2014. Competitive pressure in the financing sector and favorable risk perceptions have also spurred overall loan growth. Competitive pressure in the financing sector, and favourable risk perceptions have also spurred overall loan growth and this positive tendency is likely to prevail throughout 2018. During the first half of 2018, European banks

experienced growth of their total and liquid assets mainly due to favorable regulatory or supervisory actions. The European Central Bank's quantitative easing has continued to support borrowing opportunities and improve the prospects for bank lending. This year, the ECB reduced its monthly net asset purchases by half compared to 2017, from EUR 60 billion to EUR 30 billion. This pace is scheduled to be reduced to EUR 15 billion until December, when the program will be phased out completely.

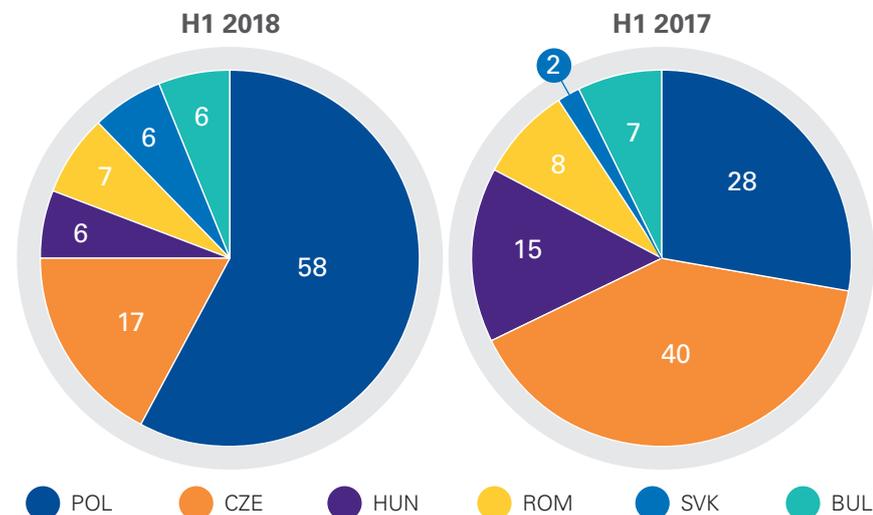
Meanwhile, the cleaning and strengthening of banks' balance sheets are still a priority. The European market for loan portfolios saw a return to growth in 2017. The total value of real estate-backed loan portfolio sales reached over EUR 100 billion for a third consecutive year, totalling a record of EUR 114 billion. Pressure from European regulators concerning balance sheet consolidation and the sale of non-performing loan portfolios remain considerable drivers of the market.

Breakdown of real estate transactions volume - Europe, H1 2018, H1 2017 (%)



Source: Real Capital Analytics

Breakdown of real estate transactions volume - Central & Eastern Europe, H1 2018, H1 2017 (%)



Source: Colliers

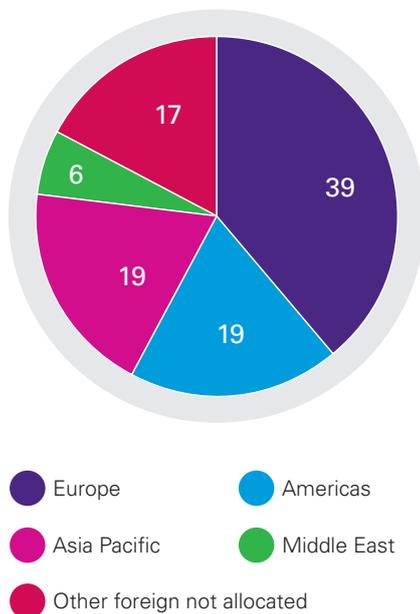
Real estate market in Europe

During the first half of 2018, total investment volume decreased by 19% compared to H1 2017, reaching just below EUR 110 billion. This is considered the lowest level first half since 2014. The slowdown is partly due to the amount of pending deals recorded in the first 6 months along with the maturity of the market and high prices in Europe's core countries and cities. Political concerns are also considered as a negative driver for investments.

Real estate investment activity shows a diverse picture across Europe. Germany and the UK were responsible for half of total investment volume in Europe, at 22% and 27%, respectively during the first 6 months of 2018. The former has shown a notable volume decrease of 31%, while the UK market volume has fallen by 11% since the first half of 2017. The winners of year-on-year increases are undoubtedly Poland and Ireland which exhibit almost double the real estate investment volumes compared to H1 2017. The Netherlands also bears a positive change of 17% growth from the previous year, as it attracts 9% of the total volume in Europe. Other major markets, such as Spain, Italy and



Cross-border investment in Europe, 2017 (%)



Source: BNP Paribas Real Estate

Sweden, have stepped into a path of decline for the second consecutive year.

Investment volumes in the six major CEE countries (the Czech Republic, Poland, Hungary, Romania, Slovakia, Bulgaria) have been increasing since 2012. In both quarters of 2018 the total investment volume was EUR 2.8

billion (EUR 5.6 billion in total), which means that during the last 12 months, the average total growth rate of these CEE countries was 4%. In H1 2018, investment in Poland leads the region with a share of more than half of total transaction volumes (58%), followed by Czech Republic (17%). Compared to H1 2017, the most notable winner, in this respect, was Slovakia with a growth rate of 117%. However, half of the countries experienced year-on-year decreases: Czech Republic (-58%), Hungary (-58%) and Bulgaria (-10%).

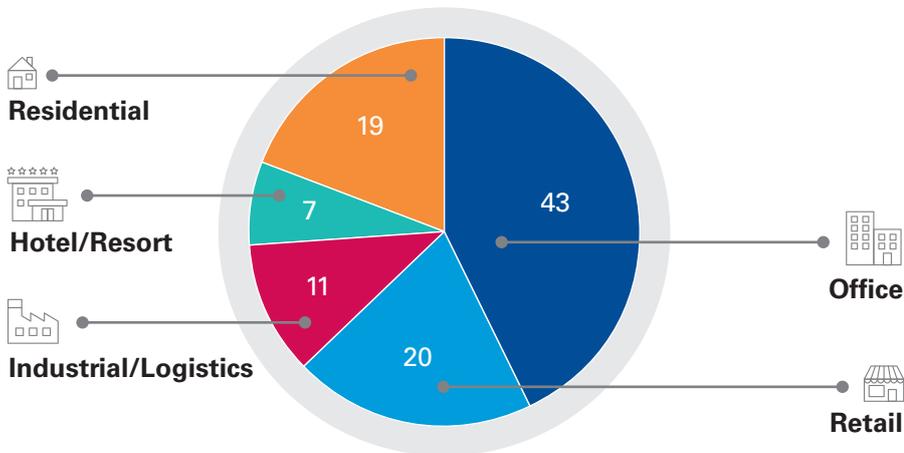
European cross-border investors invested EUR 53.4 billion in Europe, which is a 14% increase compared to a year earlier. Their main target markets were Germany, the Nordics and the UK. American investment in Europe remained stable after reaching its peak in 2016. The Americas share was close to 19% of total investment with the main deals occurring in Germany, the UK and France. Middle Eastern cross-border investors represent a stable 6%, having invested EUR 7.5 billion in markets outside their region. During 2017, Asia-Pacific investment into Europe almost doubled, with the greatest focus on the United Kingdom.

There has been no notable change in the breakdown of investment by asset type in Europe since last year.

Data from the first half of 2018 shows that the office sector is still the most significant at 43%, followed by retail (20%), residential (19%), industrial (11%) and hotel (7%). None of the sectors has escaped from the effects of a general slowdown, with a year-on-year decrease of around 14-24%. The most modest drop occurred in the residential sector, by 14%. The industrial sector decreased the most by 24%.

Prime yields are expected to remain stable through 2018, with little change in the countries in our sample. Following the decline from 2014, the first signs of stabilization were acknowledged in Q4 2017. Concerning CEE countries, there was a slight decrease of office sector yields in Q2 2018 compared to a year ago with an average of 0.28 percentage points, which is more severe than the comparable decrease of yields in high street retail with an average of 0.11 percentage points, but more moderate than in the logistics sector (0.32 percentage points). Current yields are in the range of 3.5-13% with significant differences across regions and cities. In more established economies, office yields decreased the most by an average 0.3 percentage points, followed by high street retails and logistics with equally 0.09 percentage points. Yields range between 3.2-6.2% in these economies.

Investment by asset type in Europe, H1 2018



Source: Real Capital Analytics

Top buyers by location, H1 2018 (ranked by investment volume)

The below tables present and rank the top buyers by location and by investment volume. Aroundtown topped the European market with a total investment volume slightly over EUR 2bn followed by BNP Paribas.

United Kingdom

1	Unibail-Rodamco-Westfield
2	Prudential plc
3	CK Asset Holdings
4	Brookfield AM
5	TH Real Estate

Germany

1	Aroundtown
2	BVK
3	Universal-Investment
4	Corestate Capital
5	Union Investment

France

1	BNP Paribas
2	TwentyTwo RE
3	Societe Generale
4	BVK
5	Hines

Nordics

1	Heimstaden
2	Norden A/S
3	Klovern AB
4	Dades A/S
5	Ragde Eiendom AS

Central Europe

1	Oaktree
2	PIMCO
3	Redefine (REIT)
4	Goldman Sachs
5	EPP REIT

Southern Europe

1	Kryalos AM
2	Groupe Auchan SA
3	DekaBank
4	Kildare Partners
5	Apollo Global RE

Source: Real Capital Analytics







Managing impaired loans

Following the global economic crisis, banks had a range of options when dealing with impaired loans, including restructuring, foreclosing or selling non-performing loan portfolios. The extent of successfully managing impaired loans has been greater in Western European markets, and at a swifter pace, factors which are also reflected by the fact that the number of non-performing loan portfolio transactions in the real estate sector have been increasing, particularly in more developed markets.

This part of the survey focuses on banks' options for managing real estate loans where there is a technical breach of contract, or where debtors cannot pay their capital and/or interest on time.

Current state and future expectations for impaired loans

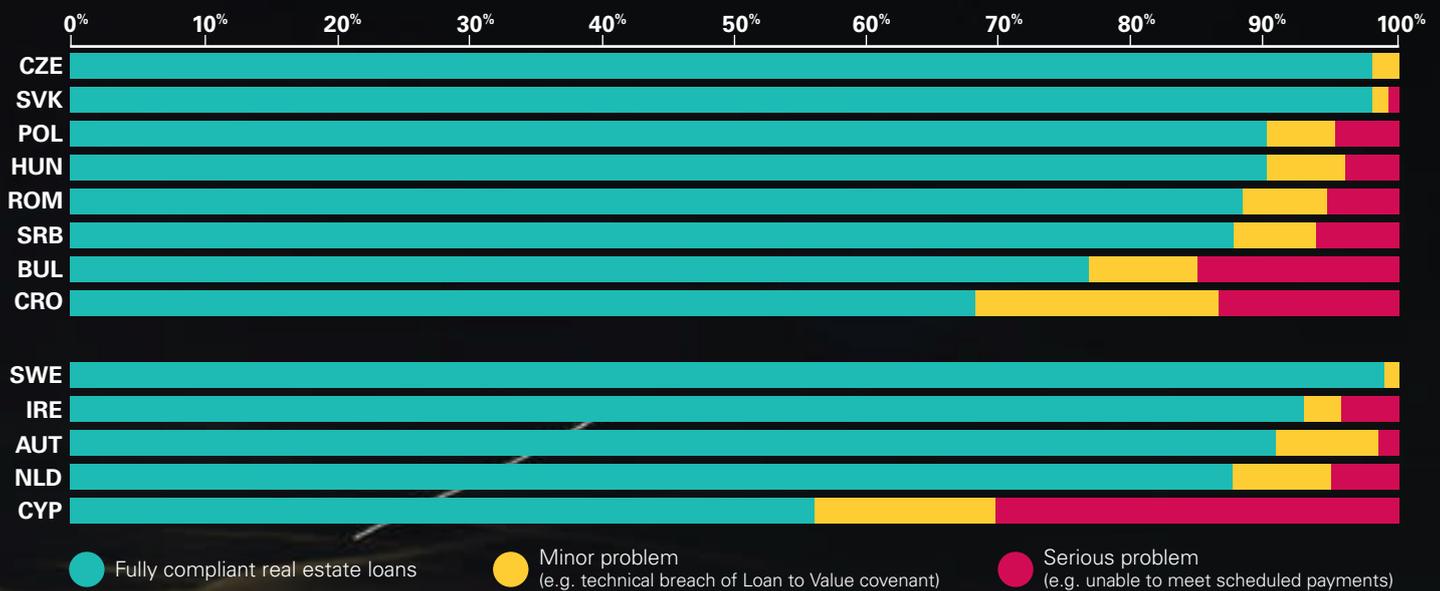
While in more established real estate markets the proportion of fully compliant loans has been consistently higher in recent years, our current results show positive developments in most countries, but particularly in Hungary (whose the current rate of fully compliant loans reached 90%), Romania (89%), Serbia (88%), and Croatia (68%). The only country in our survey lagging behind with a deteriorating ratio is Cyprus (56%).

Restructuring as an opportunity to manage impaired loans

Respondents in our survey claimed that almost 75% of their impaired real estate loan portfolios can be successfully managed through restructuring. This reflects a stable trend that the rescheduling or restructuring of loans have been the preferred approach for managing impaired loans.

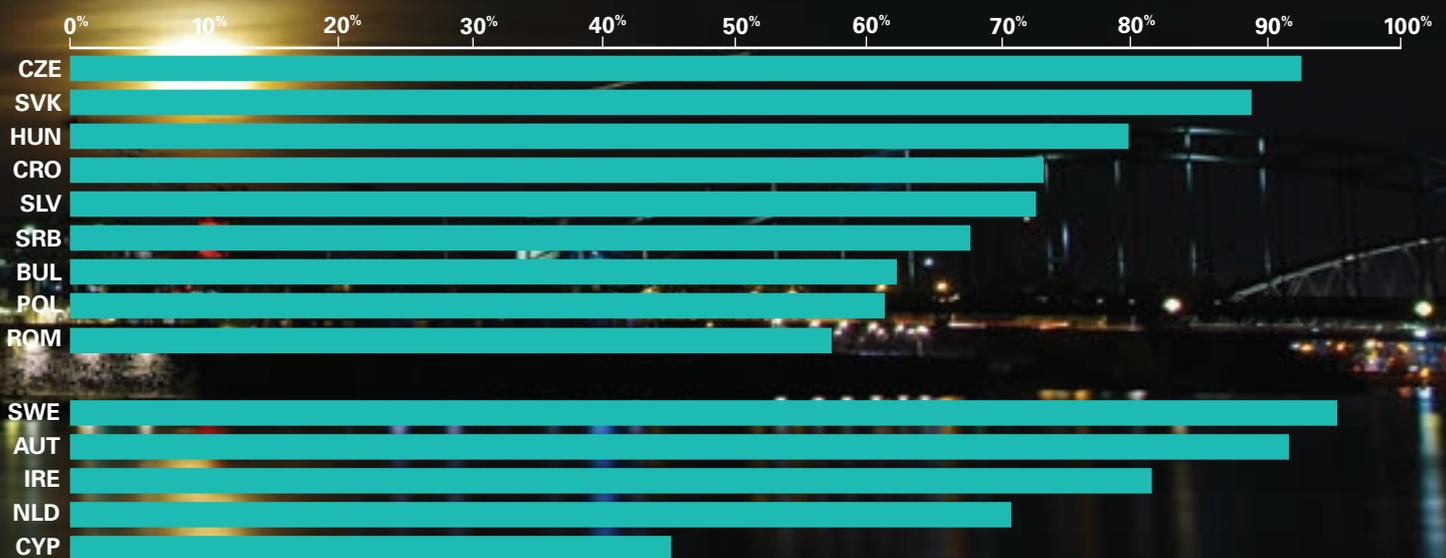
Banks see restructuring most positively in Sweden, the Czech Republic and Austria, where the ratio of impaired loans that may be managed through restructuring are over 90%. Cypriot banks are the least optimistic (45%), while banks in Romania, Poland and Bulgaria are also cautious (58%, 61%, and 62%, respectively).

Proportion of impaired real estate loans per country



Source: KPMG Property Lending Barometer, 2018

Proportion of impaired real estate loans that may be managed successfully through restructuring



Source: KPMG Property Lending Barometer, 2018





Prospects for real estate loan portfolios

In this section, we assess survey participants' expectations for the future of their real estate loan portfolios in light of recent developments, as well as their strategic approach to real estate financing.

Strategic importance of real estate financing

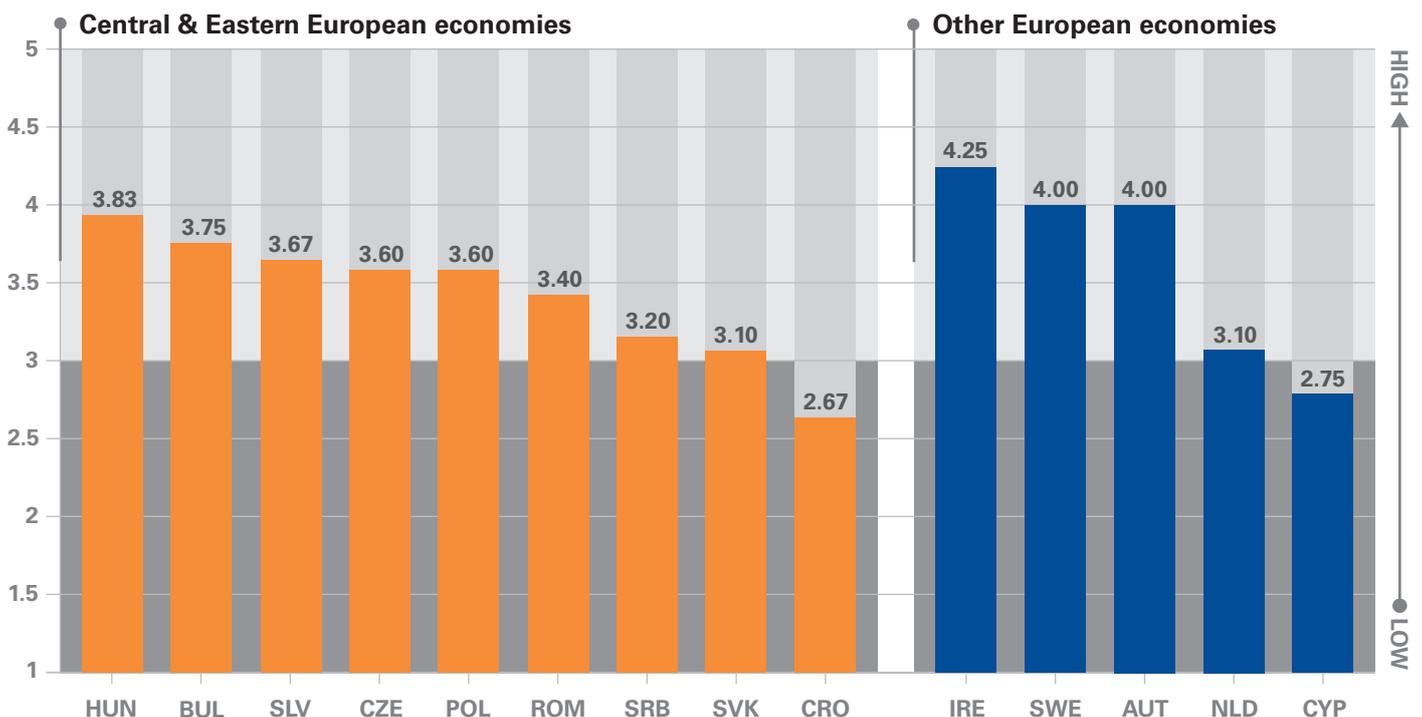
Survey results this year confirmed a long term trend that real estate financing is clearly more strategically important in more established economies. Banks from Ireland, Sweden and Austria

responded most positively, while a number of CEE countries also confirmed that they consider real estate financing to be of significant strategic importance, including Hungary, Bulgaria, Slovenia, the Czech Republic and Poland. Similar to last year, respondents from Croatia, Cyprus, Slovakia, and the

Netherlands afforded it below average importance.

