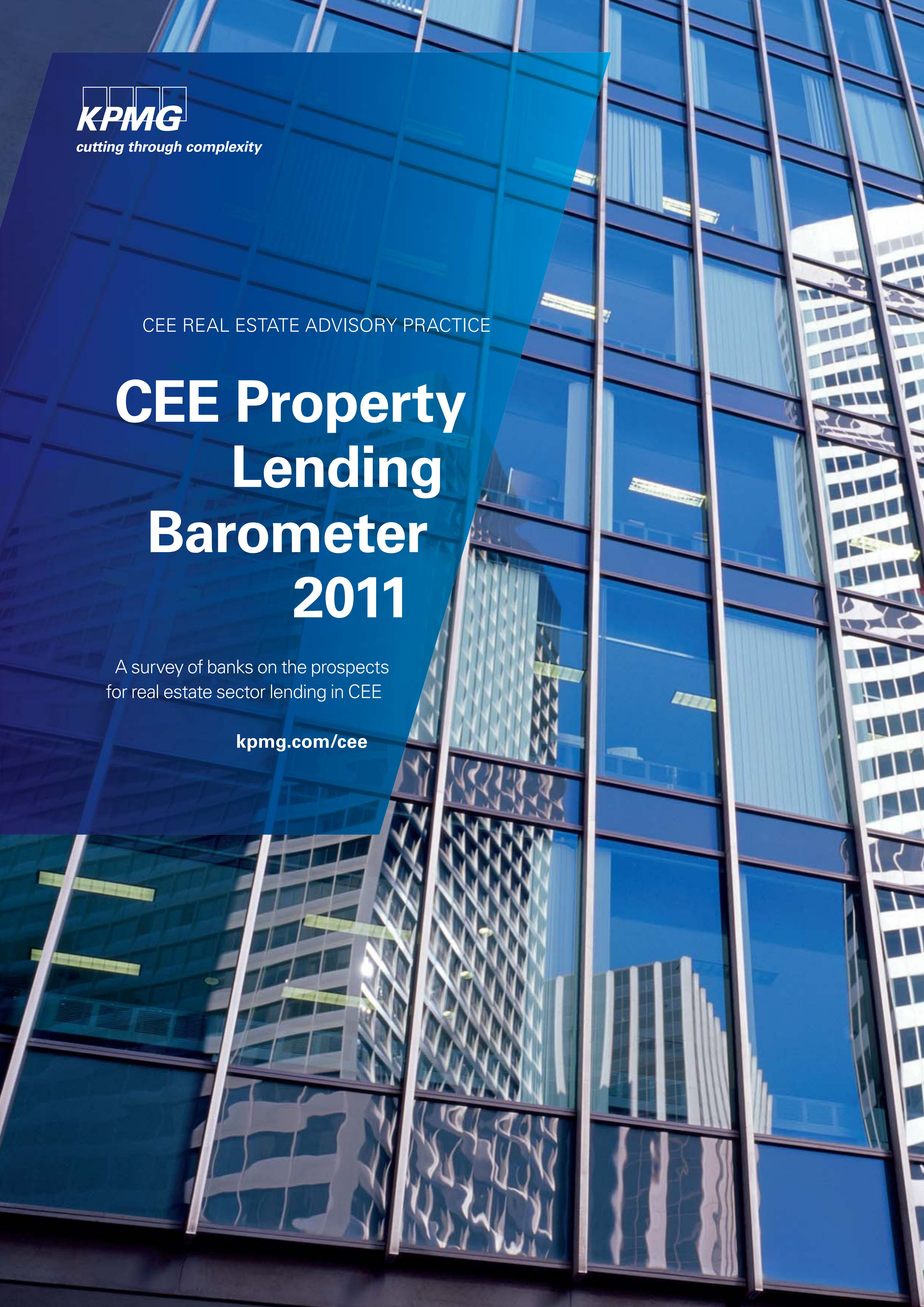

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cutting through complexity

CEE REAL ESTATE ADVISORY PRACTICE

CEE Property Lending Barometer 2011

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

kpmg.com/cee

Table of contents

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Dear Reader,

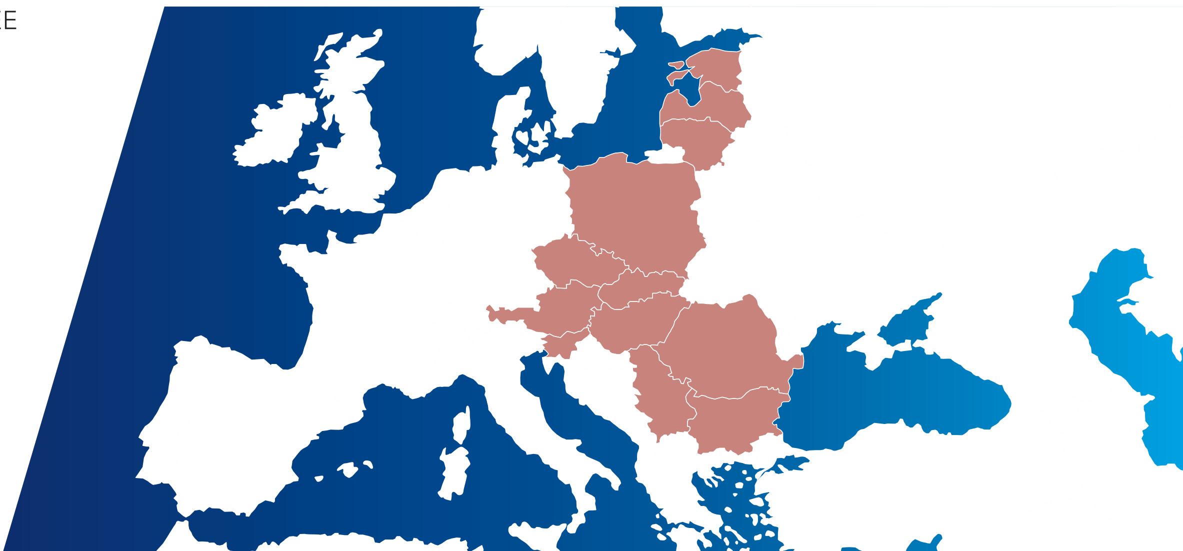
I am delighted to present the Central and Eastern European (CEE) Property Lending Barometer 2011. At present, the availability for financing real estate in CEE is still under pressure, although transactions have started to increase. The performance of real estate in different countries and asset classes still varies widely.

As a follow-up to last year's survey, we have conducted a survey amongst leading banks in the region, with the purpose of assessing the prospects for bank financing in the real estate sector in CEE. The barometer includes input from over 50 banks active in these markets, mostly obtained from in-depth interviews. Representatives of leading financial institutions have provided their views on the key issues affecting property lending. The following countries were included in this year's survey: Austria, the Baltics, Bulgaria, the Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia and Slovenia.

Notwithstanding some signs of recovery from the crisis, many banks still have significant non-performing real estate loans to manage. In this report, we first focus on how banks are managing these non-performing loans; we then assess how banks are strategically approaching real estate lending and what they expect for the next 18 months. Finally, we address the prospects and terms available for developers and investors to finance real estate projects.

The survey provides insights for developers and investors alike on the future prospects for real estate financing, and enables banks to benchmark their practices with their peers.

