



# Property Lending Barometer 2017

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

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## Dear Reader,

We are pleased to present the *Property Lending Barometer 2017*, which is the 8<sup>th</sup> edition of our annually performed survey of banks' real estate financing. Our report provides an insight into lending market conditions in Europe and also gives a separate snapshot of the participating countries to highlight their unique 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 17 European countries.

The overall positive economic environment in Europe shows cause for cautious optimism, as core inflation is likely to stay low, private consumption may pick up slightly, unemployment is gradually decreasing and investment is predicted to expand steadily. Meanwhile, potential changes in the economic and trade policy of the USA and the geopolitical fallout, the upcoming negotiations with the UK regarding Brexit, and continued structural issues about the operations of the European Union are among the notable risks affecting the economies included in our survey.

The positive tendency of increased lending activity in Europe is likely to continue in 2017, supported by eased lending conditions and sustained demand across all loan categories. The growth of the aggregate loan portfolio is being driven by the low general interest rates and favourable housing market prospects. Also, the intensified activity in the debt sales market across Europe, though temporarily slowed due to political shocks in 2016, is expected to continue, with the total value of loan sales likely to exceed EUR 100 billion for the third consecutive year.

This report is an analysis of the findings of our survey of the leading banks active in these countries. The Barometer 2017 includes input from over 90 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.

First, 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/deal size, as well as the length of the loan contract term. Furthermore, the opportunity for new financing and banks' asset class preferences have also been analyzed.

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 and Hans Grönloh**

8<sup>th</sup>  
annual edition  
of the survey

Interviews  
conducted with  
banks from  
17  
European  
countries

Over  
90  
banks  
surveyed

# Table of contents



**7**

Overview of the European  
real estate market



**10**

Managing impaired loans



**13**

Prospects for real estate  
loan portfolios



**17**

Opportunities for financing  
new real estate projects



**27**

Conclusions



**28**

Country profiles

## Methodology and sample profile

This survey aims to provide an analytical overview of the current approach of banks to real estate financing in Europe. The following countries are represented in the 2017 survey: Austria, Bulgaria, Croatia, Cyprus, the Czech Republic, Germany, Hungary, Ireland, the Netherlands, Poland, Romania, Serbia, Slovakia, Spain, Sweden, Turkey and the United Kingdom.

The data for the survey<sup>1</sup> were primarily collected through in-depth interviews with bank representatives and via online questionnaires. Depending on the survey participants' organisational 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 100 banks, all of which were active in the real estate market in Europe over the last year. Data collection for this survey took place in May-July 2017.

Slightly more than half of survey participant banks were local, i.e. those operating predominantly within one European country, whilst the other half of respondents were regional or multinational banks.

## Comparison of surveyed countries

In order to provide better benchmarking among the countries surveyed, they have been placed into three categories according to the following factors: i) overall size of their economy in terms of the total volume of GDP; ii) population; and iii) the risk profile represented by 5-year CDS premiums. Based on these factors, we created the following three categories for the purposes of our analysis:

**Dominant economies:** These countries represent a larger proportion of the total GDP volume in Europe and they have relatively stable markets. Their economic performance can greatly influence overall market conditions at the European level. The grouping includes the United Kingdom, Germany and Spain.

**Established economies:** Similar to the dominant economies, established markets also have relatively low risk profiles. However, due to their size, they have less influence on the overall European market. This category includes Austria, the Czech Republic, the Netherlands, Poland, Slovakia and Sweden.

**Other economies:** In general, these markets have a higher risk profile in comparison to the more established countries. Also, the size of some of the markets in this category is not large enough to merit inclusion among the established markets. Bulgaria, Croatia, Cyprus, Hungary, Ireland, Romania, Serbia and Turkey fall in this category.

## Geographic abbreviations

AUT – Austria; BUL – Bulgaria; CEE – Central and Eastern Europe; CRO – Croatia; CYP – Cyprus; CZE – Czech Republic; EMA – Europe, Middle East and Africa; GER – Germany; FIN – Finland; HUN – Hungary; IRE – Ireland; NLD – Netherlands; NOR – Norway; POL – Poland; ROM – Romania; SRB – Serbia; SUI – Switzerland; SVK – Slovakia; ESP – Spain; SWE – Sweden; TUR – Turkey; GBR – United Kingdom

## Survey limitations

The following limiting factors should be noted:

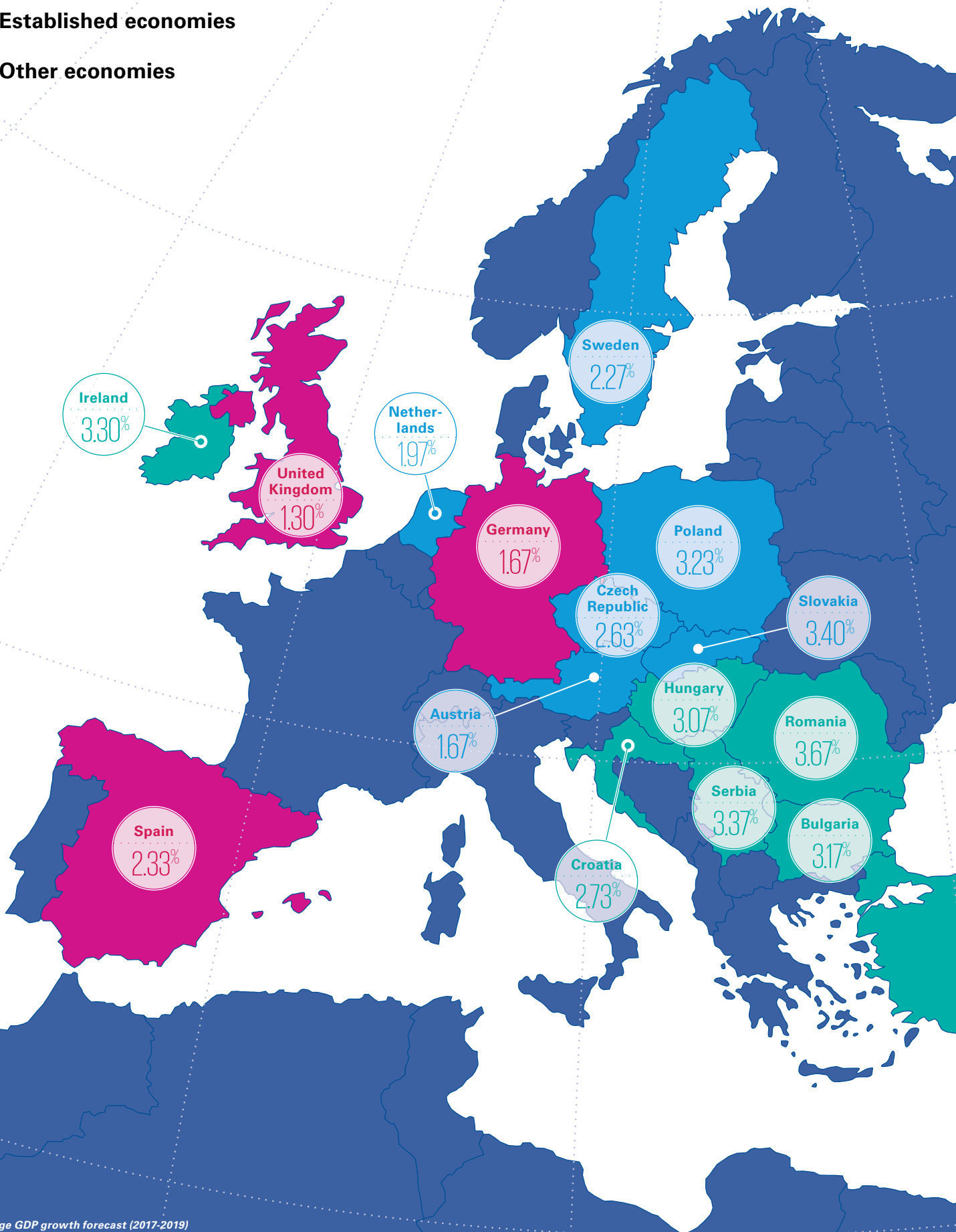
- When the answers provided to specific questions were not sufficient to provide reliable information on a specific country, we have indicated this, or the country was omitted from that part of the analysis.
- In the case of some parameters and cross-tabulations, survey findings may be considered indicative 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



<sup>1</sup> The survey also uses information obtained from public sources, which KPMG believe to be reliable. These market reports were published in 2016 and 2017 by BNP Paribas Real Estate, Colliers International, Cushman&Wakefield, Danos Real Estate, Economist Intelligence Unit, Jones Lang Lasalle, Knight Frank, Real Capital Analytics, Savills and Societe Generale.

- Dominant economies
- Established economies
- Other economies



Average GDP growth forecast (2017-2019)

Source: Economist Intelligence Unit

# Overview of the European real estate market



## Macroeconomic outlook of the region

Economic developments in Europe appear to substantiate a positive economic outlook for the next few years. Following a number of years of recovery after the financial crisis, steady growth is expected throughout the European Union. Core inflation is likely to stay low, private consumption may pick up slightly, unemployment is gradually decreasing and investment is predicted to expand steadily. On the other hand, political uncertainties, both in and outside of Europe, as well as the slowing of growth in some dominant economies in the world, may foreshadow potential difficulties on the horizon.

Last year, average real GDP growth in the countries included in our survey was 2.9% – a more moderate pace than the exceptionally high 4.3% in 2015<sup>2</sup>. Forecasts show that growth will continue but at a gradual, modest rate in the coming years, reaching a level of 2.4% by 2019. Meanwhile, there are several factors that may influence the trajectory of the European economy.

The surge of oil prices has caused a fairly high rate of inflation in the last months of 2016, although core inflation stayed low. At the beginning of 2017, oil prices started to consolidate, which had a moderating effect on inflation. Europe is a major oil importer and continued moderation of oil prices may stimulate the economies of Europe, although the impact of low inflation may mitigate some of the benefits. Moreover, the European Central Bank's (ECB) Asset Purchase Programme (APP) addressed the risks of the euro area and made a significant impact on both real GDP and inflation. The effects of the ECB's measures are expected to continue to have a positive influence on financing prospects in the region, partly through a reduction in bank leverage that could lead to an expansion in lending and offer support to the economic recovery.

Meanwhile, China is transitioning to a new growth model, focused less on export-led capital investment and more on consumption, efficiency, and productivity. The resulting slowdown of Chinese growth, especially if it remains for a prolonged period, poses a threat to the European economy. Due to China's large share of global trade and the high commodity intensity of its economic model, analysts of Societe Generale warn that if China's real GDP decreases by 1%, the real GDP of the eurozone could fall by approximately 0.1%, adding to the expected volatility of the European markets.

External risks are still significant. Most notably, migrant crisis, terror attacks and the potential changes in the economic and trade policy of the USA may cause broader geopolitical tensions, as might the European Union's forthcoming negotiations with the UK following the latter's decision to leave the EU. Internal debate on the future operation of the EU remains high on the agenda, driven by expectations for the new government in France and uncertainty surrounding the upcoming parliamentary elections in Germany.

The extent to which the aforementioned macroeconomic and political factors may affect different economies in Europe, however, is contingent on their respective economic conditions and policy approaches.

<sup>2</sup> In 2015, among others, the exceptionally high Irish growth rate, 26%, influenced the aggregated growth rate.



## Bank lending

Eased lending conditions and sustained demand across all loan categories have supported the growth of lending activity in Europe since 2014. In 2017, this trend is expected to continue, mainly due to increased competitive pressure in bank lending, both in terms of financing corporations and households. Meanwhile, the growth of the aggregate loan portfolio is supported by low general interest rates and favourable prospects for housing markets.

The European Central Bank's quantitative easing has exerted a positive effect on borrowing opportunities and is still a major factor in improving the prospects for bank lending. The negative deposit facility rate of the European Central Bank is expected to further stimulate lending volumes.

The ECB's maintenance of the current monthly pace of net asset purchases of EUR 60 billion, which will run until the end of 2017 or beyond, provides a stimulus to the market. Overall, the ECB's accommodative monetary policy stance, together with the net redemption of banks' longer-term financial liabilities and the strengthening of bank balance sheets, has contributed to create favourable bank financing conditions.

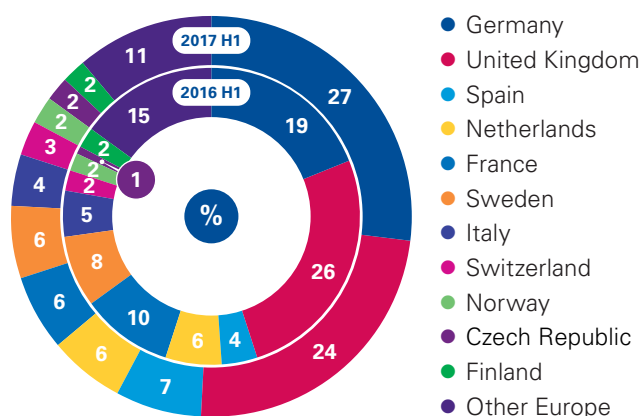
The market for loan portfolios in Europe has continued its increased level of activity established over the last few years. Uncertainty regarding the impact of Brexit on the market and a potential change in future US macroeconomic policy temporarily slowed transactions in 2016; however, the pressure for banks to consolidate their balance sheets and sell more of their non-performing loan portfolios remains a key market driver. In 2017, paused deals are expected to be completed and more complex portfolio structures are also likely to be sold. Overall, the deal value of just over EUR 100 billion seen in 2015 and 2016 may further increase this year.

## Real estate market in Europe

Total investment volume continued to decline for the second consecutive year in Europe, reaching EUR 116.9 billion in the first 6 months of 2017, which is 10% lower than the comparable figure for the previous year. The political and macroeconomic uncertainties overshadowing investment activity in European markets in 2016 seem to have lingered on in 2017, although the rate of the year-on-year decline moderated considerably. Meanwhile, certain measures indicate that investor demand in the markets is robust, as prices are increasing in key markets, and the level of forward sales volume – the purchase of assets still under construction – is at a record high.

Real estate investment activity varied greatly across countries in Europe. Germany and the UK attracted just over half of the total European transaction volume in the first 6 months of 2017, with 27% and 24% respectively. The UK market decreased 16% against the comparable figure last year, while Germany proved to be a clear winner with a growth of 30%. Spain gained third place in the ranking with a year-on-year increase of 41% with investments of over EUR 8.1 billion. Other major markets like France, Italy and Sweden all decreased significantly.

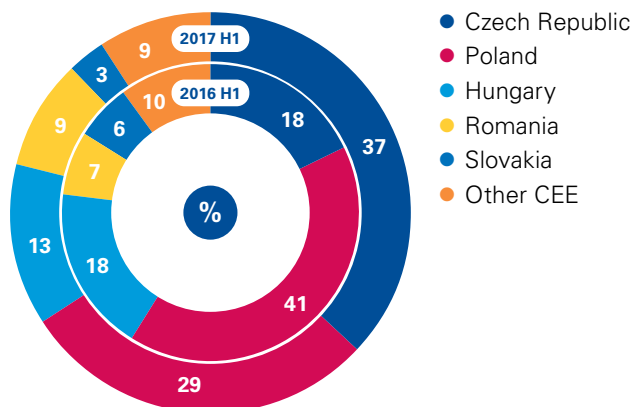
### Breakdown of real estate transaction volume – Europe



Source: Real Capital Analytics

Central and Eastern Europe, excluding Russia, saw investment transaction volume of EUR 5.6 billion, which is less than 5% of the aggregate European data. However, the region continues to provide attractive growth for investors, reflected by a 10% year-on-year growth rate over the same period last year. Among all European countries in the first half of 2017, the Czech Republic saw the largest increase, with 118%, while the Romanian market also grew significantly, with 43%. This year, the Czech Republic was the top investment target with around EUR 2 billion of investment volume, followed by Poland with EUR 1.6 billion.

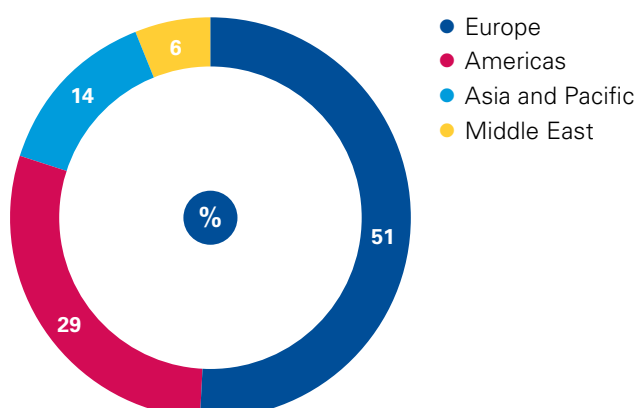
#### Breakdown of real estate transaction volume – Central and Eastern Europe



Source: JLL

Among all cross-border investment, European investors continued to be the most dominant, with activity quite evenly shared between eurozone and non-eurozone investors. The share of non-European investors reached a level just below 50% in total European cross border investments. Nevertheless, the level of external capital inflows dropped by 19% in 2016, compared to record high activity in 2015. The appetite of American investors plunged compared to 2015, especially in the top 2 markets (UK, Germany), but they still remain the most dominant source of investment from outside Europe. Asian investor activity also decreased, but their share of the investment increased to 14%. Their key target markets are the UK, France and Central-Eastern Europe. Investors from the Middle-East cut back on their investment activity by 41%, compared to 2015, while the majority of their investment went to the UK and Germany.

#### Cross-border investment in Europe (2016)\*

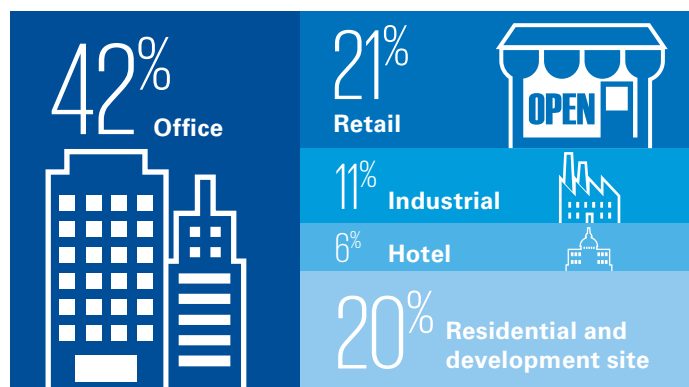


Source: BNP Paribas Real Estate

\*excluding other not allocated foreign investment (EUR 20.6 bn)

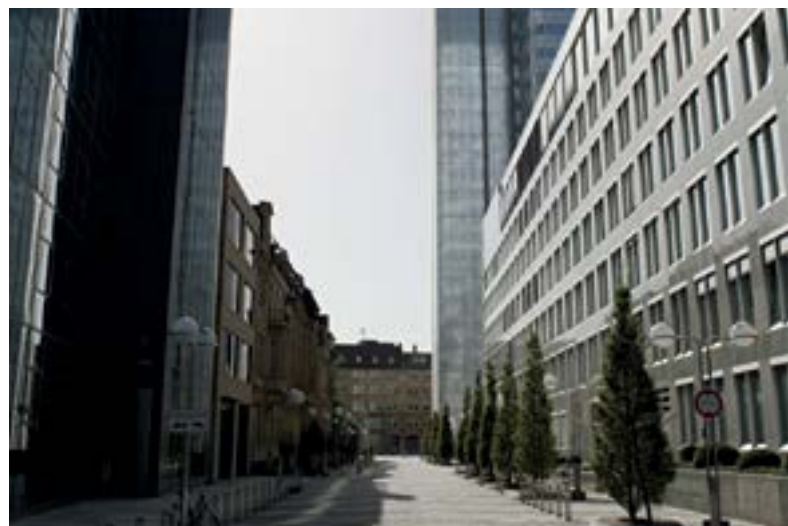
The breakdown of investment by asset type in Europe has not changed significantly since last year. Based on data from the first half of 2017, office is most preferred (42%), reaching EUR 48.7 billion, followed by retail (21%), industrial (11%), hotel (6%) and other (20%). The continued contraction of the investment market was the strongest in the industrial sector (investment volume in this sector decreased by 23% year-on-year), while investments in the retail, hotel and other sectors also decreased by over 10% year-on-year. The decline was more modest regarding office investments with a drop of 7%.

#### Investment by asset type in Europe (H1 2017)



Source: Real Capital Analytics

The general tendency of gradually decreasing prime yields has continued across Europe and is likely to remain in 2017. Rental fees increased significantly, especially in the office sector in Germany and France (by 19% and 5%, respectively), but also more widely in Southern and Central Europe (by 13% and 35%, respectively). France also saw a significant growth in rental fees in the retail sector, based on 2<sup>nd</sup> quarter data of 2017. In light of the low cost of capital, an inflation of asset prices was foreseen. In markets, like France and the Netherlands, the consolidating political environment may ease the high level of uncertainty that caused significant volatility last year and also in the first half of 2017. While investors continue to target major markets, diversification is expected to remain high on their agenda as reflected by greater activity and increasing prices in Southern and Central-Eastern Europe.





# Managing impaired loans

The European real estate sector was hit by global economic crisis, the effects of which vary across countries. During those years, the proportion of impaired real estate loans increased the most in “other” economies, partly because a significant proportion of loans were denominated in a foreign currency. While banks have various options when dealing with impaired loans, such as restructuring, foreclosing or selling these non-performing loan (NPL) portfolios, due to improving market conditions, the gap between the price offered by investors for NPL portfolios and banks’ expectations has narrowed, which has led to more transactions. In general, NPL portfolio transactions are more common in major Western European countries, while banks in the less established markets are still facing difficulties caused by the sizeable proportion of non-performing loans in their loan portfolios. Due to changing financial regulations, the number of NPL portfolio transactions is expected to increase in less established markets as well.