Interestingly, while these findings do not fully reflect the underlying macroeconomic conditions of the countries surveyed, the pattern appears to be relatively enduring.

Strategic importance of real estate financing for banks



Source: KPMG Property Lending Barometer, 2018

Change in focus on real estate financing within the banks' lending activities

Banks were also asked how their focus has changed towards real estate financing as an element of their lending activity compared to one year earlier.

Banks from almost all countries indicated an increase since last year, the only exceptions being Cyprus, the Netherlands and Poland, who reported that their focus on real estate financing was maintained compared to the previous year. The significant increase in focus was noted in Bulgaria, Slovenia, Romania, Hungary and Serbia, also reflecting a trend over a number of years (with the exception of Slovenia which was not included in the survey last year).

Most important factors affecting real estate loan portfolios

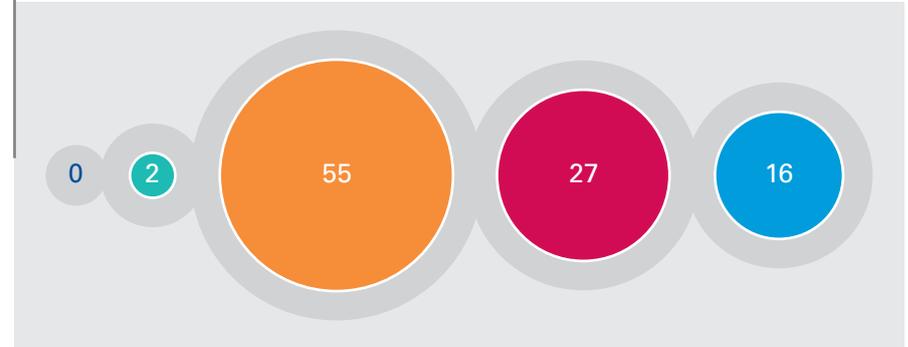
Banks were also asked to identify the key drivers affecting their real estate portfolios.

Similar to previous years, the most significant factor for banks in Europe were the macroeconomic conditions in the local market. Increased uncertainty in the global political and economic environment that affected local economies in 2016 appears to bear an enduring influence on banks' lending activities.

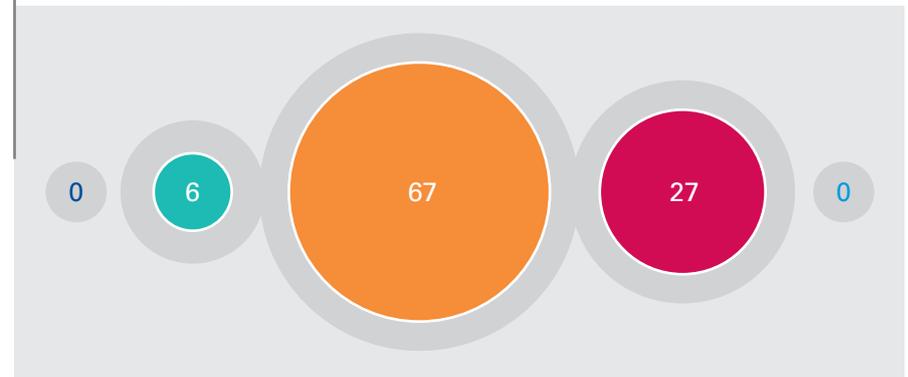
No other factor affects banks' real estate lending activity by a comparable measure, according to this year's survey results.

Focus on real estate financing within the bank's lending activity compared to one year ago

Central & Eastern European economies



Other European economies



Source: KPMG Property Lending Barometer, 2018

Most important factors affecting real estate loan portfolios

	CEE economies	Other European economies
Macroeconomics conditions in the local market	★★★★★	★★★★★
Lack of prime properties	★★★	★★★
Lack of active properties	★★★	★
Activities of European Central Bank / National Banks	★★★	★★★
Macroeconomic conditions in Europe	★★★★	★★★★
New strategy	★★★★	★
Lack of equity	★★	★★
Decreasing / negative interest rates	★	★

Source: KPMG Property Lending Barometer, 2018



Nevertheless, a lack of investors and new strategy are additional factors that could impact the growth prospects of their loan portfolios in Central & Eastern European markets, more so than in more established economies. A lack of prime properties, the activities of the European Central Bank and/or national banks, and macroeconomic conditions in Europe also received moderately high scores in both country groupings.

Disposing of loan portfolios

In general, banks in most countries are now unwilling to dispose of part of their loan portfolios in the next 12-18 months. In half of the countries surveyed, none of the banks showed any interest in this opportunity. Even in the remaining countries, less than a third of the respondents banks indicated such an interest. Only in three countries did we identify a notable inclination to disposal: in the Netherlands (40%), Cyprus and Croatia (both 33%), mostly due to strategic exits by their banks. Capital adequacy was also mentioned as another factor for disposal by banks.

Alternative lenders

Banks were also asked which alternative lender they consider as their biggest competitor in terms of banks' traditional real estate lending. Their responses revealed, as in previous years, that these survey participants view non-local commercial banks as their key competitor in most of the countries. Private equity/debt funds are considered similarly strong competitors both in

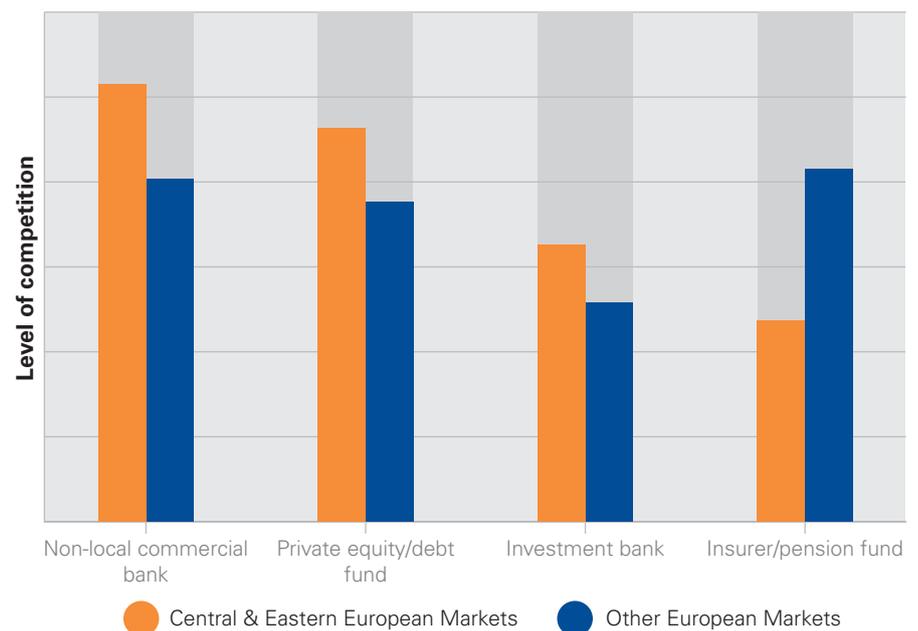
Central & Eastern Europe and in other European markets. Insurer/pension funds are recognized competitors in real estate lending predominantly in other European markets.

In their response to our query on how they anticipate the real estate lending activities of alternative lenders to change in 2018 compared to 2017, respondents agreed that all alternative lenders bear prospects for growth.

In terms of which alternative lenders are likely to increase their lending activity

the most, responses indicated that private equity/debt funds are expected to see the strongest growth in this area, closely followed by non-local commercial banks. Investment banks and insurers/pension funds are also expected to grow moderately. Responses showed similar patterns in Central & Eastern Europe, as well as in other European countries surveyed, with the only notable difference being the somewhat stronger growth prospects of insurers/pension funds in more established economies.

Competition with alternative lenders



Source: KPMG Property Lending Barometer, 2018



Opportunities for financing new real estate projects

This section assesses the opportunities for developers in obtaining bank financing for real estate projects.

New financing

Survey participants in all countries are quite open to finance income-generating projects, with the highest level of interest shown in Ireland, Hungary, Austria and the Czech Republic. The openness of banks in Slovenia and Cyprus is more tempered, but still positive in this respect.

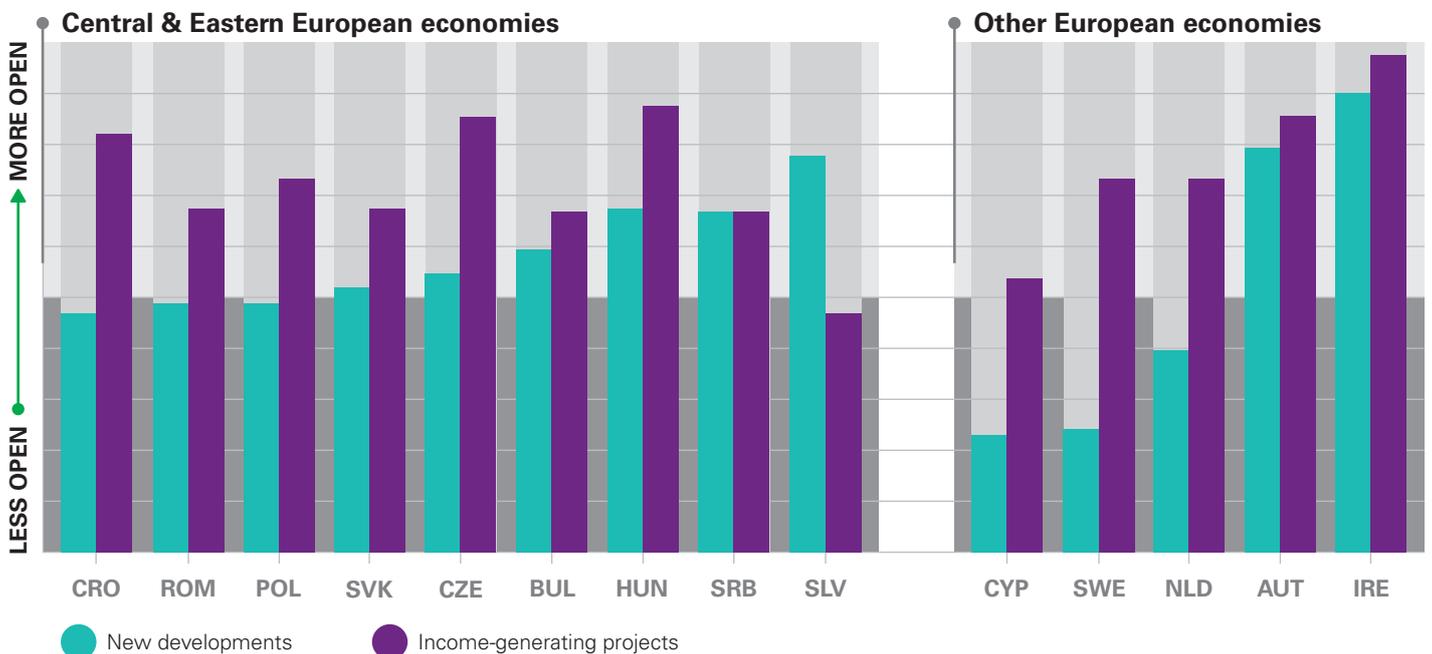
Respondents expressed a more cautious approach in terms of their willingness to

finance new developments. All countries were in the positive, with the only exceptions being Sweden and Cyprus, where banks, on average, are less open in this respect. Banks in Ireland, Austria and Slovenia exhibited the greatest openness towards financing new development projects.

Bank representatives were also queried on whether they are open to lending in currencies other than that of the country where the property/bank is located.

The long standing pattern appears to prevail in terms of banks operating in the eurozone area being less open to lending in other currencies. Outside of the eurozone, banks in Croatia, Hungary, Poland and the Czech Republic showed a higher level of openness to the prospect, while Swedish banks indicated they were less open.

Openness of banks to finance development/income-generating projects



Source: KPMG Property Lending Barometer, 2018



Asset class preferences

Banks also provided a response regarding their preferred asset class for development financing in each country.

As in previous years, residential is the most preferred asset class among those surveyed in more established markets,

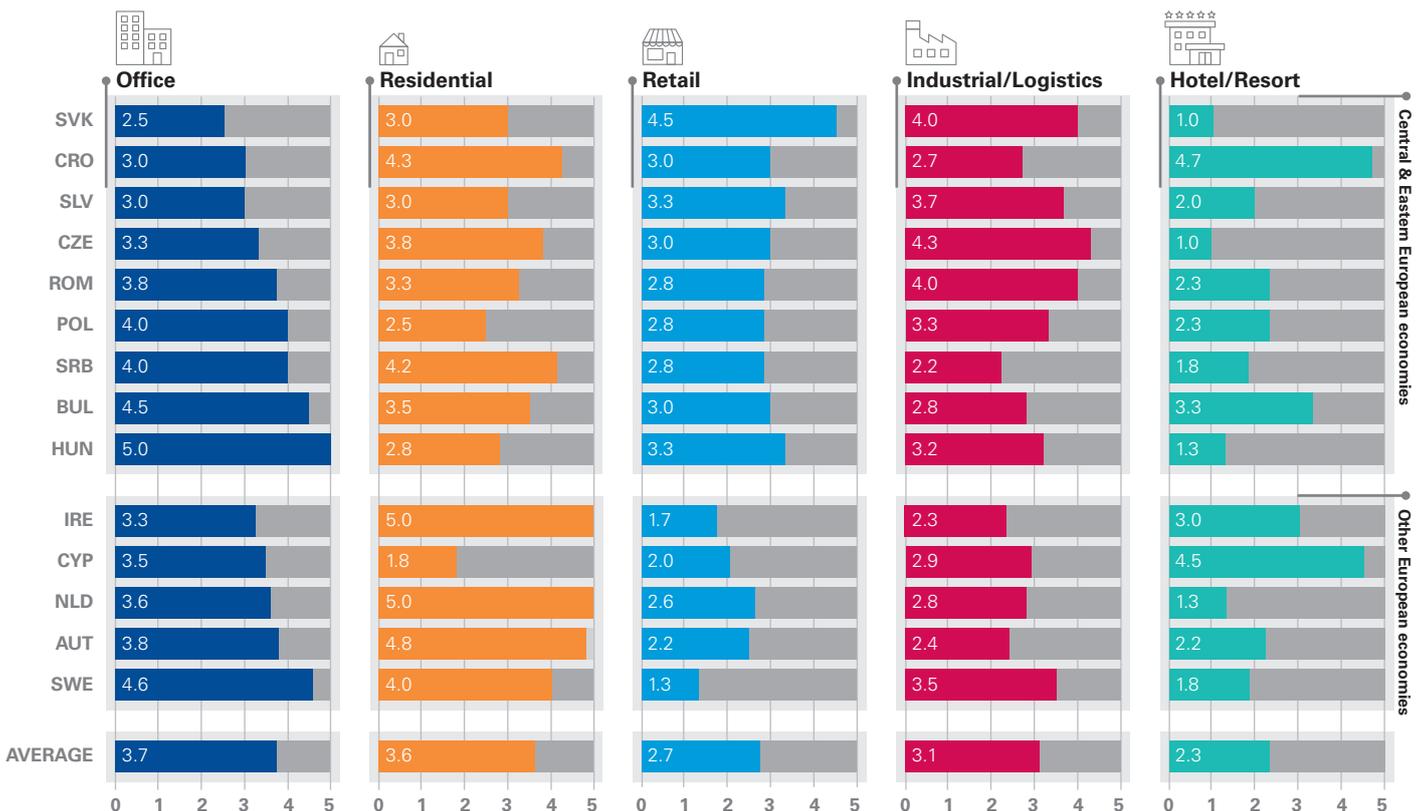
especially in Ireland, the Netherlands and Austria. In Central & Eastern Europe, on average, office is most preferred, especially in Hungary and Bulgaria.

Among CEE markets, the popularity of the industrial/logistics asset class significantly improved across most markets since the previous survey,

particularly so in the Czech Republic, Romania and Slovakia.

The least preferred asset class on average was the hotel sector, with the exceptions of Croatia and Cyprus, where banks representatives expressed a strong preference for this class.

Banks' sector preferences in providing development financing by asset class (5 - top priority)



Source: KPMG Property Lending Barometer, 2018



Criteria for financing

Having seen how open banks are to financing properties, and having considered their asset class preferences, the following section considers the criteria in regards to selecting projects to finance.

A long-term pattern appears to prevail in terms of a consensus among the banks surveyed in all countries, that the most

important criteria for obtaining financing for a project are a strong business model and the quality of the asset.

Other important criteria are the reputation and references of the developer/operator as well as the financial background of the developer/investor.

The lowest ranked criteria in the CEE countries are the existence of an

independent feasibility study/valuation and the size of the requested loan, the latter also ranked the lowest in more established economies.

Loan-to-cost ratios (LTC)

Bank representatives were also questioned about their technical criteria for financing. The responses on their loan-to-cost ratios varied by country and asset type.