■ Surveyed countries in CEE



Some highlights from the CEE Property Lending Barometer 2011 are:

- The prospects for the real estate market in a given country remain generally linked to its macroeconomic outlook.
- Banks are still looking to restructure existing loans which are in default, rather than seeking foreclosure. Higher quality projects with a potentially strong business model have a better chance of successful restructuring.
- Basel III is likely to make bank financing more expensive.
- Compared to a year ago, banks are focusing more on real estate financing.
- Banks are still more interested in financing income generating projects than development projects, even if their openness to finance new developments has increased in comparison to 2010.
- Bank expectations on the potential increase in the size of their future loan portfolios are distinctively improving.
- The hotel sector remains the least preferred by banks in terms of financing, but again good projects can obtain reasonable terms for financing.
- The Czech Republic overtook last year's best performer Poland in the results of the Property Financing Sentiment Index, but is still second to Austria, which is included in the survey this year for the first time.

I would like to take this opportunity to thank all of the participants in this survey. Their co-operation has been key to the success of this initiative.

As the initiator and coordinator of this survey, I 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 the survey results, please feel free to contact any member of the Real Estate practice of KPMG in Central and Eastern Europe or myself.

Yours faithfully,

Andrea Sartori

Abbreviations	
AUT	Austria
BAL	The Baltics
BUL	Bulgaria
CZE	Czech Republic
HUN	Hungary
POL	Poland
ROM	Romania
SRB	Serbia
SVK	Slovakia
SLV	Slovenia

Methodology, sample profile and survey limitations

This survey aims to provide an analytical overview of banks' approaches to real estate financing in the Central and Eastern European region. The following countries are represented in the 2011 survey: Austria, the Baltics[1], Bulgaria, the Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia and Slovenia.

Data collection for the survey was primarily made through in-depth interviews with bank representatives. Depending on the 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. Survey participants included over 50 banks active in the real estate market in CEE. Data collection for this survey took place from May through to July 2011.

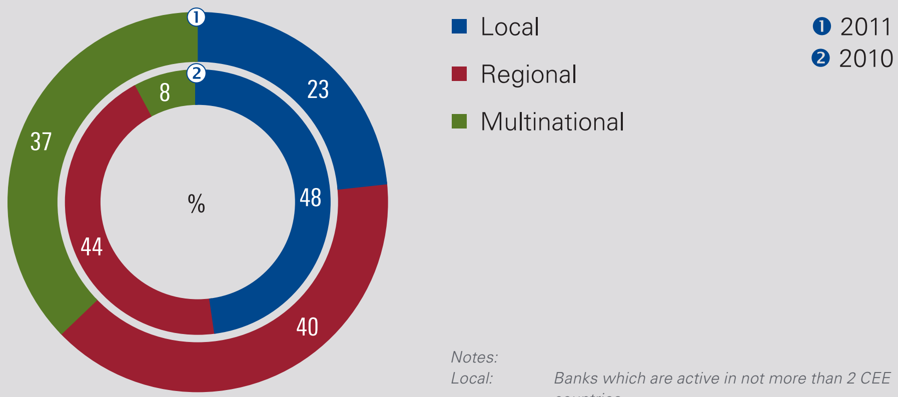
Approximately one-quarter of the banks providing data were local banks, i.e. they operate predominantly in one country within CEE.

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 noted this in an explanation, or the given country was omitted from that part of the analysis.
- In the case of some parameters and some cross tabulations, the output of the survey may be considered indicative but not representative due to a lower number of responses.
- Our assessment of the residential sector excluded residential projects with construction costs below EUR 10 million.
- Some of the answers to the survey's queries should be considered as an expression of opinion, given during a time of market volatility. Therefore the results are subject to change over time.
- Regional comparisons between the 2010 and 2011 surveys are limited by a slightly different country mix (Croatia is not part of the 2011 survey whilst Austria, Serbia and Slovenia were not part of the 2010 survey).

Geographic orientation of the banks included in the surveyed sample



Notes:
Local: Banks which are active in not more than 2 CEE countries
Regional: Banks which are active in at least 3 CEE countries excluding multinationals
Multinational: Banks which are active in at least 3 continents

Source: KPMG in CEE Property Lending Barometer 2011

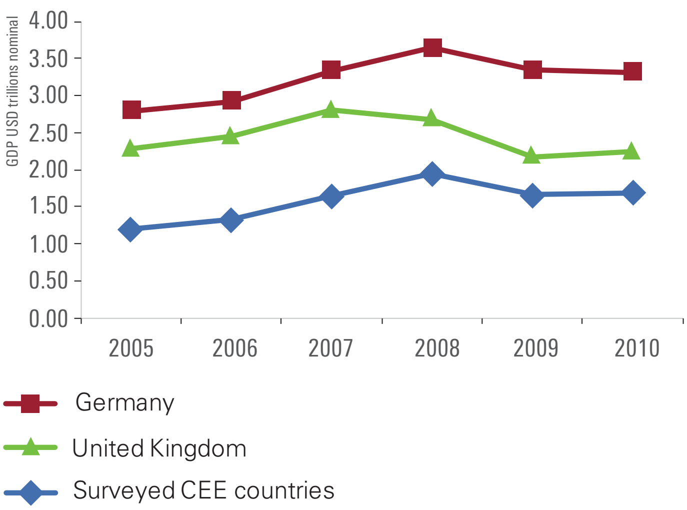
1 *Based on the responses received from the banks surveyed, the three Baltic countries of Estonia, Latvia and Lithuania may be grouped together from a bank financing point of view.*

Overview of the CEE real estate market

Another year on from the collapse of Lehman Brothers in 2008, the GDPs of CEE countries are beginning to strengthen, especially in Poland where GDP growth was the highest out of the CEE members. Notwithstanding some recent downward revisions of GDP growth forecasts, expansion in 2011 with year-on-year GDP growth is expected from all countries in the region. 2011 lending trends show banks and investors looking for quality in their portfolio as they target only proven performing markets, alleviating as much risk as possible.

At the time of writing this report, the markets are volatile with negative investor sentiment regarding the Eurozone due to increasing European sovereign debt concerns and a strong Swiss franc. This can have a considerable impact on the CEE where there is a high level of both government and household borrowing in foreign currencies. On the global stage the US sovereign debt rating has been downgraded by S&P to AA+ due to the political stalemate of raising the debt ceiling by USD 2.4 trillion to avert financial default at the beginning of August.

GDP comparison of the surveyed CEE countries vs Germany and UK



Source: The Economist Intelligence Unit 2011

Real GDP change from the previous year in the surveyed countries (%)

	2009	2010	2011*
Austria	-3.9	2.1	2.8
Bulgaria	-5.5	0.2	2.8
Czech Republic	-4.1	2.3	2.0
Estonia	-13.9	3.1	5.2
Hungary	-6.7	1.2	2.8
Latvia	-18.0	-0.3	3.5
Lithuania	-14.7	1.3	5.0
Poland	1.6	3.8	4.2
Romania	-7.1	-1.3	1.7
Serbia	-3.1	1.8	3.0
Slovakia	-4.8	4.0	3.3
Slovenia	-8.1	1.2	2.1

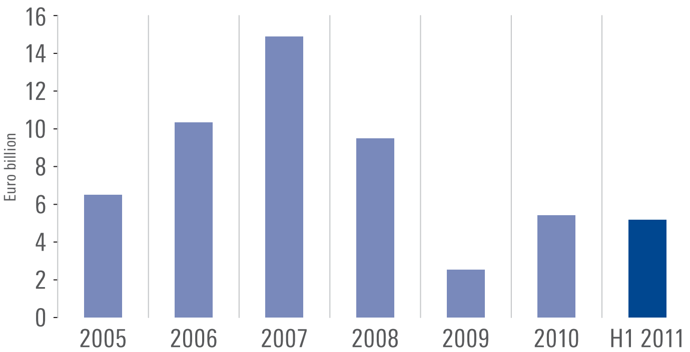
Source: The Economist Intelligence Unit 2011
** Estimates as at the beginning of August 2011*

After a better economic performance in 2010, the major CEE markets of Poland (GDP increase of +3.8% on 2009) and Czech Republic (GDP increase of +2.3% on 2009) remain on track to work towards stable economic growth. Bulgarian GDP growth remained mostly neutral throughout 2010 while Romania suffered yet another year in recession. The Baltic countries are still working from a contracted GDP, but look to be in a stronger economic position in 2011.

