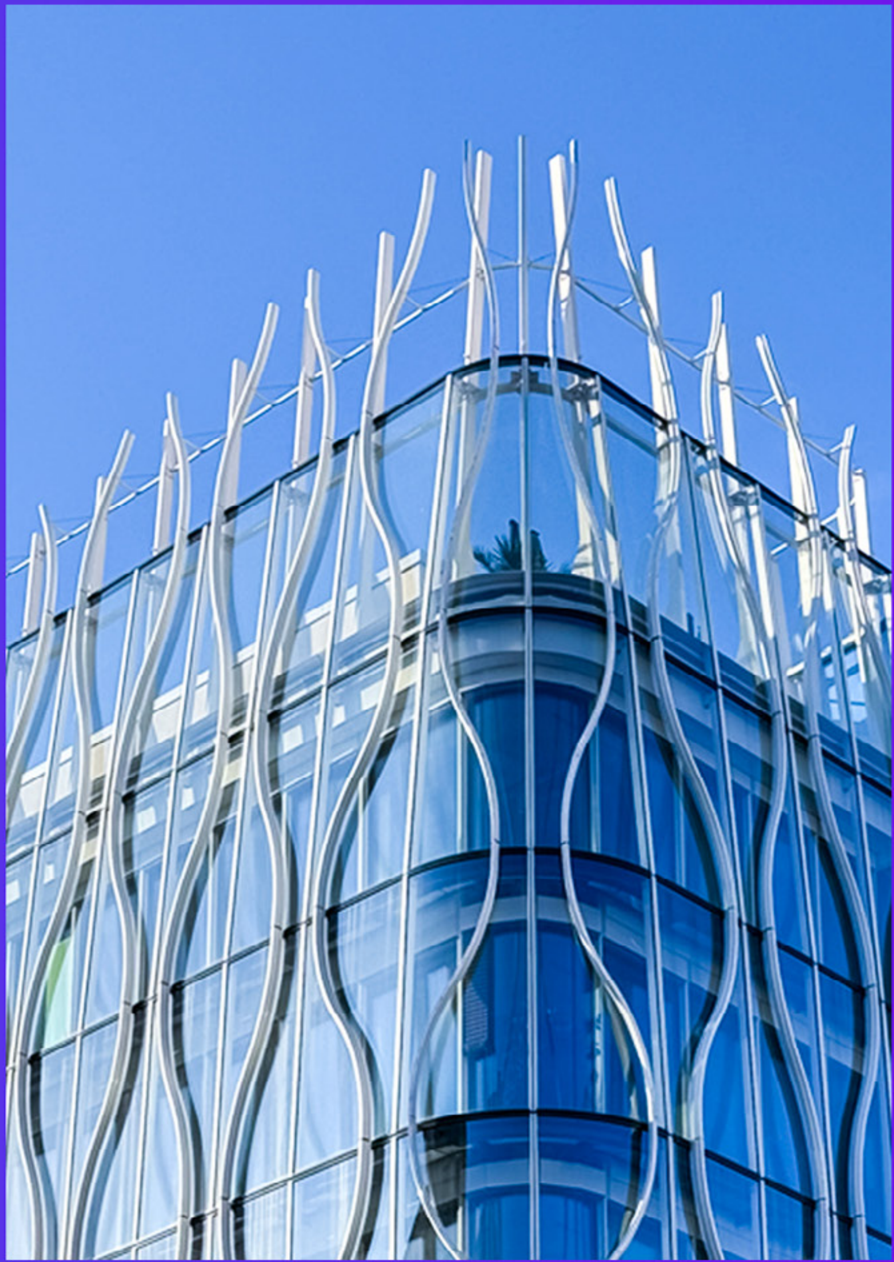
Property Lending Barometer 2024



A survey of banks on the prospects for real estate sector lending in Central and Eastern Europe

15 Years of Insights: Property Lending Barometer

Analysing real estate financing since 2010

This year has been a journey of gradual recovery and optimism as we observed small yet steady steps toward brighter prospects. We are witnessing a slow but noticeable revival of the real estate market, marked by positive trends in investments, interest rates, financing conditions, and broader market dynamics, all of which signal a promising outlook for real estate and bank lending. The CEE region stands out as a land of opportunity, especially as yields in Germany and Western Europe have crystallized, gradually increasing and beginning to converge with those in the CEE region.

At the same time, while these indicators suggest a continuous recovery of the economy, it would be prudent for us to remain vigilant. While there are encouraging signs of improvement across the CEE region, it is important to remain mindful of potential risks that may still exist and to address them effectively. Geopolitical dynamics continue to pose significant challenges, particularly the ongoing war in Ukraine, which has global repercussions and affects CEE countries more directly. There has also been a noticeable polarization of the world through other major events, such as the U.S. presidential election and the crisis in the Middle East. As we journey through these tricky times, let's embrace the rising tide of optimism while keeping our eyes peeled.

The objective of this report is to assess the prospects and sentiment for bank financing in the real estate sector, drawing on insights from bank representatives across nine CEE countries. The 2024 Property Lending Barometer incorporates contributions from 43 banks, gathered through online questionnaires and in-depth interviews. Representatives of leading financial institutions have shared their views on the critical issues shaping property lending in the region.

The first section of the report offers a comprehensive overview of the Central and Eastern European market, focusing on the strategic importance of real estate financing for banks. It also explores key areas such as average contracted loan terms across banks and how these have evolved, the prospects for new financing opportunities, and banks' preferences regarding asset classes.

As in previous years, we continue to dedicate a section of the report to ESG considerations and their influence on the financing of real estate. In this year's edition, for the first time in our publication's history, we have taken the initiative to explore and attempt to capture the sentiment surrounding technology and artificial intelligence in property lending. It appears that these technologies are becoming more and more influential across a variety of industries around the globe and are also making their mark in the financial and real estate sectors.

We then transform our findings into the Property Lending Barometer, a sentiment indicator for property lending in the CEE region. This barometer offers insight into the prevailing sentiment within the sector, allowing us to gain a perspective on how it compares to the previous year.

A huge thank you to everyone who took part in this year's survey! Your help was essential to the success of this project, and we couldn't have done it without you! We hope this report will not only provide meaningful insights but also prove to be a valuable tool as you navigate the evolving landscape of real estate financing. Should you require clarification or wish to discuss this year's findings further, please do not hesitate to contact us.

Pavel Kliment

Partner, Chief Operating Officer
Head of Real Estate Practice in Czech Republic

Content

Methodology and sample profile

METHODOLOGY AND SAMPLE PROFILE

Our survey provides an analytical overview of the current approach of banks towards real estate financing in Central and Eastern Europe. The following countries are represented in the 2024 survey: Bulgaria, Croatia, Czechia, Hungary, Poland, Romania, Serbia, Slovakia, and Slovenia. Survey data was primarily collected via online questionnaires and through in-depth interviews with bank representatives. Depending on the organisational structure of the survey participants, we interviewed the heads of real estate, project financing, or risk management departments. The selected banks represent the leading financial institutions operating in each individual country. In total, 43 banks took part in the survey, all of them active in the real estate market in Central and Eastern Europe over the last year.