Banks' most important criteria when considering real estate financing

	CEE economies	Other European economies
Strong business model/quality of the asset	★★★★★	★★★★★
Reputation and references of the developer/operator	★★★★	★★★★
Financial background of the developer/investor	★★★★	★★★★
Level of owner's equity	★★★	★★★★
How well the project is planned, status of permitting process	★★★	★★★
Pre-letting/pre-sale level	★★	★★★★
Existence of an independent feasibility study/valuation	★	★★★
Size of the requested loan	★	★

Source: KPMG Property Lending Barometer, 2018



Overall, the difference between the average ratios in CEE and other European countries, in terms of how much equity banks require from developers is not significant (average LTC ratios are 0.67, and 0.64, respectively). However, within the country groupings there are significant differences across countries. Banks in Sweden, Romania, Ireland and Cyprus require the highest level of equity, with average LTC ratios of 0.57-0.62, while banks in the Czech Republic,

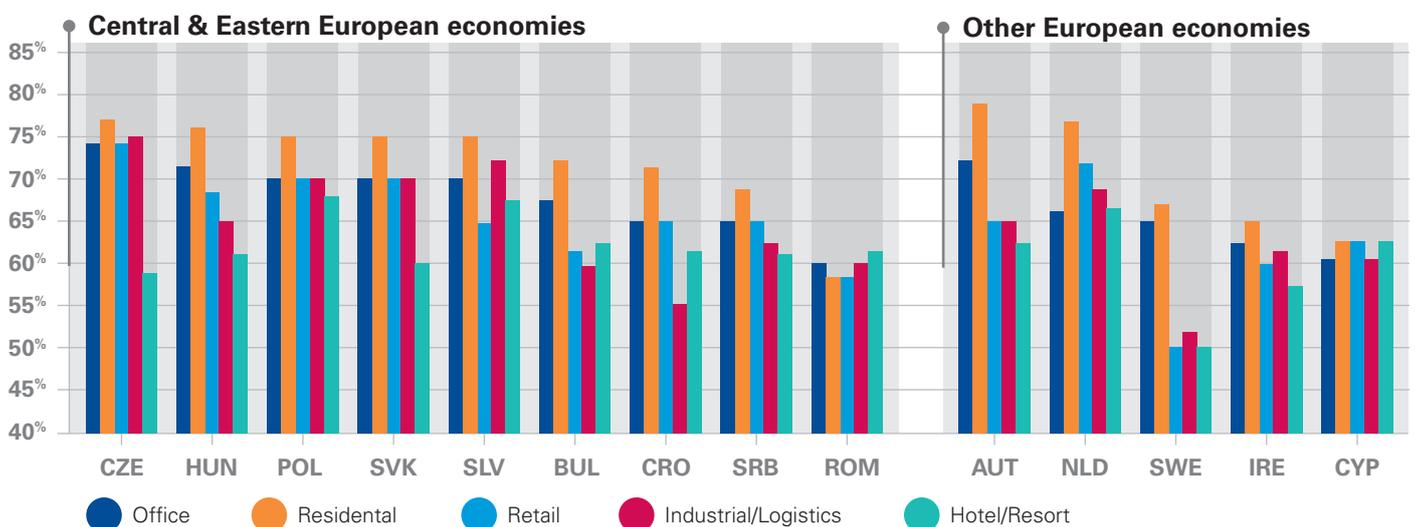
Poland, the Netherlands and Slovenia are the least conservative, with average LTC ratios of 0.70-0.72.

Loan-to-cost ratios in CEE economies for the office, residential, retail, industrial/logistics and hotel sectors are in a range of between 0.55 and 0.77 (i.e. reflecting a capital structure of 55-77% debt and 45-23% equity). On average, the residential sector has the highest LTC ratio at 0.72, followed by office at 0.68.

In the case of other European economies, loan-to-cost ratios are between 0.50 and 0.79 (i.e. reflecting a capital structure of 50-79% debt and 50-21% equity). In these markets the residential sector also has the highest LTC ratio on average, at 0.70, followed by office at 0.65.

As in previous years, the hotel sector requires the highest equity ratio in most of the countries surveyed, in a range of 0.32-0.50.

Loan-to-cost (LTC) ratio expectations for financing highly rated real estate development projects in the next 12-18 months



Source: KPMG Property Lending Barometer, 2018

Loan-to-value ratios (LTV)

As is similar for LTC ratios, there is not a significant difference between the average LTV ratio of the asset classes per country grouping, with the average for CEE countries at 0.66, and for other European countries at 0.62. This indicates that banks are willing to provide similar amounts of credit in proportion to the total appraised real estate value in both country groups.

For Central & Eastern European economies, the loan-to-value ratios for the office, retail, industrial/logistics and hotel/resort sectors range from 0.59 to 0.72 (i.e. reflecting a capital structure of 59-72% debt and 41-28% equity). The retail sector, on average, has the highest LTV ratio, 0.67, followed closely by office, industrial and hotel, at 0.66, 0.65 and 0.63, respectively.

In the case of other European economies, the range is somewhat broader, between 0.51 and 0.74 (reflecting a capital structure of 51-74% debt and 49-26% equity). The lowest average proportions of equity are required for the office sector (35%), while the most equity is needed for hotel and resort projects (40%).

Similar to previous years, the hotel sector's loan-to-value ratio is the lowest among all the asset classes in both market groups, with an average of 0.62.

Pre-let ratios

Banks' pre-let expectations also vary greatly across countries and sectors. On average, pre-let ratios for the office and retail sectors are lower in most of the markets compared to the industrial sector.

A long-term trend prevails that banks in more established economies tolerate less risk in relation to the speculative nature of real estate projects, and require developers to achieve a higher pre-let ratio when financing a project, although banks in Austria appear to be less conservative in this respect, especially in the retail sector compared to other banks operating in more established economies.

In CEE economies, pre-let ratios for office and retail projects are on average 44% and 49%, respectively, while industrial is at 61%.

Banks' average pre-let requirement in other European markets for office developments is 60%, 67% for retail developments and 73% for industrial developments.

The general trend that industrial projects are required to offer higher pre-let ratios to obtain financing has been confirmed by respondents involved in our survey, reflecting that banks are less open to speculative industrial property developments. This is mainly related to the fact that in the industrial segment it is more common to develop properties according to a "build to suit" concept, which means that the property is developed based on the (dominant) tenant's specific needs and requirements.

Debt service coverage ratios

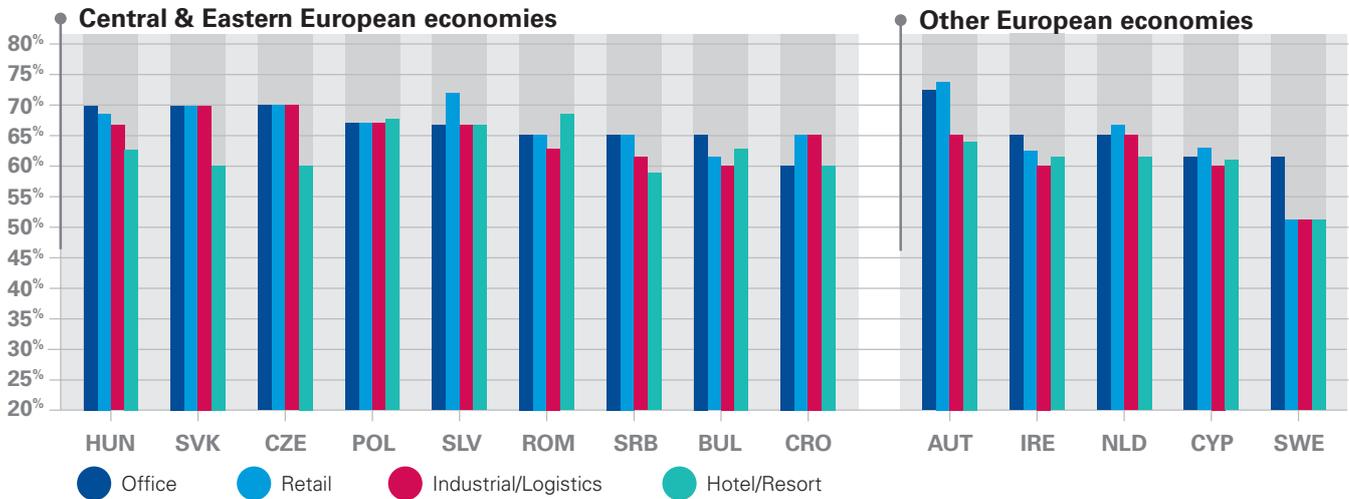
The debt service coverage ratios ("DSCR") expected for income-generating projects of investors with excellent reputations and sound business plans were also examined.

Income-generating projects in the office and retail sector offer the lowest DSCR ratios (1.31 equally), considering all responses across country groupings.

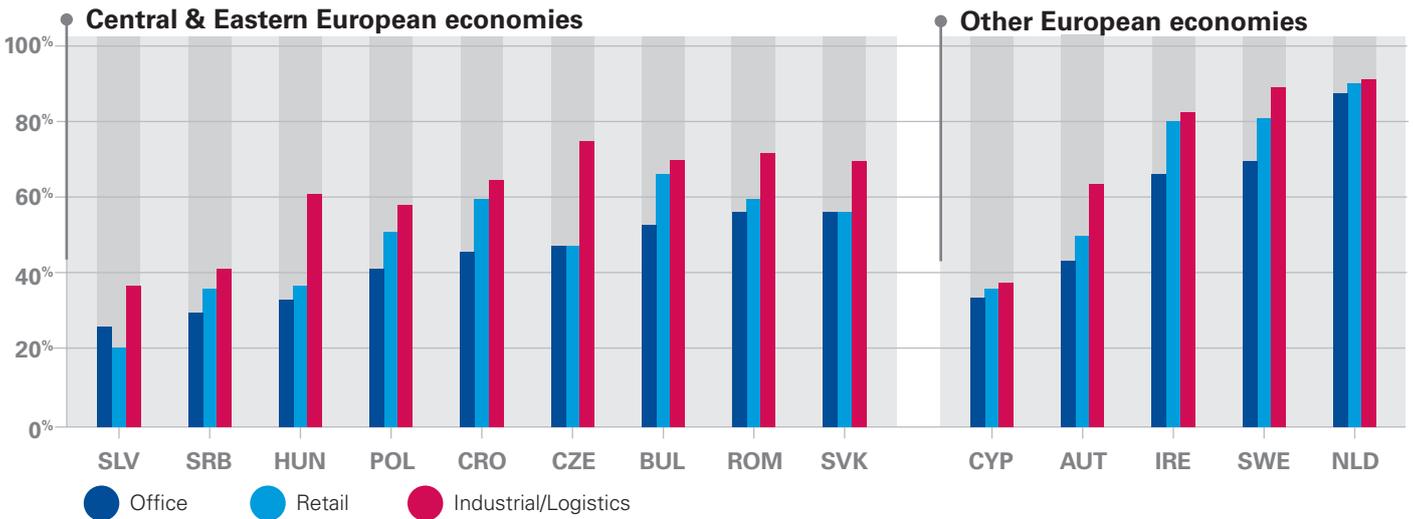
Banks operating in CEE economies require the lowest DSCR ratio for the retail asset class, at an average of 1.25, followed closely by office at 1.26. Industrial and hotel projects require higher DSCR ratios of 1.31 and 1.36, respectively.

In other European economies' banks expect the lowest average ratio for industrial (1.39) and office (1.42), followed by retail (1.44) and hotel/resorts (1.59). This unusual pattern is mainly explained by the relatively high DSCR ratios Dutch banks apply to most projects (1.63-1.66), except for industrial projects (1.43).

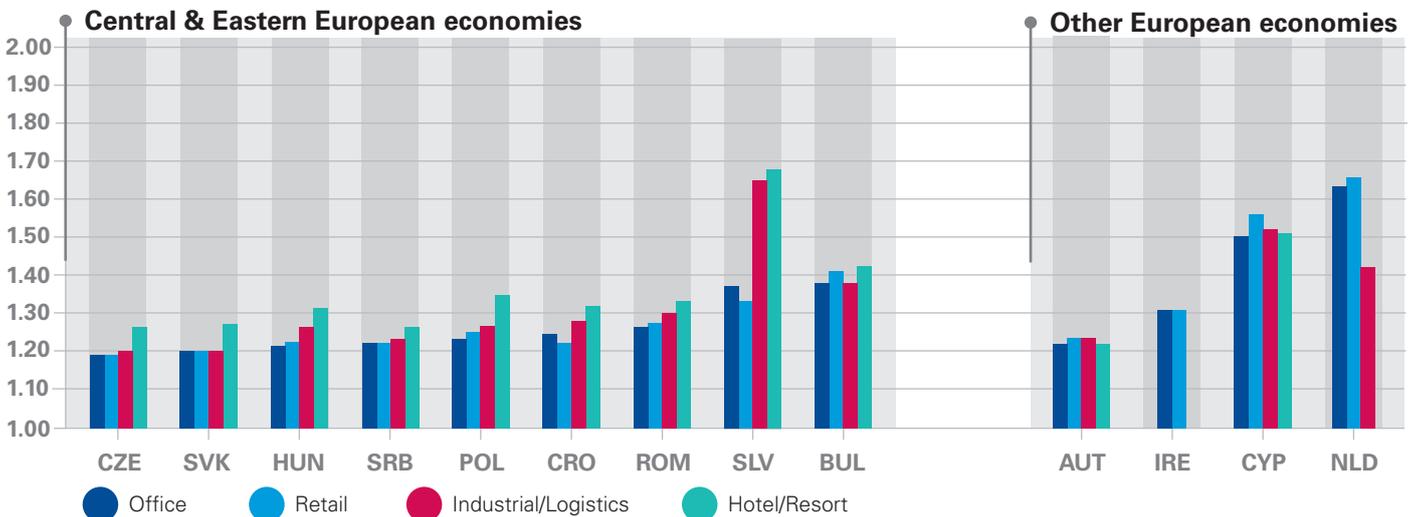
Loan-to-value (LTV) ratio expectations for financing highly rated income-generating real estate projects in the next 12-18 months



Pre-let-ratio expectations for financing highly rated office, retail and logistics real estate development projects in the next 12-18 months



Debt service coverage ratio expectations for financing highly rated income-generating real estate projects for selected countries in the region



Source: KPMG Property Lending Barometer, 2018

Interest premiums

Survey respondents submitted a range for the interest premium they would apply on a 3-month Euribor basis, if a developer or investor of outstanding reputation with a solid business plan approached them.

This section of our report only includes two asset classes, office and retail, which are in 2018 key focus sectors from a real estate investment perspective in Europe. Premiums for all asset classes in each country are presented in the country profile section of this report.

Overall, interest premiums are the lowest in economies with lower risk profiles and well established real estate markets, spurred by competition among financing institutions that contributed to more favorable conditions available to borrowers. However, there are exceptions, as reflected by the relatively higher loan interest premiums in the Dutch and Irish real estate markets.

In previous years there was a tendency that an improved economic environment across Europe resulted in the easing

of financing conditions among banks, hence they required relatively low interest premiums in most markets. This trend prevailed in some markets (e.g. Hungary, Poland, Ireland), but in other markets it was reversed (e.g. Romania, Bulgaria, the Netherlands), according to this year's results from our survey.

The premium applied on new office and retail developments in Central & Eastern European economies currently ranges from 2.03-4.5%. On average, Czech banks require the lowest premiums, while Croatian banks require the highest.

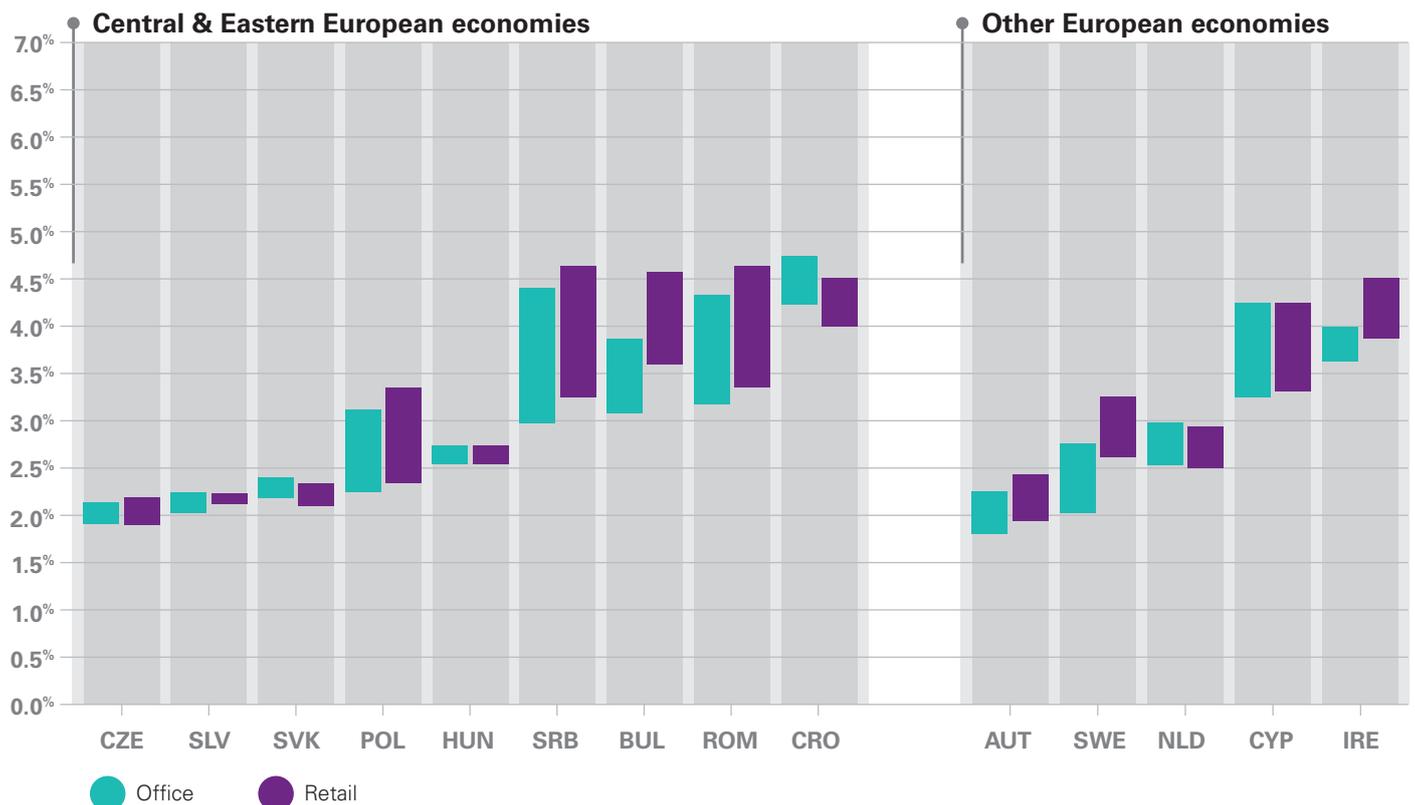
Banks were also queried about the interest premium that they would apply on a 3-month Euribor basis on loans for high quality income-generating property projects.