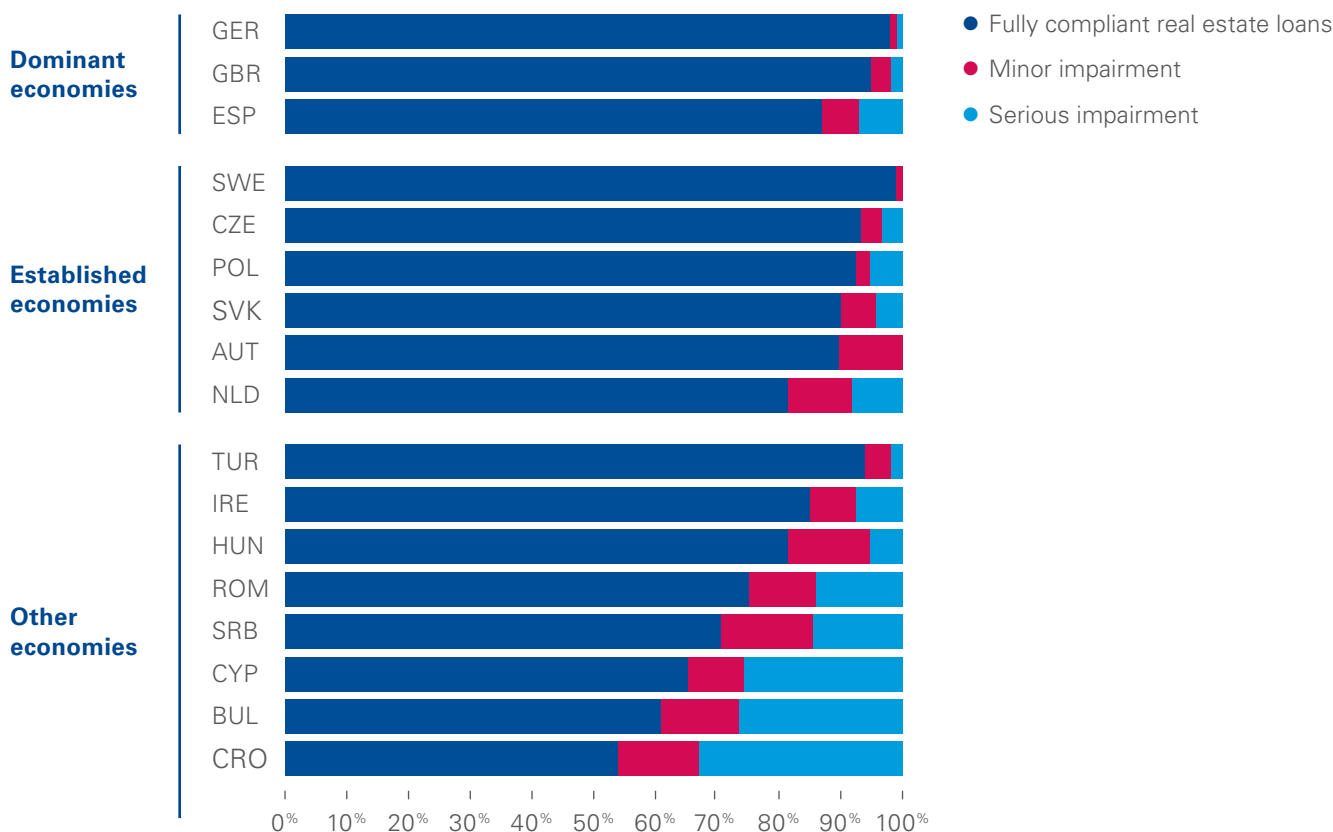
This part of the survey focuses on banks’ options for managing real estate loans where there is a technical breach of contract, or where debtors cannot pay their capital and/or interest on time.

## Current state of and future expectations for impaired loans

In “dominant” and “established” economies the proportion of fully compliant loans is, in general, higher than in other economies. This ratio lies in the range of 82-99% in these countries, according to our respondents. The value for Spain has improved significantly since last year, partly due to structural reforms and increased activity in the real estate sector. Among established economies, the highest ratio of fully compliant loans is in Sweden (99%), the Czech Republic (94%) and Poland (93%).

The level of variation among the responses from “other” economies is still significant, in the range between 54% and 94%, although less than last year (25-96%), which is a sign of moderating market conditions across all countries. Croatia is at the bottom of the list, with 33% of real estate loans reported to be seriously impaired, and an additional 13% having minor impairment. Banks in Bulgaria and Cyprus also reported a high proportion of impaired loans: 40% and 35%, respectively. By contrast, 80% of the portfolio of real estate loans in banks in Ireland, Turkey and Hungary are fully compliant.

## Proportion of impaired real estate loans per country



Source: KPMG Property Lending Barometer 2017



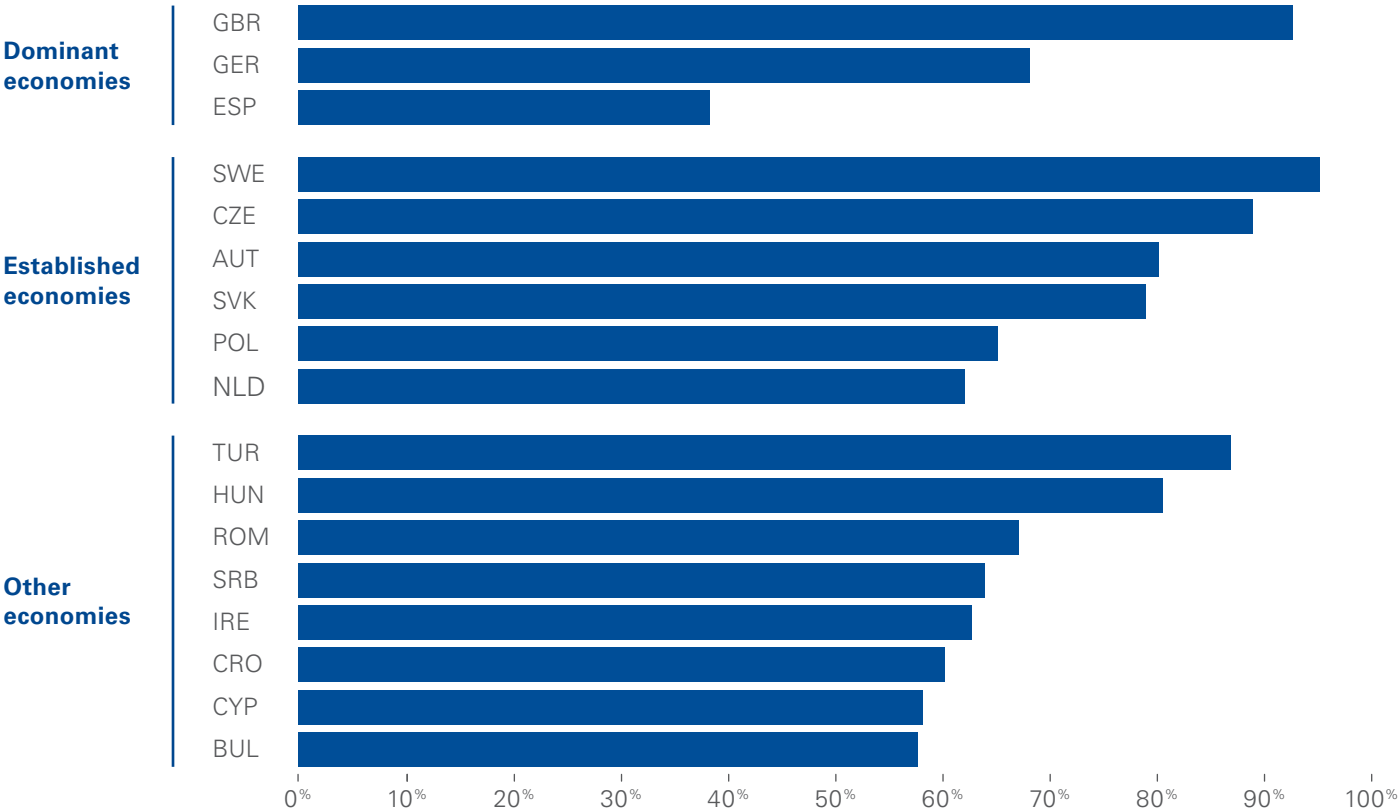
### Restructuring as an opportunity to manage impaired loans

Bank representatives queried in our survey confirmed that over 70% of their impaired real estate loan portfolios can be successfully managed through restructuring. This sentiment confirms that the rescheduling or restructuring of loans is still banks' preferred approach for managing problematic loans.

The highest average ratio of impaired loans that may be managed through restructuring was reported by financial institutions in Sweden (95%), the UK (93%) and Hungary (80%). Meanwhile, banks in Spain indicated a significantly smaller proportion (38%), which suggests banks in Spain do not see restructuring as a solution for the most problematic loans.

When banks do not consider the rescheduling or restructuring of their impaired loans a manageable solution, and they do not seek foreclosure, they may opt for selling their non-performing loan portfolios to specialised investors. Such investors aim to achieve a higher recovery from these problematic loans compared to banks, as it is their core competence to manage distressed portfolios.

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



Source: KPMG Property Lending Barometer 2017



# Prospects for real estate loan portfolios



In this section, banks' expectations for the future of their real estate loan portfolios are assessed in light of recent developments as well as their strategic approach to real estate financing.

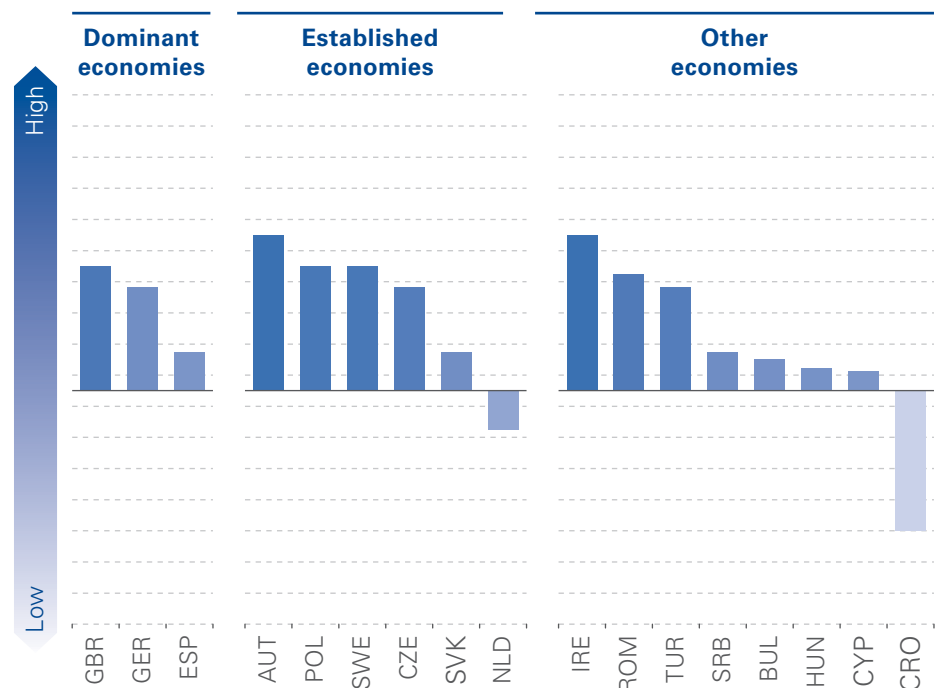
## Strategic importance of real estate financing

As in previous years, real estate financing is, overall, strategically more important for banks operating in dominant and established economies. Among the other economies, responses vary broadly, with Ireland, Romania and Turkey indicating a relatively high strategic importance for real estate financing compared to their peers.

Among the dominant and established economies, banks in the UK assigned the highest importance to real estate financing, while Dutch, Slovakian and Spanish banks afforded it a lower level of importance. For banks operating in other economies, bank representatives from Croatia indicated that real estate financing is not considered strategically important for their institutions.

We note that these findings do not fully reflect the underlying macroeconomic conditions of the countries surveyed, and might not prove to be enduring.

## Strategic importance of real estate financing for banks



Source: KPMG Property Lending Barometer 2017

## 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.

More than half (54%) of the respondents from the dominant economies indicated an increase to some extent since last year, while 38% signalled that their lending activity maintained its focus on real estate financing. This is a marked improvement since last year, mainly due to more positive responses from Spain.

In the case of the established markets, 28% of the banks indicated an increase in their focus on real estate financing compared to one year ago, and 65% of responses confirmed a maintained focus.

In the other economies the proportion of respondents stating that there was an increase in their bank's focus on real estate financing was 39%, and 47% of respondents from banks operating in less established markets indicated that their focus on real estate financing was maintained compared to the previous year. An increased focus was most notable in Bulgaria and Serbia since our 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.

Overall, the most significant factor for banks in Europe was the macroeconomic conditions in the local market. The uncertainty endured by local economies in 2016 seems to have remained throughout 2017, and volatility may be still significantly affecting banks' lending activities.

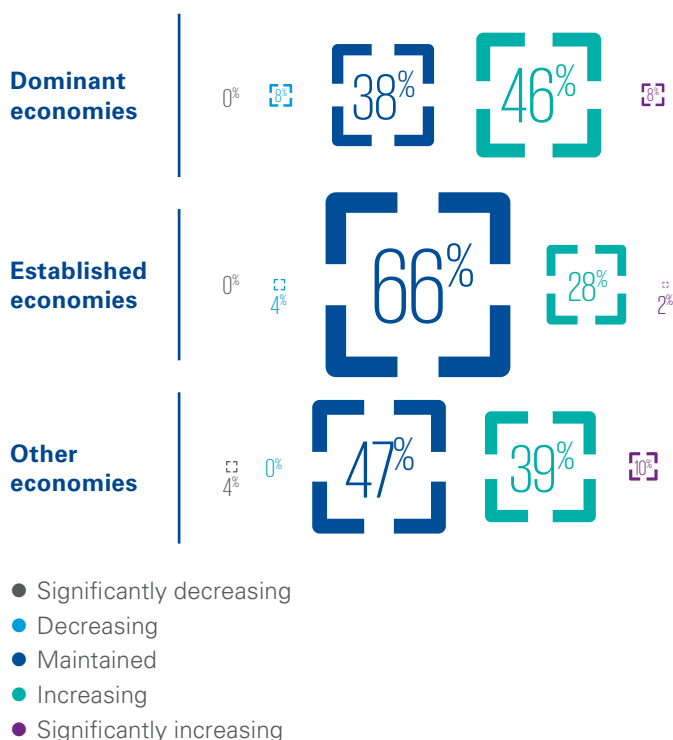
In dominant and established economies, the most important factor was the lack of prime properties, which highlights that increased investment activity is expected to result in a lack of quality properties in these more mature markets, which could negatively impact the growth prospects of banks' loan portfolios. The importance of this factor increased compared to last year, which may indicate that investors and banks are hesitant to take significantly higher risks in order to expand their portfolios by investing in or financing more risky assets.

In established economies, the activities of the European Central Bank and/or national banks were indicated to be an important factor, presumably because they are the primary beneficiaries of the ECB's current programmes. Decreasing/negative interest rates also received a relatively high score.

In other economies, the local macroeconomic environment was identified as the most significant factor, followed by decreasing/negative interest rates, and a lack of equity. The lack of prime properties is not considered to affect the loan portfolios of banks operating in these markets as significantly compared to banks in dominant and established economies.

When bank representatives were asked from which sources they expected additional funds to come from if the overall size of their share in financing decreases, similar to last year, approximately half of respondents stated that additional funds may come from private equity, followed by insurers/pension funds. Extra equity from the developer/investor was also indicated as a source of potential additional funds in the UK, Spain, Romania and Cyprus. Bonds were also mentioned as potentially significant sources by Romanian and Irish banks.

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



Source: KPMG Property Lending Barometer 2017

## Most important factors affecting real estate loan portfolios

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

Source: KPMG Property Lending Barometer 2017



## Disposing of loan portfolios

The general tendency revealed in our previous surveys that banks in other economies are more inclined to dispose of part of their loan portfolios was not fully apparent this year. On average, 29% of the banks in these markets indicated their willingness to dispose of part of their loan portfolios, similar to banks in dominant and established economies, where these proportions were at 32% and 28%, respectively. However, according to market research data, even though banks in other economies are willing to dispose of part of their loan portfolios, the volume of transactions closed in the dominant and established economies is significantly higher.

Over two-thirds of those surveyed in Spain and the Netherlands stated that they are considering selling part of their commercial loan portfolios in the next 12-18 months. Furthermore, in Slovakia and Bulgaria, at least half of the

participants also responded affirmatively, whereas in Germany, Austria, as well as in Turkey, and the Czech Republic, none of the banks are considering disposing of their loan portfolios.

The tendency remains that, in general, banks in those countries which have a larger proportion of impaired loans are more inclined to dispose of their loan portfolios. Among those banks that are considering disposing of part of their loan portfolio, 55% have indicated a strategic exit as the main reason behind their decision. Other factors such as capital adequacy were also mentioned by banks.

Despite the fact that banks, in general, are open to dispose of part of their loan portfolios, the attractiveness of this opportunity for investors is limited by the fact that it is complicated to manage loan portfolios due to often complex regulatory and tax structures.

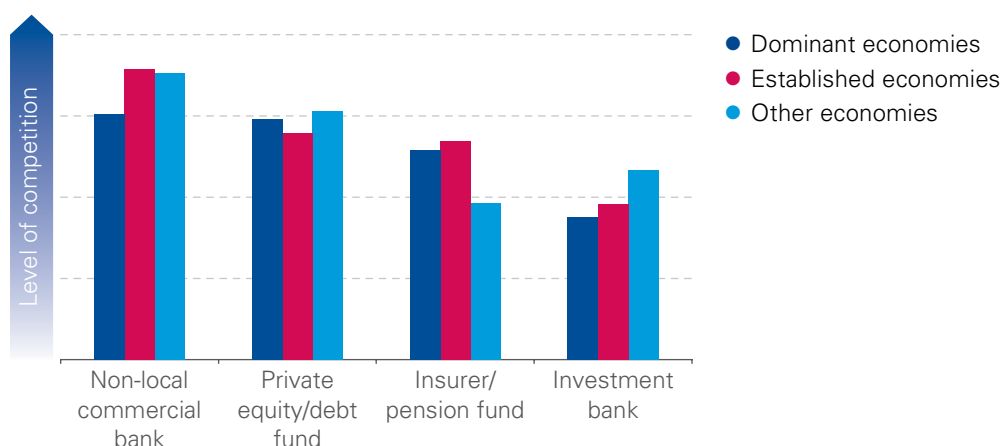
## Alternative lenders

Bank representatives were queried which alternative lender they deem to be their biggest competitor in terms of banks' traditional real estate lending. Their responses show that banks, overall, view non-local commercial banks as their key competitor in all country groups. Private equity/debt funds are considered to be banks' other main competitors.

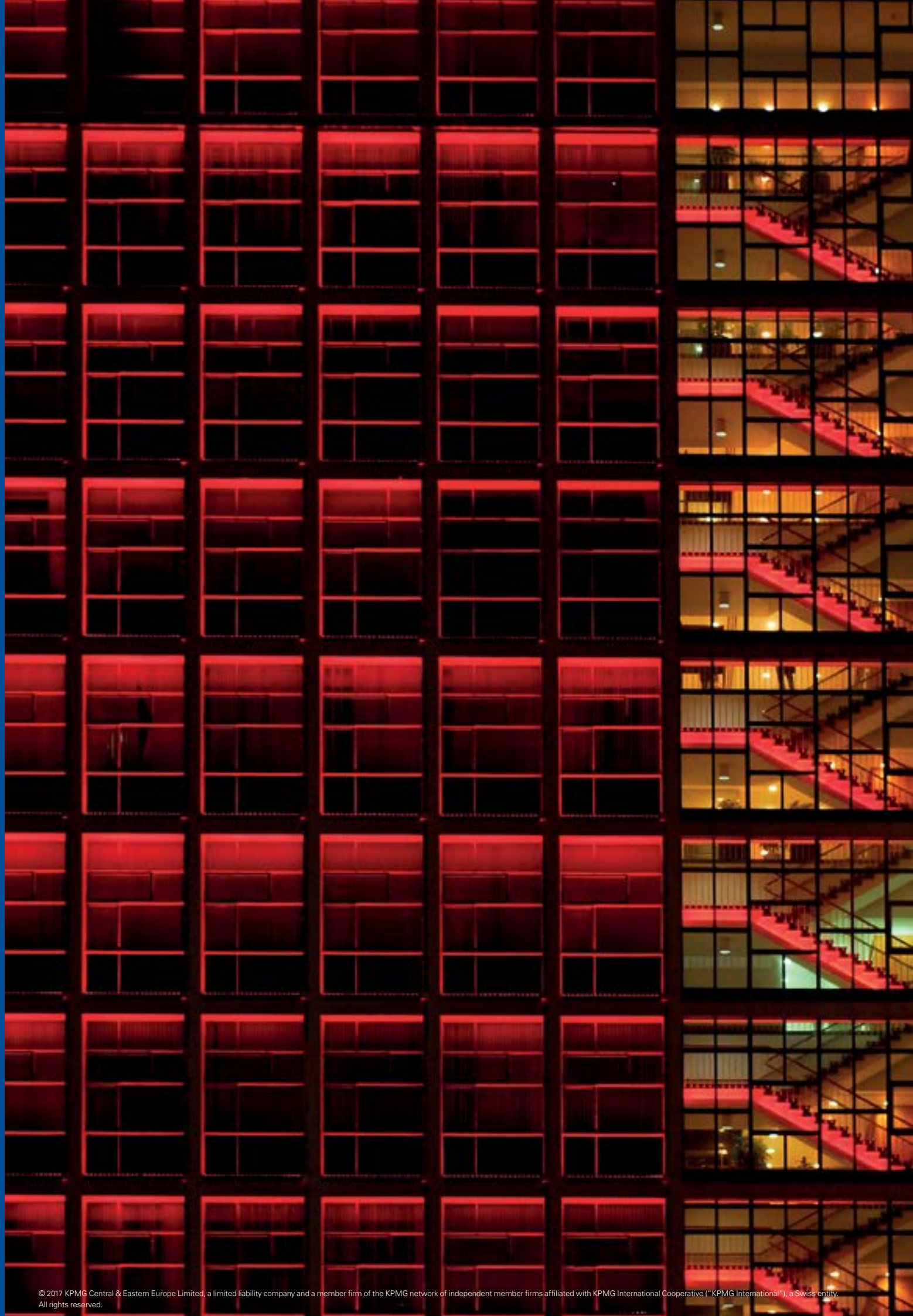
When queried as to how they anticipate the activities of alternative lenders to change in 2017 compared to 2016, in terms of real estate lending, respondents expected all alternative lenders to have positive growth prospects. There is no significant difference among the responses in all three country groupings.