Data collection for this survey was conducted in October and November 2024. In 2022 and earlier, data collection was conducted in September and October.

The survey also uses information obtained from public sources KPMG deems reliable. This information includes market reports and data published in 2023 and 2024 by Colliers, Cushman & Wakefield, Savills, CBRE, Eurostat, the Economist Intelligence Unit, the European Central Bank, UniCredit Group, ING THINK, the International Monetary Fund, the central banks and statistical offices of individual countries, tradingeconomics.com, the Vienna Institute for International Economic Studies, the OECD, the European Commission and Real Capital Analytics.

The following limitations should be considered:

- When the answers to specific questions were not sufficient to provide reliable information on a specific country, we either indicate this in the text or have omitted this country from that part of the analysis.
- Survey findings may be considered indicative but not representative.
- Just like in the previous years, our assessment of the residential sector does not include residential projects with construction costs under 10 million euros.

GEOGRAPHIC ABBREVIATIONS:

BUL – Bulgaria;

CEE – Central and Eastern Europe;

CRO – Croatia;

CZE – Czech Republic;

HUN – Hungary;

POL – Poland;

ROM – Romania;

SLO – Slovenia;

SRB – Serbia;

SVK – Slovakia

01

Real estate market overview

ECONOMIC OUTLOOK

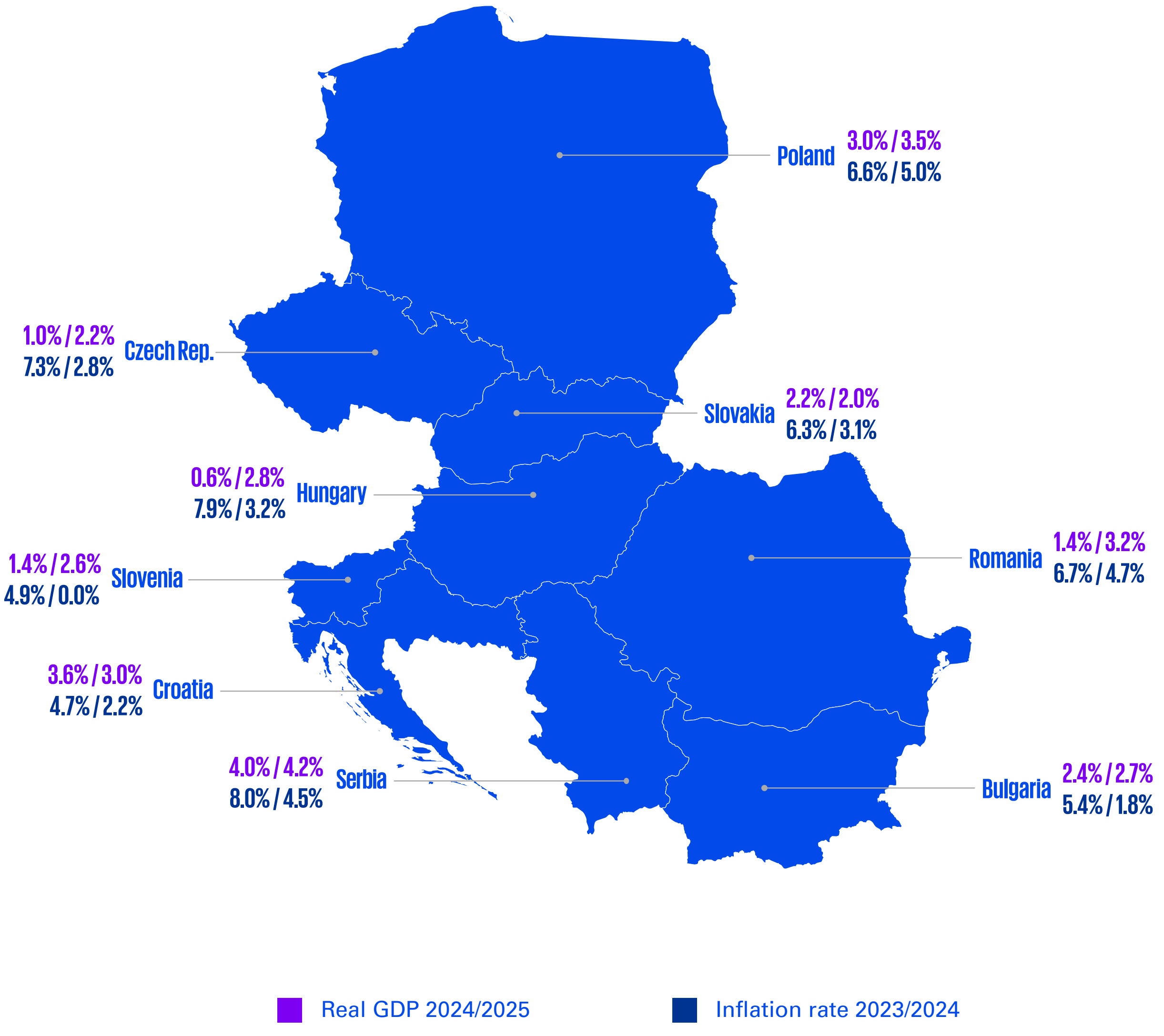
After a year of stalled growth, the European economic landscape is gaining momentum on its path to recovery. Spurred by a steady rise in real wages, labour market stability, and a sharp decline in energy prices, the EU economy in the third quarter of 2024 reached a 0.9% GDP growth rate. The EU Commission projects GDP growth to reach 1.0% by year-end; as investment picks up with the gradual loosening of interest rates, private consumption expands, and trade balances continue to recover. The economic outlook also incorporates key factors stalling the pace of growth, including the transient effects from the past year, driven by tight monetary conditions and precautionary saving patterns. Furthermore, the current geopolitical situation presents two significant risks to sustainable economic growth in the EU - trade and energy vulnerabilities, exacerbated by the ongoing conflicts in Ukraine and the Middle East - and the heightened potential for trade conflicts and tariff hikes following the US presidential election.

Real GDP in the economies of the Central and Eastern European region (CEE) is expected to grow by an average of 2.5% in 2024. The combination of rising real wages and a tight labour market continues to play a pivotal role in the region's economic recovery, though intra-regional disparities are significantly shaped by the degree of fiscal spending. Most notably, Poland has experienced real GDP growth from 0.2% to 3% over the past year, fuelled by strong public investment and household transfers, while Czechia, Hungary, and Romania are unlikely to reach 2% growth in real terms. However, the differences in policy objectives are partly driven by asynchronous election cycles, with public spending in Czechia and Hungary expected to rebound in 2025.