Based on the responses of those surveyed regarding the interest premiums applied on income-generating projects, these countries we ranked regarding the favorability of the terms they offer. Compared to interest premiums required for new developments, a lower premium is applied by most of the banks for

income-generating projects, as there is less risk associated with such projects (e.g. there is no longer risk related to the development phase). The difference in required average risk premiums between income-generating and development projects vary across the countries. For example, Polish banks offer premiums that are lower by 40-55 basis points on average for income-generating office (2.29%) and retail (2.29%) asset classes compared to premiums for new developments (2.69-2.83%). Banks in the Netherlands provide lower premiums (by 36-38 basis points on average) for office and retail (2.40-2.33%) income-generating projects than for new developments (2.76-2.71%).

Among the CEE economies, Czech and Slovakian banks apply the lowest premiums, while the highest are applied by Serbian and Croatian banks. In the case of the other European economies, banks in Sweden require the lowest, while Cypriot banks mandate the highest premiums for income-generating projects.

Loan interest premium applied by banks for highly rated estate development projects in selected countries



Source: KPMG Property Lending Barometer, 2018

Length of loan

Survey participants were asked what the minimum required average annual loan amortization rate would be at the LTV level applied for highly rated real estate projects, as well as what the longest contracted term of the loan would be for financing a prime investment/income generating property.

Calculating the implied maximum amortization period from the minimum amortization rate, and cross checking that against the longest indicated contracted term banks apply, the difference reveals insights into the market conditions of banks in the various economies they operate in.

Overall, banks in more mature markets operate in competitive environments which drive them to offer low amortization rates; however, their internal

policies limit the longest term of the loan they contract for. Consequently, the difference between the implied maximum amortization period and the available maximum contracted length of the loans is much greater in more established economies in other European countries (22 years) than the average in the CEE countries (8 years).

In Central & Eastern European economies, the implied maximum amortization period of the loan and the available maximum contracted length of the loan range 12-28 years and 8-15 years, respectively. Banks in Poland, when certain conditions are met, are ready to apply the lowest average amortization rate level (3.6%).

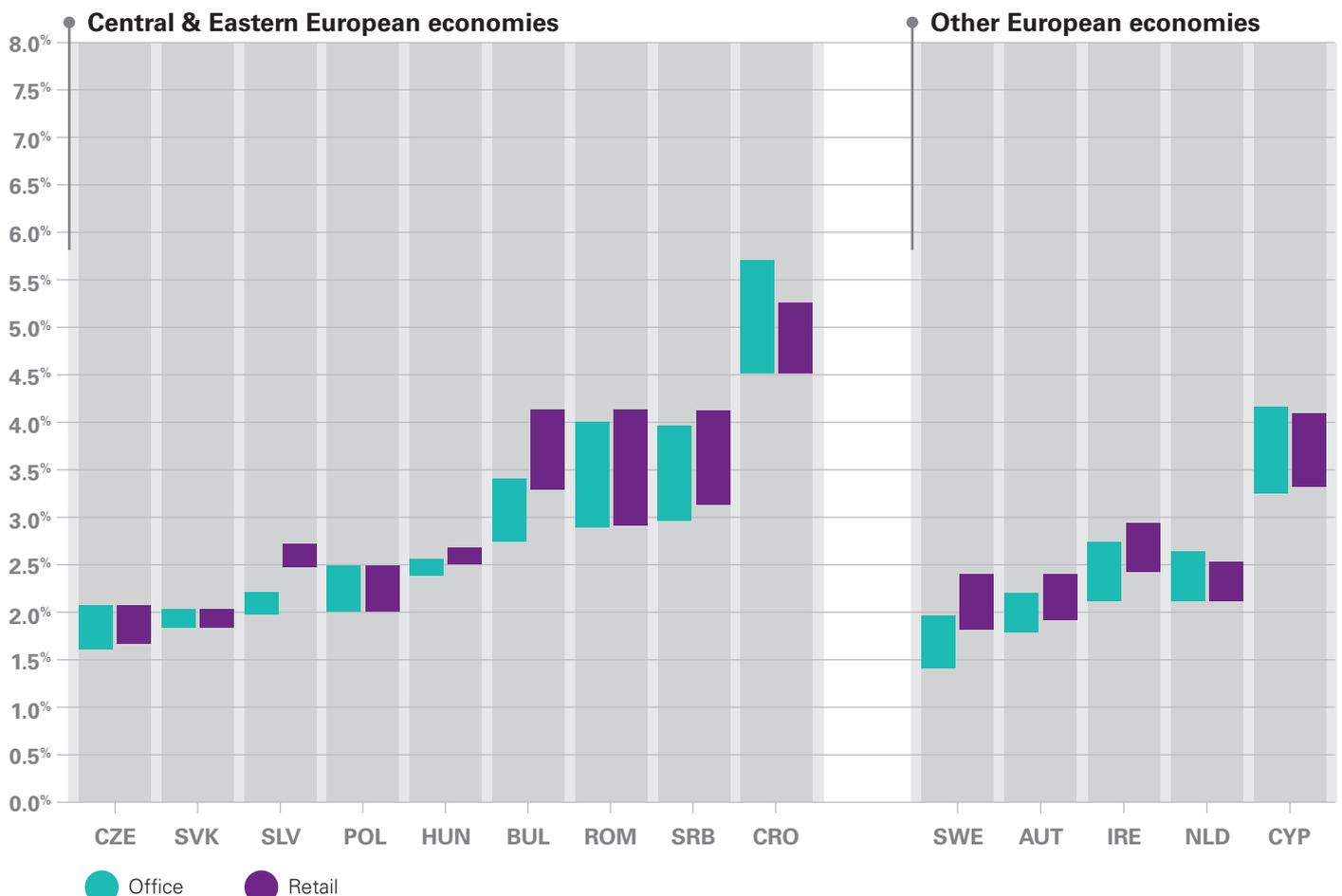
In other European economies, the implied maximum amortization period of loans ranges from 13-50 years, while the available maximum length of contracts

is in a range of 5-17 years. When certain conditions are met, Irish banks are ready to apply a very low amortization rate (2%), yet their maximum length of contract is relatively low (average 8.9 years).

In comparison with banks' responses for this study last year, there is no significant difference in terms of the average implied maximum amortization period (24 years) and the average available maximum contracted length of the loans (11 years).

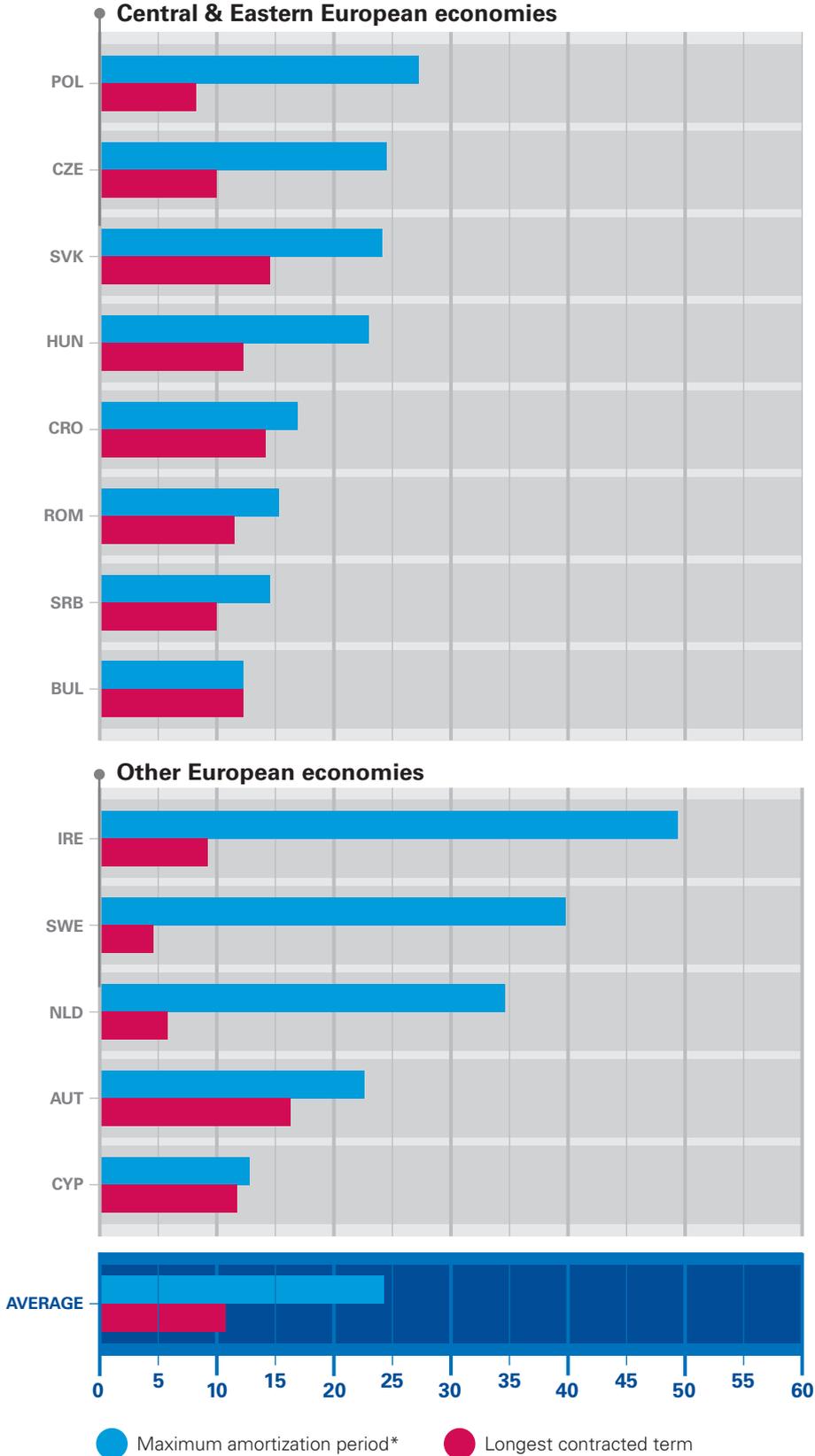
In terms of asset classes, taking the average of all markets surveyed, there are no significant differences between the amortization rates applied for different asset classes. The rates range 4.1-5.0%, with office projects receiving the most favorable terms, and industrial projects the least favorable ones. Similarly, on average, the available maximum contract length applied by banks for different asset classes ranges from 10.2 to 11.2 years.

Loan interest premium applied by banks for highly rated income-generating real estate projects in selected countries



Source: KPMG Property Lending Barometer, 2018

Maximum amortization period* and available longest contracted term (in years)



*Note: Implied maximum amortization period expressed in years, which is calculated from the minimum annual amortization rates (expressed in percentage) provided by the surveyed banks.

Source: KPMG Property Lending Barometer, 2018





Closing the gap: the convergence of the CEE region

This section reveals a historical perspective on how the financing of Central & Eastern European real estate markets performed against Western European benchmarks. Based on previous KPMG Property Lending Barometer surveys, eight countries are included in the CEE grouping: Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Serbia and Slovakia. In the Western European sample, we included four countries in our analysis: Austria, Ireland, the Netherlands and Sweden.

Factors influencing loan portfolios

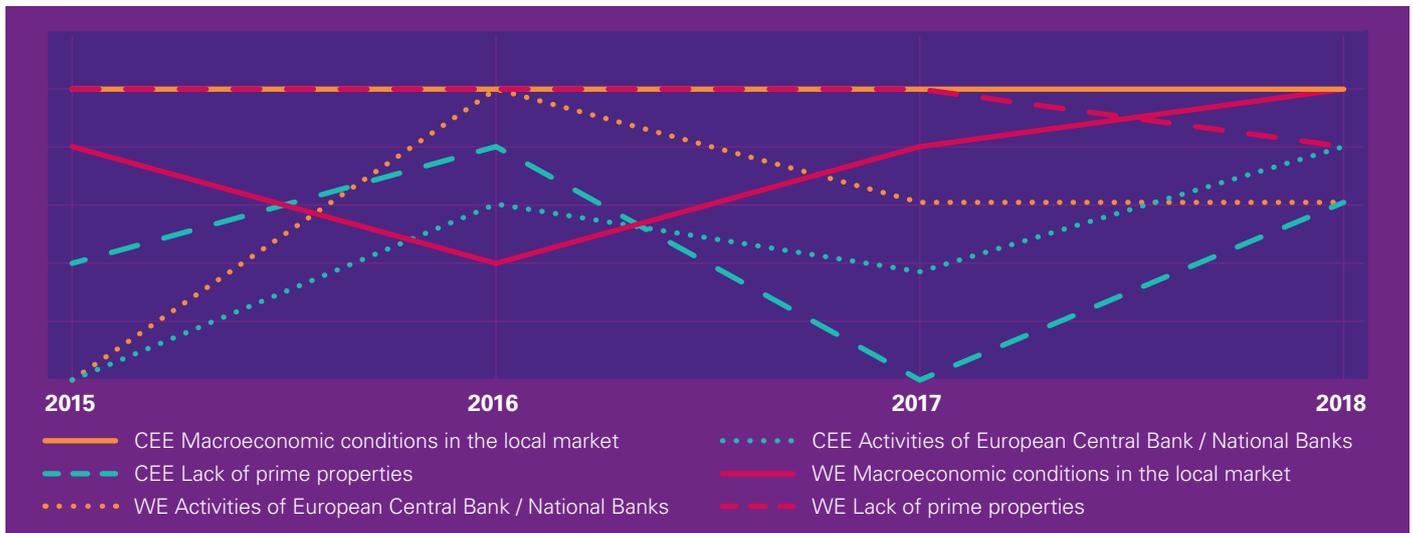
Initially we observed what factors influenced the banks' real estate portfolios in the two regions, and how the significance of these factors has changed over the years. The most significant factor in the CEE region has always been the macroeconomic conditions in the local market, and this has also become the most important factor in Western Europe.

Due to the maturity of the more established real estate markets, the most influential factor for real estate portfolios

in Western Europe has been the lack of prime properties, until macroeconomic factors rose to the top of the ranking in 2018. In the meantime, in CEE, the lack of prime properties has been a moderately important factor, but never the most influential one.

The activities of the European Central Bank and national banks have made an increasingly important impact on banks' real estate portfolios in both regions examined, particularly in 2016 when it was the most important factor in Western Europe.

Most significant factors influencing banks' real estate loan portfolio



Source: KPMG Property Lending Barometer 2015-2018

Loan interest premiums

A dynamic change in loan interest premiums applied by banks for highly rated real estate development projects has also been examined, both for office and retail projects. A retrospective view shows the clear convergence of the two regions, as the relatively high interest premiums in the CEE region (4.2-4.3% on average in 2015) gradually decreased, approaching the level of what banks apply in Western Europe: i.e. 3.1-3.3% for CEE and 2.7-3.0% for Western Europe in 2018.

The trend in loan interest premiums applied by banks for highly rated income generating projects shows a similar pattern. The relatively high interest

premiums in the CEE region (3.7% for office and 3.8% for retail, on average in 2015) were much higher than comparable Western European premiums in a range of 1.9-2.1% in 2015, before the difference between the regions shrank, with CEE premiums decreasing to 2.9-3.0% by 2018, in close proximity to Western European premiums in a range of 2.1-2.3%.

Impaired loans

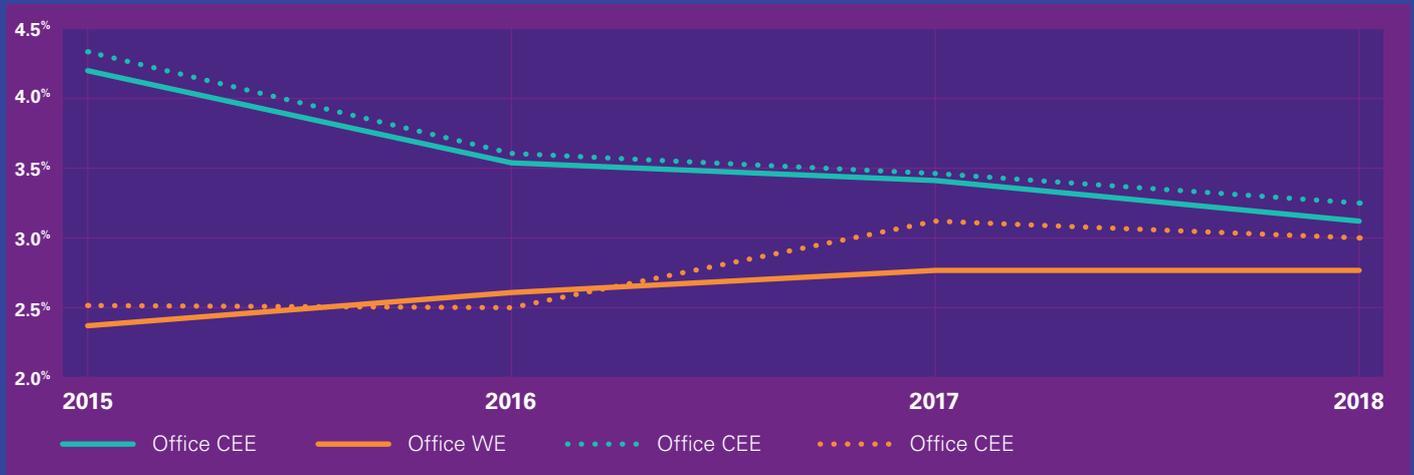
In 2015, the CEE region was quite diverse in terms of the proportion of impaired loans in banks' real estate portfolios. Some countries, like the Czech Republic and Poland had over 85% of their portfolios fully compliant, while others like Croatia and Serbia have more

than half of their portfolios impaired. In the more established Western European markets in our sample, the proportion of fully compliant loans was over 80% at the time.