According to research by CBRE, CEE countries (especially Poland and the Czech Republic) are the most attractive locations for investors in 2011 in Europe, behind Germany. The risks are slightly higher with lower liquidity, but there are significant price advantages in the less mature markets compared to Western Europe. Economic performance is continuing to become the driving factor for investors in the real estate sector.

Have real estate markets overcome the times of crisis?

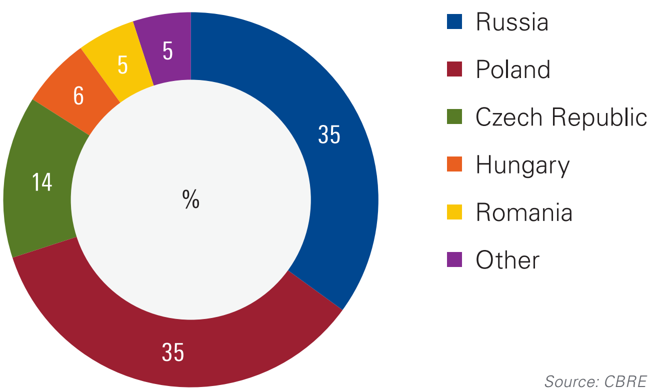
Total real estate investment transactions in CEE 2005–2011



Source: CBRE

Note: CBRE define CEE to include Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Serbia, Slovakia and Ukraine

H1 2011 CEE real estate transactions broken down by country



Source: CBRE

Public sector debt and budget deficits in most CEE countries led to the introduction of austerity packages by governments looking to address these issues. The effect of these measures on the real estate sector certainly had an impact on demand; however it is believed that developments in the banking sector had the largest influence on real estate as well as general market risk aversion and the difficulties suffered by many German Open Ended Funds. Looking ahead, the introduction of Basel III banking regulations mean that lenders will have to set aside more equity for every euro they lend for new development projects. This could well hamper new construction in the future.

Lending for new developments is becoming more complex, as banks are more conscious of the increased risk involved in new projects than that of an existing income-producing asset. However, finance is still available for new developments. Another point of note for 2011 is interest rates and inflation: with interest rates being at an all time low for so long, any increase would drastically impact borrowing costs, consumer spending and economic growth. However, this might not be the case if the sovereign debt and currency crises affecting the international markets, at the time of writing this report, continue.

The total real estate transactions in the CEE region in H1 2011 were EUR 5.2 billion. Leading the group with EUR 1.8 billion of real estate transactions each were Russia and Poland. When comparing this number to last year's total transactions of EUR 5.5 billion we can see a significant improvement. If annualised, the 2011 total real estate transactions could reach EUR 10 billion, which is at the same level as 2006 but still lower than 2007, when it was EUR 15 billion.

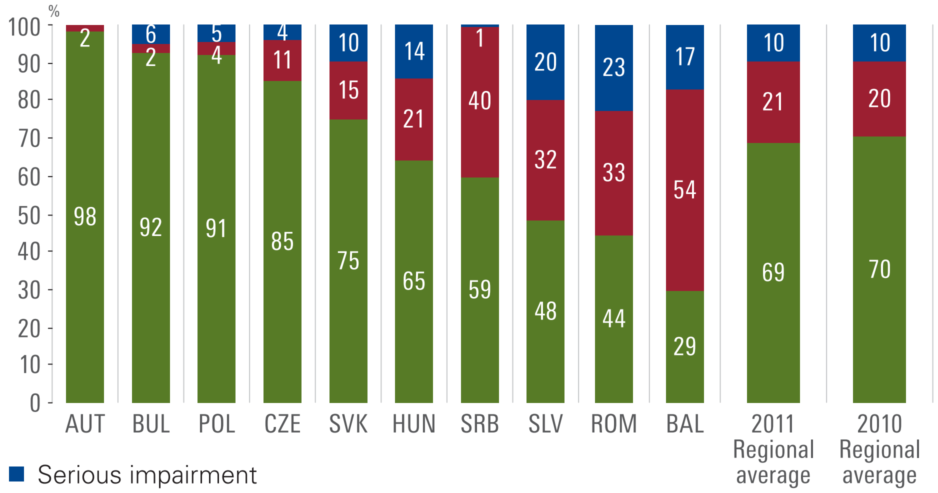
Managing impaired loans

The global economic crisis had a detrimental impact on the financing of the real estate sector. However, many banks in the region still have large real estate portfolios, a sizeable proportion of which are not performing. In this chapter, we focus on banks' opportunities to manage real estate loans where debtors cannot pay their capital and/or interest on time.

Current state of and future expectations for impaired loans

Based on the responses collected this year, the highest ratios of impaired real estate loans are in the Baltic countries (17% serious and 54% minor impairment), Romania (23% serious and 33% minor impairment), and Slovenia (20% serious and 32% minor impairment), while the highest proportions of fully compliant loans are in Austria (98%), Bulgaria (92%) and Poland (91%)[2]. These results generally reflect the overall macroeconomic conditions of the countries under review. There are improvements in some countries but overall the regional average remains stable compared to last year's findings.

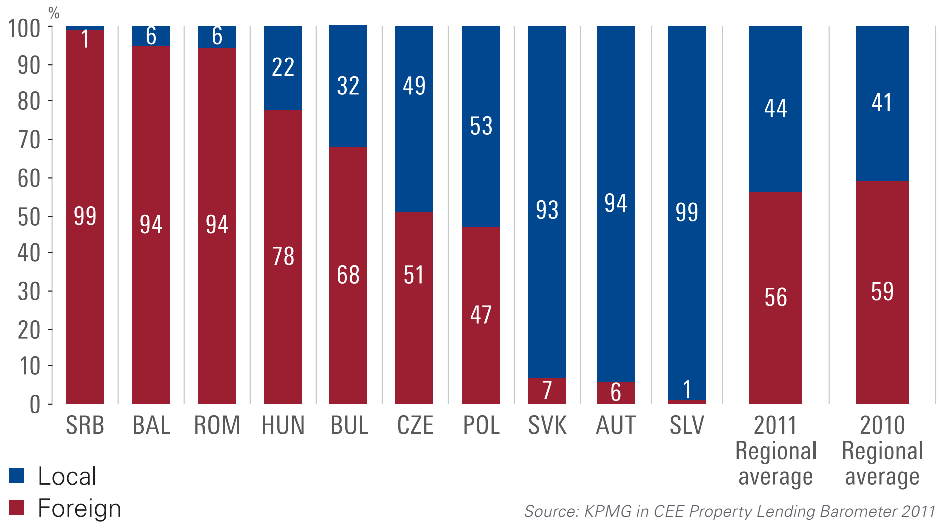
Proportion of impaired real estate loans per country



Source: KPMG in CEE Property Lending Barometer 2011
Note: Bulgaria is impacted by low representation for this question

With regard to the results of Poland, Bulgaria and the Czech Republic, there appears to be a correlation between the higher proportion of local currency loans and the higher proportion of fully compliant loans. Data from Austria, Slovenia, and Slovakia reflect the fact that they are part of the Eurozone.