According to the International Monetary Fund, the CEE labour market remained tight in the first half of 2024, with an unemployment rate at 4.9%, below the EU average. Despite a weaker manufacturing performance and the ongoing recession in Germany, companies in the CEE region adopted labour hoarding strategies, while greater labour flexibility and net positive migration helped offset shortages in key service sectors. Stable labour conditions and steady nominal compensation per employee have contributed to a real increase in purchasing power across most CEE countries. Labor market resilience and the expected rise in real wages across the EU are set to be key drivers of growth in disposable income in 2025.

In the forecast horizon, fiscal policy in CEE is expected to have a greater impact on inflation. CEE economies with high budget deficits are projected to see a marked increase in the consumer price index in 2025, including Poland (4.5%), Hungary (3.5%), and Slovakia (5.1%). In contrast, countries with tighter fiscal policies such as Bulgaria, Czechia and Croatia are expected to keep inflation below 3%. Given that the region's energy consumption has declined by 10% and energy inflation is expected to have only a marginal effect on EU price dynamics, the Spring European Forecast estimates that food, non-energy industrial goods, and wage pressures will be the main inflationary drivers.

REAL GDP FORECAST 2024/2025 AND INFLATION 2023/2024



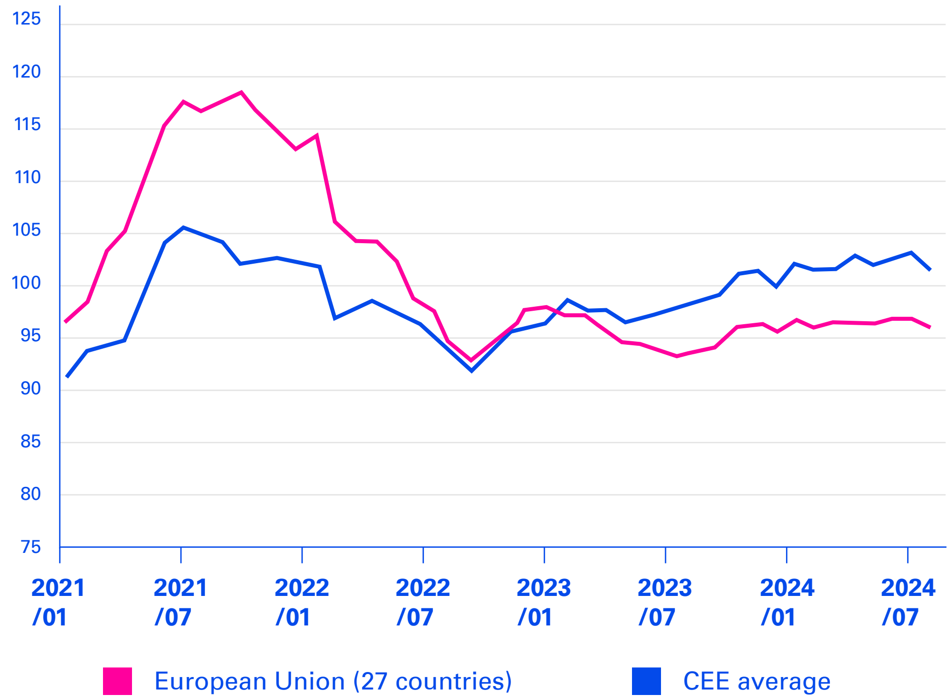
Sources: Statistical offices, European Economic Forecast

ECONOMIC SENTIMENT

We have also focused on the Economic Sentiment Indicator (ESI) published by Eurostat, to provide additional insights into the broader economic sentiment within the European Union. ESI is a composite index that measures the overall economic confidence or sentiment in a particular region or country. It is derived from a variety of surveys that gather opinions and expectations from businesses and consumers about the state of the economy. The ESI combines indicators from different sectors, such as industry, services, retail trade, and consumer confidence, to provide a broader picture of the economic outlook.

In 2024, the Economic Sentiment Indicator for most of CEE countries remained above the EU-wide average, reflecting a more positive economic outlook for the region. The average ESI for CEE countries surpassed the neutral 100 threshold.

ECONOMIC SENTIMENT INDICATOR

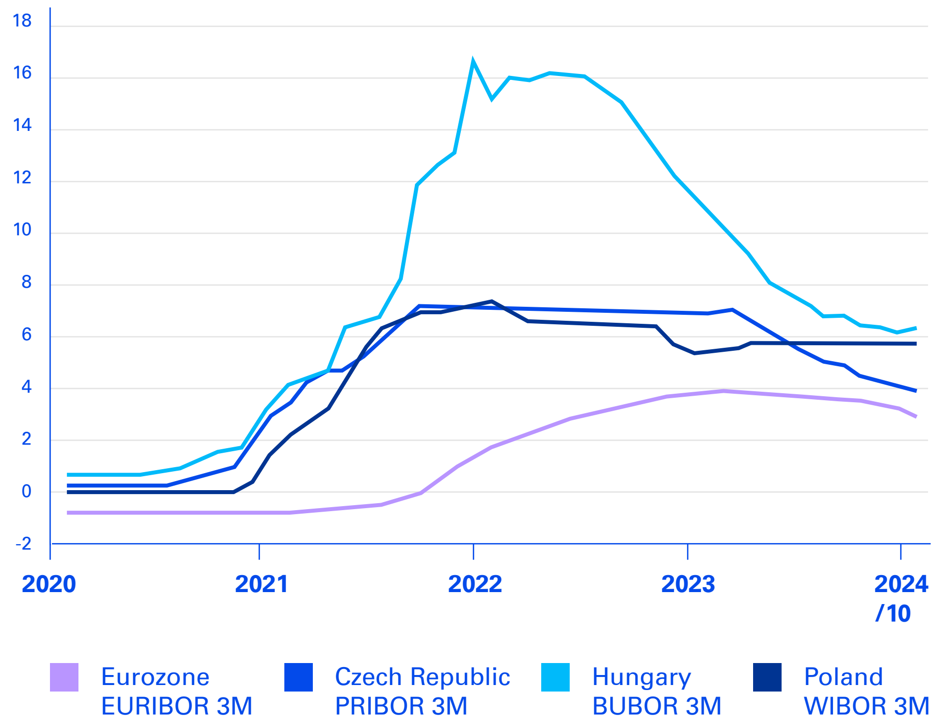


Source: Eurostat

BANK LENDING

At its November meeting, the European Central Bank (ECB) expressed an increasing willingness to explore the possibility of cutting interest rates. Although energy prices are falling, which is expected to alleviate inflation, officials remain cautious about ongoing domestic issues like strong wage growth and low labour productivity, which may sustain inflationary pressures. Despite an improved outlook for inflation, the ECB emphasised the importance of waiting for more robust data before making any policy changes. They stressed that the decision to lower rates would hinge on clear evidence of easing inflation and a stable economic forecast, underscoring a measured and data-driven approach.