Regarding which alternative lenders are likely to become more active in their lending than before, responses varied based on the category of market the survey participants are operating in. In dominant economies, private equity/debt funds are expected to expand their lending activity the most, followed by insurers/pension funds and non-local commercial banks. In established markets, insurers/pension funds are deemed to have stronger prospects in this respect, while non-local commercial banks and private equity/debt funds are also expected to grow moderately. In other economies, private equity/debt funds are expected to increase their lending activity the most in 2017, followed by non-local commercial banks.

## Competition with alternative lenders



Source: KPMG Property Lending Barometer 2017



# Opportunities for financing new real estate projects



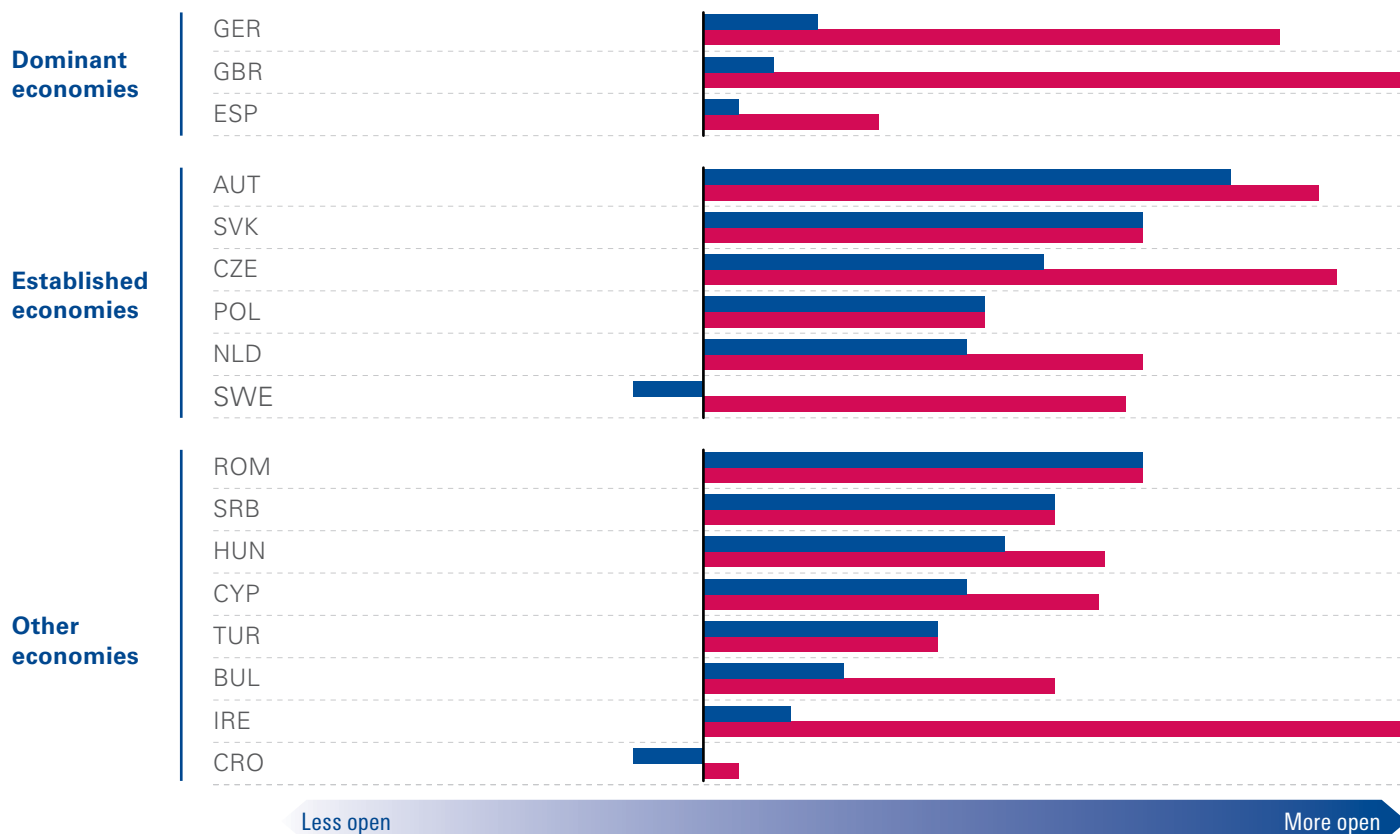
This section assesses the opportunities for developers in obtaining bank financing for real estate projects.

## New financing

Responses from banks in all of the markets surveyed tend to show at least some extent of openness to financing income-generating projects. On average, banks in dominant and established economies are somewhat more open to financing real estate projects, especially income-generating projects.

Banks in the UK, Ireland, Austria and the Czech Republic are the most open to financing income-generating projects. Respondents from Croatia, Spain and Turkey indicate that their banks are least open to finance income-generating properties.

## Openness of banks to finance development/income-generating projects



- New developments 2017
- Income-generating properties 2017

Source: KPMG European Property Lending Barometer 2017

When it comes to new developments, banks in general are still more risk averse and less willing to finance such projects, even in more mature markets. However, with a couple of exceptions, banks in all of the markets appear to be showing at least some extent of openness to financing new development projects.

In the dominant economies surveyed, responses from banks did not show a great degree of openness towards financing new developments. Among the established markets, Austrian and Slovakian banks are quite open to financing such projects, while banks in Sweden appear less open compared to their peers in other countries.

Among the other economies, banks in Romania and Serbia exhibited the greatest openness towards financing new development projects. Respondents from Croatia and Ireland indicated that their banks are less open to financing such projects.

Bank representatives were also asked whether they are open to lending in currencies other than that of the country where the property/bank is located. There is a general pattern that banks operating in the eurozone area are less open to lending in other currencies. However, answers show a more varied picture in the non-eurozone, with banks in Poland, the Czech Republic, Hungary and Bulgaria appearing to be most open to the prospect, while Swedish and Turkish banks indicated they were less open.

## Asset class preferences

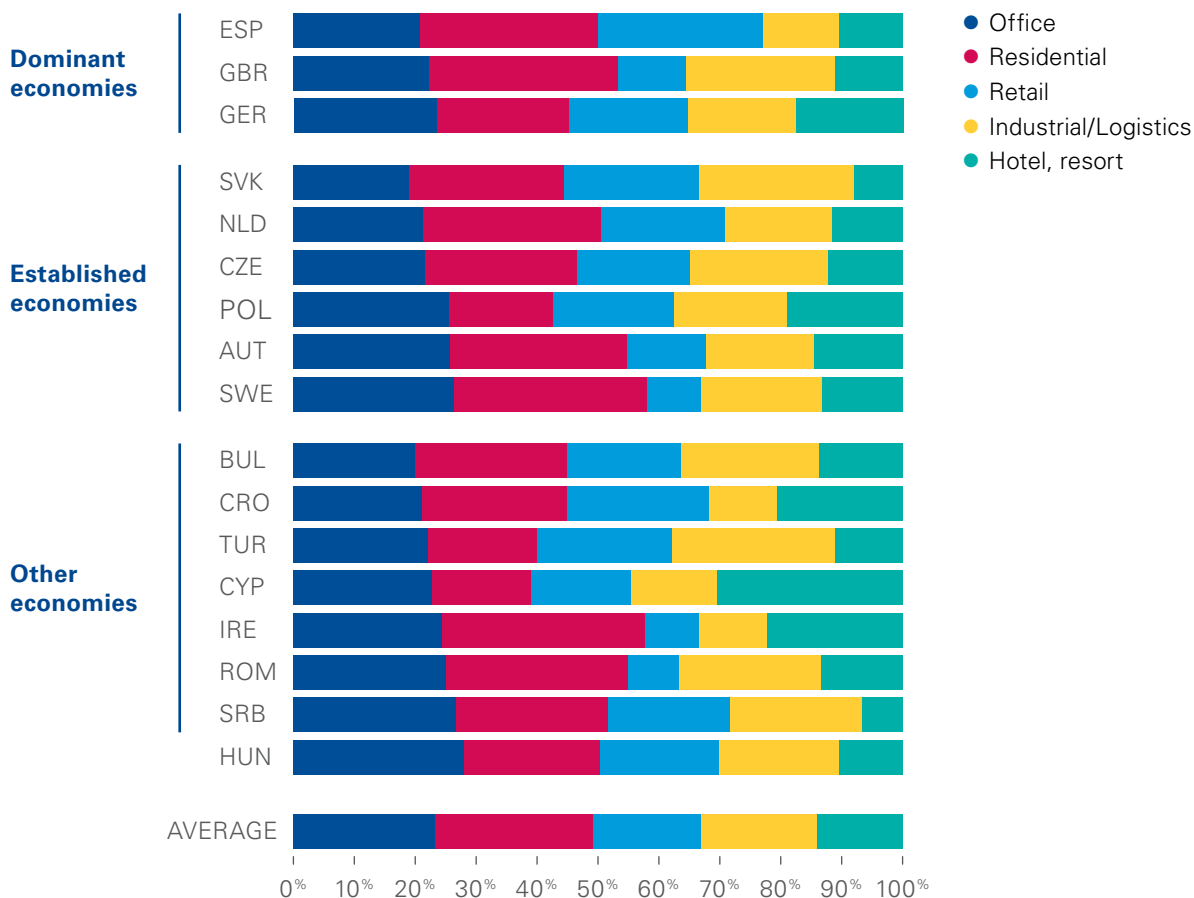
Banks were also queried as to their preferred asset class for development financing in each country.

Residential is clearly the most preferred asset class among the surveyed banks in the dominant economies. In established economies, residential and office are the most desirable asset classes. The most favoured asset class among banks operating in other economies is residential, closely followed by office projects.

The popularity of the office sector decreased in most countries among banks operating in other economies compared to their responses last year, particularly in Ireland. However in Turkey and Cyprus, while still not their most preferred asset class, banks prefer office projects more than in the previous year. In the established economies, the office sector continued to gain in preference compared to 2015 and 2016. Among the dominant countries, the popularity of the residential asset class significantly improved across all markets since the previous survey.

Similarly to previous years, the least preferred asset class on average in all three market groups was the hotel sector. A relatively higher preference for the hotel sector was indicated by Croatian, Cypriot and Irish banks.

## Banks' sector preferences in providing development financing by asset class



**Note:** The longer the colored bar, the more preferred the asset class is for the banks.

**Source:** KPMG Property Lending Barometer 2017



### Criteria for financing

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

As in previous years, there is a consensus among the banks surveyed, regardless of the size and the risk profile of their markets, that the most important criteria for obtaining financing for a project are a strong business model and the quality of the asset.

The reputation and references of the developer/operator is also ranked very high, as well as the financial background of the developer/investor, especially in dominant economies. Other relatively important criteria include the level of owner's equity, how well the project is planned and the pre-let/pre-sale level of the project.

The lowest ranked criteria according to all market groups are the existence of an independent feasibility study/valuation and the size of the requested loan.

### Banks' most important criteria when considering real estate financing

	Dominant economies	Established economies	Other 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 2017

## Loan-to-cost ratios (LTC)

Banks were asked to report on their technical criteria for financing. When questioned about loan-to-cost ratios, responses varied by country and asset type.

Overall, banks in more established economies require less equity from developers. However, similar to previous years, surveyed banks in the dominant markets were more conservative in this regard compared to banks in established economies. In general, they require more equity when financing a development project. Nonetheless, there are significant differences across countries. Banks in Germany, Austria and the Czech Republic require the lowest level of equity, with average LTC ratios of 0.71-0.72, while banks in Sweden and Spain are the most conservative, with ratios of 0.55 and 0.58, respectively.

The loan-to-cost ratios in the dominant economies for the office, residential, retail, industrial/logistics and hotel sectors are in the range of 0.50 and 0.78 (i.e. reflecting a capital structure of 50-78% debt and 50-22% equity). On average, the residential

sector has the highest LTC ratio, at 0.68, followed by retail and office, at 0.65 and 0.63, respectively.

In the case of the established economies, the loan-to-cost ratios are between 0.48 and 0.78 (i.e. reflecting a capital structure of 48-78% debt and 52-22% equity). In these markets the residential sector also has the highest LTC ratio on average, at 0.74, followed by office and retail, at 0.69 and 0.67, respectively.

On average, banks in other economies require more equity from developers, mainly due to the more risky nature of these markets, which has resulted in more conservative lending policies being followed by the respective banks. The loan-to-cost ratios are in the range of 0.55 and 0.74 (i.e. reflecting a capital structure of 55-74% debt and 45-26% equity). In these markets the LTC ratios are the highest on average for the office and residential sectors, at 0.66, followed by retail and industrial, at 0.64.

As in previous years, the hotel sector requires the highest equity ratio in most of the countries surveyed, in the range of 0.48-0.75.

## Loan-to-value ratios (LTV)

The average LTV ratio of the asset classes per country group shows a ranking similar to that of LTC ratios. In general, banks in other economies are more risk averse and require a higher proportion of equity when financing an income-generating project, while banks in more established economies are willing to provide more credit in proportion to the total appraised real estate value.

For the dominant economies, the loan-to-value ratios for the office, residential, retail and industrial/logistics sectors range from 0.55 to 0.69 (i.e. reflecting a capital structure of 55-69% debt and 45-31% equity). The retail sector, on average, has the highest LTV ratio, 0.64, followed by office and industrial, at 0.63 and 0.62, respectively.

In the case of established economies, the range is somewhat broader, at a ratio of between 0.48 and 0.77 (reflecting a capital

structure of 48-77% debt and 52-23% equity). The lowest average proportions of equity are required for the office and retail sectors (32-33%), while the most equity is needed for hotel and resort projects (38%).

The loan-to-value ratios by banks in other economies range from 0.53 to 0.72 (reflecting a capital structure of 53-72% debt and 47-28% equity). The least equity is required for retail projects (36%), on average, while the most equity is required for hotel and resort projects (42%).

Similar to previous years, the hotel sector's loan-to-value ratio is the lowest among all the asset classes in all market groups, with an average of 0.6. On average, the highest LTV ratio is provided to retail and office projects in each market group.

## Pre-let ratios

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

Similar to previous years, answers from respondents confirmed 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 Spain appear to be less conservative in the retail sector compared to other banks operating in the dominant economies.

In the dominant economies, pre-let ratios for office and retail projects are on average 56% and 46%, respectively, while industrial is at 48%. This pattern is in contrast with the overall trends, mainly due to responses from banks operating in the UK, where office development projects are required to meet above average pre-let expectations. This phenomenon might be

related to the impact of Brexit, as a number of corporate offices are expected to relocate from the UK.

Banks' average pre-let requirement in established markets for office developments is 56%, 60% for retail developments and 74% for industrial developments.

Regarding banks operating in other economies, the pre-lease requirements of banks for office developments on average is 45%, 49% for retail and 55% for industrial.

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 the phenomenon that banks are less open to industrial property speculative 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 initiated by investors with excellent reputations and sound business plans were also examined.

Similar to last year, Swedish banks require significantly higher DSCR ratios compared to their peers, presumably because in many other aspects they are ready to offer very favourable terms for clients, hence their expectation to cover over 200% of the relatively lower debt service from cash flows.

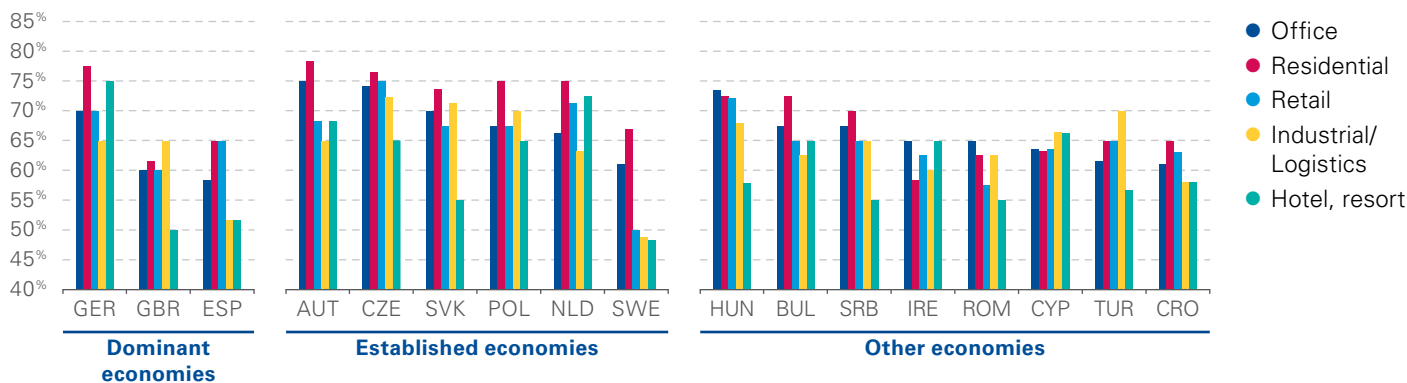
Income-generating projects in the office and retail sectors offer the lowest DSCR ratios, considering all responses across country groups.

Banks operating in the dominant economies require the lowest DSCR ratio for the retail asset class, at an average of 1.48, followed closely by office at 1.54. Industrial and hotel projects require DSCR ratios of 1.64 and 1.76, respectively.

Established economies' banks expect the lowest average ratio for offices (1.4), followed by retail (1.47), industrial/logistics (1.59) and hotel/resorts (1.64).

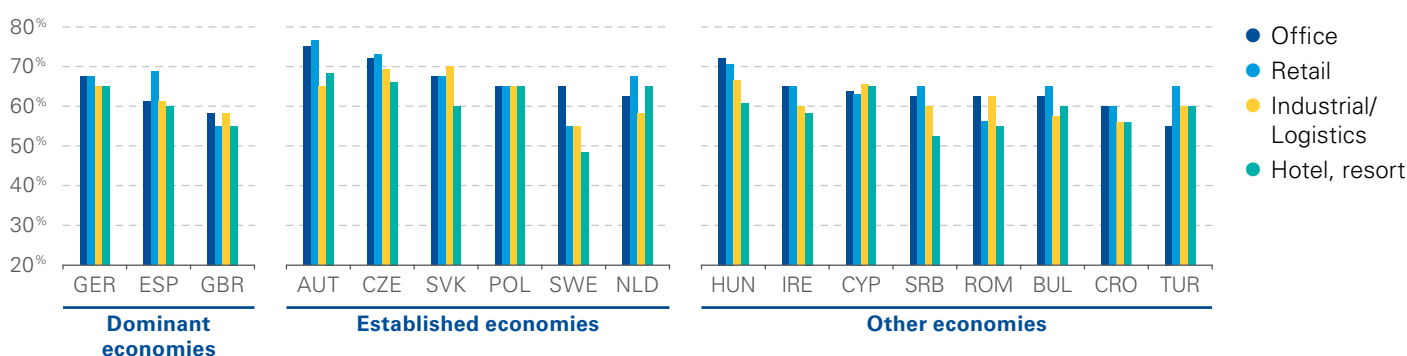
The lowest DSCR requirements of banks operating in other economies are for office, at an average of 1.36. The required average for both retail and hotel/resorts asset classes is 1.38, and 1.43 for industrial/logistics assets.