Proportion of foreign and local currency real estate loans

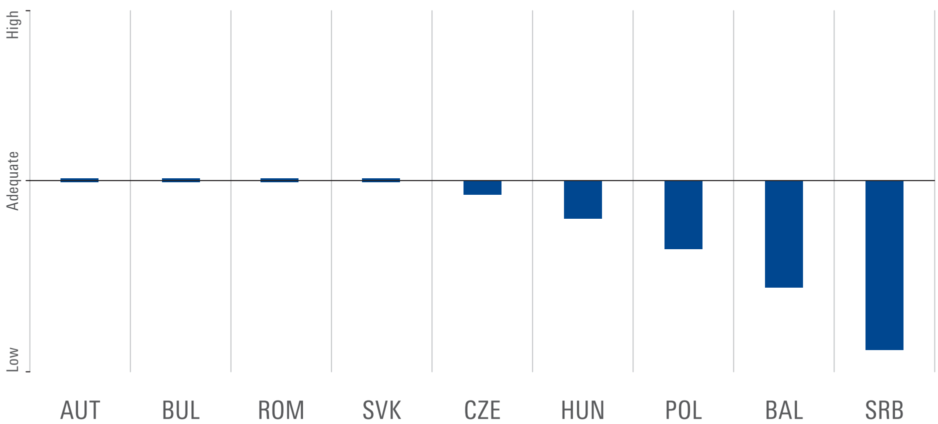


Source: KPMG in CEE Property Lending Barometer 2011

2 For some countries (especially Bulgaria) the results are skewed by small sample sizes for this question and may not be representative.

Provision levels are considered relatively low in most countries, while they are considered adequate in Austria, Bulgaria, Romania and Slovakia.
In comparison to 2010, it appears that there is more confidence that provision levels are closer to adequate levels in most countries.

Banks' perception of the level of real estate loan provisions

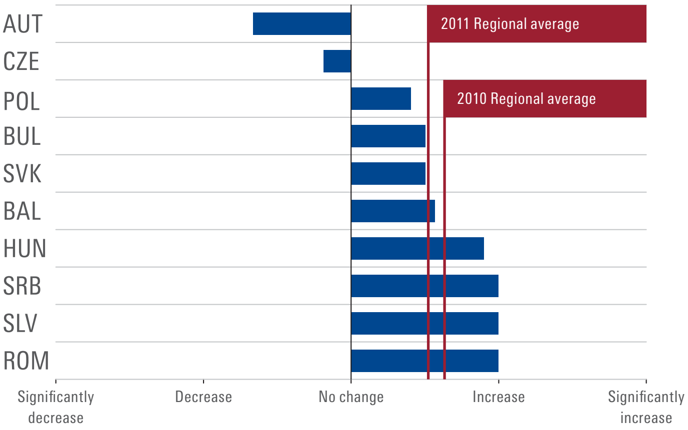


Source: KPMG in CEE Property Lending Barometer 2011

Banks still prefer restructuring existing loans rather than seeking foreclosure

The amount of provisions (value adjustments) is expected to increase in all countries surveyed by the end of 2011, except Austria and the Czech Republic. In Romania, Slovenia and Serbia banks expect a significant increase in the level of provisions this year.

Expectation for changes in the amount of provisions for real estate loans 2011/2010



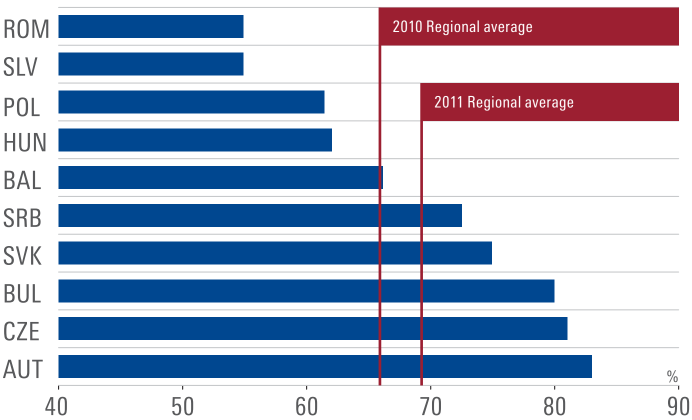
Source: KPMG in CEE Property Lending Barometer 2011

These results, overall, suggest that banks still do not expect a recovery in the real estate market any time soon, with the possible exception of Austria and the Czech Republic where the crisis has not hit the market as severely as most other CEE countries.

Restructuring as an opportunity to manage impaired loans

Representatives of banks in all countries expressed the view that in the majority of cases, impaired loans may be managed successfully through restructuring. Responses were especially positive in Austria, Bulgaria and the Czech Republic, where more than 80% of respondents believe that impaired loans may be restructured successfully.

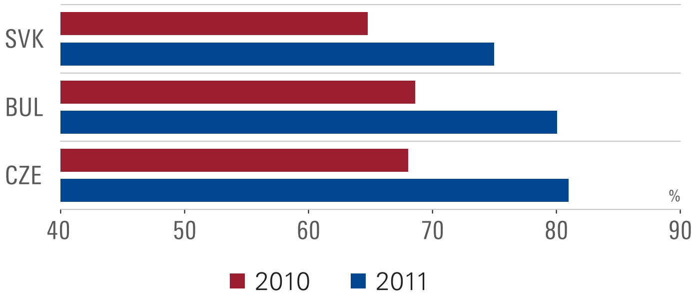
Proportion of impaired real estate loans that may be managed successfully through restructuring



Source: KPMG in CEE Property Lending Barometer 2011

Positive responses from Slovakia, Bulgaria and the Czech Republic have increased significantly since last year, whilst in Romania and Poland they have decreased. These results confirm that banks are doing their best to actively manage their real estate loans rather than immediately seeking foreclosure. The rescheduling or restructuring of loans is understood to be a good approach, at least in the short term. While it is still unclear whether restructuring will be an effective long-term solution, banks continue to choose this option over foreclosure.

Comparison of the proportion of impaired real estate loans that are considered to be able to be managed successfully through restructuring 2011/2010



Source: KPMG in CEE Property Lending Barometer 2011

The primary precondition before any restructuring is the cooperative behaviour of the borrower. Once this condition is met, a strong business model is the most important factor to drive successful restructuring in all countries, together with additional equity being available.

There has been no change regarding the top criteria since last year.

Bank's most important criteria for successfully restructuring non compliant real estate loans	
Strong business model/quality of the asset	••••
Additional equity	••••
Additional collateral available	•••
Market prospects	•••
Opportunity to increase the bank's margin	•

Source: KPMG in CEE Property Lending Barometer 2011

"The percentage of problem loans in the banking sector might increase slightly due to a delayed effect of the crisis in Poland."