KEY INTEREST RATE (THE LOWEST) OF SELECTED CENTRAL BANKS 2020-2024 (IN %)



Source: Central banks, European Central Bank

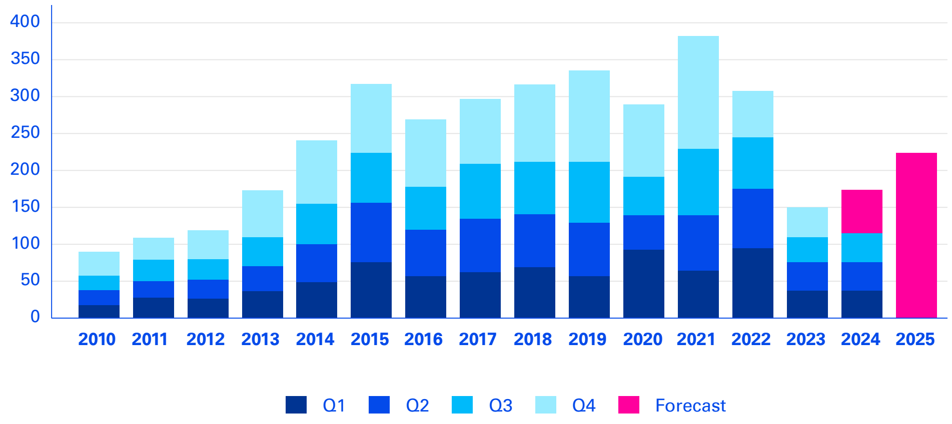
REAL ESTATE MARKET IN CEE

According to Savills Q3 2024 European Investment Report, average European yields remained relatively stable during the third quarter, with some inward yield shifts observed in prime logistics and CBD (central business district) office markets, suggesting that prices may be approaching their bottom. Over the next six months, yields are expected to stay stable across Europe, with more significant compression anticipated for logistics assets and to a lesser extent retail parks. In contrast, shopping centres may experience a slight increase in yields. Similarly, CBRE's Q3 2024 CEE Real Estate Investment Report reflects a consistent outlook for the CEE region, where prime yields have remained stable compared to earlier in the year. The yield spread between the current period and the previous year has narrowed, and this trend is expected to continue as the European real estate financing market shows signs of recovery. Long-term interest rates have started to decline, with further moderate decreases expected in the coming months.

INVESTMENT VOLUMES

The European investment market experienced a mixed third quarter, with subdued activity in July and August but growing indications of recovery, as stated in Savills' Q3 2024 European Investment Report. Total investment volumes for Q1—Q3 2024 reached €113.3 billion, marking a 5% annual rise while remaining 41% below the five-year Q1–Q3 average.

EUROPEAN INVESTMENT VOLUMES (IN BILLION. EUR)

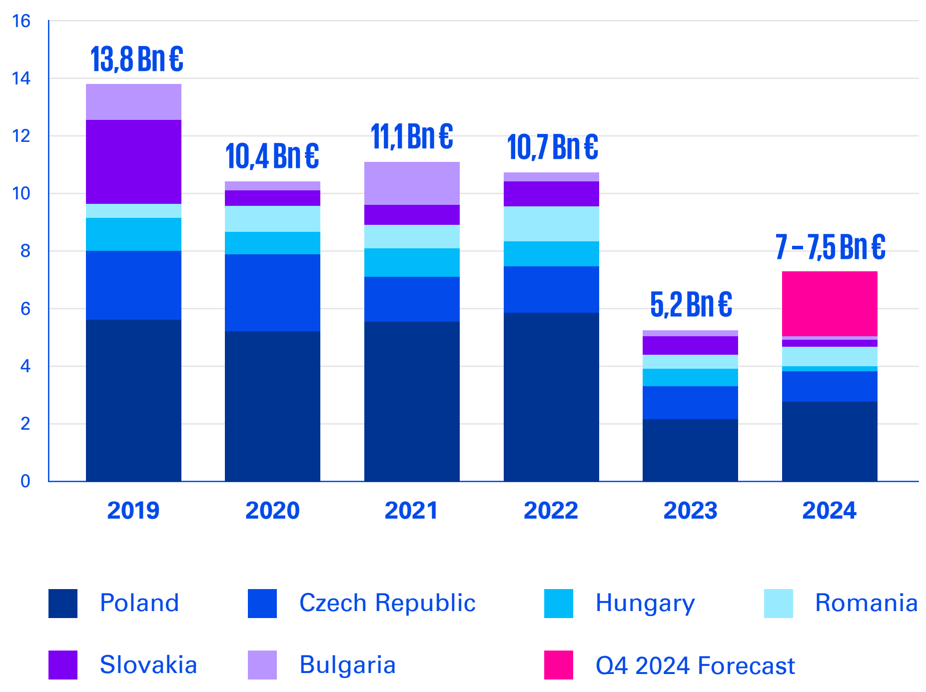


Source: Savills

CEE has demonstrated remarkable resilience compared to other parts of Europe, even as the broader European investment market faced a subdued quarter. While signs of a potential recovery are emerging, the CEE-6 countries (BUL, CZE, POL, HUN, ROM, SVK) are expected to close the year with investment volumes up by approximately 40% year-on-year. However, these volumes are still projected to remain around 30% below the five-year average, as stated in the Q1—Q3 2024 CEE Investment report from Colliers.

Within the region, performance varied significantly by country. Romania and Poland led the way with the largest increases in investment activity, while Slovakia and Hungary saw declines. The Czech Republic also experienced a downturn, but its decrease was relatively moderate at around 10%.

CEE-6 INVESTMENT VOLUMES BY COUNTRY (2019 – Q3 2024)

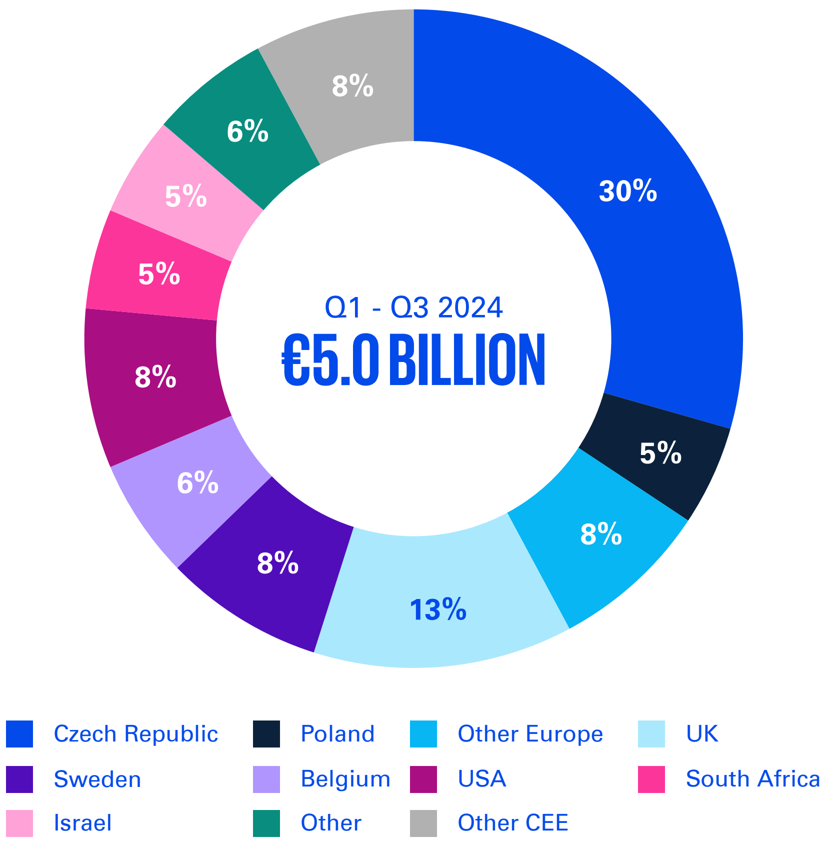


Source: Colliers

CEE INVESTOR STRUCTURE IN Q1–Q3 2024

According to Colliers, in Q1–Q3 2024, CEE capital remained the leading driver of regional investment activity but dropped to represent less than half of the total volumes. Czech investors claimed the largest portion, accounting for 30% of the overall share. European investors followed closely, with UK capital playing a prominent role, contributing 13% of the total regional investment.