Presumably as a result of successfully restructuring of their portfolios, both regions experienced an improvement in the structure of their real estate loan portfolios. With a couple of exceptions, all CEE countries have managed to reach Western European levels in terms of the proportion of fully compliant real estate loans by 2018, as all improved to above 85%, with Croatia and Bulgaria, though improving, still lagging behind at 68% and 78%, respectively.

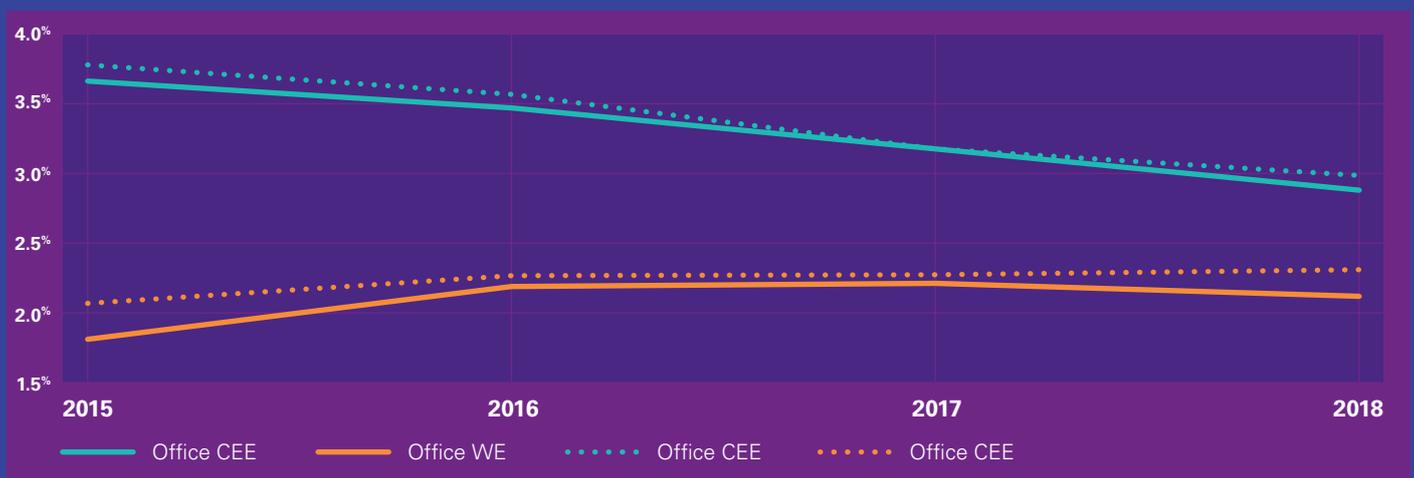


Loan interest premium to be applied by banks for highly rated real estate development projects



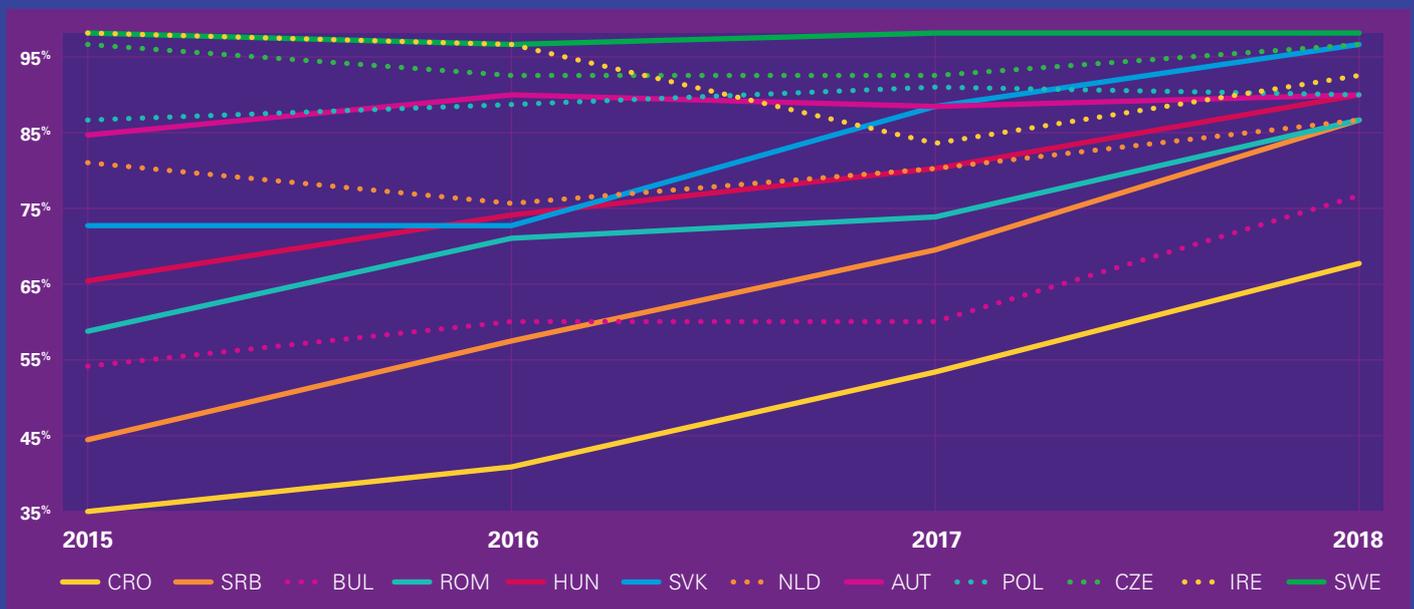
Source: KPMG Property Lending Barometer 2015-2018

Loan interest premium to be applied by banks for highly rated real estate development projects

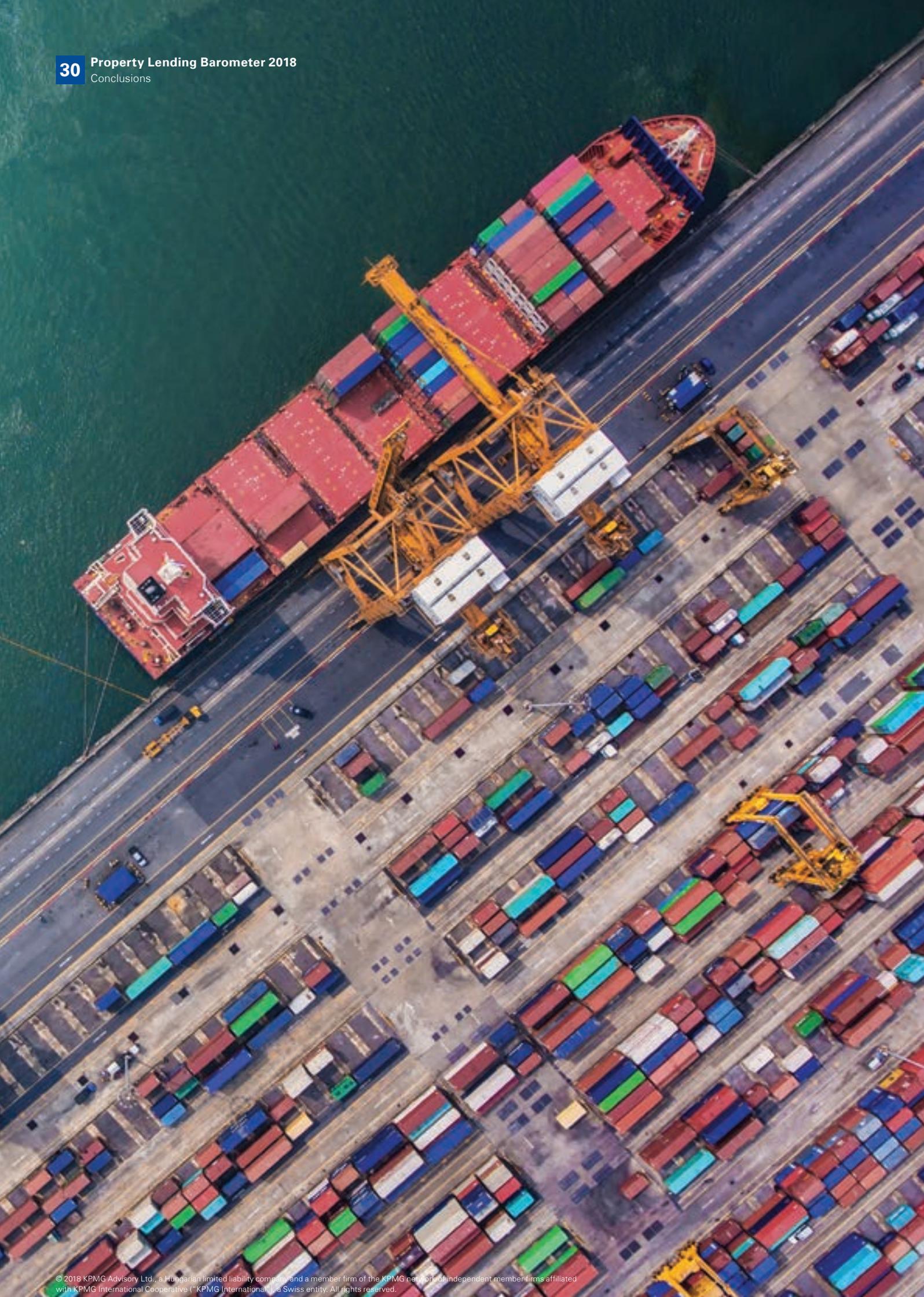


Source: KPMG Property Lending Barometer 2015-2018

The proportion of fully compliant real estate loans



Source: KPMG Property Lending Barometer 2015-2018





Conclusions



European countries face varying macroeconomic outlooks and perceived risk profiles, both of which fundamentally shape the prospects for each country's real estate market.



While financing conditions remain overall positive in Europe, increasing external risks limit the general growth prospects.



A decline in total investment volume continued for the third consecutive year in Europe in the first 6 months of 2018. While Germany and the UK continued to attract over half of total European transaction volume during H1 2018, significant growth occurred in Ireland and Poland.



The proportion of non-performing loans has significantly decreased in all markets, with a few exceptions; banks confirmed their openness to offer real estate financing, especially for income-generating projects.



Banks in our survey indicate a preference restructuring problematic loans rather than seeking foreclosure, especially in more established economies.



The focus on real estate financing has increased in all countries, except Cyprus, the Netherlands and Poland, where it has remained unchanged since last year.



Alternative lenders are expected to increase their involvement in financing real estate in all markets included in our survey. Among the alternative lenders, non-local commercial banks are banks' biggest competitors in the CEE region, while private equity/debt funds and insurer/pension funds provide a comparative threat in more established markets.



A long-term pattern prevails as banks in general prefer financing income-generating projects over new developments.



The preferred asset class in more established markets is residential, followed by office, similar to last year. However, in CEE markets, office is most preferred. The hotel sector remains the least desirable by banks in terms of financing, in both country groups.



Similar to the last two years, the difference between the implied maximum amortization period of loans and the available maximum contracted length of loans offered by banks is much greater in more established economies (22 years) than in CEE economies (8 years).

Similar to previous years, a market-specific analysis for each country is provided in the section that follows. These country profiles highlight the surveyed markets' unique characteristics as reflected by their varying market fundamentals, as well as the present and prospective conditions for financing.





Country profiles



34-35

Austria



36-37

Bulgaria



38-39

Croatia



40-41

Cyprus



42-43

Czech
Republic



44-45

Hungary



46-47

Ireland



48-49

Netherlands



50-51

Poland



52-53

Romania



54-55

Serbia



56-57

Slovakia



58-59

Slovenia



60-61

Sweden



Austria

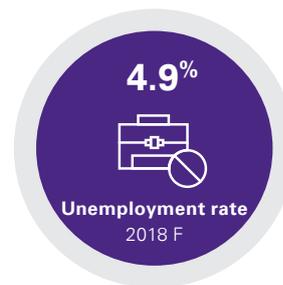
“
Investment volume reached a peak in 2017, while yields hit a record low. Investors, especially from Germany, acquired trophy assets in Vienna’s office market.”

In 2018 sustained high demand in the investment market is facing limited availability of high quality assets.



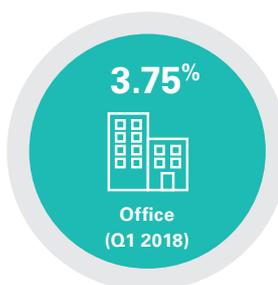
Christoph Fida

Economy



Source: Economist Intelligence Unit

Prime yields



Source: EHL

Source: EHL

Source: Cushman & Wakefield

Key investment transactions H1 2018

City	Property	Seller	Buyer
Vienna	FMZ Stadlau retail park	Tristan Capital Partners	Bayerische Versorgungskammer
Vienna	The Icon Vienna	Signa	Allianz
Vienna	Porr Tower	HPM Privatstiftung	KFIM & JR AMC
Vienna	Motel One West Bahnhof	Acron Group	Real I.S
Vienna	EHK 107	Haring Group	Union Investment

Source: KPMG Property Lending Barometer, 2018

Transaction volume and YoY change H1 2018



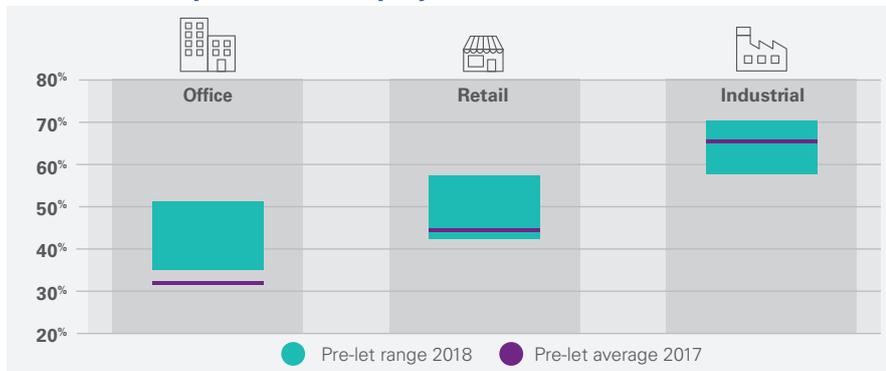
Source: Real Capital Analytics

Financing expectations of highly rated development and income-generating projects in the next 12-18 months

LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



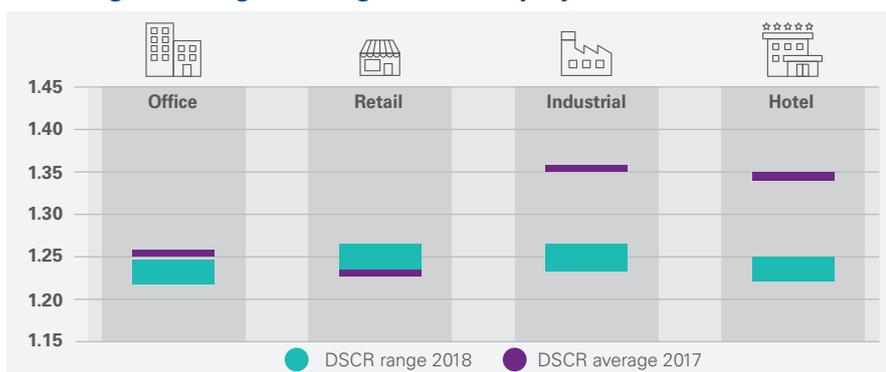
Pre-let ratio expectations for projects



Loan interest premium to be applied by banks for highly rated real estate projects



Debt service coverage ratio expectations for financing income-generating real estate projects



Source: KPMG Property Lending Barometer, 2018

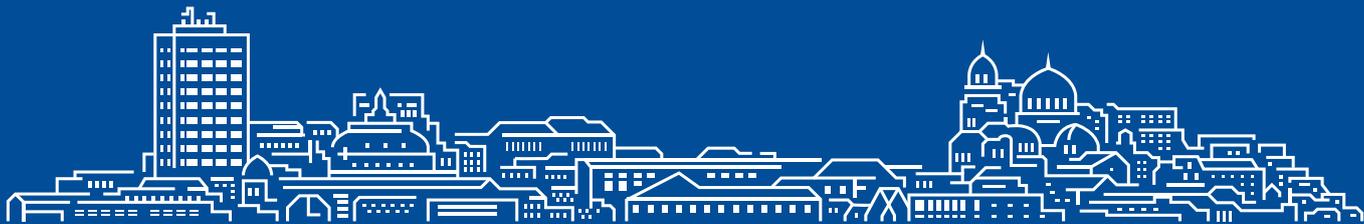
Lending market

A majority of 60% of banks surveyed in Austria assign moderately high strategic importance for real estate financing and 20% even consider it extremely significant strategically. Relative to last year, 40% moderately increased their focus on real estate financing, whereas 60% show no change. All banks are open to financing both new developments and income-generating projects. However, there is slightly greater sentiment expressed for the latter.

Austrian banks consider insurers and pension funds as their biggest competitors regarding their real estate funding activities. Non-local commercial banks and private equity funds are considered rivals as well. All those surveyed see the rate of provisions for real estate loans as adequate. The average loan size is ranges EUR 17-36 million, while the preferred size is significantly higher at EUR 24-64 million.

Future of real estate loan portfolios

All participants foresee an increase in the entire banking sector's real estate loan portfolio size in the forthcoming 12-18 months. Referring to their own banks' loan portfolio size, an increase is anticipated by 60%, while the rest expect their loan portfolio to maintain its current size. This indicates a moderate, 15% fall in their expectations of growth in comparison with responses from our survey from last year.