Bank representative, Poland

Overall prospects for bank real estate portfolios

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

Compared to last year's negative outlook, it is positive to note that four countries reported increased appetite for real estate financing year-on-year. Not surprisingly, Austria, the Czech Republic and Poland are in that group, together with Romania, which has been badly hit by the global financial crisis. It is also worth noting that the attitude of Slovak banks has not changed since last year. However, results from Hungary, Serbia, Slovenia and Bulgaria suggest that banks still feel the pressure on the real estate market and do not foresee a quick recovery from the crisis.

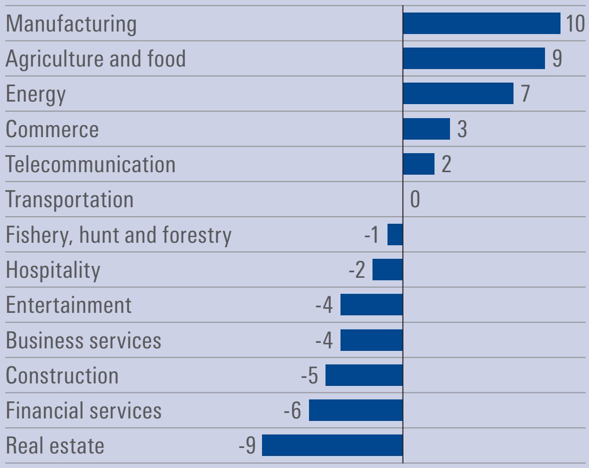
Change in the focus of real estate financing within banks' lending activities

	2007–2010	2010–2011
AUT	No data for 2010	↑
POL	↓	↑
ROM	↓	↑
CZE	↓	↑
SVK	↓	↔
BAL	↓	↔
HUN	↓	↓
SRB	No data for 2010	↓
SLV	No data for 2010	↓
BUL	↓	↓
Regional average	↓	↑

Source: KPMG in CEE Property Lending Barometer 2011

In Hungary, the sentiment towards real estate is getting worse when compared to last year. This is supported by another recent survey conducted by KPMG in May 2011, in which 10 leading Hungarian commercial banks and the Hungarian Development Bank were queried about their industry preferences for corporate lending. The least preferred sectors for lending were the real estate and financial services sectors.

Industry preferences from a lending point of view
(-11 not preferred by any banks, +11 preferred by all banks)



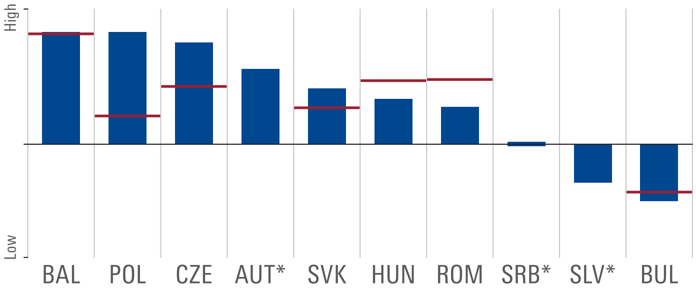
Source: KPMG Corporate Lending Sentiment Index 2011

"The enduring conflict between business volumes (loans granted) and risk management is shifting slowly in favour of business growth."

Bank representative, Czech Republic

Real estate projects are strategically more important to banks in the Baltic countries, Poland and the Czech Republic, while in the rest of the countries they had moderate importance, with none of the survey participants in any country indicating they had very low importance.

Strategic importance of real estate financing for banks



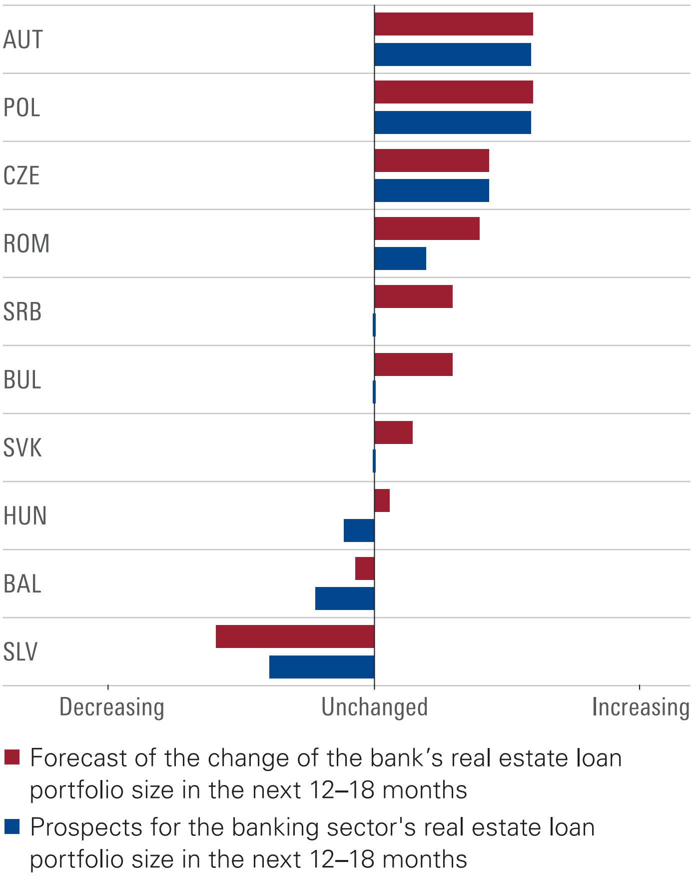
Source: KPMG in CEE Property Lending Barometer 2011
**Not included in CEE Property Lending Barometer 2010*

This highlights an increasingly positive sentiment in Poland and the Czech Republic since last year. However, in most countries banks are less enthusiastic about the long-term prospects of the real estate market and are continuing to monitor developments. Furthermore, the strategic importance of real estate financing may also reflect the fact that a number of banks have significant non-performing real estate loan portfolios that they have to manage.

The future of real estate loan portfolios

Bank sentiment towards real estate loan portfolio size varies greatly from country to country. As already observed, there is increasingly strong positive sentiment in Austria, Poland, the Czech Republic and up-and-coming Romania. In the remainder of the countries surveyed, banks expressed neutral or somewhat negative expectations, i.e. they expect the size of their real estate loan portfolio and those of other banks to decrease.

Banks' forecast of the change in size of the loan portfolios in the next 12–18 months



Source: KPMG in CEE Property Lending Barometer 2011

Like last year, Hungary's special case persists, where banks are slightly positive about the future of their own portfolios but negative about the banking sector as a whole.

Comparing the banks' future expectations with last year's results, there is a general improvement, especially in Romania and Bulgaria.

Overall, responses seem to link the prospects for real estate financing with the general macroeconomic outlook in each country. Hence, Austria and Poland lead the field, followed by the Czech Republic, while some of the countries lagging behind are closing the gap on the leaders.