CEE FLOWS BY ORIGIN OF BUYERS (%)

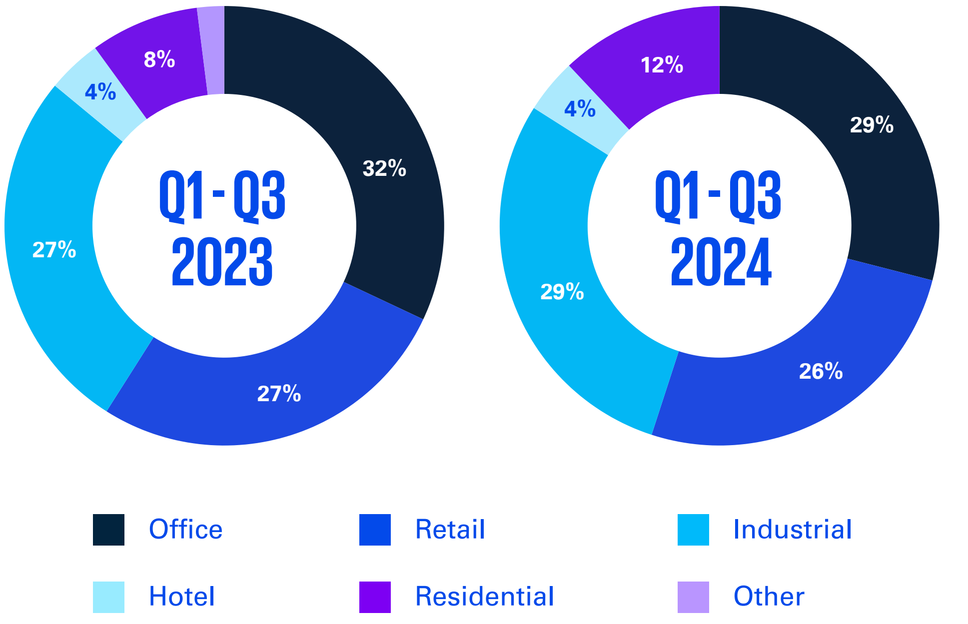


Source: Colliers

CEE INVESTMENT BY SECTOR

As indicated by data from Colliers and CBRE, office transaction volumes continue to decline, a trend observed both globally and across the CEE region. In the first three quarters of 2024, office properties and industrial and logistics (I&L) assets each accounted for just under 29% of total investment volumes, reflecting a relatively balanced distribution between these two segments. Retail assets followed closely, contributing 26% to total investment volumes, similar to the previous year. Meanwhile, the residential sector experienced a notable increase in investment activity, with its share of total real estate investment volumes rising from 8% to 12%, gaining momentum amid the broader slowdown in office transactions.

CEE INVESTMENT BY SECTOR 2023-2024



Source: Colliers

YIELD TRENDS

Following a period of growth, prime yields in the CEE region began to stabilize towards the end of 2023. From the beginning of 2024, they remained relatively stable. This shift suggests that the market has undergone significant adjustments, aligning yield levels more closely with current economic trends. The deceleration in yield movements indicates that the market may be reaching a new phase of equilibrium, as investors begin to reassess their expectations and risk-return profiles in response to the changing economic environment. This stabilisation reflects a period of recalibration, where key players in the market are re-evaluating strategies in response to changing factors with a focus on long-term sustainability and stability.

COUNTRY /REGION	OFFICE PRIME YIELDS 3Q/2024	YEAR ON YEAR CHANGE (BP)	INDUSTRIAL YIELDS 3Q/2024	YEAR ON YEAR CHANGE (BP)	HIGH STREET RETAIL YIELDS 3Q/2024	YEAR ON YEAR /CHANGE (BP)
Czech Republic	5.75%	50	5.15%	15	4.50%	-100
Poland	5.75%	25	6.50%	50	6.55%	25
Slovakia	6.25%	0	6.25%	0	5.75%	0
Hungary	6.50%	75	7.00%	50	7.00%	25
Romania	7.25%	10	7.50%	15	7.25%	10
Bulgaria	7.75%	0	7.50%	0	5.25%	0
CEE	6.30%	32	6.48%	26	6.21%	-8
Europe overall	5.50%	38	5.31%	22	4.88%	13
Germany	4.86%	44	4.50%	20	4.39%	29
UK	6.41%	58	5.25%	9	5.08%	8

Source: Cushman & Wakefield

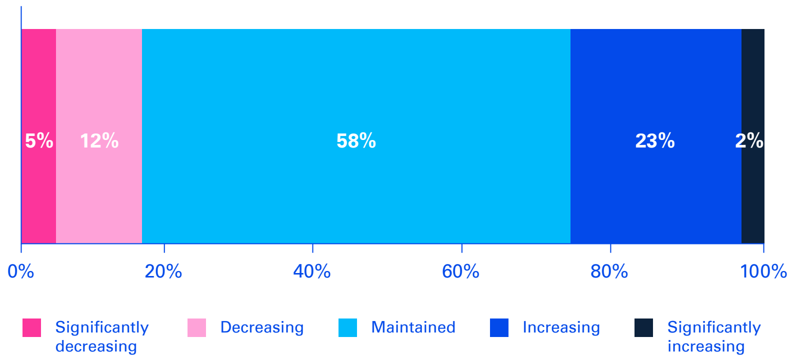
02

Prospects for real estate loan portfolios

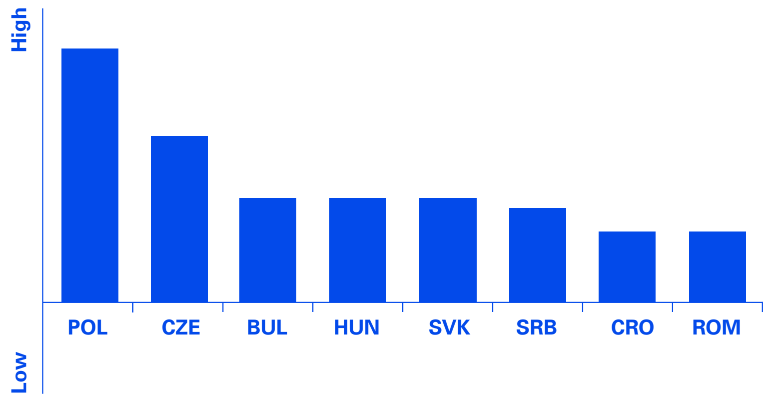
Banks have shown a growing interest in financing commercial real estate compared to the previous year. In 2024, 25% of surveyed bankers indicated an increased focus on real estate financing, up from 19% in 2023. However, this figure remains below the 43% recorded in 2022, when interest in the sector was at its peak. Conversely, 17% of respondents reported a declining interest in this area for 2024, while the majority — 58% — stated that their level of interest has remained unchanged.