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



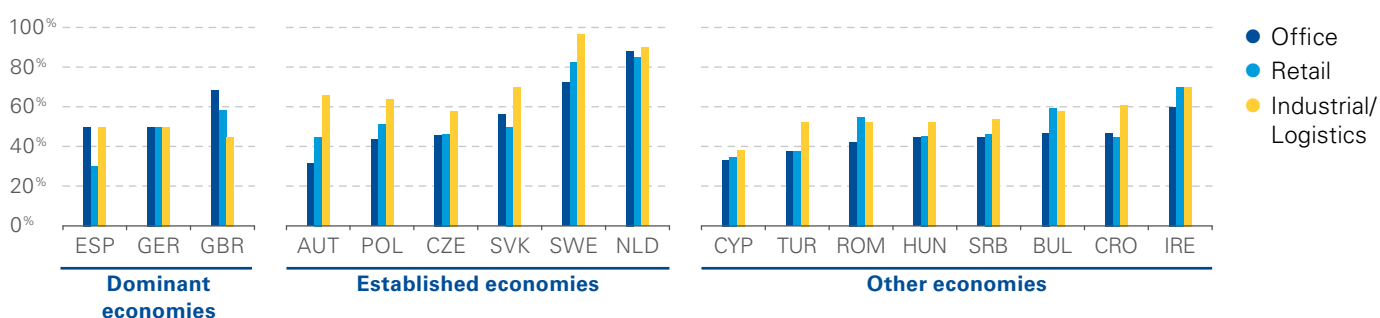
Source: KPMG Property Lending Barometer 2017

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



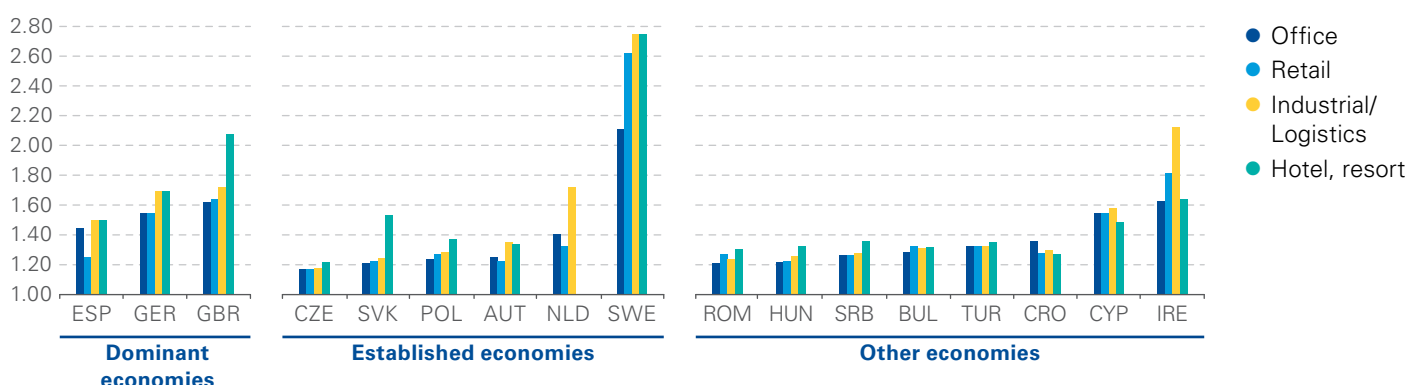
Source: KPMG Property Lending Barometer 2017

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



Source: KPMG Property Lending Barometer 2017

## 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 2017



## Interest premiums

Banks represented in our survey were also asked to state 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, i.e. those which were typically key focus sectors from a real estate investment perspective in Europe in 2017. Premiums for all asset classes in each country are presented in the country profile section of this report.

Overall, the lowest loan interest premiums are available in economies with low risk profiles and well established real estate markets. Recent increased competition among financing institutions in these economies has also contributed to more favourable conditions available to borrowers. However, there are exceptions, as reflected by the relatively higher loan interest premiums in the Spanish and British real estate markets.

Over the last two years, 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. Taking the average of responses, the required interest premiums indicated by bank representatives included in our survey show a slight decrease compared to last year.

The premium applied on new office and retail developments in the dominant economies currently ranges from 1.25-4.5%. On average, German banks require the lowest premiums.

For the established economies, the applied premium by banks for office and retail developments is in the range of 1.47-3.56%. Banks in Austria offer the lowest premiums, while the highest are seen in Poland.

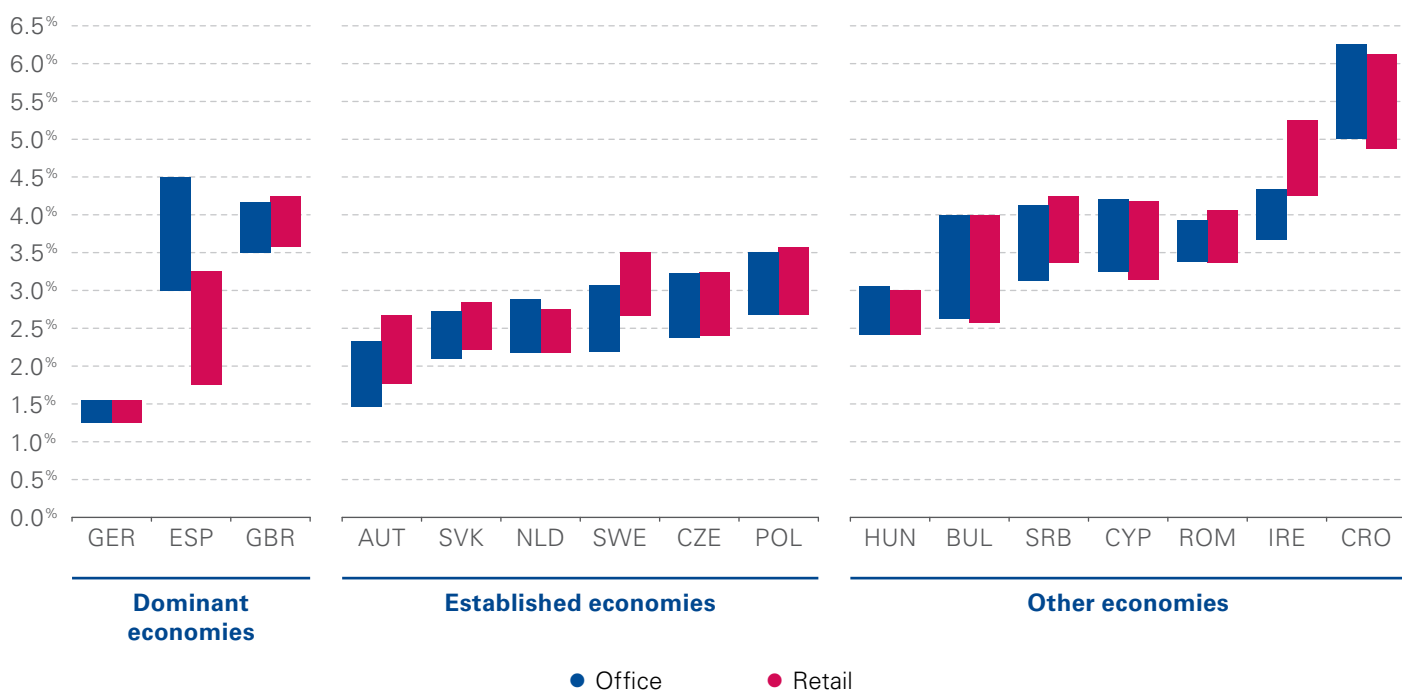
Among the other economies, the premiums required by banks for office developments are in the range of 2.41-6.25%, while the premium is 2.42-6.13% for retail. Hungarian banks require the lowest premiums, while banks in Croatia set the highest premium levels.

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

Bank representatives' responses provide the basis for a similar ranking of the countries in the case of income-generating projects like that of new development projects. 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. no risk is involved regarding the development phase). The required risk premiums, because of these risks, vary across the countries. For example, British banks require premiums that are lower by 153-217 basis points for income-generating office and retail asset classes compared to that for new developments. Banks in Sweden mandate lower premiums (by 49-91 basis points) for office and retail income-generating projects than for new developments.

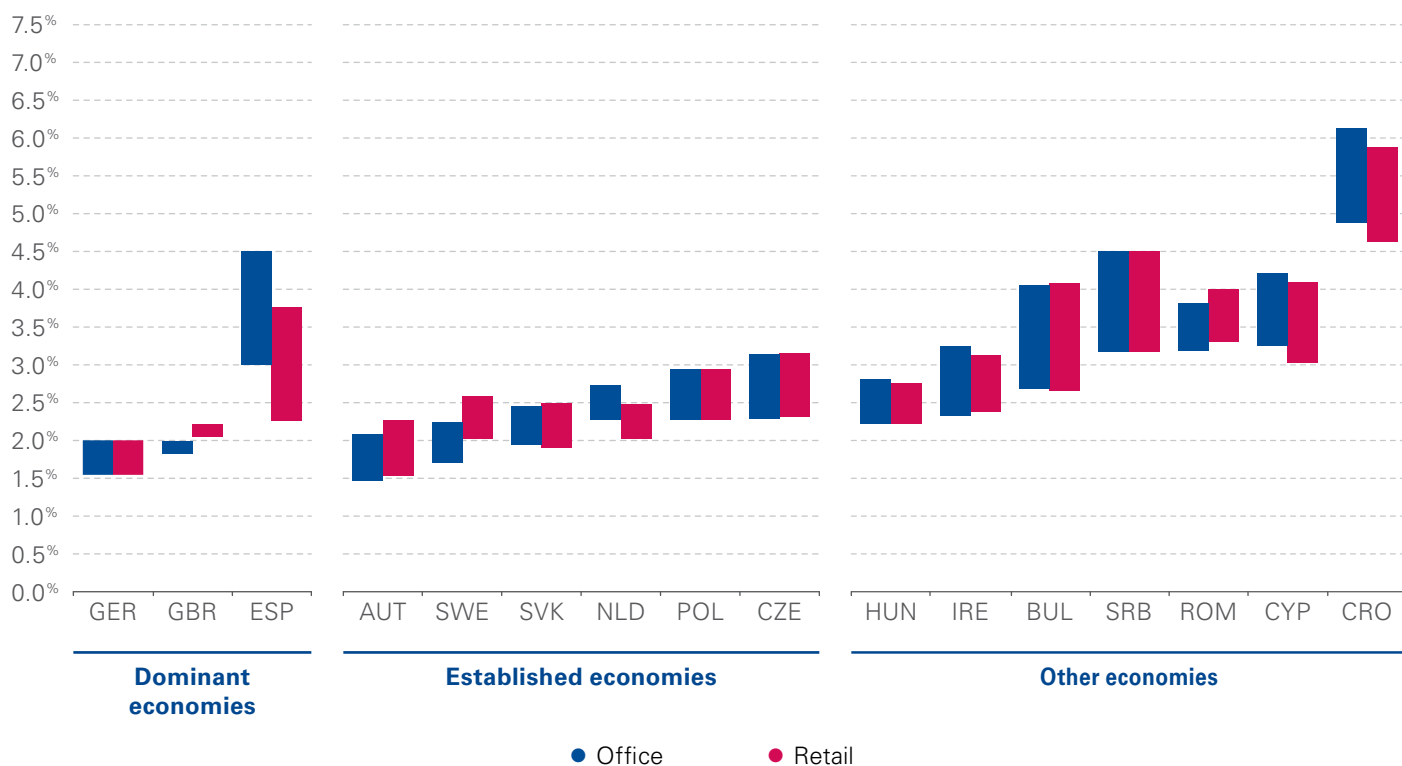
Among the dominant and the established economies, German and Austrian banks apply the lowest premiums, while the highest are applied by Spanish and Czech banks. In the case of the other economies, banks in Hungary require the lowest, while Croatian banks mandate the highest premiums for income-generating projects.

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



Source: KPMG Property Lending Barometer 2017

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



Source: KPMG Property Lending Barometer 2017

## Length of loan

Similar to last year, banks 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 with the longest indicated contracted term banks apply, the difference reveals insights into the market conditions banks in various economies operate in.

Overall, banks in more mature markets operate in competitive environments which drive them to apply 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 dominant and established economies (20 and 18 years, respectively), than in other economies (9 years).

In general, banks operating in dominant and established markets require lower annual loan amortization rates and are ready to sign longer-term contracts than banks in other economies. In dominant economies, the implied maximum amortization period of the loan and the available maximum contracted length of the loan range between 12-50 years and 9-12 years, respectively. German banks, when certain conditions are met, are ready to apply the lowest level of amortization rate (2%) among all countries surveyed<sup>3</sup>. Interestingly, the maximum contracted length of the loan is relatively low in Germany (9 years).

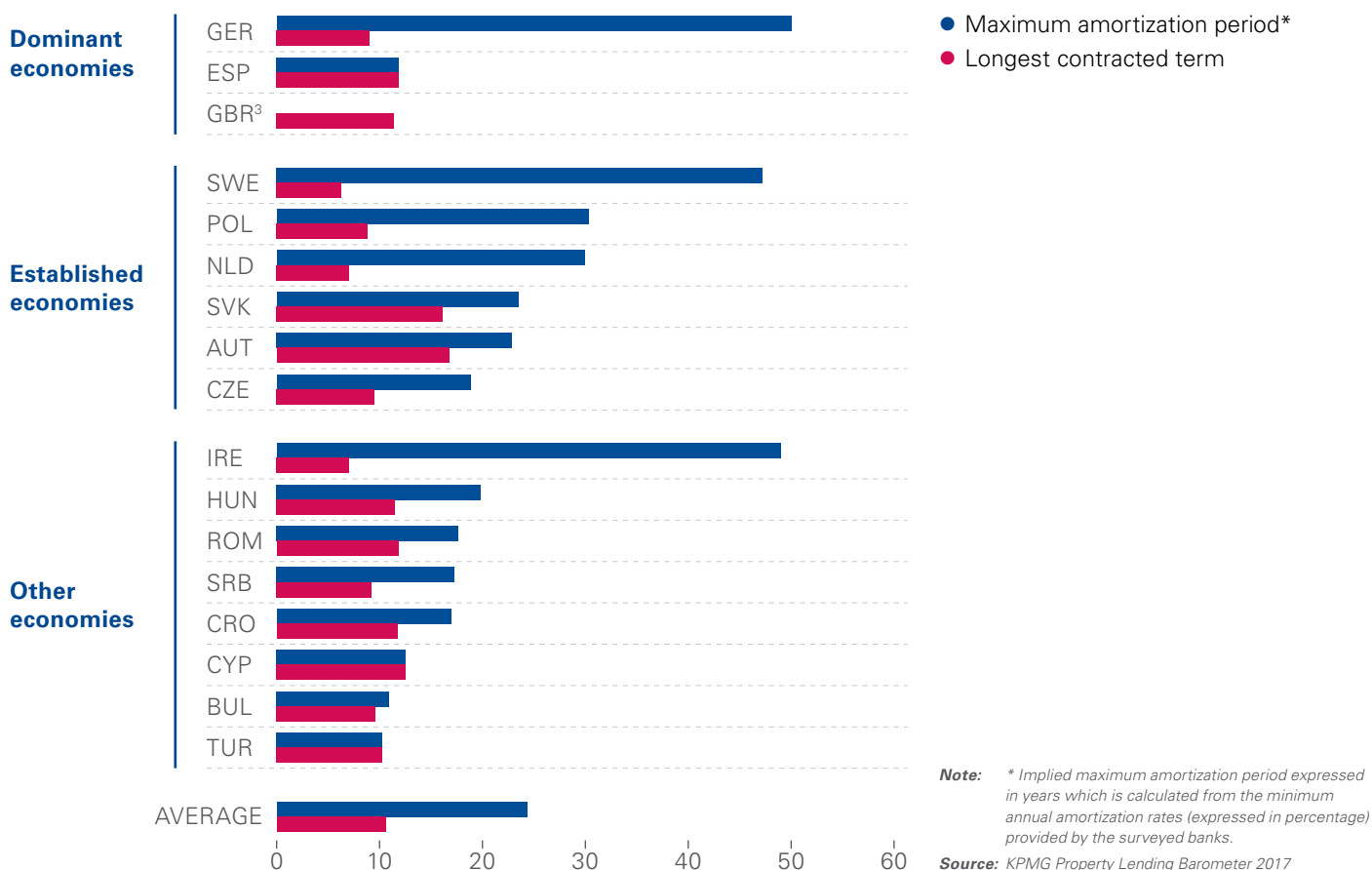
In established economies, the implied maximum amortization period of loans ranges from 19-47 years, while the available maximum length of contracts is in the range of 6-17 years. Similar to Germany, when certain conditions are met, Swedish banks are ready to apply a very low amortization rate (2.1%), yet their maximum length of contract is the lowest among all countries surveyed (6 years). The smallest difference between the implied maximum amortization period and the maximum contracted length of loans is in Austria, comparing the implied maximum amortization period (23 years) against the available maximum contracted length (17 years).

In other economies, the lowest amortization rates are applied in Ireland (2%), and the highest in Turkey (10%). The most restrictive practice is followed by banks in Ireland, reflected in the available maximum contracted loan length (7 years on average), while banks in Cyprus are ready to sign loan contracts for 13 years, the longest duration of all those in its market grouping.

In comparison with banks' responses 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 surveyed countries, there are no significant differences between the amortization rates applied for different asset classes. The rates range between 4.7-5.2%. Similarly, on average, the available maximum contract length applied by banks for different asset classes ranges from 10-12 years.

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



<sup>3</sup> Surveyed banks in the UK apply no or minimal amortization rates, with an average of 0.6%.



## Brexit impact

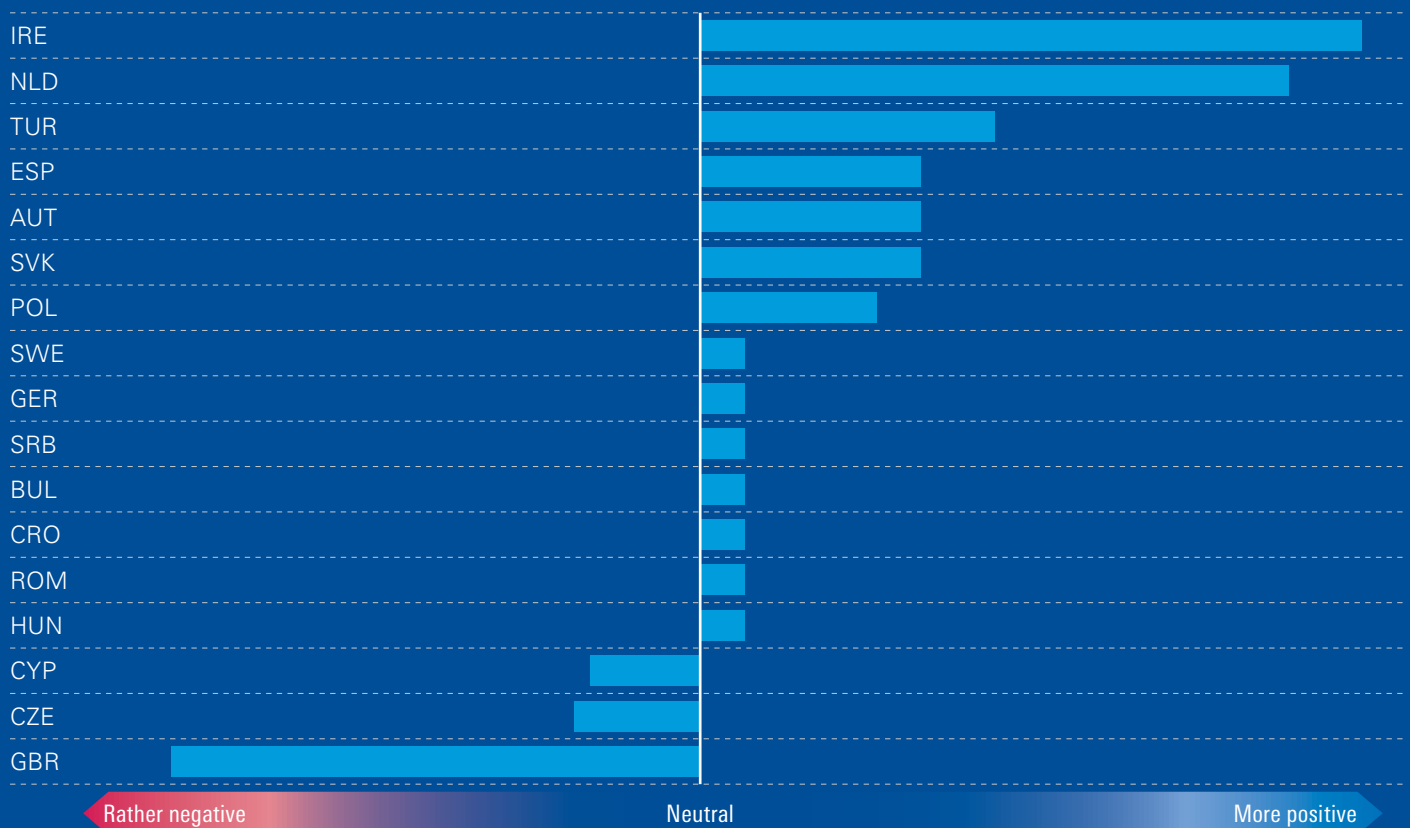
This year bank representatives were also asked about how they expect the traditional real estate lending of banks to be affected by Brexit in the next 12-18 months.

Respondents agreed that banks in more developed countries will enjoy positive effects in their real estate lending markets from Brexit.

In general banks in most countries expect their own country to either remain unaffected or to benefit from the impact of Brexit, with the exception of the UK, where banks expect negative effects in their local markets. Banks in Ireland and the Netherlands expect particularly positive effects in their respective markets.

Overall, responses reveal a significant degree of uncertainty about the potential impact of Brexit on real estate lending in Europe.

### Expectations on how traditional real estate lending of banks will be impacted by Brexit in the next 12-18 months in your country



Source: KPMG European Property Lending Barometer 2017



# Conclusions



The macroeconomic outlooks and the perceived risk profiles of the respective economies profoundly shape the prospects for each country's real estate market.



Financing conditions continue to be relatively favourable in Europe, although significant external risks give reasons to be cautious about general economic prospects.



Total investment volume continued to decline for the second consecutive year in Europe in the first 6 months of 2017. Meanwhile, certain measures indicate that investor demand in the markets is robust. Germany and the UK attracted just over half of total European transaction volume during H1 2017.