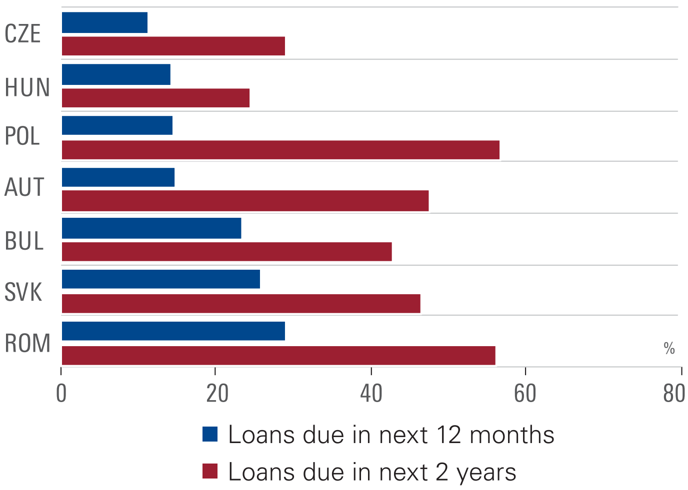
Banks were also asked to identify the key drivers affecting their real estate portfolio. The most significant factor is the macroeconomic environment of the local market. A lack of investors and lack of equity have also been identified as strong restricting factors.

The most important factors affecting real estate loan portfolios	
Macroeconomic conditions in the local market	•••••
Lack of active investors	••••
Lack of equity	••••
Lack of prime properties	•••
Macroeconomic conditions in Europe	••
Basel III	•

Source: KPMG in CEE Property Lending Barometer 2011

In terms of real estate loans maturing in the near future, 10%–30% of real estate loans are due within 12 months, and on average 43% of the loans are due within two years.

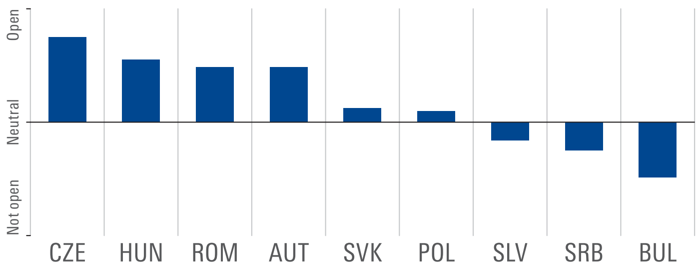
Proportion of real estate loans due within the next 12 months and in the next 2 years in selected countries



Source: KPMG in CEE Property Lending Barometer 2011

The willingness to refinance loans due within two years varies greatly across the countries. In the Czech Republic, Hungary, Romania and Austria, banks are reasonably open to refinancing while banks in Slovenia, Serbia and Bulgaria are less open.

Openness to refinance loans due in the next two years



Source: KPMG in CEE Property Lending Barometer 2011

Bank representatives were asked to comment on how Basel III regulations will impact their business. The majority responded that the new regulations would not significantly affect their real estate loan portfolio. However, in most countries banks expect an increase of the margins applied, which will make financing more expensive.

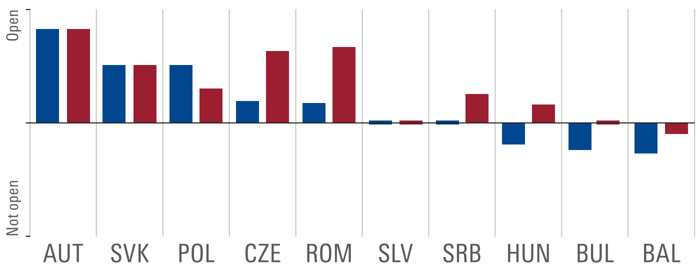
> **"In comparison to a few years ago, the need for developers' own equity to finance quality projects has increased."**
>
> *Bank representative, Czech Republic*

Opportunities for financing new real estate projects

This section discusses the opportunities for developers to obtain bank financing for real estate projects, as this is the most important issue that investors and developers must overcome in the current environment.

The majority of the banks interviewed were neither entirely open nor explicitly negative about financing real estate projects, with the exception of Austrian banks. Their approach to providing financing for real estate development projects continues to vary greatly across the region. The banks are still more interested in financing income-generating projects than development projects, even if openness to finance new developments has increased quite significantly in comparison to 2010.

Openness of banks to finance development / income-generating projects



Source: KPMG in CEE Property Lending Barometer 2011

Perhaps unsurprisingly, the most positive responses are from the four countries that have the highest proportion of fully compliant real estate loans: Austria, Slovakia, Poland, and the Czech Republic. Meanwhile, banks in Hungary are proportionally less open to real estate financing than their regional peers. In comparison to last year, banks are more open to real estate financing in general and new development (especially Poland) even if income-generating properties are still preferred (especially in Czech Republic and Romania).

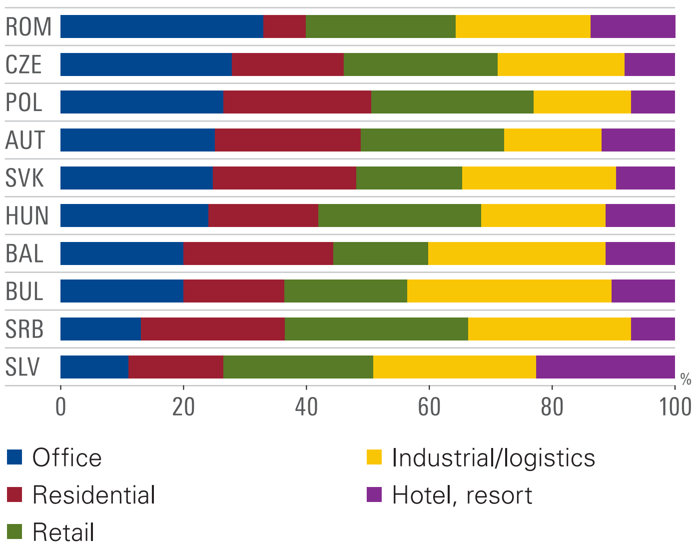
This confirms that Poland is in a different phase of the real estate cycle whereby new developments are preferred over income-generating properties.

Asset class preferences and interest premium

After reviewing banks' general openness to lending, a review of their preferred asset class in each country has been performed.

Preferences vary from country to country. In Hungary and Serbia, retail is the first priority, whilst in the Czech Republic, Poland and Romania the office sector is the most preferred. In Austria the office, industrial and retail sectors all share a similar degree of bank interest. In Bulgaria, Slovenia and the Baltic countries, the industrial/logistics sector is at the top of the priority list, whilst the hotel sector is generally the least preferred sector, except in Slovenia.

Banks' sector preferences in providing development financing by asset class



Note: the longer the coloured bar, the more preferred the asset class is.
Source: KPMG in CEE Property Lending Barometer 2011

Banks are increasingly open to finance prime projects

These preferences are a result of local supply and demand characteristics and the outlook of the individual sectors in each country. For example, in Bulgaria where the industrial/logistics sector is preferred, the vacancy rate for this sector is approximately 5.5% and rents are stable, compared to the office sector where vacancy rates are approximately 25% and rents are declining.[3]

On the other hand, in Slovenia where the hotel sector is regarded in a positive light, the number of tourist nights in H1 2011 was 6%[4] higher than in the same period last year.

In addition to sector preferences, banks were queried as to what loan interest premium they would apply on a 3-month Euribor basis, if a developer or investor of outstanding reputation and with a solid business plan approached them. As last year, average premium figures for the region vary significantly across countries.

For new development properties, the lowest loan interest premiums are in Austria, followed by the Czech Republic, Poland and Slovenia, which denotes their lower risk profiles and perhaps more competition from other banks to lend to highly rated real estate projects.