Regional differences were also noted. In Bulgaria and Romania, some bankers reported a waning interest in real estate financing. Meanwhile, Poland saw a rise in the strategic importance of this sector compared to the previous year. Among the surveyed banks, respondents from Poland ranked real estate financing as having the highest strategic importance, surpassing last year's leader, the Czech Republic. For the remaining countries, the importance of real estate financing remains at a similar level as last year.

FOCUS ON REAL ESTATE FINANCING WITH THE BANK'S LENDING ACTIVITY COMPARED TO ONE YEAR AGO



STRATEGIC IMPORTANCE OF REAL ESTATE FINANCING FOR BANKS 2024



Source: KPMG Property Lending Barometer 2024

KEY FACTORS

Survey participants highlighted the key factors influencing their banks' real estate portfolios. At present, macroeconomic conditions in local markets have the most significant impact on banks and their approach to financing commercial real estate, with broader European macroeconomic conditions taking second place.

The most significant change compared to last year is the decreased impact of increased financing costs. A factor that was deemed the most critical in 2023 no longer holds the same level of priority. With the inflation stabilizing in 2024, interest rates have been decreasing across all relevant central banks in Europe. Thus, activities of central banks have a lower priority as a factor.

Environmental, Social, and Governance (ESG) considerations and the implementation of new strategic priorities feature prominently on banks' agendas. Both have gained considerable importance compared to the previous year, where those two factors have surpassed the lack of prime properties and active investors. This shift is largely attributed to the growing number of mandatory requirements introduced by ESG regulations, including the EU Taxonomy and the Corporate Sustainability Reporting Directive (CSRD). Additionally, the uncertain macroeconomic outlook across Europe has further influenced these changes in priorities, compelling banks to adapt their strategies accordingly.

With the evolving geopolitical situation, the war in Ukraine has once again become a factor that, although with limited impact, remains on the radar of banks as an area of consideration.

Macroeconomic conditions in the local market	★★★★★
Macroeconomic conditions in Europe	★★★★
ESG	★★★★
New strategy	★★★
Lack of prime properties	★★
Lack of active investors	★★
High level of construction costs	★★
Increased property values	★★
Increased financing costs	★★
Activities of European Central Bank / National Banks	★
Conflict in Ukraine	★
Lack of equity	★
Exposure limits for individual investors / developers	★

Source: KPMG Property Lending Barometer 2024

ALTERNATIVE FINANCING

Survey respondents continued to express a predominantly negative stance toward providing alternative forms of financing for real estate projects, such as junior or mezzanine loans. Over 92% of respondents indicated they are unwilling to consider these options, underscoring a strong preference for traditional senior loans compared to last year's 81%. The most negative feedback came from banks in the Czech Republic, Hungary, and Romania.

In contrast, there was a more favourable view toward syndicate loans, with roughly 70% of respondents indicating a willingness to participate in such arrangements, compared to roughly 60% of respondents in 2023. Banks in Croatia, Slovakia, and Poland demonstrated the highest levels of openness to syndicated lending.

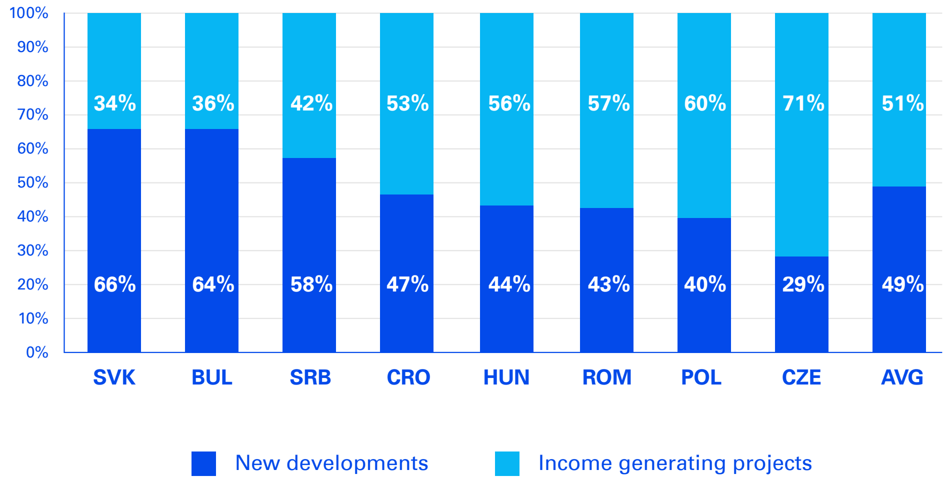
03

Opportunities for financing new real estate projects

Participants in the survey revealed their attitudes toward the opportunities associated with bank financing of real estate projects. The majority of respondents expressed stable views regarding the financing of new developments, indicating that most banks maintain a positive stance on this issue.

An increase in portion of new development can be observed in countries such as Slovakia, Bulgaria and Hungary. Serbia has experienced a slight decline in the portion of new development financing. The Czech Republic remains a country with the lowest volume of new development financing even though a slight increase is noted. On average, the proportion of financing new development and income generating project remain stable compared to the previous year. However, this year, both categories are more balanced.

TOTAL VOLUME OF REAL ESTATE BANK LOANS



AVERAGE LOAN SIZE

Approximately 11% of respondents confirmed that the average loan amount has decreased compared to last year, with the majority of these respondents being from Slovakia and Hungary. On the other hand, 39% of bankers reported an increase in the average loan amount, reflecting a slight rise compared to the previous year.

PORTFOLIO SIZE FORECAST FOR NEXT 12-18 MONTHS

Over 58% of surveyed bankers are confident that their real estate loan portfolios will expand over the next 12 to 18 months. The most optimistic outlook comes from bankers in the Czech Republic, where all surveyed banks anticipate growth in their real estate portfolios. In contrast, bankers in Bulgaria are more pragmatic, with the majority expecting a decline in portfolio size. However, compared to the previous year, this anticipated decrease is expected to be less severe, while the projected increase in portfolio size is forecasted to be more substantial. This shift reflects a more positive outlook for growth in some markets, despite concerns in others.