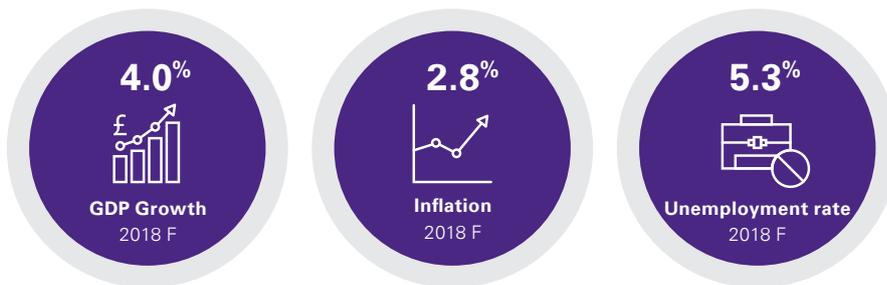


Bulgaria

“
Bulgarian banks are increasing their focus on real estate financing, a strategic priority for them, which is expected to contribute to the positive outlook.
 ”

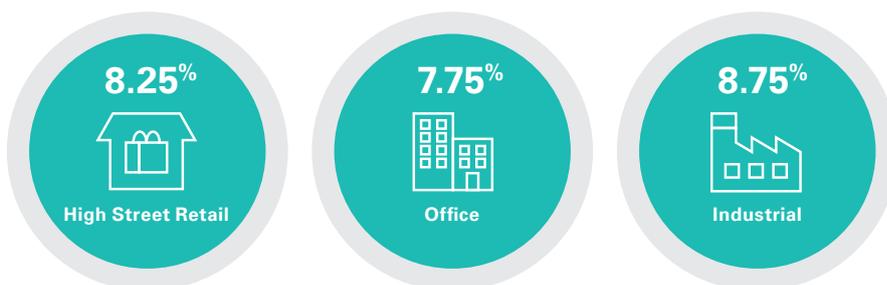
Juliana Mateeva

Economy



Source: Economist Intelligence Unit

Prime yields, Q2 2018



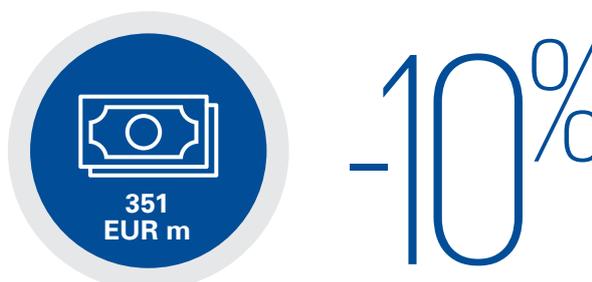
Source: Cushman & Wakefield

Key investment transactions H1 2018

City	Property	Seller	Buyer
 Sofia	Mall of Sofia	Europa Capital	GTC
 Sofia	Polygraphia Office Center (left wing and back wing)	AG Capital	Lion's Head Investment
 Sofia	DXC Technology office	C.3.I. Management	WING
 Sofia	Millenium Center	NIKMI	KBC Group
 Sofia	Radisson Blu	Interhotel Grand-Hotel Sofia	Galaxy Investment Group

Source: KPMG Property Lending Barometer, 2018

Transaction volume and YoY change H1 2018



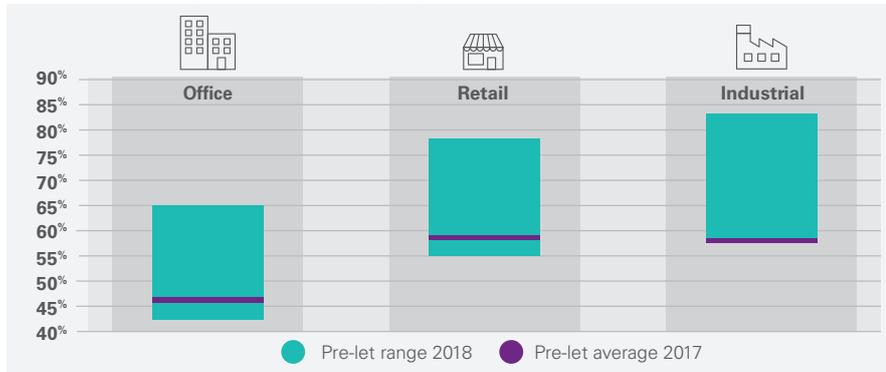
Source: Colliers

Financing expectations of highly rated development and income-generating projects in the next 12-18 months

LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



Pre-let ratio expectations for projects



Loan interest premium to be applied by banks for highly rated real estate projects



Debt service coverage ratio expectations for financing income-generating real estate projects



Source: KPMG Property Lending Barometer, 2018

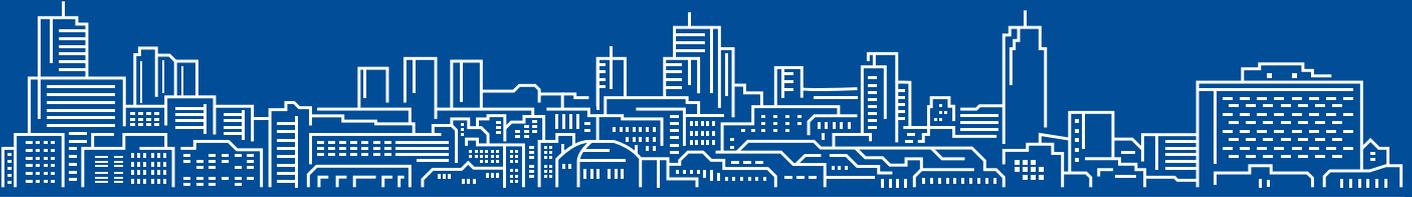
Lending market

Real estate financing is considered as strategically important by the majority of Bulgarian banks that participated in the survey. All banks increased their focus on this activity in comparison with the last year's results. A quarter of these institutions are very much open to financing income generating projects, while 50% of respondents are moderately interested. As for new developments, banks appear somewhat less interested.

Private equity funds stand as Bulgarian banks' most significant rivals, followed by non-local commercial banks, which are also regarded as important competitors. The level of provisions in real estate financing is considered adequate by all Bulgarian participants. The average loan size ranges EUR 7.5 - 11.25 million along with a higher preferred amount of EUR 9 - 15.75 million. These numbers have not changed significantly since the previous year's query.

Future of real estate loan portfolios

Those surveyed offer varying estimates of the loan portfolio size for the banking sector as a whole. Half of them expect real estate loan portfolios to increase moderately, 25% foresee significant growth, while the remaining 25% predict a decrease in the upcoming 12-18 months. For their own banks, sentiment is similar, without much confidence expressed for a major increase. Predictions are somewhat similar with 75% of banks forecasting an increase in size for their own loan portfolios.



Croatia

“
Investments in real estate in Croatia are still highly focused on the retail and tourism sectors, where average prices have upward trends.
”

Paul Suchar

Economy



Source: Economist Intelligence Unit

Prime yields, 2017



Source: Colliers

Key investment transactions H1 2018

City	Property	Seller	Buyer
Zagreb	City center east / City center west	CC real	Hystead Limited (UK) - owner Hyprop South Africa
Zagreb	Branimir center	Shopping Center d.o.o.	Supernova grupa /M2
Zagreb	Centar Kaptol	Exportdruvo Projekti d.o.o.	Supernova grupa /M2
Zagreb	Centar Cvjetni	Hoto grupa - dugovanje prema HETA asset resolution	Supernova grupa /M2
Tučepi	Tui Blue Jadran	Sunce Konzern d.d.	Tui Blue

Source: KPMG Property Lending Barometer, 2018

Transaction volume and YoY change H1 2018



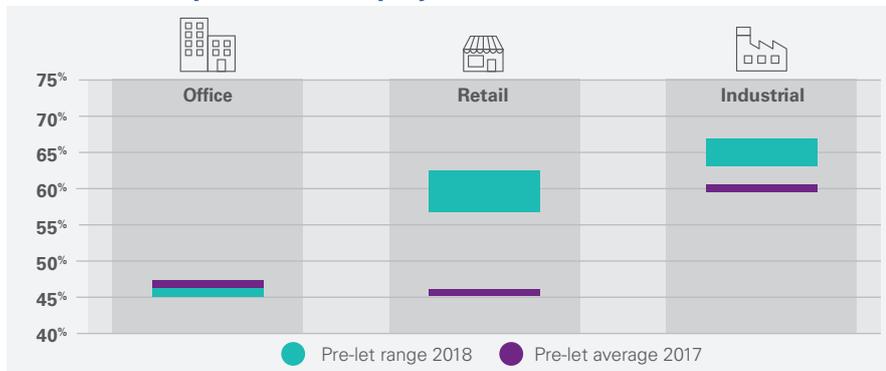
Source: Colliers

Financing expectations of highly rated development and income-generating projects in the next 12-18 months

LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



Pre-let ratio expectations for projects



Loan interest premium to be applied by banks for highly rated real estate projects



Debt service coverage ratio expectations for financing income-generating real estate projects



Source: KPMG Property Lending Barometer, 2018

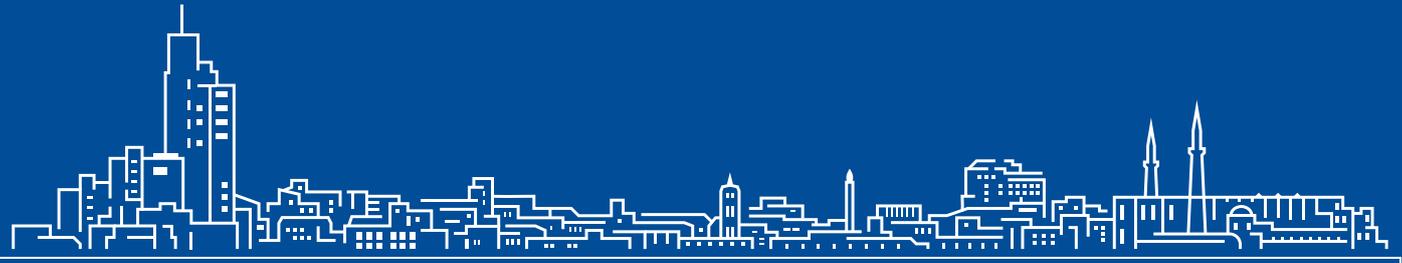
Lending market

According to our survey results, banks are divided in terms of the strategic importance of real estate financing. The majority of respondents (67%) maintained their focus on the sector, whilst 33% of them marginally increased it compared to a year earlier. All bank representatives expressed an openness to providing financing for income-generating projects, whilst 67% indicated they would also provide development financing.

Insurers and pension funds are recognized as the most formidable competitors for Croatian banks in the sector, while non-local commercial banks and private equity funds are amongst other rivals deemed important. Two-thirds of these banks consider the rate of provisions either high or too high, another third views provisions as adequate. The average loan size falls between EUR 5 to 8 million, whereas the preferred size is higher at EUR 10-12.5 million.

Future of real estate loan portfolios

As for the real estate loan portfolio size of the entire banking sector, all participants anticipate an increase in the next 12-18 months, while expectations are similar for their own banks. Such positive sentiment improved notably relative to results from the previous year's study.

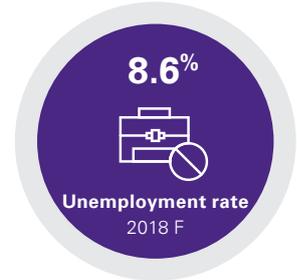


Cyprus

“
Cypriot banks have gone a long way this year to clean their balance sheets from problem loans via DFAS transactions and property-related loan portfolio sales. This ‘unloading’ of impaired loans will in most probability improve their appetite for providing new finance given that real estate has always been a mainstream of the local economy
 ”

Christophoros Anayiotos

Economy



Source: Economist Intelligence Unit

Prime yields, Q2 2018



Source: Cushman & Wakefield

Key investment transactions H1 2018

City	Property	Seller	Buyer
 Nicosia	Shacolas Tower	Woolworth Properties PLC	BoC REMU
 Nicosia	Superhome Centre	Woolworth Properties PLC	BoC REMU
 Limassol	Debenhams Apollon	Woolworth Properties PLC	BoC REMU
 Nicosia	Holiday Inn	Bank of Cyprus (BoC)	NBG Pangea REITs

Source: KPMG Property Lending Barometer, 2018

Transaction volume and YoY change H1 2018



2%

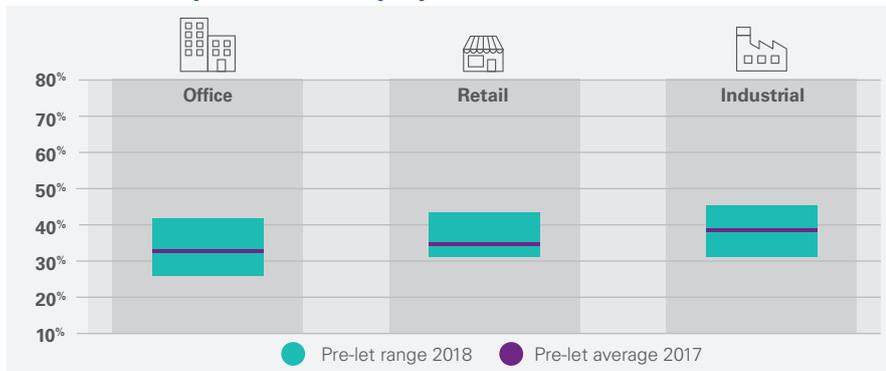
Official data from the Department of Lands and Surveys regarding Transfer of Sales

Financing expectations of highly rated development and income-generating projects in the next 12-18 months

LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



Pre-let ratio expectations for projects



Loan interest premium to be applied by banks for highly rated real estate projects



Debt service coverage ratio expectations for financing income-generating real estate projects



Source: KPMG Property Lending Barometer, 2018

Lending market

Cypriot banks that participated in the survey have maintained their interest in financing real estate compared to responses in the previous year. This year, respondents signalled a drop in financing new developments, but have highlighted openness in financing income-generating projects.

Cyprus is still hampered by the highest reported percentage of impaired loans and, correspondingly, by the lowest percentage of 'restructurable' loans under this category.

Among alternative lenders, lending institutions within Cyprus consider their biggest competitors to be private equity funds, but non-local commercial and investment banks are also recognized as strong players in the lending market. Considering the provision level related to real estate loans, more than half (56%) indicated it to be adequate, while the rest are divided equally between the view that it is moderately high or low. The average loan size for Cyprus is EUR 2-4.81 million, with a slightly higher preferred loan size of EUR 2.4-6.6 million, which are the lowest figures reported among all markets included in the survey.

Future of real estate loan portfolios

One-third (33%) of the banks are awaiting a decrease in the size of the entire banking sector's real estate loan portfolio; approximately half of the respondents (45%) contend it will remain unchanged and the remaining 22% anticipate an increase in the next 12-18 months. When considering their own bank, 56% expect moderate increases, while 22% project a slight decrease and another 22% no change.



Czech Republic

“
Favorable economic conditions are the key factor of a positive outlook on the development and financing of the real estate market in the Czech Republic. High competition among traditional lenders together with growing volume of alternative financing (such as bonds) keep the interest margin low.
”

Pavel Kliment

Economy



Source: Economist Intelligence Unit

Prime yields, Q2 2018



Source: Cushman & Wakefield

Key investment transactions H1 2018

	City	Property	Seller	Buyer
	Hradec Králové	Futurum shopping centre	Meyer Bergman	CPI
MIXED	Prague	Cestlice Business Park	Cromwell Property Group	Undisclosed
	Prague	Praha City Centre	Tristan Capital Partners	Amundi Asset Management
	Prague	Metronom Business Centre	HB Reavis	REICO
	Prague	Visionary	Skanska	CA Immo

Source: KPMG Property Lending Barometer, 2018

Transaction volume and YoY change H1 2018



-58%

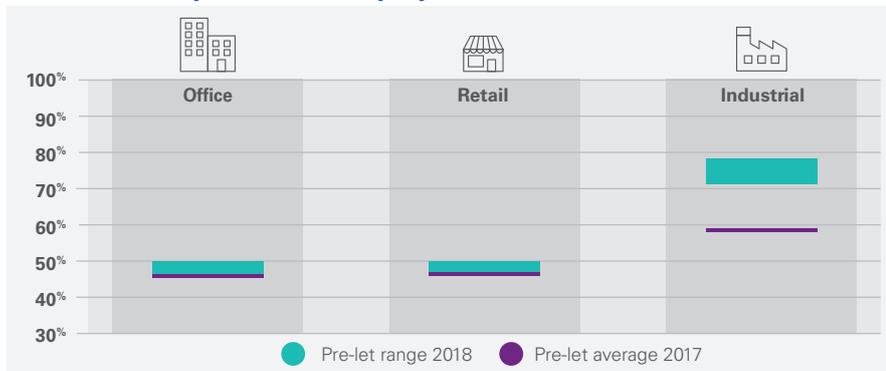
Source: Colliers

Financing expectations of highly rated development and income-generating projects in the next 12-18 months

LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



Pre-let ratio expectations for projects



Loan interest premium to be applied by banks for highly rated real estate projects



Debt service coverage ratio expectations for financing income-generating real estate projects



Source: KPMG Property Lending Barometer, 2018

Lending market

Czech banks that participated in the survey recognized real estate financing as strategically of high importance. 80% of survey participants maintained their focus on the sector compared to the previous year, while the remaining 20% have moderately increased their interest. Banks signalled a strong willingness to finance income generating projects, but also showed significant interest in development projects as well.

Lending institutions in the Czech Republic view both non-local commercial banks and private equity funds as their most significant rivals, closely followed by investment banks. The all deem the provision level for real estate loans as adequate. Average loan size ranges EUR 18.6-31 million, while the preferred amount is higher: EUR 24-36 million. These numbers are significantly higher than the last year's result.

Future of real estate loan portfolios

A substantial portion (67%) of those banks surveyed expect the entire banking sector's real estate loan portfolio size to remain unchanged in the next 12-18 months, while the other 33% are equally divided between predicting a growth or a decrease in its current position. For the banks themselves, 50% of their representatives expect increase or significant increase in the size of their real estate portfolios. One-third (33%) of the respondents do not see a change, while the rest expect a decrease.