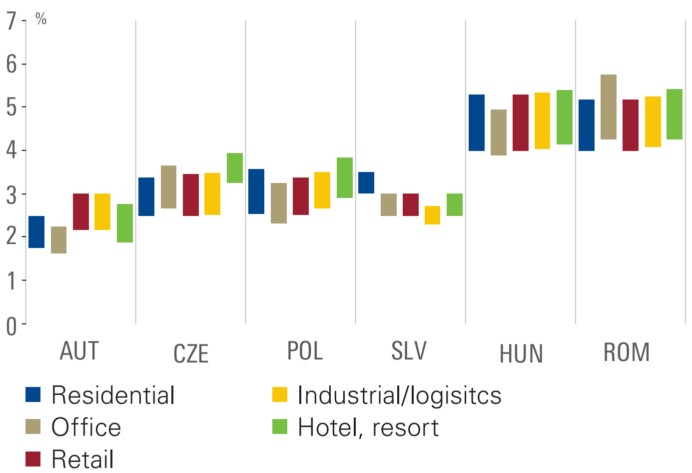
Banks were also queried as to what loan interest premium they would apply on a 3-month Euribor basis on high quality income-generating properties. Premiums also vary enormously across countries, with Austria, the Czech Republic, Poland and Slovenia providing the lowest premiums. However, there are no major differences across sectors, with retail and office projects having the lowest premiums at 4.32% on average, and the hotel sector having the highest premium of 4.41% on average.

In comparison, the premiums are lower for income-generating properties with the office and retail sectors having the lowest premiums at 4.32%, whilst the lowest premium for development properties was for the residential sector at 4.51%, perhaps reflecting the availability of upfront cashflow from buyers.

As for sectors, the hotel sector still has the highest premiums and the largest variance in responses.

New development properties

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



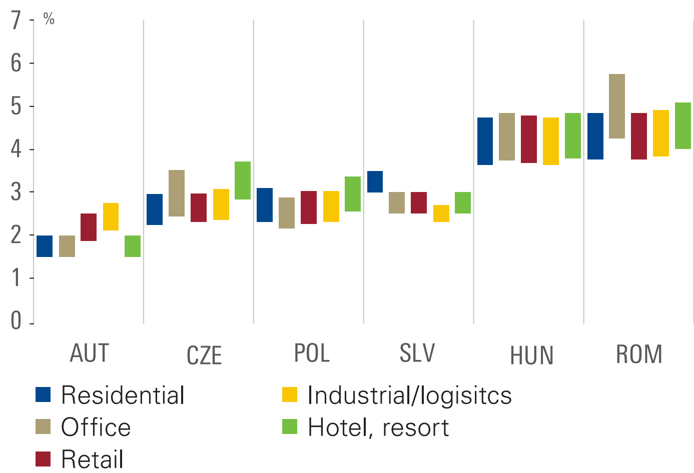
Note: A range defined by the minimum & maximum premium values across all sectors
Source: KPMG in CEE Property Lending Barometer 2011

Regional averages

Source: KPMG in CEE Property Lending Barometer 2011

Income-generating properties

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



Note: A range defined by the minimum & maximum premium values across all sectors
Source: KPMG in CEE Property Lending Barometer 2011

Regional averages

Source: KPMG in CEE Property Lending Barometer 2011

3 Source: MBL
4 Source: National Statistics

The variance in premiums may partly be explained by varying country risks, as reflected by credit default swap (CDS) values. Those countries perceived as high risk command the highest loan interest premiums.

CDS premium in surveyed countries (basis points)			
Country	End of August 2011	Country	End of August 2011
Czech Republic	108.9	Lithuania	261.8
Austria	119.0	Latvia	261.8
Estonia	128.5	Bulgaria	265.7
Slovakia	170.8	Serbia	309.5
Slovenia	194.6	Romania	311.8
Poland	219.2	Hungary	415.4
CDS premium in selected countries (basis points)			
Country	End of August 2011	Country	End of August 2011
USA	35.9	France	156.9
Switzerland	75.2	Russia	193.2
Australia	75.7	Italy	365.3
Netherlands	78.4	Spain	372.8
Germany	79.3	Portugal	1,035.3
United Kingdom	79.8	Greece	2,705.8

Source: Thomson Reuters (average of 18 market maker spreads, 5Y senior CDS, end of day composite prices, USD)

Criteria for financing

Having seen how open banks are to financing properties, and their sector preferences, the following section reviews the criteria considered for selecting projects to finance.

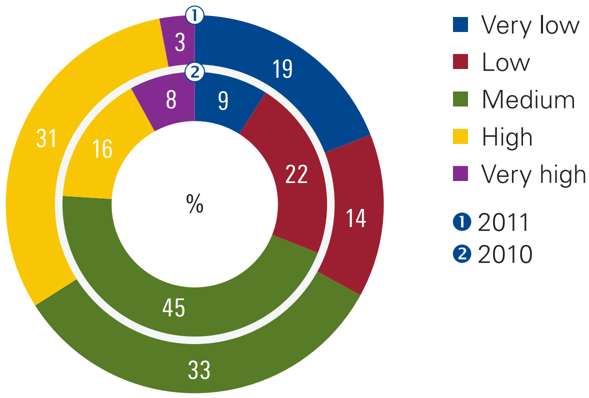
In terms of inputs to the decision making process, participating bank representatives stated that a strong business model and a high quality of assets were the most important considerations, together with the level of equity provided by a developer or investors. The top criteria have not changed since last year.

Banks' most important criteria for considering real estate financing	
Strong business model/Quality of the asset	●●●●●
Level of owner's equity	●●●●●
Financial background of the developer	●●●●
Reputation and references of the developer/operator	●●●●
Preletting/pre-sale level	●●●●
How well the project is planned, status of permitting process	●●●
Existence of an independent feasibility study/valuation	●●

Source: KPMG in CEE Property Lending Barometer 2011

Independent valuation is still important, as just over two-thirds of participating banks continue to report medium to very high reliance on valuations provided by external service providers.

Banks' reliance on valuations provided by external service providers



Source: KPMG in CEE Property Lending Barometer 2011

Banks were asked to spell out their technical criteria for financing. When questioned about loan-to-cost ratios, the responses differed greatly across each country. The office, residential, retail and industrial/logistics sectors have an overall loan-to-cost ratio of 0.6–0.7 (i.e. reflecting a capital structure of 60%–70% debt and 30%–40% equity). The hotel sector is the one sector requiring more equity.

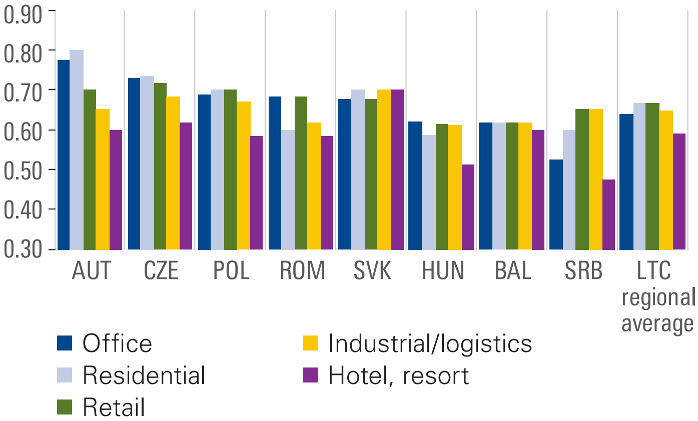
The banks are open to higher LTC ratios since last year due to overall better operating performance. In H1 2011 Jones Lang LaSalle Hotels announced that hotel investment volumes in the EMEA region had reached EUR 3.4 billion, a 73% increase on the same period last year.