The proportion of non-performing loans has been somewhat moderated, even in the less stable economies; nevertheless, banks are still only cautiously open to offering real estate financing in these markets.



Respondents continue to prefer restructuring problematic loans rather than seeking foreclosure, especially in more established economies.



The proportion of fully compliant loans is higher than 85% in all surveyed Western European countries. By contrast, in Bulgaria, Croatia and Cyprus the proportion of fully compliant loans is still at or below 65%.



Alternative lenders are facing improving growth prospects in real estate according to the bank representatives involved in our survey. In all country groups surveyed, among the alternative lenders, non-local commercial banks are their biggest competitors, followed by private equity/debt funds.



There is no change in the long-established trend that in all countries surveyed, banks prefer financing income-generating projects compared to new developments.



The preferred asset class in all country groups is residential, followed by office, which is a change from previous years. The hotel sector remains the least desirable by banks in terms of financing.



There is no change in the pattern observed last year in terms of the difference between the implied maximum amortization period of the loan and the available maximum contracted length of the loans offered by banks in different country groups. The difference is much greater in dominant and established economies 20 and 18 years, respectively than in other economies (9 years).



This year bank representatives were also asked about how they expect the traditional real estate lending of banks to be affected by Brexit in the next 12-18 months. In general, respondents agree that banks in more developed countries will enjoy positive effects due to Brexit. Banks in Ireland and the Netherlands expect particularly positive effects in their respective markets. Overall, the responses reveal a significant degree of uncertainty about the potential impact of Brexit on real estate lending in Europe.



More than half of the surveyed banks in 2017 indicated either high or very high reliance on valuations provided by external service providers, while less than 15% indicated either low or very low reliance.



The focus on real estate financing has either increased or stayed unchanged since last year among the surveyed countries except for Turkey, where banks, on average, indicated a decrease.



Banks from dominant countries were the most open to participate in and lead club deals, as over two-thirds of the banks indicated some extent of openness to both. In the case of established and other economies, approximately half of the banks are either open or very much open to participate in and lead club deals.

In the following section of our report, we provide a market-specific analysis for each country. These country profiles aim to emphasise the surveyed markets' unique characteristics as reflected by their varying market fundamentals, as well as the present and prospective conditions for financing.



# Country profiles



# Austria

**"Real estate property continues to be an attractive asset class. Above all, investments in the office sector continued to grow, due to large transactions which were realized in 2016."**

Erich Thewanger



## Overview

The country's economy grew by 1.6% in 2016 due to consumer demand which helped to revive the economy. Income tax reform boosted disposable incomes and the positive trend continued as the Austrian economy experienced dynamic growth in the first six months of 2017. A solid labour market, buoyant domestic demand and strong business sentiment are the key factors behind the growth. GDP growth of 2% forecast for the 2017 year would be the strongest since 2011. In Austria, the unemployment rate is expected to decrease in the short term, from 6% in 2016 to 5.5% in 2017, however the number of jobseekers can rise as economic migrants enter the labour market once their asylum claims will be accepted. In 2016, the annual inflation rate stood at 1%, increasing from 0.8% of the previous year. It is forecast to remain at an annual average of 2% in the 2017-21 period.

In 2016 the commercial real estate investment transactions in Austria totalled EUR 2.6 billion, a shortfall of 16% compared to the year before. The office sector's dominance continued, representing approximately half of the commercial real estate investment volumes. The office sector was followed by hotels, as investor appetite for hotels in Austria rose to record levels, with EUR 832 million or 32% of the overall transaction volume. Similarly to previous years, in 2016, 58% of the real estate investment activity was realized by foreign investors with a total value of EUR 1.5 billion. The largest deal of 2016 was realized by CBRE Global Investors with the acquisition of the IZD Tower from Signa for a reported EUR 250 million. This year, more transactions of this nature are expected to take place. H1 2017 already saw the purchase of DC Tower by DEKA and "The ICON" development project by Allianz. Prime yields for office properties declined in H1 2017 and stood at 3%-6.25% whilst high street retail were in the range of 3%-4.3%. Prime yield for logistics fell to approximately 5.75%-6.5% at the end of H1 2017.

## Lending market

According to the Austrian banks participating in the survey, the great majority of respondents regard real estate financing as important. Half of them maintained the level of their focus on real estate financing, while the other half slightly increased it compared to one year ago. The distribution of the volume of recently provided real estate loans between new developments and income generating projects is nearly equal. Banks in Austria are open to provide financing both for new developments and income generating projects, but are slightly favouring the latter.

The respondents see pension/insurer funds as the most competitive alternative to banks in terms of real estate financing, with non-local commercial banks following next. All of the participating banks regard the level of provisions against real estate loans as adequate. There is a noteworthy difference between average and preferred loan sizes: average

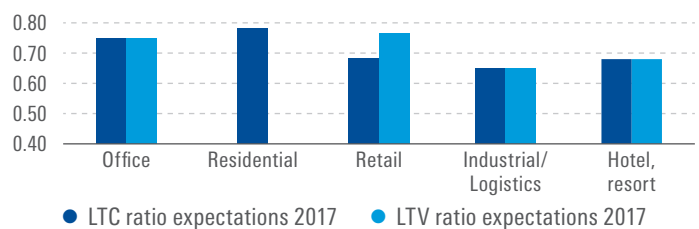
real estate loan sizes range from EUR 16 to EUR 36 million, while the preferred size is between EUR 21 to EUR 70 million.

## Future of real estate loan portfolios

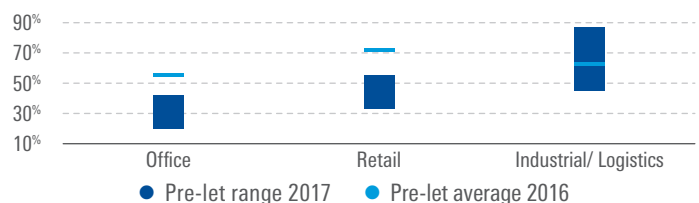
There was unanimity regarding the prospects for the whole banking sector's real estate loan portfolio size in the next 12-18 months, since all surveyed Austrian banks expect an increase. Also, three quarters of the respondents await an upward trend for their own bank's real estate portfolio size, while only 25% predict an unchanged situation.

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

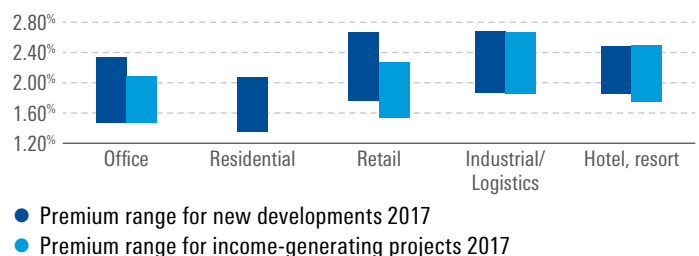
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



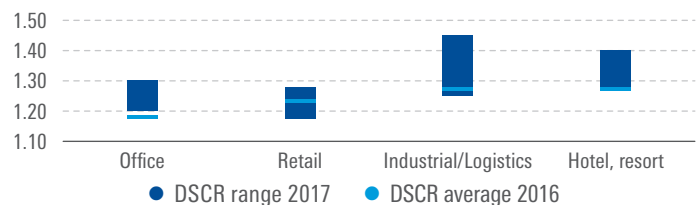
## Pre-let ratio expectation for projects



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



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



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)

# Bulgaria

**"The Bulgarian real estate market has generated significant international interest and the outlook remains mostly positive."**

Nikola Kedov



## Overview

GDP growth of 3.4% in 2016 was predominantly due to a strong increase in consumption. The surge in consumption was driven by several factors including a strong labour market, a rebound in credit and low interest rates. GDP growth is expected to remain largely steady in 2017-2018 at an average of 3.4% per year before slowing to an average of 2.9% per year between 2019 and 2021. The unemployment rate decreased from 10.1% in 2015 to 8.7% in 2016 and is expected to decline further to 7.9% in 2017. It is becoming increasingly difficult for businesses to find workers with appropriate skills, thus the government approved agreements with Ukraine and Moldova to ease conditions for hiring foreign workers. After a third year of deflation, driven by low oil and energy prices, inflation is expected to return in 2017 with 1.9% and then an average of 2.5% between 2018 and 2021.

The first half of 2017 enjoyed a dynamic development of the real estate market with a total volume exceeding EUR 300 million, driven mostly by transactions in the retail segment. Contrary to previous years, foreign and large institutional buyers dominated and are typically looking for prime assets mainly in Sofia. Several notable transactions took place in the first six months of 2017 including the purchase of Serdika Complex by NEPI (EUR 207 million) and the Mall Varna by Kronberg International. More transactions in all asset classes are expected in the second half of the year due to improved investor sentiment. Prime office yields in the capital stood at 8%, high street retail remained unchanged at 8.5% whilst logistics fell slightly to 9.5%.

## Lending market

From the banks surveyed, 75% state that real estate financing occupies a moderately important position in their activities. There was a consensus regarding the focus on real estate financing within the banks' lending activities; all respondents state that compared to one year ago, the focus is increasing. Generally, Bulgarian banks are open to providing development financing and financing income generating properties as well, but there is a clear preference favouring the latter. During the last 12-18 months, just over half of the loans were given for new developments and the remaining were provided for income generating projects.

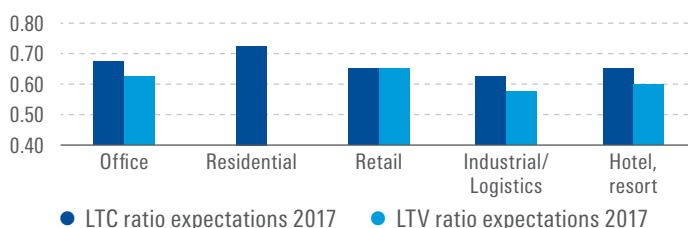
Non-local commercial banks are considered to be the greatest competitors to traditional Bulgarian banks, followed by private equity/debt funds. There was unanimity that the level of provisions made in connection with real estate loans is adequate. The average loan size provided by the responding banks was between EUR 7 and EUR 13 million, but the preferred loan/deal size would be a somewhat higher amount, from EUR 8 to EUR 14 million.

## Future of real estate loan portfolios

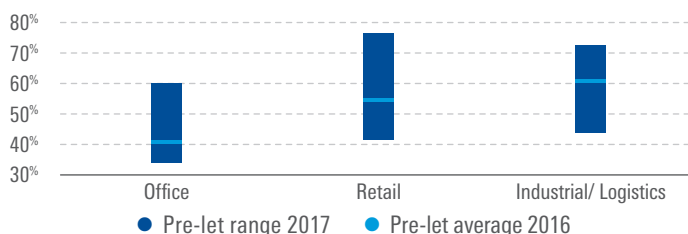
For the entire market's real estate portfolio size, 100% of respondents forecast an increase in value. According to Bulgarian banks, the great majority expects an increase regarding their own portfolio, while only 20% await an unchanged situation.

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

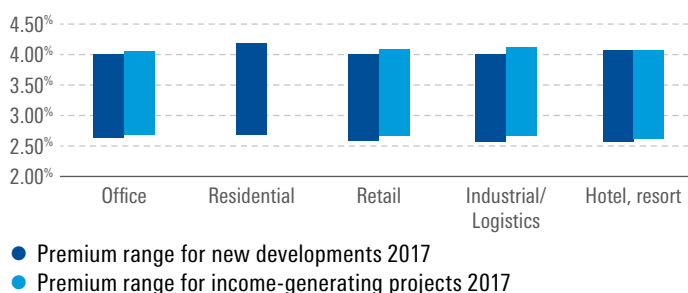
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



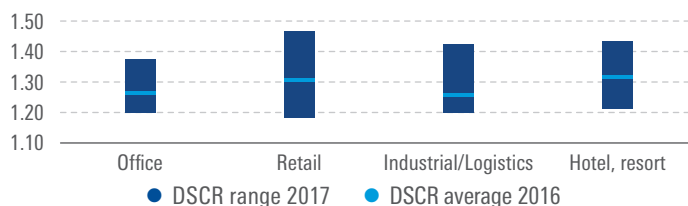
## Pre-let ratio expectation for projects



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



## Debt service coverage ratio expectation range for financing income-generating real estate projects



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)

# Croatia

**“Croatian banks have worked to clean their balance sheets via sales and write offs of NPLs and although there is more to do there are signs of a recovery in new domestic currency lending”**

Paul Suchar



## Overview

Croatia significantly improved its absorption of EU funds, which drove real GDP growth of 3% in 2016, up from 2.2% in 2015. The absorption of EU funds is expected to gain momentum in 2017 and further acceleration of GDP growth of 3% is expected due to tax reforms, continued wage growth and a record-breaking tourism season. The unemployment rate has fallen sharply in Croatia from 17% in 2015 to 15% in 2016 and is expected to decline further to 14.2% in 2017. However, the decline in the unemployment rate has largely been driven by emigration and a shrinking labour force rather than by employment growth. After three years of deflation, 2017 is expected to see a return of inflation and might see a rise in consumer prices by 1.3%.

Croatian real estate market recorded high investment volumes in 2016, continuing the upward trend which started in 2015. The record breaking 2016 tourism season has launched a flood of investments in Croatia's tourism. Tourism companies plan to invest around EUR 500 million in 2017 which is 135 million more than last year. A number of investors have shown interest in developing new resorts along the Croatian coasts. It is expected that about 50 new hotels will open or be completely reconstructed throughout the country in 2017, predominantly in the 4-5-star segments. Beside tourism related investments, Austria's Supernova Holding has purchased four shopping centres in Croatia from "bad bank" HETA. Prime yields in Zagreb across all asset classes' stagnated and stood at around 8.25% for offices, 8% for high street retail and 9% for logistics at the end of H1 2017.

## Lending market

In 2017, 40% of the respondents considered real estate financing moderately important, while the remainder saw it either as less important or unimportant. Nonetheless, 25% of the surveyed banks reported that there is an increase in the level of focus on real estate financing within the bank's lending activities compared to the previous year; the remaining 75% confirmed that the level has not changed. Croatian banks surveyed are generally open to both financing income generating properties and providing development financing, slightly favouring the latter. In the last 12-18 months, half of the volume of real estate loans provided by the surveyed banks were to finance new developments, while the other half was provided for income generating projects.

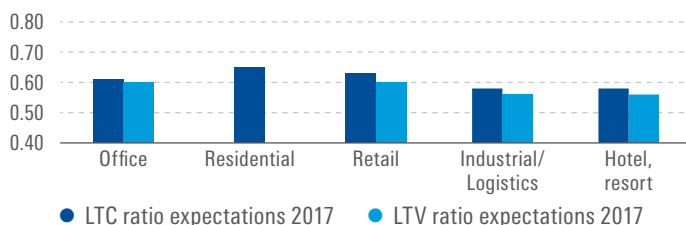
Respondents consider non-local commercial banks their biggest competitors in terms of traditional real estate lending, followed by investment banks. The level of provisions against real estate loans is seen as adequate by the majority (60%) of the respondents, 20% stating the provisions are too high and the remaining 20% stating they are too low. The average loan size in 2017 was between EUR 4 and EUR 6 million, while the preferred loan size is between EUR 5 and 7 million.

## Future of real estate loan portfolios

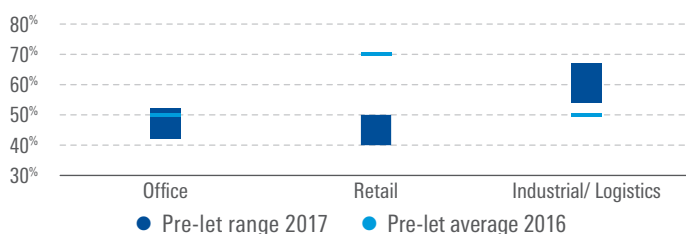
A moderate increase is expected by the majority of respondents in terms of the whole banking sector's real estate loan portfolio size in the next 12-18 months. Nonetheless, banks seem to be more pessimistic about their own portfolios, since only 40% of banks expect an increase, while 20% forecast a decrease and the remainder expect no change.

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

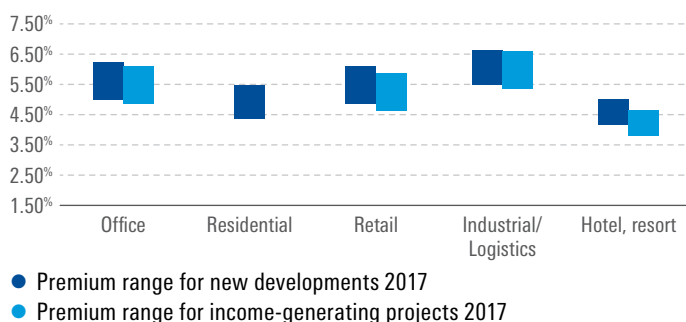
LTC ratio expectations for financing new developments and  
LTV ratio expectations for financing income-generating projects



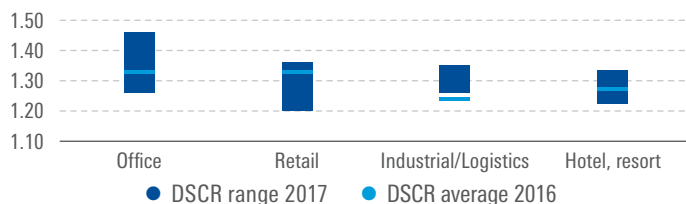
## Pre-let ratio expectation for projects



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



## Debt service coverage ratio expectation range for financing income-generating real estate projects



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)

# Cyprus

**"The market continues its recovery with certain niche sectors performing quite well. Resolving persistent NPL issues is fuelling, albeit at a slow rate, revival of the market."**

Christophoros Anayiotos



## Overview

The Cypriot economy has experienced a GDP growth rate of 2.8% in 2016 and the expectations are that this will continue in 2017. Tourism, as the backbone of Cypriot economy enjoyed record tourist arrivals in 2016 and expects to hit another record number in 2017. Since 2015 the economy has had steady growth and is expected to increase by an average of 2.5% between 2018 and 2021. The unemployment rate showed a downward trend, decreasing from 14.9% in 2015 to 13.1% in 2016, due to lower unemployment in the areas of construction and public administration. By the end of 2017 it is expected to decrease further, and reach 11%. After a 4-year negative period, inflation is expected to improve and turn positive in 2017, although it is expected to remain moderate.

The Cypriot real estate market continued to recover in 2016 in line with the economy. The interest of foreign investors in Cyprus' real estate market continues to grow primarily due to the government's initiative regarding the Cypriot Citizenship Program, the permanent residency program, as well as various tax incentives offered. In order to stimulate growth in the real estate sector, it is important to increase the financing from financial institutions and attract new investment to finance new projects, as well as existing projects whose development has been postponed as a result of the recession. Similarly to previous years, the primary emphasis is on the residential sector, mostly driven by high-end demand due to the citizenship programme followed by hotel and office segments. Prime yield stood at around 5%-5.25% for both offices and retail at the end of H1 2017.

## Lending market

About three quarters of the banks included in the survey find real estate financing moderately or extremely important in their activities. Over 40% of the respondents increased their focus on real estate financing compared to the previous year, but it should be noted that the market is recovering from an all time low. Banks in Cyprus are open to financing income generating properties and providing development financing, as well. More than half of the loans provided by the surveyed banks in Cyprus in the last 12-18 months were to finance new developments.

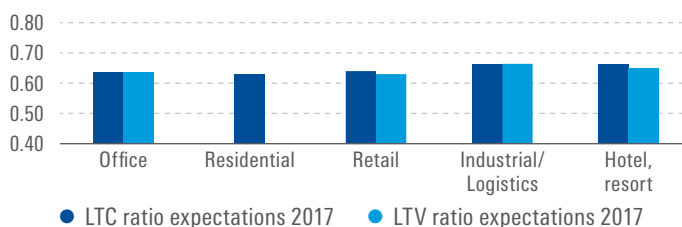
Non-local commercial banks and private equity/debt funds are seen as competitive alternatives to the banks' traditional real estate lending. Approximately a quarter of respondents rate the level of provisions against real estate loans as somewhat higher than adequate, while 38% see them as adequate and another 38% find the level below adequate. The average loan size of EUR 4-8 million was close to the preferred range of between EUR 3 and EUR 7 million.

## Future of real estate loan portfolios

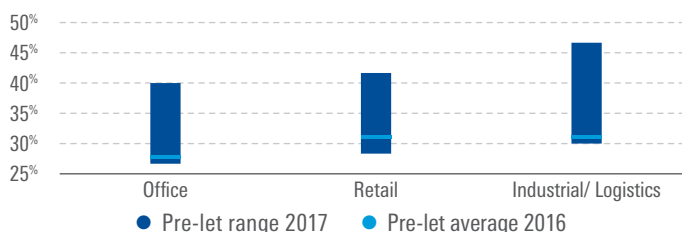
Half of the surveyed banks agree that the size of the whole banking sector's real estate loan portfolio will remain unchanged, a quarter of them expect it to increase, while the remainder expect a decrease. One-quarter anticipate no change in their own bank's portfolio size, while 25% expect a decrease and 50% foresee an increase.