CRITERIA FOR FINANCING

Bank representatives participating in the survey outlined the most important criteria for selecting real estate projects for financing. Consistent with previous years, the findings confirm that in most countries, the two most critical factors for securing real estate financing are a robust business model and the high quality of the underlying assets. These criteria underscore banks' continued focus on mitigating risk and ensuring long-term project viability when evaluating financing opportunities.

BANKS' MOST IMPORTANT CRITERIA WHEN CONSIDERING REAL ESTATE FINANCING

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

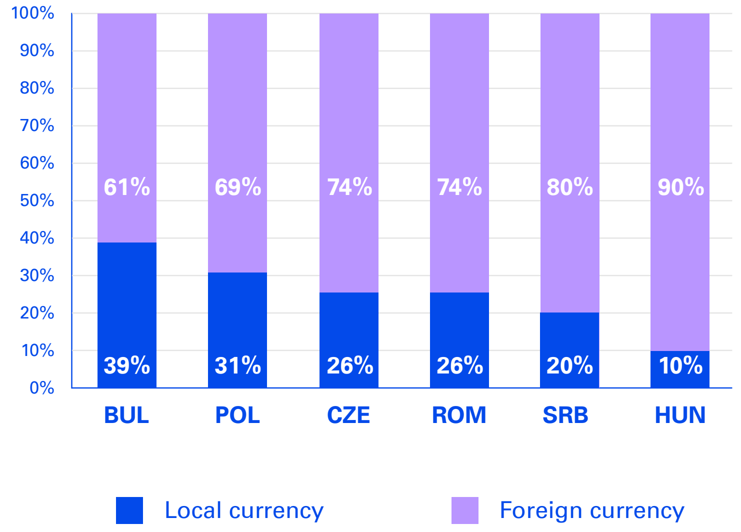
BANK LOANS IN OTHER THAN DOMESTIC CURRENCY

None of the surveyed banks operating with a domestic currency other than the Euro reported providing a higher volume of loans in their domestic currency compared to foreign currency. In a year-on-year comparison, 78% of respondents indicated no change in the percentage of loans issued in domestic currency. This stability can likely be attributed to the significant growth in domestic currency lending observed in previous years, as well as the rising EURIBOR and a partial decline in benchmark interest rates in some countries within the region. However, a comparison of the data reveals a slight increase in the share of loans issued in local currency at the average country level, with the most notable increase observed in Romania.

BENCHMARK INTEREST RATE

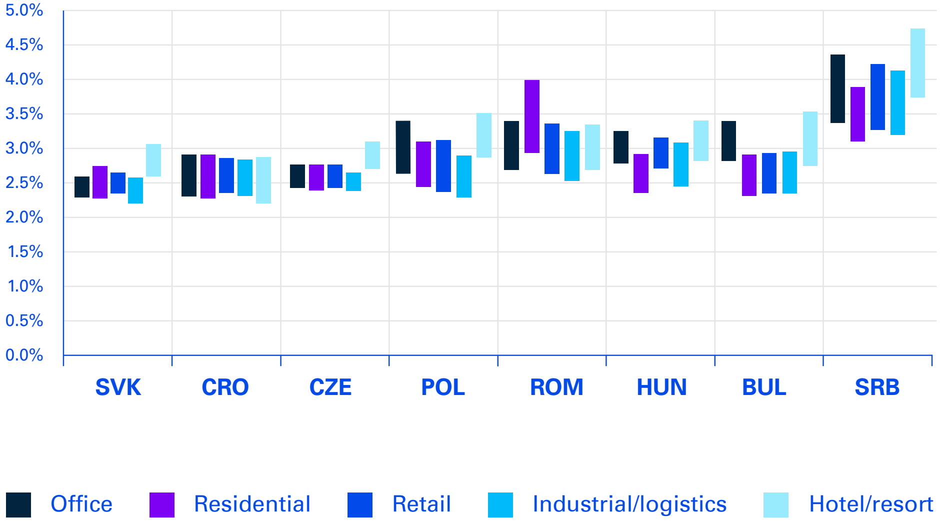
CURRENCY AREA	BENCHMARK RATE	DEC.,2023	VARIANCE TO EURIBOR	OCT., 2024	VARIANCE TO EURIBOR2
Eurozone	3M EURIBOR	3.88%		3.25%	
Czech Republic	3M PRIBOR	6.77%	2.89%	4.05%	0.80%
Romania	3M ROBOR	5.94%	2.06%	5.25%	2.00%
Poland	3M WIBOR	5.88%	2.00%	5.85%	2.60%
Hungary	3M BUBOR	9.96%	6.08%	6.47%	3.22%
Serbia	3M BELIBOR	5.80%	1.92%	4.83%	0.95%

PROPORTION OF FOREIGN AND LOCAL CURRENCY REAL ESTATE LOANS PROVIDED DURING THE LAST 12-18 MONTHS



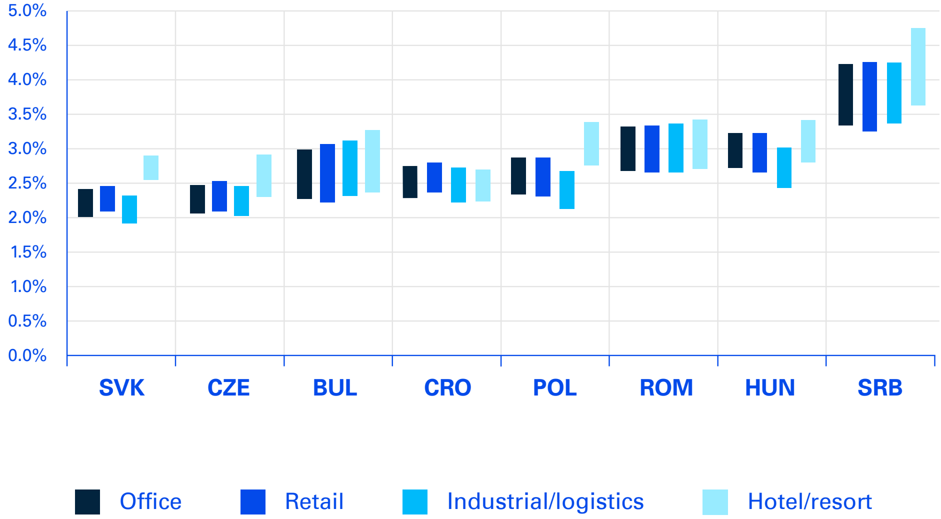
Source: KPMG Property Lending Barometer 2024

LOAN INTEREST PREMIUM APPLIED BY BANKS FOR HIGHLY RATED REAL ESTATE DEVELOPMENT PROJECT IN SELECTED COUNTRIES



Source: KPMG Property Lending Barometer 2024

LOAN INTEREST PREMIUM APPLIED BY BANKS FOR HIGHLY RATED INCOME GENERATING PROJECT IN SELECTED COUNTRIES



Source: KPMG Property Lending Barometer 2024

INTEREST PREMIUMS (MARGINS)

Banks were asked to indicate the range of interest premiums they would apply over a 3-month EURIBOR if approached by a developer or investor with an exceptional reputation and a strong business plan. The responses revealed notable regional differences. Czech and Slovak banks, similar to the previous year, reported applying the lowest interest premiums, reflecting a more favourable lending environment in these economies. In contrast, the highest premiums were observed in Serbia and Hungary, indicating a more cautious or risk-averse stance in these markets.