The loan-to-value ratios applied to income-generating properties differ greatly across each country. The office, residential, retail and industrial/logistics sectors have an overall loan-to-value ratio of 0.67–0.7. Ratios for the hotel properties are slightly lower, close to 0.64 on average, with much greater variance across countries.

Comparing both the loan-to-cost and loan-to-value ratios, on average the sector loan-to-value ratios are only slightly higher.

New development properties

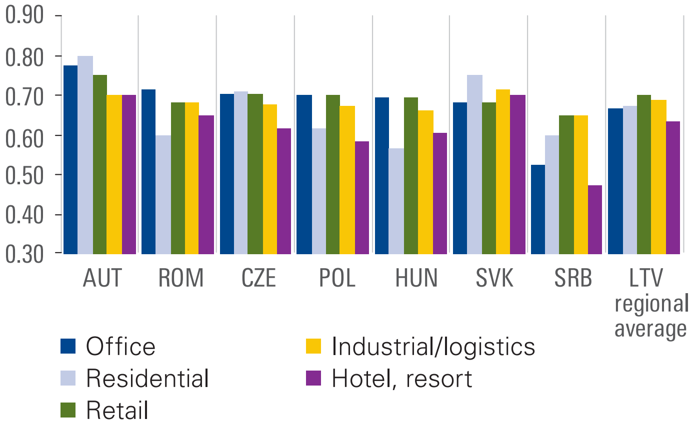
Loan-to-cost (LTC) ratio expectations for financing highly rated real estate development projects in the next 12–18 months



Source: KPMG in CEE Property Lending Barometer 2011

Income-generating properties

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



Source: KPMG in CEE Property Lending Barometer 2011

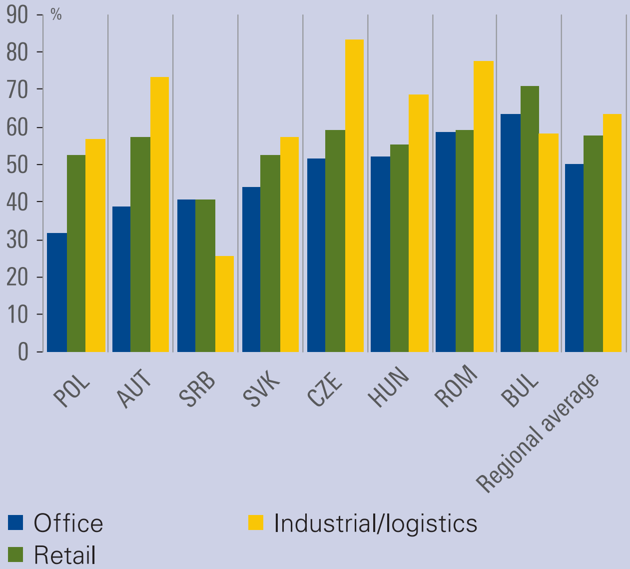
Since the global financial crisis, banks have become more risk averse and increased their criteria for pre-let and presale ratios. The expected ratios vary greatly across countries and sectors. The Czech Republic has the highest ratios on average, closely followed by Austria and Romania.

The average pre-let ratios for the office and retail sectors are approximately 50%–57% respectively. For logistic projects, banks typically expect minimum pre-let ratios above 60%. In general, most logistic projects are built to suit specific tenant requirements. Austria and Poland have wider ranges due to lower office pre-let ratios. For the pre-sale ratio of residential projects, expectations range between 35%–40%.

The debt service coverage ratios expected for income-generating projects initiated by investors with an excellent reputation and a sound business plan has also been examined.

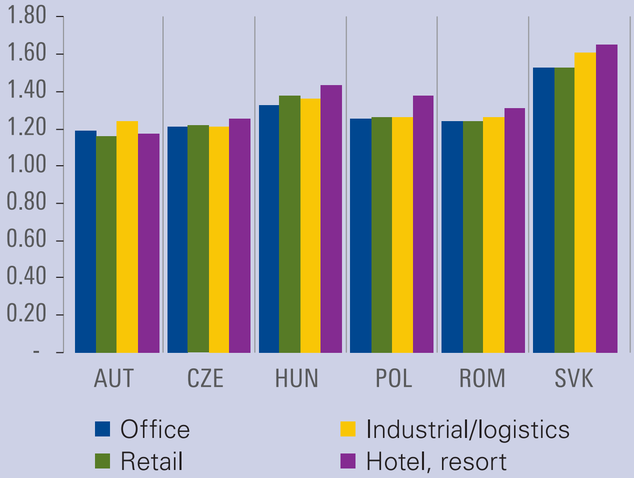
In all countries, the hotel sector ratios tend to be higher than for any other asset class.

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



Source: KPMG in CEE Property Lending Barometer 2011

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



Regional averages

Source: KPMG in CEE Property Lending Barometer 2011

Property Financing Sentiment Index

In conclusion, KPMG's Property Financing Sentiment Index illustrates how positively banks approach the financing of real estate projects in each country covered by this survey.

This year, the index was calculated using responses to the following 10 issues:

- An increasing or decreasing change in focus on real estate financing within the bank's lending activities compared to one year ago
- Proportion of fully compliant, minor impaired and seriously impaired real estate loans per country
- Proportion of impaired loans that are perceived as being able to be managed successfully through restructuring
- Expected change (increase or decrease) in size of real estate loan portfolios in the next 12–18 months (measured by two questions)
- Openness of banks to finance new development projects
- Openness of banks to finance income-generating properties
- Loan interest premium applied by banks for quality real estate projects[5]
- Loan-to-cost ratio expected by banks for quality real estate projects[5] in the next 12–18 months
- Pre-let ratio applied by banks for quality real estate projects[5] in the next 12–18 months
- Debt service coverage ratio applied by banks for income-generating properties.

Based on a ranking of the ten countries for each one of the 10 issues assessed, the following scores were achieved[6]:

Property Financing Sentiment Index 2011

Overall ranking	Country	Index score
1	Austria	1.36
2	Czech Republic	3.36
3	Poland	3.68
4	Slovakia	4.86
5	Romania	5.32
6	Serbia	5.77
7	Hungary	7.00
8	Bulgaria	7.23
9	Slovenia	7.50
10	The Baltics	8.30

As is apparent from KPMG's Index, Austria's score is far ahead all other countries, followed by the Czech Republic and Poland. In these countries, banks are more positive about financing real estate projects than elsewhere in the region. Meanwhile, Hungary has a lower position than last year whilst Romania has improved significantly.

As overall economic performance of countries in the CEE region starts to improve, the availability of bank financing will play a crucial role in the recovery of the real estate sector in the region.

The results show that there is financing available for high quality real estate projects, and the financial sentiment is more positive in countries that have more solid macroeconomic performance.

5 Quality projects have been defined in our survey as follows: a project initiated by a developer/investor with an outstanding reputation and a solid business plan.

6 Countries were ranked based on their results for each of the 10 issues to determine the Property Financing Sentiment Index for each country. First place was awarded to the country showing the most positive result in relation to each given issue, while the bottom place was assigned to the country with the most negative result for the same issue. The arithmetical average of the sum of the 10 rankings of each country was finally calculated to determine the position in the Index.

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