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

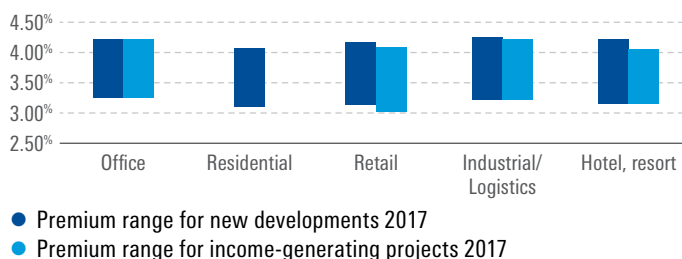
LTC ratio expectations for financing new developments and  
LTV ratio expectations for financing income-generating projects



## Pre-let ratio expectation for projects



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



## Debt service coverage ratio expectation range for financing income-generating real estate projects



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)

# Czech Republic

**"From the bankers' point of view, the outlook for the development and financing of the real estate market remains positive, which is also being fuelled by favourable economic conditions in the Czech Republic."**

Pavel Kliment



## Overview

The Czech economy has been expanding strongly for the last three years, however this has moderated to 2.3% in 2016 from 4.6% in 2015 as a result of much lower EU fund inflows. Households are benefiting from a dynamic job market and solid wage growth, with the unemployment rate falling below the 5% mark. The Czech economy is expected to keep growing in 2017 by 3%, driven primarily by domestic demand. The unemployment rate decreased from 5.1% in 2015 to 4% in 2016, and further improvement is expected for 2017 with a rate of 3.2%. Annual inflation is expected to be 2.3% in 2017 up from 0.7% in 2016 reflecting growth in the domestic economy and wages.

With approximately 40 concluded transactions and a total investment volume of EUR 2 billion, the Czech Republic was the top country in the CEE with a 37% share within the region in H1 2017. This significant increase is 118% more over the same period of 2016. Similarly to previous years, in H1 2017 the retail sector dominated the total volumes with a 35% share, followed by mixed-use and office, with 32% and 19% shares respectively. The remaining 14% were traded in the hotel, residential and industrial asset classes. The largest transactions of the period was the Olympia Brno sale between ECE & Rockspring and Deutsche Europshop for EUR 374 million. The average transaction volume for the period was approximately EUR 56 million. Strong demand across all investment segments put downward pressure on prime yields in the Czech Republic at 4.6%-7% for offices, 3.5%-7% for high street retail and 6%-6.25% for logistics.

## Lending market

This year, over 90% of the participants considered real estate financing to be of moderate or extreme importance strategically. Compared to the previous year, the great majority of the respondents indicated that the focus on real estate financing within their lending activities has been maintained. Based on their responses, banks are open to financing income-generating projects, as well as providing development financing, however they are exhibiting a clear preference for the former. In parallel, more than three quarters of real estate loans provided in the last 12-18 months are financing income-generating projects.

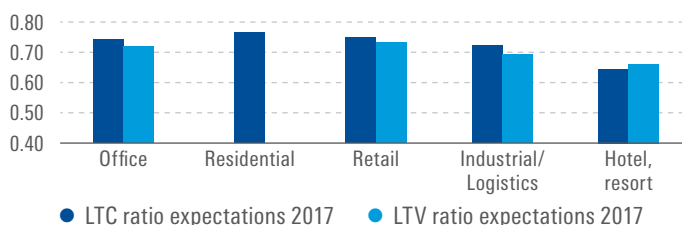
Banks surveyed in the Czech Republic regard private equity funds as their greatest competitor, closely followed by non-local commercial banks. Almost 80% of the respondents consider the level of provisions made in connection with real estate loans adequate while the rest of the respondents consider it too high. The average loan size of Czech banks is EUR 13 to EUR 20 million, which is similar to their preferred size of EUR 12 and EUR 18 million.

## Future of real estate loan portfolios

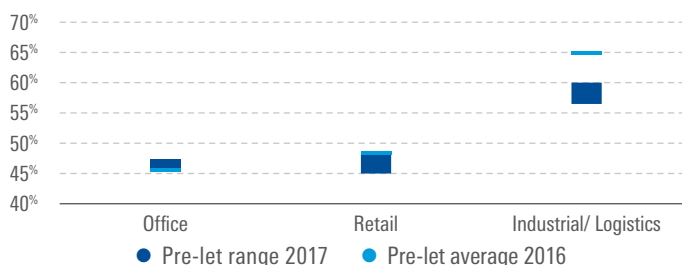
The majority, (73%) of the surveyed banks expect an increase in the whole banking sector's real estate loan portfolio size in the next 12-18 months, while only 27% think that the current situation will be unchanged. Regarding their own bank's expectations in this category, one third of the respondents do not see any changes coming, but 60% foresee an increase and 7% predict a downturn.

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

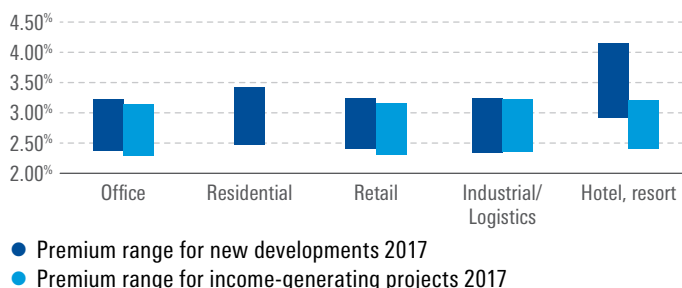
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



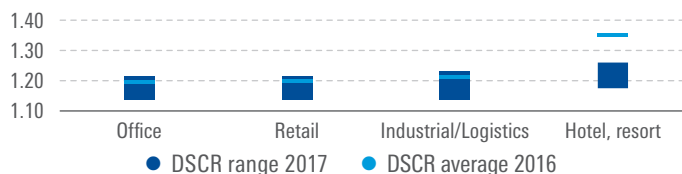
## Pre-let ratio expectation for projects



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



## Debt service coverage ratio expectation range for financing income-generating real estate projects



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)

# Germany

**"German mortgage banks are in a good position even if interest rates increase."**

Stefan Schmidt



## Overview

In Germany the real GDP increased by 1.8% in 2016, due to a high level of private consumption. Consumers have been able to increase their expenditures as a result of growth in real earnings and disposable income. Consumer spending is expected to remain the main driver of GDP growth for 2017, supported by growing wages due to the tight labour market. In the period between 2018 and 2021 growth is expected to be moderate and average around 1.5%. The unemployment rate is decreasing from 4.6% in 2015 to 4.2% in 2016, and is anticipated to further decline to 3.8% in 2017 due to high demand for labour. Despite positive trends, this low unemployment rate is unlikely to fall further since integrating a large number of refugees and economic migrants into the labour market will be challenging. The annual inflation rate since 2014 has been under 1%, however inflation is picking up and is expected to increase to 1.5% by the end of 2017.

In the first half of 2017 the value of commercial property transactions reached EUR 31.8 billion. As a comparison, this figure is the highest since the first half of 2007 and a 30% increase in volume compared to mid-year 2016. Germany underlined its position as Europe's largest market in H1 2017. Portfolio deals had a strong impact on the market, with a 32% share or a total of EUR 10.3 billion. Regarding transaction volume by type in the first half, office properties accounted for the most deals, followed by retail real estate and industrial and logistic properties. In comparison with the first two quarters of 2016, the office properties transaction volume expanded by 35%, the retail real estate transaction volume grew by 20% and the industrial and logistic transactions by 157%. In case of hotels and development land, decreases were recorded in H1 2017 of 44% and 34% respectively compared to the same period of the previous year. High demand compressed prime yields in all segments in key cities to 3.25%-3.9% for offices, 3.1%-3.7% for high street retail and 4.95%-5.35% for logistics.

## Lending market

There were differences among survey respondents' answers in terms of strategic importance of real estate financing, since over 60% of the banks consider it strategically important or extremely important, while others regard it as less important. German banks, on average, are focusing slightly more on real estate financing compared to last year and are open to provide financing for new developments as well as for income generating properties, with a preference for the latter. Over 80% of the volume of real estate loans in the last 12-18 months was provided to finance income generating projects.

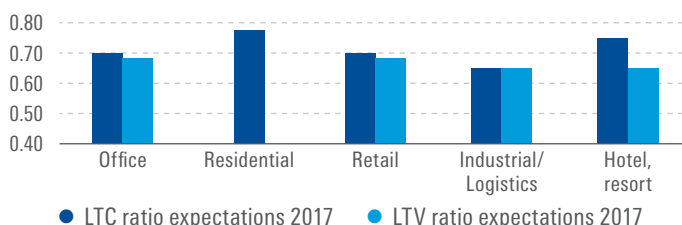
From their perspective, the most competitive alternative to banks are non-local commercial banks, followed by private equity/debt funds and insurer/pension funds. The majority of respondents rated the level of provisions against real estate loans as adequate, while others considered the level slightly too low. Regarding the loan sizes, the average sized loans range from EUR 28 to EUR 38 million and the preferred loan size is much higher, in the range of EUR 48 million to EUR 75 million.

## Future of real estate loan portfolios

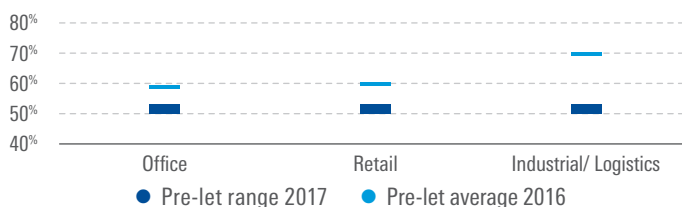
In terms of the entire banking sector's portfolio, most of the respondents expect no change, while one third of respondents expect the portfolio to decrease. Regarding their own bank's portfolio, over 60% of respondents await a modest increase in the following 12-18 months, while others expect their portfolio to slightly decrease.

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

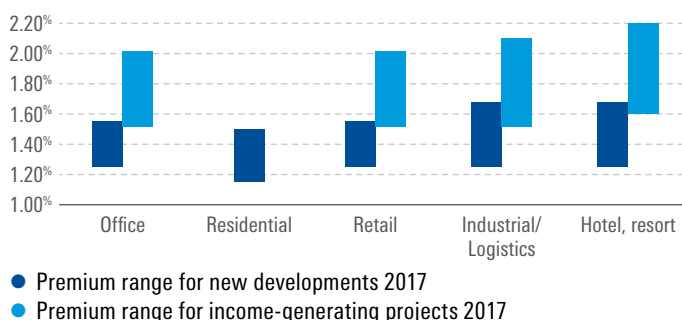
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



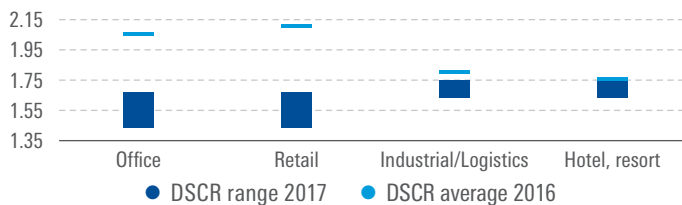
## Pre-let ratio expectation for projects



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



## Debt service coverage ratio expectation range for financing income-generating real estate projects



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)

# Hungary

**"In comparison to only 3 years ago, the real estate sector in Hungary has significantly strengthened and banks are more and more willing to finance market players"**

Andrea Sartori



## Overview

The Hungarian economy expanded by 1.9% in 2016, down from a 3.1% increase in 2015. A steep drop in construction activity was mainly responsible for the slowdown in economic activity in 2016. GDP is expected to accelerate sharply by 3.6% in 2017, as increased consumer spending and more EU-funded construction projects – backed by government spending – will help support economic activity. Hungary's unemployment rate dropped to a historic low of 5.1% in 2016, the fifth lowest within the EU, and is anticipated to further decrease to 4.4% in 2017. Similarly to other CEE countries Hungary is struggling with a shortage of labour in many sectors and professions due to emigration to Western Europe, and that has been driving up wages and making it tough for business of all kinds to recruit. Hungarian consumer prices are forecast to rise by 2.6% in 2017 and 3% in 2018 on average.

After an exceptionally strong investment market performance in 2016, H1 2017 recorded robust activity with EUR 750 million transacted, albeit fell short by 18% compared to H1 2016. Office took the lead with a 55% share, followed by retail and logistics with 29% and 12% respectively. In H1 2017 the key players were domestic institutional funds, however this is expected to be rebalanced as a number of significant deals are in the pipeline that will involve international equity. The main transaction was the Hungarian component of the retail portfolio purchased by CPI from CBRE GI CEE Fund, with a volume of approximately EUR 180 million. As a result of the strong investment activity in Budapest prime yields decreased further and stood at around 6.2% for prime office, 5.5% for high street retail and 8% for logistics at end of first half of 2017.

## Lending market

Regarding the importance of real estate financing for banks, similar to last year, banks consider real estate financing moderately important. Meanwhile, almost half of the institutions reported an increasing focus on real estate financing within their bank's lending activities compared to one year ago. Hungarian banks tend to be open to both new developments and income generating projects, with a slight preference towards the latter. Comparing the total volume of real estate loans during the last 12-18 months, there are marginally more income generating projects financed by banks than new development projects.

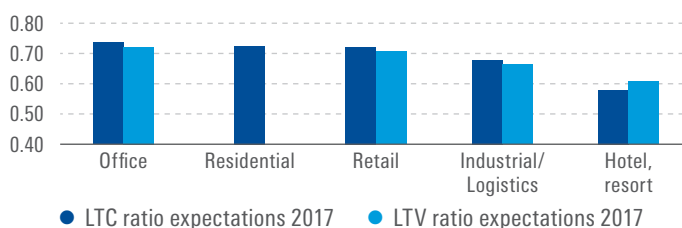
The surveyed banks assessed non-local commercial banks as their biggest competitors, with private equity/debt funds ranked second and insurer/pension funds in third. The level of provisions against real estate loans was rated as adequate by 86% of the respondents, while the other 14% found the level somewhat higher than adequate. The difference between the average and the preferred loan size is not significant: the average loans ranged from EUR 16 to EUR 23 million, while the preferred volume was between EUR 18 to EUR 25 million.

## Future of real estate loan portfolios

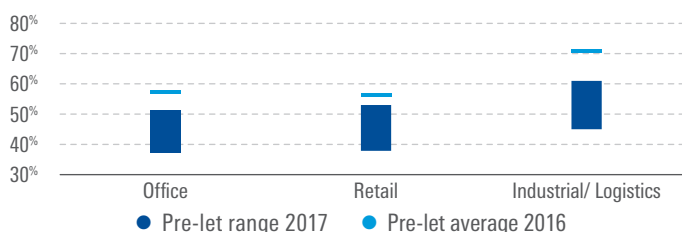
All Hungarian respondents foresee an increase in both the whole banking sector's and their own real estate loan portfolio's size in the next 12-18 months.

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

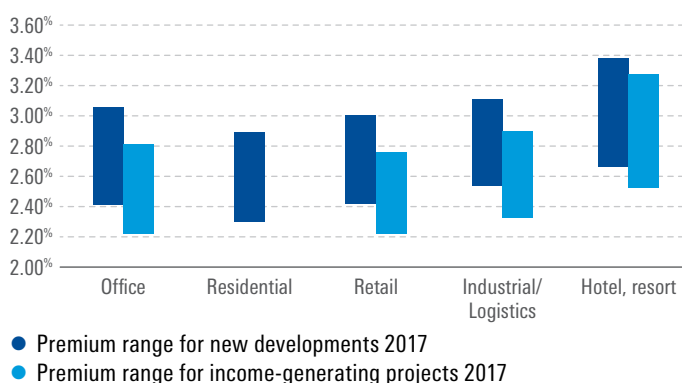
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



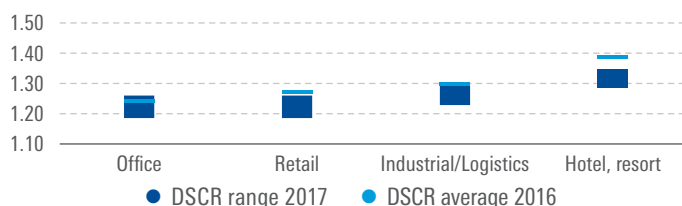
## Pre-let ratio expectation for projects



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



## Debt service coverage ratio expectation range for financing income-generating real estate projects



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)

# Ireland

**"Irish banks surveyed are keen to grow their property loan books. A strong preference exists for income producing assets while the appetite for development loans is becoming more apparent."**

David O'Kelly



## Overview

Real GDP growth is expected to slow from 5.2% in 2016 to 4% in 2017, with an annual average growth of 3.2% per year predicted for 2018-21. Ireland's unemployment rate has continued to fall, reaching 7.9% in 2016 and is expected to further decrease to 6.3% in 2017. Consumer price inflation has been low; Ireland experienced mild deflation in 2016 and began 2017 with below-EU average inflation. Public debt has been steadily falling from 119.6% in 2013 to 72.9% in 2016, with anticipated further decreases in the years that follow.

The first half of 2017 reached investment volumes of EUR 863 million. This is significantly lower than H1 2016, although it should be noted that H1 2016 was the second strongest volume that was ever recorded in Ireland. All in all, the half-year volumes have been in line with long-term averages. An increase in activity is expected in H2 2017, with total investment volume expected to be about EUR 2 billion. Dublin dominated the property investment market, accounting for 78% of total volumes. Offices represented 44% of total volumes, and were the most important followed by retail with a 24% share of total volumes. In H1 2017 the largest deals were the City Quay office building acquisition by Irish Life for a reported EUR 126 million, and the sale of the Clayton Hotel by Dalata Group. Prime yields in Dublin stood at around 4.25% for offices, 3.5% for high street retail and 5.25% for logistics at the end of H1 2017.

## Lending market

All of the Irish respondents find real estate financing moderately or extremely important to their activities. Half of the surveyed banks increased their focus on real estate financing compared to the previous year, while the other half maintained the same level. Banks in Ireland are open to financing income generating properties and providing development financing as well, but there is a clear preference for the former. This preference is also reflected by the number of loans provided by the surveyed banks in Ireland in the last 12-18 months, since more than 80% of these deals were dedicated to financing income generating projects.

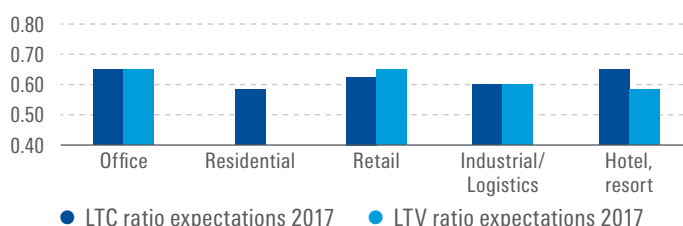
Investment banks and private equity/debt funds are seen as the most competitive alternatives to the banks' traditional real estate lending, but also non-local commercial banks are considered to be serious competitors. All respondents rate the level of provisions against real estate loans as adequate. The average loan size of EUR 15-35 million is lower than the preferred range of between EUR 20 and EUR 63 million.

## Future of real estate loan portfolios

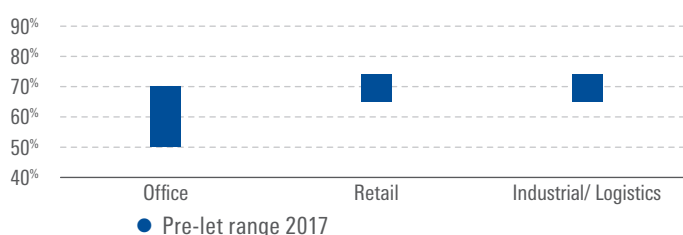
Half of the surveyed Irish banks agree that the size of the whole banking sector's real estate loan portfolio will increase, while another quarter of them expect it to remain unchanged, and the rest expect a decrease. In the case of their own bank's portfolio size, respondents expect a more positive outcome: all of them foresee an increase.

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

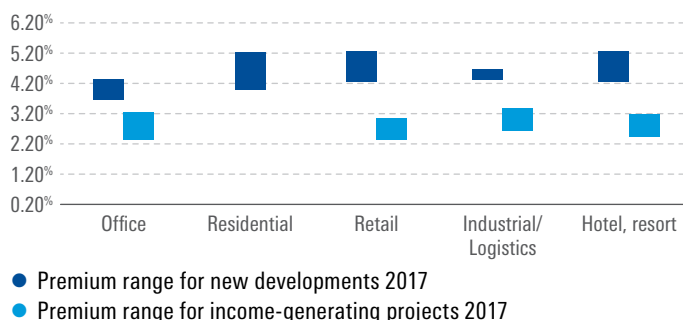
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



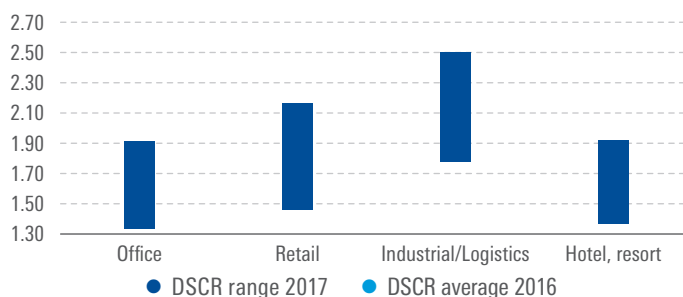
## Pre-let ratio expectation for projects



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



## Debt service coverage ratio expectation range for financing income-generating real estate projects



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)

# Netherlands

**"The stable performance give rise to opportunities for new lenders on the Dutch real estate finance market"**

Frank Mulders



## Overview

In 2016, the economic expansion of 2.1% was somewhat lower than the real GDP growth rate of 2.3% in 2015. Private consumption remained a strong driver of growth as a result of rapid improvement in the labour market. Slight growth of 2.2% is expected for 2017 followed by an average 1.8% year on year growth between 2018 and 2021. In 2016 the Dutch unemployment rate stood at 6%, which is a considerable decrease from the 2015 rate of 6.9%. In 2017, an even more dynamic improvement is forecast regarding the unemployment rate, as the figure is expected to reach 5% by the end of the year. The inflation has been close to zero in the past three years however is expected to reach 1.4% in 2017.