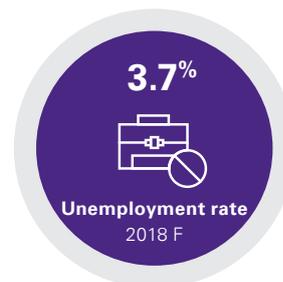


Hungary

“
In Hungary, we have reached a point in the market cycle in which many players are asking: when will a downturn of the market commence?
 ”

Andrea Sartori

Economy



Source: Economist Intelligence Unit

Prime yields, Q2 2018



Source: Cushman & Wakefield

Key investment transactions H1 2018

City	Property	Seller	Buyer
 Budapest	Premier Outlet Center	Lone Star	Deutsche Asset Wealth Management
 Budapest	Residence 1-2	Raiffeisen Development	FLE
 Budapest	Váci Greens D	Atenor	HU Private Fund
 Szeged	Novotel Szeged	ORBIS	Novoop
 Hegyeshalom	Prologis Park Hegyeshalom	Prologis	Horváth Rudolf

Source: KPMG Property Lending Barometer, 2018

Transaction volume and YoY change H1 2018



-58%

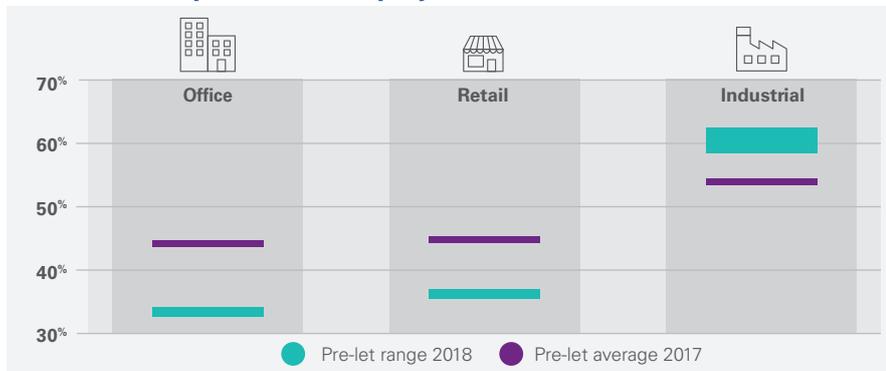
Source: Colliers

Financing expectations of highly rated development and income-generating projects in the next 12-18 months

LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



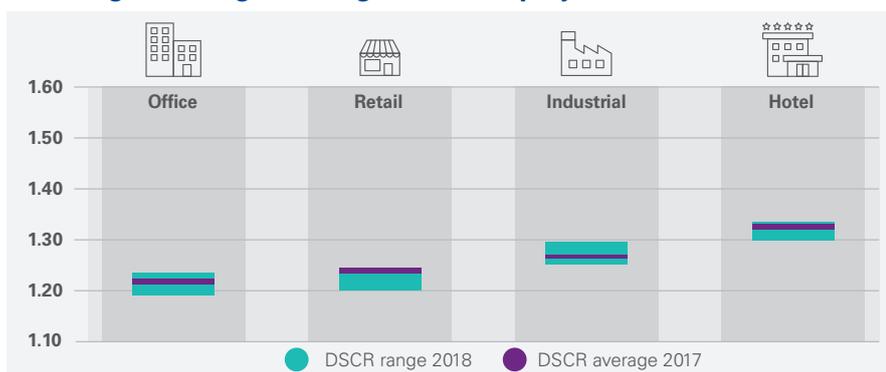
Pre-let ratio expectations for projects



Loan interest premium to be applied by banks for highly rated real estate projects



Debt service coverage ratio expectations for financing income-generating real estate projects



Source: KPMG Property Lending Barometer, 2018

Lending market

Half of those surveyed in Hungary gave moderate strategic importance to real estate financing, while 17% considered it as a high strategic priority. Comparing with last year's result, 33% of these banks increased their focus on real estate financing significantly, while the remaining 67% maintained their previous position. A majority of participants (67%) expressed a strong sense of openness towards financing income-generating projects, while the rest are moderately open. As for providing development financing, responses showed banks to be slightly less open.

Non-local commercial banks are referred to as the most notable alternative lenders in real estate financing, closely followed by both private equity funds and investment banks. A third of the banks noted that the provisions for real estate loans were too high, while the majority (67%) are of the opinion that they are adequate. In Hungary, the average loan size is EUR 18.7-25.8 million and the preferred size falls into a broader range of EUR 17-28 million.

Future of real estate loan portfolios

Nearly all participating banks (83%) expect that the real estate loan portfolio size of the whole banking sector will increase moderately and the remaining 17% see no change in the next 12-18 months. Monitoring their own bank's portfolio, their expectations are the same, foreseeing only a small decrease in portfolio size compared to last year's results.

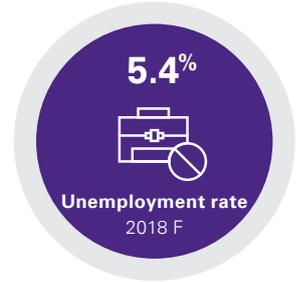


Ireland

“
The strong Irish economy and property market is reflected in a competitive lending market with banks willing to lend on both investment and high quality development assets. The positive environment has increased the range of options and providers available to borrowers.
”

David O'Kelly

Economy



Source: Economist Intelligence Unit

Prime yields, Q2 2018



Source: Cushman & Wakefield

Key investment transactions H1 2018

	City	Property	Seller	Buyer
	Dublin	Westend Retail Park	Green REIT	Deutsche Bank
MIXED	Dublin	South King Street	Lone Star	Hines
	Dublin	Heuston South Quarter	Northwood	CK Properties
	Dublin	No. 1, Dublin Landings	Ballymore/Oxley	Triuva
	Dublin	6 Hanover Quay	Cairn Homes	Carysfort Capital

Source: KPMG Property Lending Barometer, 2018

Transaction volume and YoY change H1 2018



84%

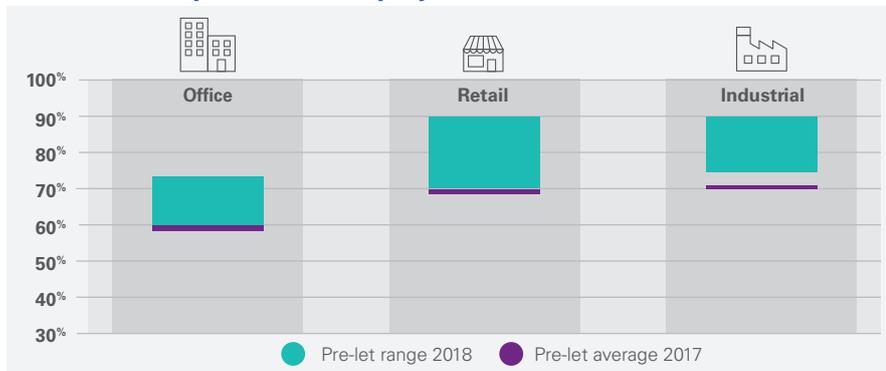
Source: Real Capital Analytics

Financing expectations of highly rated development and income-generating projects in the next 12-18 months

LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



Pre-let ratio expectations for projects



Loan interest premium to be applied by banks for highly rated real estate projects



Debt service coverage ratio expectations for financing income-generating real estate projects



Source: KPMG Property Lending Barometer, 2018

Lending market

Half of the Irish survey participants consider real estate financing as extremely important strategically. The importance of real estate financing has marginally increased for 25% of respondents and 25% have maintained their level of focus for this segment year-on-year. All of the banks expressed strong interest in providing loans for income generating projects, and notably 75% are very much open to providing finance for new developments as well. Overall, these proportions have increased since last year.

For Irish banks, pension funds and insurers are presently considered the most significant competitors, while investment and non-local commercial banks are also providing strong competition in the market. The rate of provisions against real estate loans is deemed as adequate for all surveyed banks. The average loan size is between EUR 21.3 - 32.5 million, which is moderately less than the preferred size of EUR 26.7 - 43.3 million.

Future of real estate loan portfolios

Commonly, all banks expect the real estate portfolio volume of the whole banking sector to increase in the following 12-18 months, which is a significant improvement compared to last year. Similarly, each bank is projecting an increase in portfolio size over the same period.

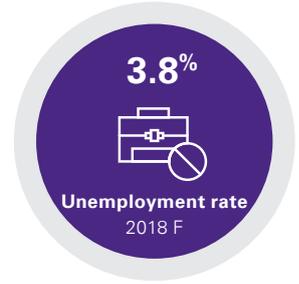


Netherlands

“
Real estate financing
is of less strategical
importance for
traditional Dutch banks,
alternative lenders are
required to bridge the
financing gap.
”

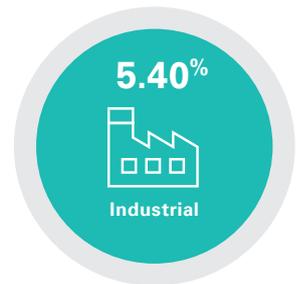
Frank Mulders

Economy



Source: Real Capital Analytics

Prime yields, Q2 2018



Source: Cushman & Wakefield

Key investment transactions H1 2018

City	Property	Seller	Buyer
Various	Portfolio of 5 shopping centres	CBRE Global Investors	ARC Real Estate Partners
Rotterdam	Maas Tower	North Star Realty Europe	FOM Rel Estate, Asia Pacific Real Estate, Coquine SA
Rotterdam	MM25	OVG Real Estate	Private Family Office
Waalwijk	Logistics Center	Roozen & Van Hoppe	Aberdeen Standard Investments
Various	Portfolio of 6000 units	NN Group	Vesteda

Source: KPMG Property Lending Barometer, 2018

Transaction volume and YoY change H1 2018



17%

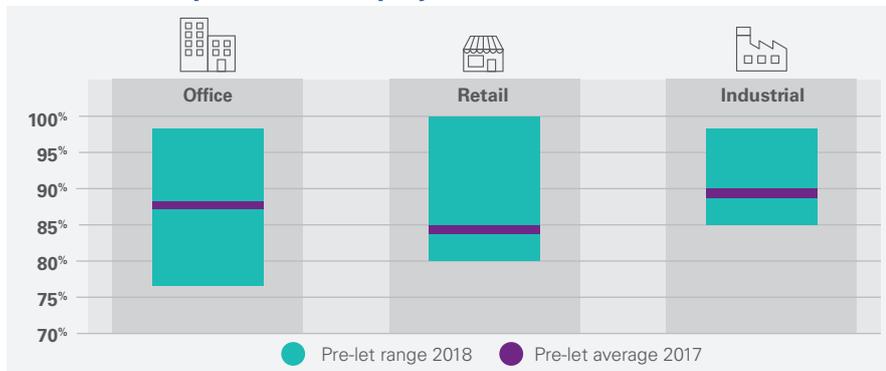
Source: Real Capital Analytics

Financing expectations of highly rated development and income-generating projects in the next 12-18 months

LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



Pre-let ratio expectations for projects



Loan interest premium to be applied by banks for highly rated real estate projects



Debt service coverage ratio expectations for financing income-generating real estate projects



Source: KPMG Property Lending Barometer, 2018

Lending market

Participating Dutch banks do not consider real estate financing to be strategically important. Only 20% of respondents afford real estate financing above average importance. A majority of banks (60%) have maintained their level of focus on the sector since last year, while equal percentages, 20% and 20%, have increased and decreased their interest. Among Dutch banks there is a clear inclination for financing income generating projects over providing loans for development projects.

Non-local commercial banks are recognized as the biggest competitors in real estate lending, closely followed by private equity and debt funds. All participants in the survey deem the provisions for real estate loans in the sector adequate. Average loan size falls into a range of EUR 11-22 million, whereas the preferred range is slightly higher at EUR 16.9-26.3 million.

Future of real estate loan portfolios

The entire banking sector's real estate loan portfolio size in the Netherlands is projected to increase by a majority of banks, while according to 20% of them, it will remain unchanged in the next 12-18 months. As for their own bank's portfolio size, responses vary: 60% expect an increase, but the rest predict a decrease in future.

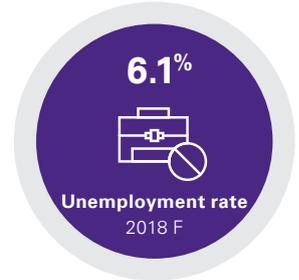


Poland

“
Real estate investment volumes for Poland in the first half of 2018 were exceptional, exceeding investment in prior years, and banks in Poland continue to be open to finance further investment.”

Steven Baxted

Economy



Source: Economist Intelligence Unit

Prime yields, Q2 2018



Source: Cushman & Wakefield

Key investment transactions H1 2018

City	Property	Seller	Buyer
Katowice	Galeria Katowicke	Meyer Bergman	Kwasa Europe (Malaysia Pension Fund)
Various	Portfolio of 28 shopping centers (M1)	Ares, Apollo Rida and AXA	Conosrtium: Griffin, Oaktree, PIMCO, Redefine (Chariot Top Group)
Warsaw	Warta Tower	Kulczyk Real Estate Holding	Globalworth Poland
Warsaw	Holiday Inn	UBM	Union Investment
Various	Portfolio of 9 logistic parks	Panattoni Europe	Griffin Real Estate

Source: KPMG Property Lending Barometer, 2018

Transaction volume and YoY change H1 2018



113%

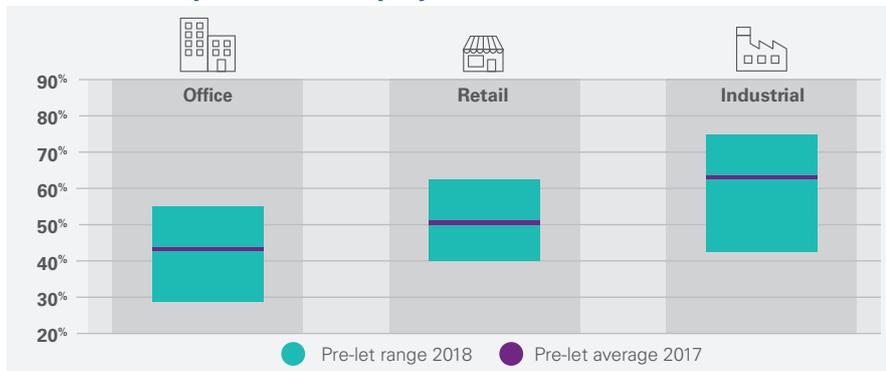
Source: Colliers

Financing expectations of highly rated development and income-generating projects in the next 12-18 months

LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



Pre-let ratio expectations for projects



Loan interest premium to be applied by banks for highly rated real estate projects



Debt service coverage ratio expectations for financing income-generating real estate projects



Source: KPMG Property Lending Barometer, 2018

Lending market

Opinion among Polish banks about the strategic importance of real estate financing differs broadly: only 20% consider it extremely important, another 40% deem it significant, while the rest place a lower importance upon real estate financing. A majority (60%) have maintained their level of focus on the sector since last year, while 20% have either increased or decreased (also 20%) their interest. Polish banks in general are open to finance income-generating projects, and a notable 80% are also interested in financing new development projects. It is important to note that 20% of those surveyed expressed no openness in providing any kind of support for development projects.

For survey participants in Poland, non-local commercial banks were named the biggest competitors as alternative lenders, followed by private equity and debt funds. All respondents indicated that the level of provisions for real estate loans was adequate. The average loan from banks in Poland falls in a broad range of EUR 22.5-45.8 million, while the preferred size of loan is quite similar at EUR 23.5-48.8 million.

Future of real estate loan portfolios

As to the overall banking sector's real estate portfolio size, 40% of Polish survey participants predict no change, another 40% expect growth, while a smaller proportion of 20% see a decrease in the upcoming 12-18 month period. Meanwhile, for their own banks, respondents do not foresee any drop and 20% of them even project a significant increase.

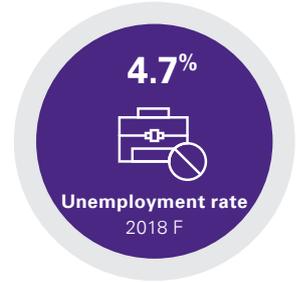


Romania

“Romania remained an attractive real-estate market for existing and new investors in the CEE region, fueled by consumer demand and increasing purchasing power, with the retail sector dominating, but with a decline in the hotel sector.”

Ori Efraim

Economy



Source: Economist Intelligence Unit

Prime yields, Q2 2018



Source: Cushman & Wakefield

Key investment transactions H1 2018

City	Property	Seller	Buyer
 Brasov	Magnolia Center	Miller Development	RO Private
 Bucharest	Atrium Militar	Atrium	MAS Real Estate Inc
 Bucharest	Campus 6.1	Skanska	CA Immo
 Bucharest	Oregon Park	ARES / Portland Trust	Lion's Head Investments
 Bucharest	Radisson Blu	Elbit Imaging	Revetas Capital/ Cerberus Capital

Source: KPMG Property Lending Barometer, 2018

Transaction volume and YoY change H1 2018



Source: Colliers

Financing expectations of highly rated development and income-generating projects in the next 12-18 months

LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



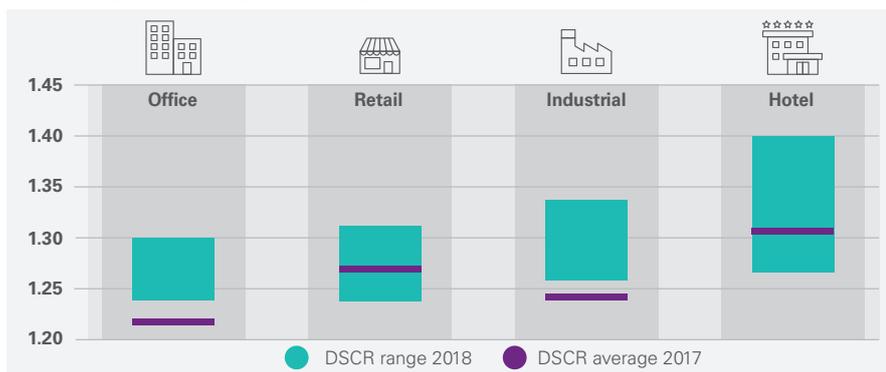
Pre-let ratio expectations for projects



Loan interest premium to be applied by banks for highly rated real estate projects



Debt service coverage ratio expectations for financing income-generating real estate projects



Source: KPMG Property Lending Barometer, 2018

Lending market

Most Romanian banks in our survey emphasized the importance of real estate financing in their banking strategy. In comparison with last year's query, about 40% of respondents have increased their focus on the sector significantly whilst the remaining 60% have maintained their positions. All of the banks are open to provide financing to income generating projects, whereas only 40% are open to finance new developments.

As for alternative lenders, participants recognize predominantly private equity and debt funds followed by non-commercial banks as their biggest competitors. A majority (75%) described the level of provisions as adequate, while the remaining quarter considered them as not adequate. The average real estate loan size ranges from EUR 15.5 to EUR 20 million. However, their preferred loan size is lower, between EUR 11 and EUR 15.75 million.

Future of real estate loan portfolios

For the upcoming 12-18 months, Romanian banks see growth for the entire banking sector's real estate loan portfolio. There is a slight difference in their expectations for their own banks: 40% see stability in the current situation, while 60% projected an increase for the forthcoming period.

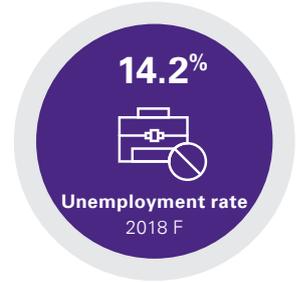


Serbia

“
The anticipated moderate increase in the real estate loan portfolio in the following period should have an overall positive influence on Serbia’s economy.
”

Sanja Kočović

Economy



Source: Economist Intelligence Unit

Prime yields, Q2 2018



Source: Cushman & Wakefield

Key investment transactions H1 2018

City	Property	Seller	Buyer
 Belgrade	Mercator Center	Mercator	MPC Properties
 Belgrade	Belgrade Business Center	Centrice Real Estate Gmbh	GTC
 Belgrade	Business premises	Rad International	Republic Property Directorate of the Republic of Serbia
 Belgrade	Slavija Lux Hotel	Slavija Hotels	Mat Real Estate
 Leskovac	Warehouse	Montaza Leskovac	Metla Komerc

Source: KPMG Property Lending Barometer, 2018

Financing expectations of highly rated development and income-generating projects in the next 12-18 months

LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



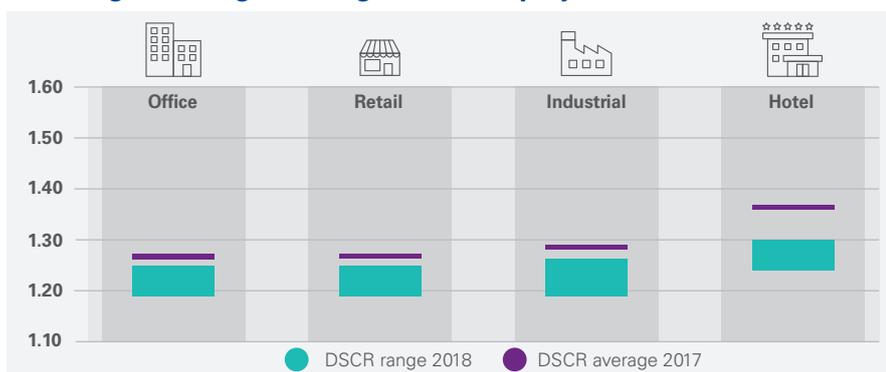
Pre-let ratio expectations for projects



Loan interest premium to be applied by banks for highly rated real estate projects



Debt service coverage ratio expectations for financing income-generating real estate projects



Source: KPMG Property Lending Barometer, 2018

Lending market

Survey participants in Serbia do not assign high strategic importance to real estate financing. A majority (60%) of them maintained their level of focus on real estate within lending activities, while the remainder increased their interest, with 20% even significantly increasing their interest, compared to the year prior. Both new developments and income generating projects attract banks equally, said respondents.

As for alternative lenders, bank representatives in Serbia identified non-local commercial banks as their primary competitors, followed by private equity and debt funds. The majority of respondents recognize the rate of provisions in the sector as adequate, although 20% indicated that the rate was below an adequate level. The average loan size for participant banks ranges EUR 14.4-23.4 million, generally in line with the preferred size of EUR 14.6-26 million.

Future of real estate loan portfolios

For the whole banking sector, the real estate loan portfolio is anticipated to increase moderately in the next 12-18 months. This is consistent with banks' expectations of growth in their own real estate loan portfolios.

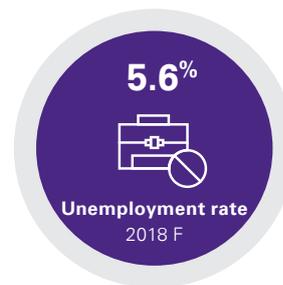


Slovakia

“
Slovak banks consider real estate market as stable and they continue to be open to financing of new development projects, with preference for retail and industrial/logistics development.
”

Michal Maxim

Economy



Source: Economist Intelligence Unit

Prime yields, Q2 2018



Source: Cushman & Wakefield

Key investment transactions H1 2018

City	Property	Seller	Buyer
 Nitra	Galeria Mlyny	Local businessmen	NEPI Rockcastle
 Trnava	City Aréna	Companies related to Vladimír Poór	Companies related to Peter Korbačka
 Bratislava	Lakeside Park	TriGranit	Wood & Company Real Estate
 Bratislava	Aupark Tower	Heitman	Wood & Company Real Estate
 Dubnica	Industrial Park Dubnica	Invest4SEE Investment Holding	REICO

Source: KPMG Property Lending Barometer, 2018

Transaction volume and YoY change H1 2018



117%

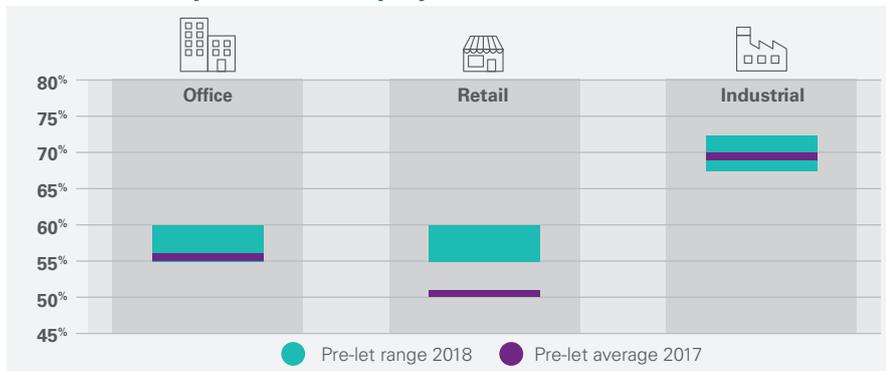
Source: Colliers

Financing expectations of highly rated development and income-generating projects in the next 12-18 months

LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



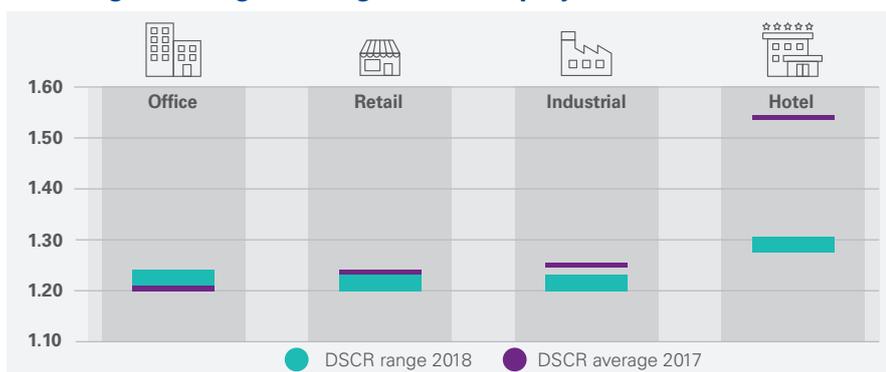
Pre-let ratio expectations for projects



Loan interest premium to be applied by banks for highly rated real estate projects



Debt service coverage ratio expectations for financing income-generating real estate projects



Source: KPMG Property Lending Barometer, 2018

Lending market

Financial institutions surveyed in Slovakia did not indicate that real estate financing was of high strategic importance. However, half of them increased their focus on this sector, while others reported they maintained it compared to the result from the previous year. Their major emphasis is being placed on financing income-generating projects, yet these survey participants said they are open to financing new developments as well.

Among important competitors, these banks ranked non-local commercial banks and investment banks as alternative lenders. The rate of provisions for loans in the sector is considered adequate by all respondents. The average loan size among those surveyed ranges EUR 10-15 million, while the preferred range is higher at EUR 17.5-22.5 million.

Future of real estate loan portfolios

Banks in Slovakia's market anticipate that the real estate portfolio of the entire banking sector will increase over the following 12-18 months. They predict the same moderate growth for their own institution's portfolio as well.

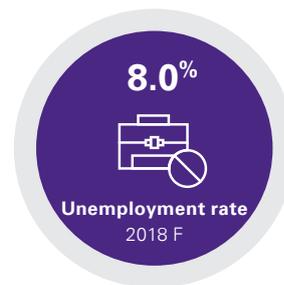


Slovenia

“
The real estate market in Slovenia has rebounded strongly after the financial crisis. Construction of residential and commercial real estate is booming. Due to shortage of supply it is expected that the market in Slovenia will continue to expand.
 ”

Sonja Žnidarčič

Economy



Source: Economist Intelligence Unit

Prime yields, Q2 2018



Source: Cushman & Wakefield

Key investment transactions H1 2018

City	Property	Seller	Buyer
 Ljubljana	Tivoli Center	VB nepremičnine	KD Adriatic Value Fund
 Ljubljana	Stekleni dvor	Centrice	KD Adriatic Value Fund
 Ljubljana	Dunajski kristali	various owners	DUTB
 Ljubljana	Parking house Šempeter	private owner	List Group
 Maribor	Parking house City	F City	GMG naložbe

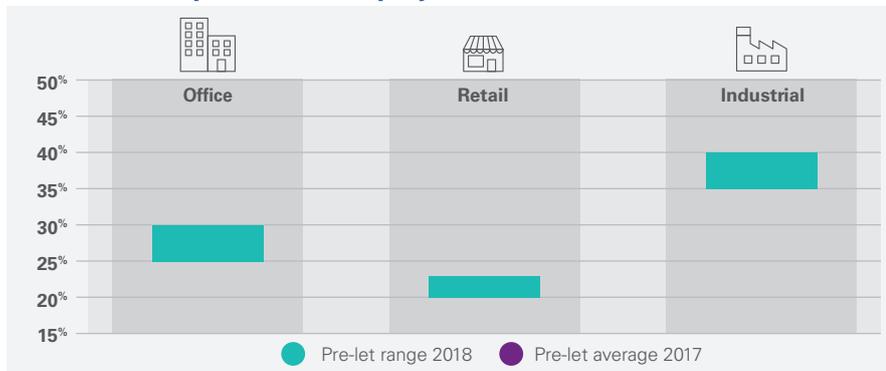
Source: KPMG Property Lending Barometer, 2018

Financing expectations of highly rated development and income-generating projects in the next 12-18 months

LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



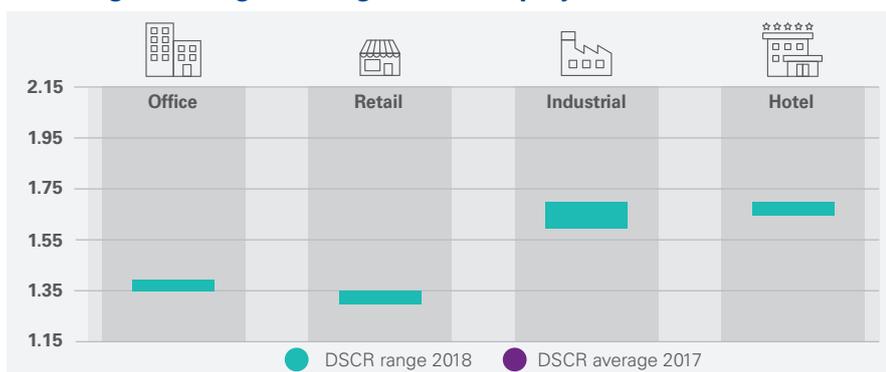
Pre-let ratio expectations for projects



Loan interest premium to be applied by banks for highly rated real estate projects



Debt service coverage ratio expectations for financing income-generating real estate projects



Source: KPMG Property Lending Barometer, 2018

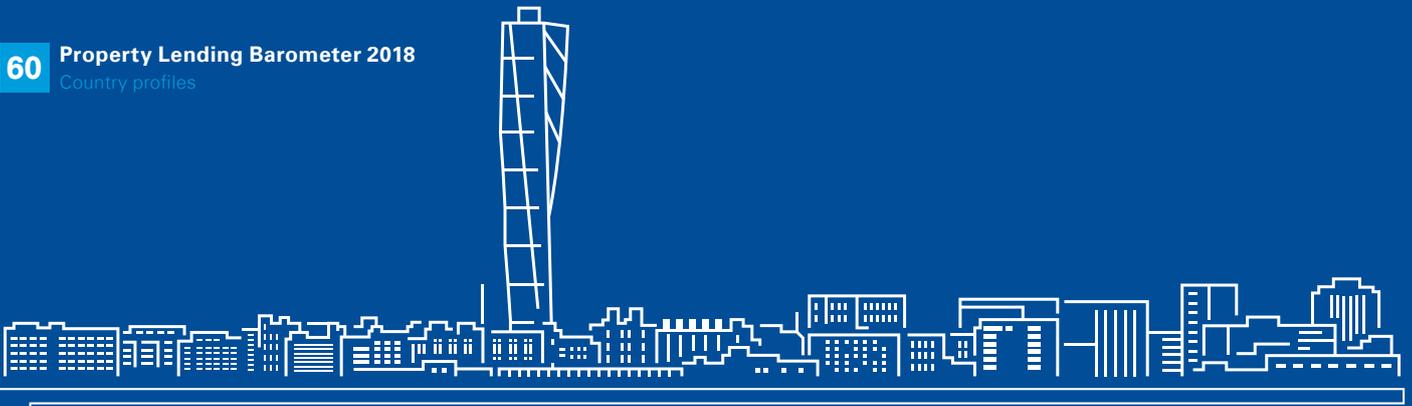
Lending market

In Slovenia, one-third of the participating banks declared real estate financing as a strategically important activity, while the rest indicated it as being of average strategic significance. Half of them maintained their focus on this sector compared to last year, but the other half notably increased their interest. Banks in Slovenia are more open to providing development financing with 33% of them very interested. As for funding income generating properties, they are less open.

Among alternative lenders, non-local commercial banks and private equity funds are by far the biggest competitors, according to survey respondents. The rate of provisions for real estate loans is considered lower than adequate by all banks. They declared their average real estate loan size on average as EUR 17 million, which falls within the range of their preferred size of EUR 15-17.5 million.

Future of real estate loan portfolios

All Slovenian bank representatives in our survey are preparing for moderate growth of the entire banking sector's real estate portfolio size in the following 12-18 months. For their own banks, portfolio size is also projected to increase in the forthcoming period.

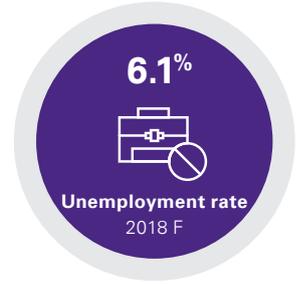


Sweden

“
A strong underlying economy continues to support favorable financing conditions and a thriving real estate investment market in Sweden.
”

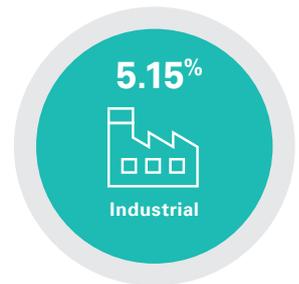
Peter Dahllöf

Economy



Source: Economist Intelligence Unit

Prime yields, Q2 2018



Source: Cushman & Wakefield

Key investment transactions H1 2018

	City	Property	Seller	Buyer
	Stockholm	Gangaren 11	AMF	Allianz
MIXED	Various	Office/logistics	Svea Real	Hemfosa
MIXED	Jönköping	Office/retail/residential	Ralf Ekblad	Regio
MIXED	Stockholm	Office/retail	AMF	AREIM
	Various	Residential portfolio of 5,300 units	Magnolia	Heimstaden

Source: KPMG Property Lending Barometer, 2018

Transaction volume and YoY change H1 2018

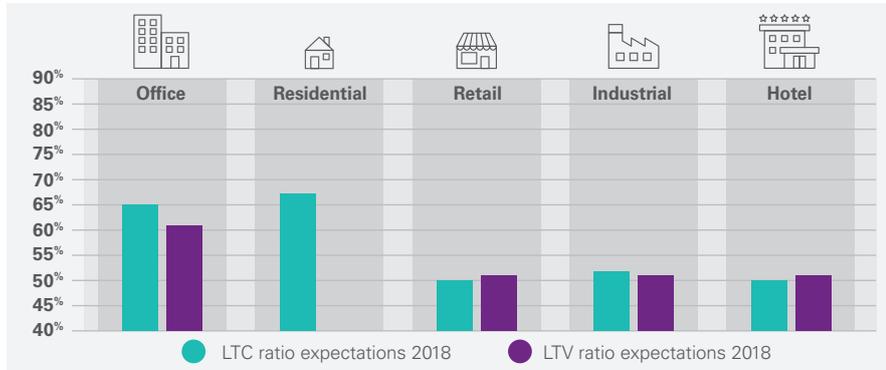


-48%

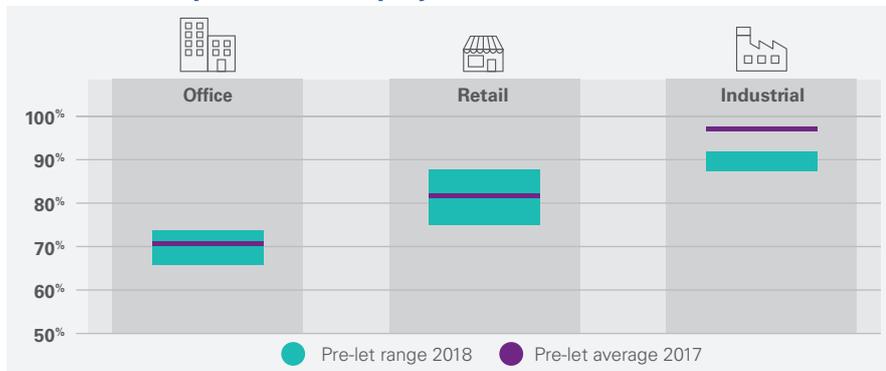
Source: Real Capital Analytics

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LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



Pre-let ratio expectations for projects



Loan interest premium to be applied by banks for highly rated real estate projects



Debt service coverage ratio expectations for financing income-generating real estate projects



Source: KPMG Property Lending Barometer, 2018

Lending market

A majority of the participating banks in Sweden see real estate financing as a strategically important activity. A considerable portion (60%) maintained their level of focus on the sector from last year, whereas 40% increased their interest. Income-generating property financing remains a priority for most of these banks, with 80% of respondents interested, whereas for development projects 60% of them are not open to financing.

Among alternative lenders, insurers and pension funds impose the greatest challenge to banks, followed by private equity and debt funds. All Swedish banks consider the rate of provisions for real estate loans as adequate. The average loan size ranges EUR 44-61 million, whereas the preferred size range is significantly higher, at EUR 60-65 million.

Future of real estate loan portfolios

A small percentage (20%) expect a moderate decrease for the whole banking sector's real estate loan portfolio size, whereas 40% each either predict no change or a marginal increase in the upcoming 12-18 months. As for their own banks, growth is anticipated by 80% of respondents, and the remaining 20% expect no change.





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