2016 posted a record high investment volume of EUR 13.6 billion, which is a sharp increase of 24.6% compared to 2015. In H1 2017 total investment volume reached EUR 7.3 billion, a decrease of 8% over the same period 2016. The half year transaction volume was boosted by the purchase of the Atrium office complex by the French property investor Amundi for a reported EUR 500 million, the largest ever single Dutch property transaction. The residential sector decreased while the retail and office segments showed remarkable growth. The hotel segment has also noted a large amount of investment activity, attracting interest from large international investors. As a result of healthy investment activity prime yields declined in all segments and all key cities stood at 4%-6% for offices, 3.3%-4.5% for high street retail and 5.25% and 6.2% for logistics.

## Lending market

The great majority of respondents regard real estate financing to be of moderate importance strategically. Half of the surveyed Dutch banks reported an increase in the level of focus on real estate financing compared to the previous year while the rest maintained their focus. Those banks surveyed reported a willingness to finance both new developments and income-generating properties, with a preference for the latter. The same is shown by the breakdown of loans provided for these categories in the past 12-18 months, demonstrating a much higher percentage for income generating projects.

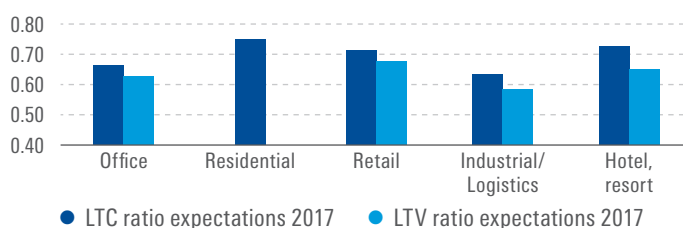
Non-local commercial banks are indicated as the biggest competitors among alternative lenders, followed by insurer/pension funds. All respondents consider the level of provisions made in relation to real estate loans as adequate. The average loan size for 2017 was between EUR 5 and EUR 11 million, notably lower than the preferred loan size of between EUR 7 and EUR 32 million.

## Future of real estate loan portfolios

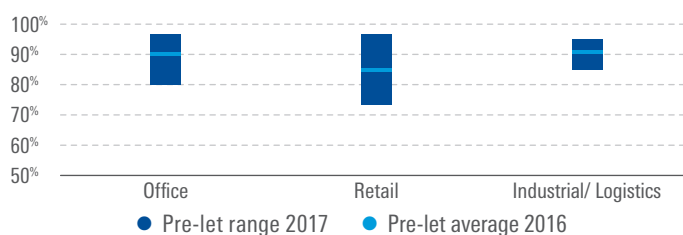
All surveyed banks expect an increase in the whole banking sector's real estate portfolio size. At the same time, half of the respondents expect a decrease of their own portfolio while the other half foresee an increase.

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

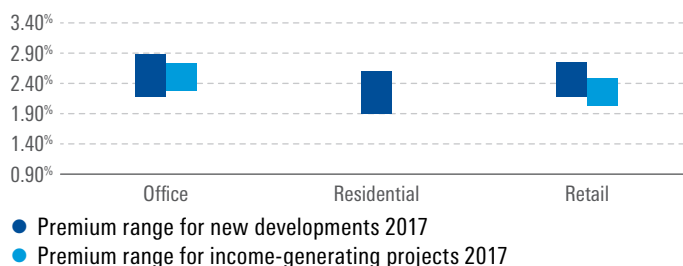
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



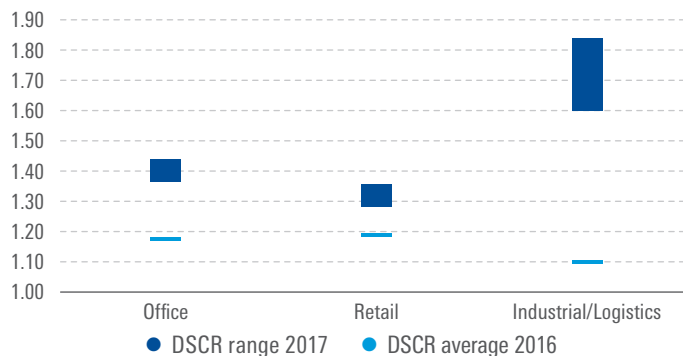
## Pre-let ratio expectation for projects



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



## Debt service coverage ratio expectation range for financing income-generating real estate projects



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)

# Poland

**"Banks in Poland continue to be open to real estate lending, although capital requirements have made them more selective in the opportunities they pursue."**

Steven Baxted



## Overview

The Polish economy expanded by 3.8% in 2015 and 2.7% in 2016. The deceleration of the economic growth in 2016 is primarily caused by a decrease in EU funding. The GDP growth rate is expected to increase to 3.6% in 2017 due to an increase in investment activity and higher consumer spending. The unemployment rate was 9% in 2016, and is projected to decrease from 7.4% in 2017 to 7% by 2019 as Polish companies are finding it increasingly hard to source skilled labour. Mainly as a result of low energy prices, a mild deflation (-0.7%) was recorded in 2016, however as a consequence of rising oil prices and modest nominal wage growth, the average headline inflation is projected to be 2% in 2017 and in 2018.

The total investment volume in H1 2017 was EUR 1.6 billion, and this healthy performance is expected to continue in the second half of the year based on ongoing negotiations and deals currently in due-diligence. The majority of transactions were recorded in the retail segment with a total volume of EUR 955 million, followed by hotels and office where the total transaction volumes reached EUR 335 and 284 million respectively. The industrial segment saw a modest period in H1 2017, with EUR 27 million transacted. As a result of high investment activity a decline of prime yields was experienced. The prime office yields and prime high street retail yields in Warsaw stood at 5.25%, whereas the prime industrial yield was 6.75%.

## Lending market

60% of market players surveyed regarded real estate financing either as important or extremely important this year, 20% considered it moderately important, while the rest saw it as not important. 60% indicated that the level of focus on real estate financing within their lending activity remained at the same level compared to the previous year, while 20% indicated a slight increase and 20% indicated a slight decrease. The majority of these financial institutions are open to financing income-generating properties, as well as to providing development financing. Regarding the breakdown of loans in Poland, 60% of loans were provided for income-generating projects in the last 12-18 months, while 40% went to new developments.

Respondents indicated non-local commercial banks to be their greatest competitors. All surveyed Polish banks consider the level of provisions made in connection with real estate loans adequate. There is only a minor difference between the average and preferred loan sizes: the average loan/deal size ranges from EUR 21 to EUR 42 million, while the preferred size is between EUR 26 and EUR 43 million.

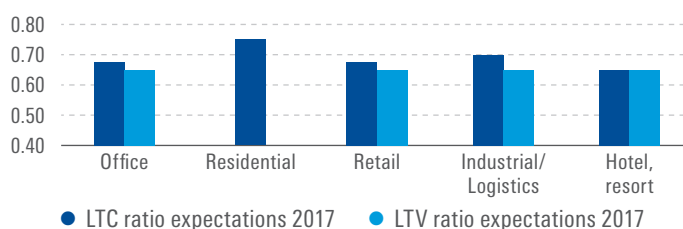
## Future of real estate loan portfolios

There was divided opinion about the expected prospects for the whole banking sector's real estate loan portfolio size in the next 12-18 months. One fifth of respondents expect

a decrease, 40% expect an increase, and 40% expect no change. Polish banks seem to be slightly more optimistic about their own institutions, since approximately 60% anticipate an increase in real estate loan portfolio size, 20% expect it to remain unchanged, and the rest expect a decrease.

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

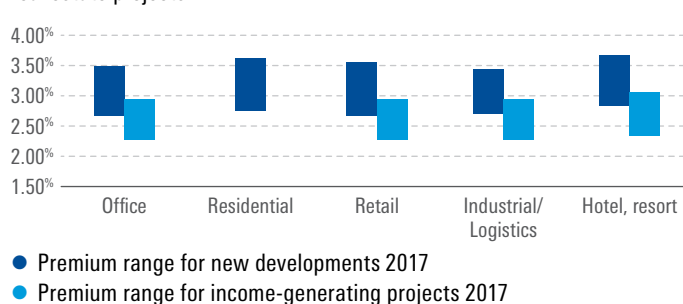
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



## Pre-let ratio expectation for projects



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



## Debt service coverage ratio expectation range for financing income-generating real estate projects



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)

# Romania

**"Romania remained one of the leading countries in the CEE region in terms of economic growth, with an attractive real-estate market for existing and new investors, where real estate financing is seen as important by all of the market players."**

Ori Efraim



## Overview

Romania remained one of the leading countries in the CEE region in terms of GDP growth in 2016. The GDP growth rate accelerated from 3.9% in 2015 to 4.8% in 2016. The reason behind this robust growth was consumer demand, which was supported by increasing purchasing power. An improving labour market, solid wage growth and consumer price deflation were the main drivers of the purchasing power stimulus. The VAT reduction on various products and services coupled with low global energy prices resulted in deflation in the last two years with – 1.6% deflation at the end of 2016. The consumer price index is expected to turn positive and for 2017 the anticipated inflation rate is 1.2%. The unemployment rate stood at 5.9% in 2016, and is expected to decrease to 5.3% by the end of 2017 and then gradually drop to the level of 4.5% by 2019.

The Romanian real estate investment market in H1 2017 outperformed the same period of the last year, totalling EUR 485 million, which is approximately 43% higher compared to H1 2016. The importance of secondary cities has improved since last year, supported by the fact that just over 25% of the total investment volume was transacted in Bucharest in H1 2017. Similarly to the previous year the retail segment dominated the investment market with a 70% share, followed by industrial properties and offices with a 13% and 11% share, respectively. Hotels remained the least preferred asset class in H1 2017 with a 6% share in the total investment volume. Romania also witnessed an influx of new investors as a result of promising market fundamentals, and the availability of quality products coupled with a notable yield gap between the core CEE markets and Romania. Downward pressure on prime yields is also forecast over 2017. At the end of H1 2017 the prime office yield in Bucharest stood at 7.25%, the prime high street retail yield was 7.5%, and the prime industrial yield was 8.75% which is a 25 bps decrease y-o-y.

## Lending market

Real estate financing is seen as moderately important or important by all of the market players surveyed. There is a difference between respondents about the focus on real estate financing compared to one year ago: half of them report that the level of focus has been maintained, while the other 50% state that there has been a significant increase. Romanian banks are open to both financing income generating properties and providing development financing. During the last 12-18 months, over two-thirds of the total volume of real estate loans was dedicated for financing new developments.

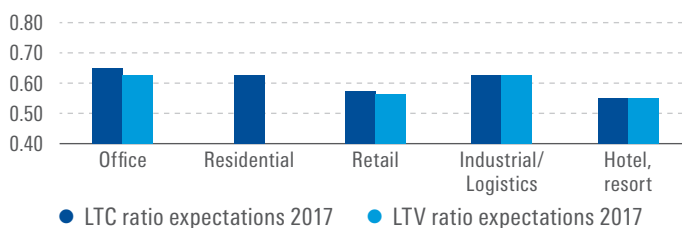
Private equity/debt funds are seen as the most competitive alternatives to traditional banks, closely followed by non-local commercial banks. 75% of banks in the survey regarded the level of provisions for real estate loans as adequate, while the rest of the respondents considered it somewhat higher than adequate. The average loan size of between EUR 9 and EUR 18 million was close to the preferred loan size of approximately EUR 11 to EUR 19 million.

## Future of real estate loan portfolios

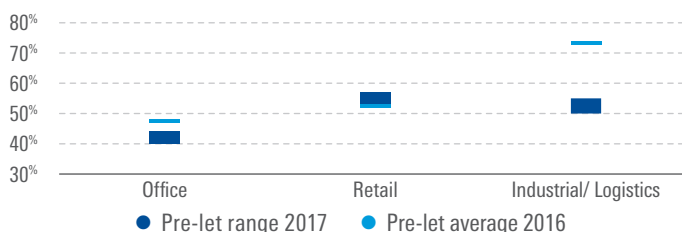
All respondents foresee an increase regarding the size of the whole banking sector's real estate loan portfolio. In terms of their own banks, opinions are divided: half of the surveyed banks expect an increase, while the other 50% predict no change.

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

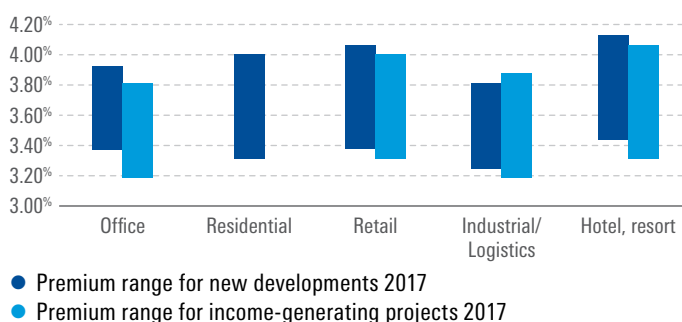
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



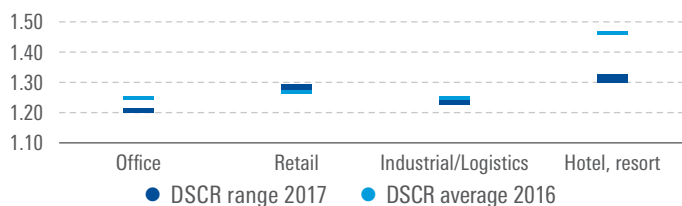
## Pre-let ratio expectation for projects



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



## Debt service coverage ratio expectation range for financing income-generating real estate projects



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)

# Serbia

**"Given the overall optimistic outlook, lenders seem to be capable to support significantly larger projects in the real estate."**

James Thornley



## Overview

The Serbian economy stagnated in 2015 (0.8% real GDP growth), but the economy accelerated in 2016 by 2.8%, beating projections of 2%. A major driver of growth was fixed investments backed up by construction but growth in primary subsectors such as mining, manufacturing, agriculture and tourism also contributed to the economic growth. A positive trend in the economy is expected in the upcoming years, with annual GDP rates of 3 to 3.8%. The unemployment rate has been declining from 19.3 to 18.9% and is forecast at 18.5% by the end of 2017, albeit it is still very high compared to other economies in the region. The average inflation was 1.2% in 2016 due to low oil and agricultural prices. As a result of one-off and temporary effects (cold weather, higher price of food) 3.4% inflation rate is expected in 2017.

The increased investor activity in Serbia remained unchanged in H1 2017, with the retail segment accounting for most of the transactions. Foreign investors especially South African, Israeli and Austrian, dominated the investment and development activities. One of the most notable transactions of H1 2017 was the acquisition of Belgrade Plaza by Israeli company BIG Shopping Centres. Strong development activity was witnessed in H1 2017 with Immofinanz, RC Reinvest and Aviv Arlon announcing the development of retail parks throughout the country. Furthermore NEPI commenced the construction of Promenada Mall in Novi Sad and BIG Shopping Centers Group announced the development of a shopping centre in the capital. Despite the increased investors' appetite prime yields remained steady in all segments compared to the same period last year and stood at 9.25% for offices, 7.75% for high street retail and 11.25% for industrial at the end of H1 2017.

## Lending market

The majority of the surveyed banks confirmed that the importance of real estate financing is moderately important from a strategic standpoint, while 25% consider it important. 75% of respondents reported that there is a slight increase in terms of focus on real estate financing compared to one year ago. Serbian banks are open to providing financing to both new development and income generating properties. The great majority of real estate loans provided by the surveyed banks during the last 12-18 months were given for new developments.

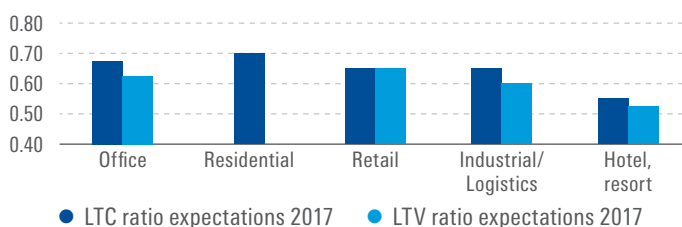
Serbian banks see non-local commercial banks and private equity/debt funds as equally competitive alternatives for their bank's traditional real estate lending. 75% of the respondents consider the level of provisions against real estate loans adequate, with only 25% stating that they are too low. The average deal/loan size provided by the responding banks is between EUR 10 to EUR 13 million, while their preferred loan size would range from EUR 11 to EUR 28 million.

## Future of real estate loan portfolios

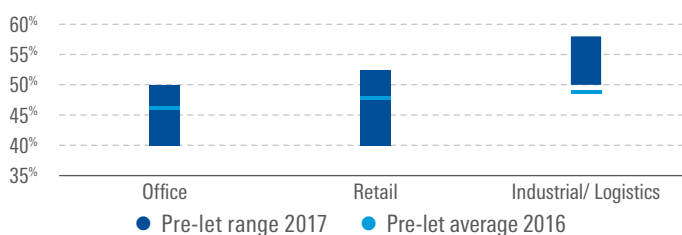
Expectations concerning the future of the Serbian banking sector's real estate loan portfolio size in the next 12-18 months are positive, as all of the respondents foresee an increase not only for the whole banking sector, but also for their own institutions.

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

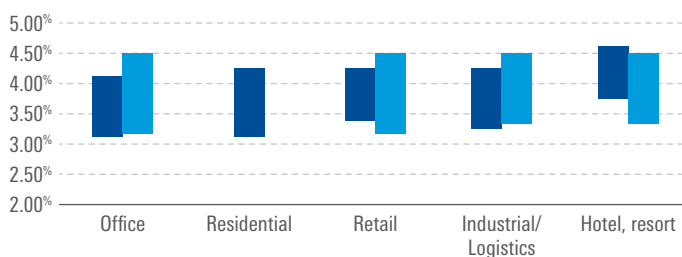
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



## Pre-let ratio expectation for projects

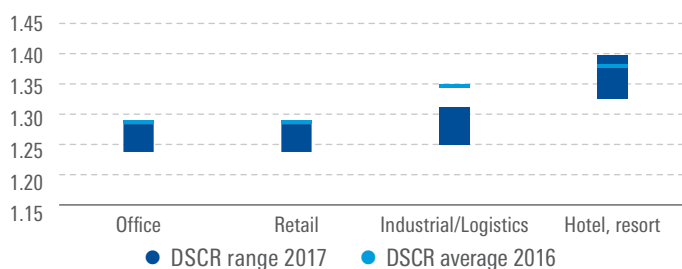


## Loan interest premium to be applied by banks for highly rated real estate projects



- Premium range for new developments 2017
- Premium range for income-generating projects 2017

## Debt service coverage ratio expectation range for financing income-generating real estate projects



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)

# Slovakia

**"The favourable economic situation in Slovakia is engendering positive expectations from banks in terms of both real estate loan portfolio quality and volume."**

Michal Maxim



## Overview

The country's economic expansion continued with a GDP growth rate of 3.3% in 2016, a slight deceleration from 3.8% growth in 2015. The main driver of the slowdown was a reduction in investment spending. The drawdown of EU funds in 2016 was just EUR 1.9 billion, compared with EUR 4.3 billion in 2015. Furthermore the government delayed several large-scale motorway projects. GDP growth is set to continue at 3.1% in 2017 due to a recovery in EU funded spending, investment and an increase in production in the automotive industry resulting from strong demand from Western Europe. As a consequence of strong economic growth, the unemployment rate continued shrinking to 9.5% in 2016 and further decrease is expected to 7.7% in 2017. Employers, chiefly carmakers, complain of labour shortages particularly in the western regions where all three car plants are located. Carmakers are calling on the government to ease the restrictions on employing non-EU workers. Labour shortage puts upward pressure on wages and employees experience double digit increases. The inflation rate has been slightly below 0% in the past three years however, as a result of wage growth, 1.5% average inflation is expected for 2017.

In H1 2017, the total real estate investment volume in Slovakia was EUR 154 million and approximately EUR 350 million is expected to transact in H2 2017. The forecasted transaction volume of 2017 is expected to be under the record high figure of 2016, however the number of deals might exceed last year. The most significant constrain of the Slovak real estate investment market is its size with only 7 single asset deals witnessed in H1 2017, of which three were industrial and four were office acquisitions. International investors remained the key player in the Slovak market. The most notable transactions were the acquisition of Auto Logistic Park by WhiteStar Capital and ParkOne Office building acquired by REICO. As a result of the increased investment activity in the office and industrial segments, yield compression was observed over the year and stood at 6.6% and 7.5% respectively at the end of H1 2017, while the high street retail yields remained unchanged, at 7.5%.

## Lending market

A quarter of the market players surveyed regard real estate financing important for their bank strategically while the rest considered it moderately important. Half of them stated that the level of focus on real estate financing has been maintained while the other half reported an increase compared to one year ago. Banks are equally open to financing developments and income generating properties. Also, the total volumes of real estate loans provided by the banks in the last 12-18 months in the two categories are identical: 50% of them are given for new developments and 50% for income generating projects.

According to the respondents, the most competitive alternatives to traditional real estate lending are non-local commercial banks and private equity/debt funds. The level of provisions against real estate loans is rated as adequate by half of the surveyed

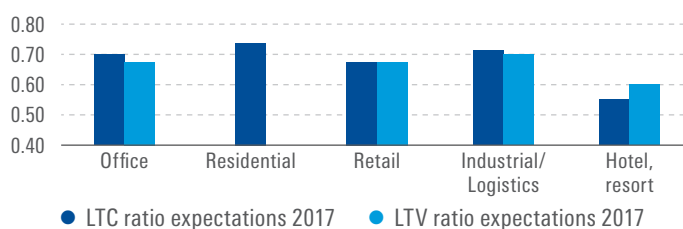
banks, while the other half assess the level of provisions either slightly too low or high. There is a significant difference between average and preferred loan sizes: the average loan size of Slovakian banks ranges from EUR 13 to EUR 16 million, but the preferred size would be between EUR 19 and EUR 28 million.

## Future of real estate loan portfolios

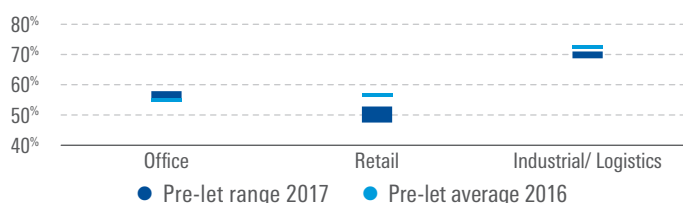
In terms of both the entire banking sector's portfolio and their own bank's portfolio, respondents await a modest increase in the following 12-18 months.

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

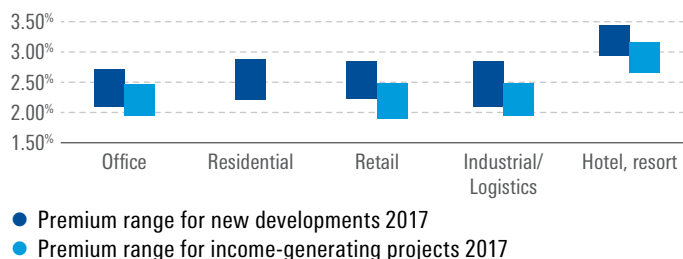
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



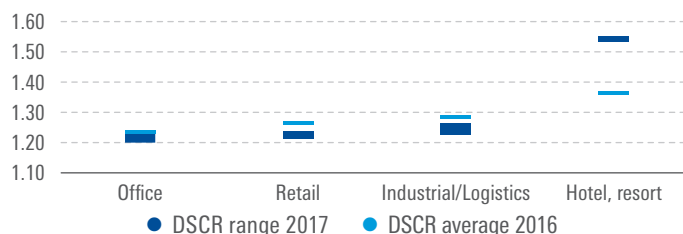
## Pre-let ratio expectation for projects



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



## Debt service coverage ratio expectation range for financing income-generating real estate projects



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)

**"The revitalization of the real estate sector in Spain is strengthening and real estate lending of banks continues its upward trend."**

Francisco Javier Lopez Torres



## Overview

Spain's real GDP growth rate is expected to start slowing gradually from the 3.2% of the prior two years, although a strong Q1 performance prompted the end-of-2017 forecast to remain strong at 3.2%. In 2016 the Spanish economy was one of the fastest growing economies in the eurozone thanks to its high private consumption, fixed investment and external sector contributions. The unemployment rate has been decreasing gradually, and in 2016 fell below 20% for the first time in six years from 22% in 2015, although this is still very high compared to other EU countries. It is expected that the unemployment rate will be 17.5% in 2017, predominantly due to the booming tourism sector that fuelled job creation. After three years of negative inflation 2017 is expected to see a 1.9% increase in consumer prices due to higher oil prices and energy bills.

In 2016 real estate investment volume reached EUR 10.4 billion, the second best year after 2015, which closed with EUR 11.7 billion. A rise in the number of "mega-deals" was witnessed as there have been 18 deals over the EUR 100 million mark. The largest deal of 2016 was the Diagonal Mar shopping centre in Barcelona at close to EUR 500 million and the Terra Cepsa skyscraper in Madrid purchased by Pontegadea. H1 2017 started strong with total investment volume of EUR 8.1 billion, registering a 41% increase year-on-year. Retail investment displayed strong activity in H1 2017 and reached a share of approximately 40%. Spain has also experienced an exceptional increase in hotel investment with investment volumes reaching over EUR 2 billion. Investment in offices grew rapidly with Madrid and Barcelona attracting most of the deals. Due to increased investment activity prime yields in Madrid and Barcelona stood at 3.5% for offices, 3.4% for high street retail and 5.9%-6% for logistics.

## Lending market

Approximately 75% of the respondents consider real estate financing important or moderately important while the rest of the respondents consider it not important. Also 75% report that the focus on real estate financing increased compared to one year ago while 25% reported a decrease. Spanish banks included in the survey are open to financing both income generating properties and providing development financing, with a slight preference for the former. More than half of the total volume of real estate loans provided during the last 12-18 months was dedicated to new developments.

Private equity and debt funds are seen as the most competitive alternatives to traditional real estate lending. Half of the surveyed Spanish banks rate the level of provisions against real estate loans adequate; 25% report that it is somewhat lower than adequate and another quarter state that it is higher than adequate. The average and the preferred loan size provided by the responding banks are identical, between EUR 27 to EUR 30 million.

## Future of real estate loan portfolios

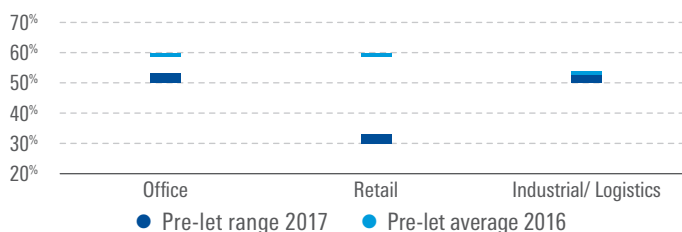
Approximately 75% of the surveyed banks forecast an increase of the whole bank sector's real estate loan portfolio to some extent, while the rest expect it to decrease. Meanwhile, half of the respondents forecast their own bank's real estate loan portfolio to increase; a quarter of them expect no change, while the rest expect their portfolio to decrease.

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

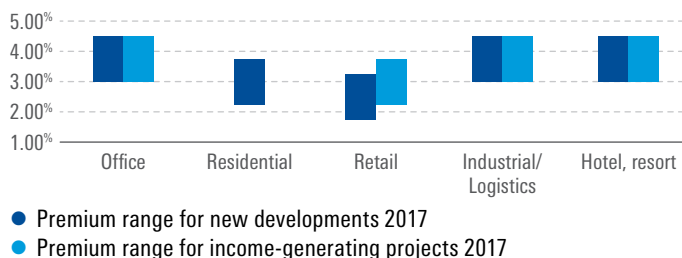
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



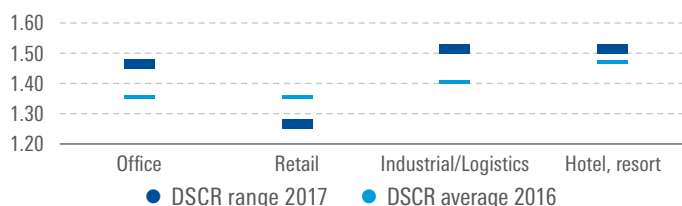
## Pre-let ratio expectation for projects



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



## Debt service coverage ratio expectation range for financing income-generating real estate projects



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)

# Sweden

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

Björn Flink



## Overview

Sweden has shown a fast GDP growth of 2.9% in 2016, outpacing much of the rest of Europe. Economic growth is expected to moderate to 2.3% this year and in 2018. This strong performance is predominantly due to domestic demand, an improving labour market and strong export growth. The unemployment rate in 2016 was 6.9%, and as the economy continues to expand the unemployment rate is likely to edge lower in 2017 to 6.6%. Consumer price inflation increased to 1% in 2016, after four years of fluctuating near zero, due to a global rise in oil prices, and is expected to further increase to 1.6% in 2017.

Sweden began 2017 experiencing the highest Q1 investment volume since 2008 at EUR 3.9 billion. However, this record-making streak was not sustained – since overall, 2017 H1 finished off with EUR 6.5 billion, which was 37% down compared to the first half of 2016. Offices dominated the investment activities in H1 2017 representing approximately one-third of the market, followed by residential and retail properties. Domestic investors were the key players in the market, however the share of foreign capital increased to 24%. Prime assets in Stockholm, Gothenburg and Malmö are favoured, but the market for secondary assets and those outside of larger cities have also steadily increased. The shortage of prime assets and high demand for properties are putting property yields at historically low levels across all asset classes. Prime yields softened and came lower at 3.5%-3.9% for offices, 3.25%-3.75% for high street retail and 5.4% for logistics in Q2 2017.

## Lending market

The majority, about 80%, of the surveyed banks from Sweden confirmed that real estate financing is quite important for them from a strategic standpoint, while 20% consider it moderately important. All respondents reported that there is no change in terms of focus on real estate financing compared to the previous year. Swedish banks are open to financing income generating properties, and they also occasionally provide development financing. Over 80% of real estate loans provided by the surveyed banks during the last 12-18 months were given for income generating projects.

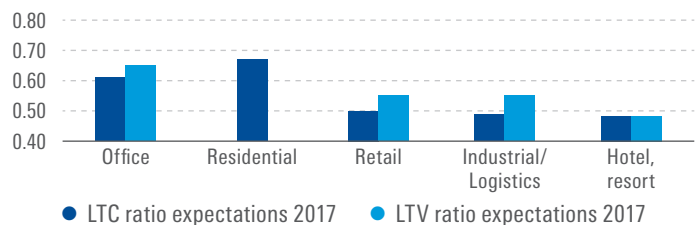
Swedish banks see non-local commercial banks as their main competitive alternatives for real estate lending. The vast majority of respondents consider the level of provisions against real estate loans adequate, with only 20% stating that it is slightly higher than adequate. The average deal/loan size provided by the responding banks is between EUR 39 to EUR 80 million, which is consistent with the preferred loan size.

## Future of real estate loan portfolios

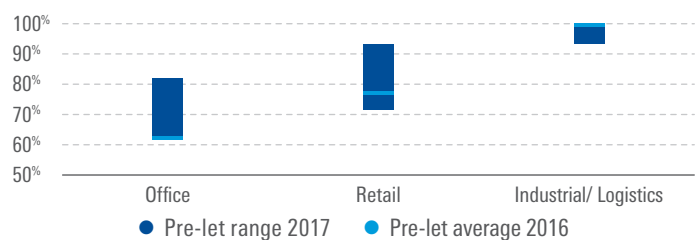
The Swedish banking sector's real estate loan portfolio size in the next 12-18 month is expected to remain unchanged. Most of the market players do not foresee a change in their own portfolio's size in the next 18 months, but 20% await a decrease.

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

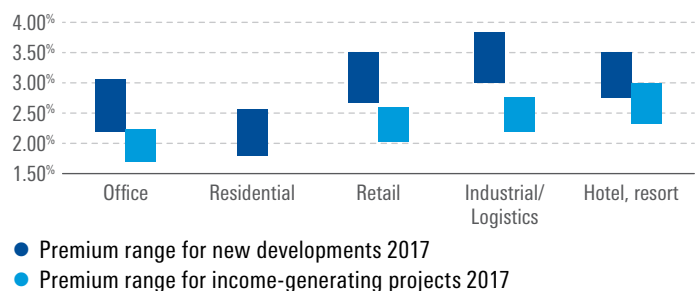
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



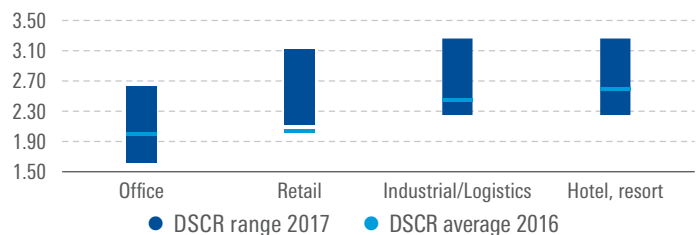
## Pre-let ratio expectation for projects



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



## Debt service coverage ratio expectation range for financing income-generating real estate projects



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)

# Turkey

**"New laws entailing new incentives, high levels of public infrastructure spending and domestic property demand will increase overall demand on real estate."**

Sinem Cantürk



## Overview

Turkey's GDP expanded by 3% in 2016, which is half of the growth rate compared to 5.9% in 2015 and the lowest real GDP growth since 2009. The main driver of growth was an increase in public consumption and fixed investment. The government focused its efforts on rejuvenating the economy and offered state guarantees (Credit Guarantee Fund) encouraging banks to turn on the credit taps. 180 billion of Lira loans were provided to nearly 300,000 businesses which already has triggered short-term growth. The GDP growth rate is expected to accelerate to 4.3% in 2017. The unemployment rate of 10.9% during 2016, has mostly been stagnant for the past years and is expected to slightly increase in the next couple of years. Consumer price inflation, which was 7.8% in 2016, is well-above Turkey's medium-term target of 5% and is only forecast to drop by 2021.

The real estate investment market was very limited in 2016 due to political and regional uncertainty. Economic and political turmoil made many investors rethink their strategy when it comes to investing in Turkey. The depreciation of the Turkish Lira, the state of emergency declared by the government, increasing cost of financing as well as a number of terrorist attacks suspended the investment market within the past year. In 2016 notable transactions were the disposal of Starcity in Istanbul and of a retail portfolio in Ankara and Antalya. All of the above factors influenced prime yields, which increased in all segments and rose to 7.15% for offices, 6.5% for high street retail and 9% for logistics in Istanbul.

## Lending market

Two thirds of the respondents from Turkey rate real estate financing for the bank strategically important or extremely important, while the rest consider it not important. One third report that the level of focus on real estate financing within the banks' lending activities was maintained compared to one year ago while another third reported a slight increase, and the rest a significant decrease. Based on the responses, Turkish banks seem to be open to financing income-generating projects, as well as providing development financing. As for the breakdown of the total volume of real estate financing in the past 12-18 months, 73% was dedicated to development financing.

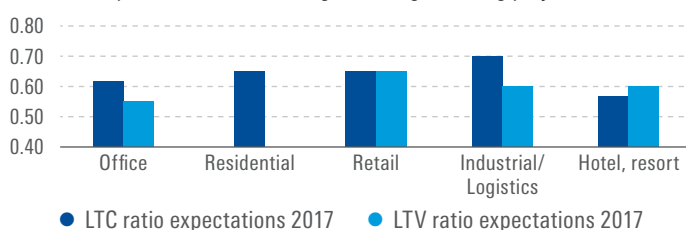
As far as the banks' competitors in traditional real estate lending are concerned, banks' representatives considered non-local commercial banks to be the greatest competitors. Regarding the level of provisions made in connection with real estate loans, two thirds of respondents rated this level higher than adequate, while 33% rated it adequate. The average loan size is EUR 3 million, which is far below the preferred amount of EUR 10 million on average.

## Future of real estate loan portfolios

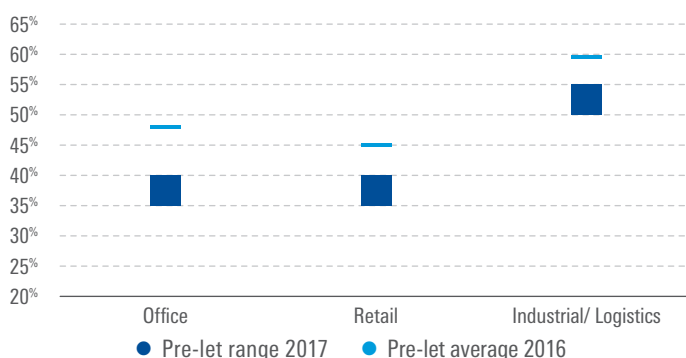
For the upcoming 12-18 months, two-thirds of respondents forecasted no change in the banking sector's real estate portfolio size while others expect it to increase. As for their own bank's portfolio size, their expectations show a similar pattern.

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

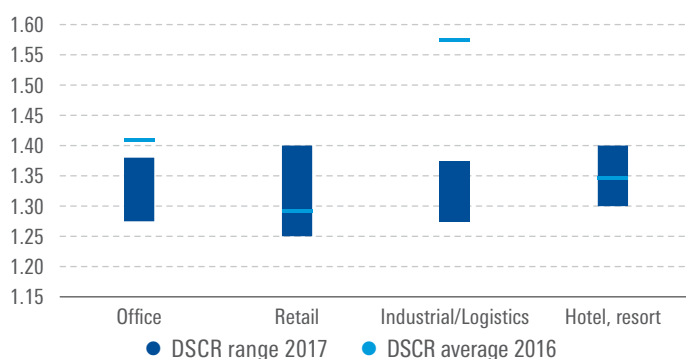
LTC ratio expectations for financing new developments and  
LTV ratio expectations for financing income-generating projects



## Pre-let ratio expectation for projects



## Debt service coverage ratio expectation range for financing income-generating real estate projects



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)

# United Kingdom

**"Brexit has led to a more reflective market, albeit one in which good deals are still being closed. The UK lending market is becoming increasingly diverse and we expect this to continue."**

Andy Pyle



## Overview

While leaving the EU is expected to test political stability and economic growth, the UK thus far has showed resilience in late 2016 and early 2017. Real GDP growth in 2016 averaged 1.8%, displaying only a modest decrease from the previous year. Economic impacts of Brexit uncertainty are predicted to manifest in the short term and the rate of economic growth is expected to decrease – from 1.7% by the end of this year to 1.2% in 2018. The unemployment rate decreased from 5.4% in 2015 to a record low of 4.9% in 2016 and a further decrease to 4.5% is forecast for 2017. Headline inflation has arisen in 2017, driven primarily by exchange rates and higher energy costs reflecting the development of global oil prices.

Investment volumes reached EUR 28.2 billion in the first half of 2017, which was 16% lower than H1 2016. Offices were the most popular sector and accounted for 39% of the volume of total H1 investments. In terms of location the capital remains the target market, as half of all investments occurred in London, however regional markets continue to see lending and investment activity. Despite Brexit concerns overseas investors continue to demonstrate considerable appetite for the UK property market. It's worth mentioning that investment into the UK hotel sector reached EUR 2.2 billion in H1 2017 and it is predicted that full year levels will be 28% over the total volume of 2016. In Q2 2017 prime investment yields in London remained stable and stood at 3.25% for offices, 2.5% for high street retail and 4.25% for logistics.

## Lending market

Based on survey participants' responses, real estate financing occupies a position of high significance in their activities, with only 20% reporting that it is not important for them currently. The majority of respondents indicated that their focus on real estate lending has been maintained and that they are very much open to finance income generating assets, but have less appetite to provide development financing. This difference can also be observed when looking at the distribution of the total volume of real estate loans provided during the last 12-18 months, where close to two-thirds of financing was dedicated towards income generating assets.

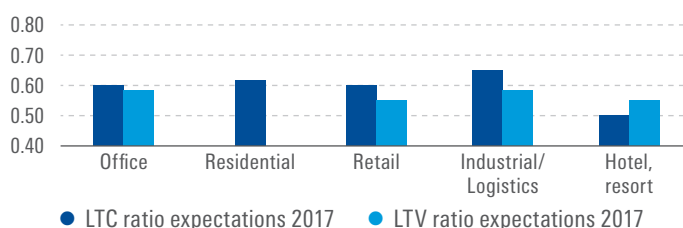
Based on the responses from the UK, the most competitive alternatives to their traditional real estate lending are non-local commercial banks, closely followed by private debt/equity funds, investment banks and insurer/pension funds. The great majority, 80%, rated the level of provisions made in connection with real estate lending as adequate, while only 20% reported a level slightly below adequate.

## Future of real estate loan portfolios

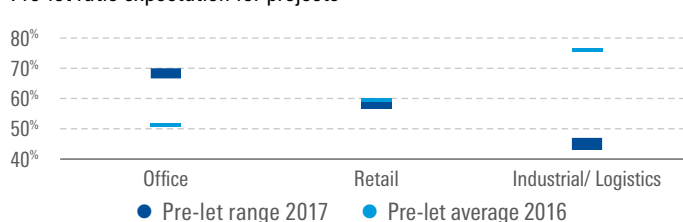
The great majority of the respondents expect a reduction in the banking sector's aggregate real estate lending position, while only 20% forecast the situation to be unchanged. When it comes to their own bank's prospects, respondents were much more optimistic. 60% foresee an increase in their own real estate lending portfolio during the next 12-18 months, while 40% predict that their situation will remain unchanged.

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

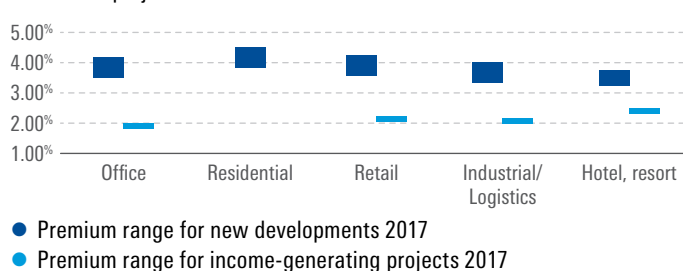
LTC ratio expectations for financing new developments and  
LTV ratio expectations for financing income-generating projects



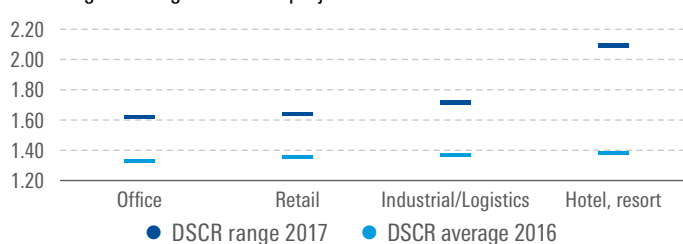
## Pre-let ratio expectation for projects



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



## Debt service coverage ratio expectation range for financing income-generating real estate projects



Sources: KPMG Property Lending Barometer 2017, Cushman & Wakefield (Yields)



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