When comparing responses year-on-year, only 22% of banks reported an increase in interest premiums, suggesting that upward pressure on rates has been relatively limited. Meanwhile, 44% of banks stated that their interest premiums remained unchanged and 34% of respondents reported a decrease in premiums. Last year's survey showed similar proportions; however, some respondents reported a notable increase, which none of this year's respondents indicated.

Consistent with last year's findings, most banks require higher interest premiums for development projects compared to projects generating stable income streams. This disparity is most pronounced among banks in Poland and Slovakia, where premiums for development projects outpace those for income-producing projects.

A notable trend this year has been the continued convergence of required interest premiums across different asset types. However, an exception to this trend is the hotel sector, where premiums remain distinctly higher, reflecting the sector's unique risks and challenges.

INTEREST RATE HEDGING

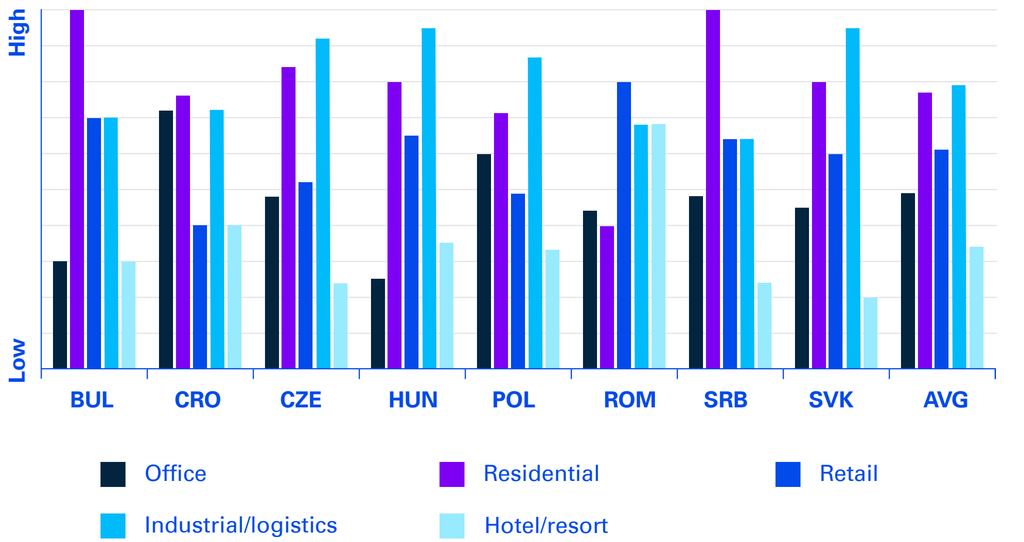
We surveyed individual banks regarding their requirements for clients to hedge interest rate risks tied to variable interest rates. A significant majority of banks require that the relevant derivative instruments cover more than 50% of the loan volume. This accounts for approximately 77% of all respondents, which is roughly consistent with last year's figures. Respondents requiring coverage of more than 80% of the loan represent approximately 12% this year, showing a slight decrease compared to last year. The majority now accept coverage in the range of 50–80%. Banks in Poland stood out as the most conservative in this regard. Over 60% of Polish respondents reported requiring clients to hedge at least 80% of the loan volume, significantly exceeding the regional average.

ASSET CLASS PREFERENCE

Banks were also asked about their preferred asset classes for development financing. Across the CEE region, hotels and resorts remain the least favoured category, with Romania being a notable exception where banks show relatively more interest in financing these projects. By contrast, industrial and logistics properties continue to be the most preferred asset class for development financing in the majority of countries, reflecting ongoing demand in these sectors.

Compared to the previous year, this trend has remained unchanged, highlighting a consistent approach to asset prioritization. Last year, surveyed banks emphasized their efforts to diversify portfolios by including a variety of asset classes (with the exception of hotels and resorts). This year, the responses indicate a continuation of that diversification strategy.

BANK SECTOR PREFERENCES IN PROVIDING DEVELOPMENT FINANCING BY ASSET CLASS



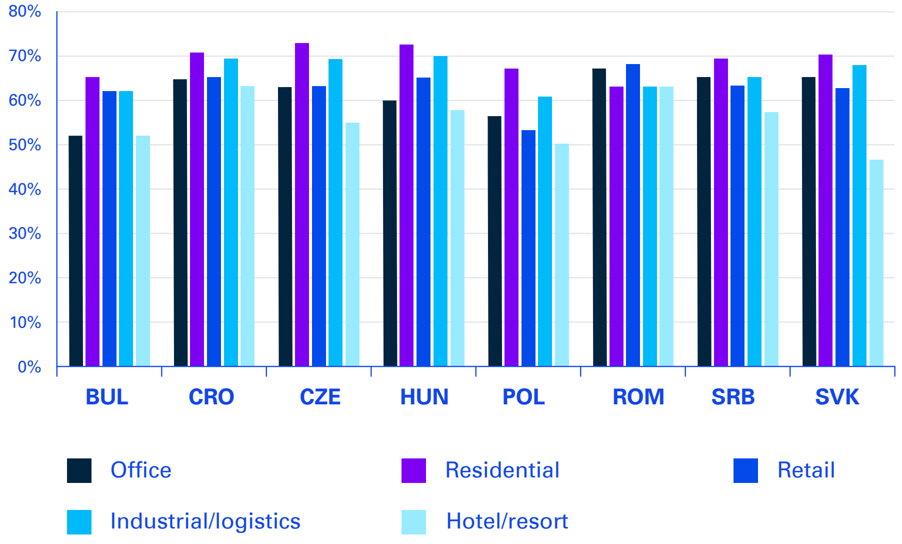
Source: KPMG Property Lending Barometer 2024

LOAN-TO-COST RATIO

We asked bank representatives about their technical criteria for financing, focusing on loan-to-cost (LTC) ratios, which varied by country and asset type. Survey respondents in the CEE region provided LTC ratios for office, residential, retail, industrial/logistics, and hotel sectors ranging from 0.46 to 0.73, indicating capital structures where debt accounts for 46–73% and equity makes up 27–54%. The average LTC across all sectors remained roughly the same as last year.

On average, the residential sector was found to have the highest LTC ratio at 0.68, suggesting a greater willingness to provide higher levels of debt financing for residential projects. In contrast, hotels and resorts typically require the highest equity contributions, with the average LTC ratio for this sector at 0.56 reflecting a higher perceived risk associated with hotel developments.

LOAN-TO-COST (LTC) RATIO EXPECTATIONS FOR FINANCING HIGHLY RATED REAL ESTATE DEVELOPMENT PROJECTS



Source: KPMG Property Lending Barometer 2024

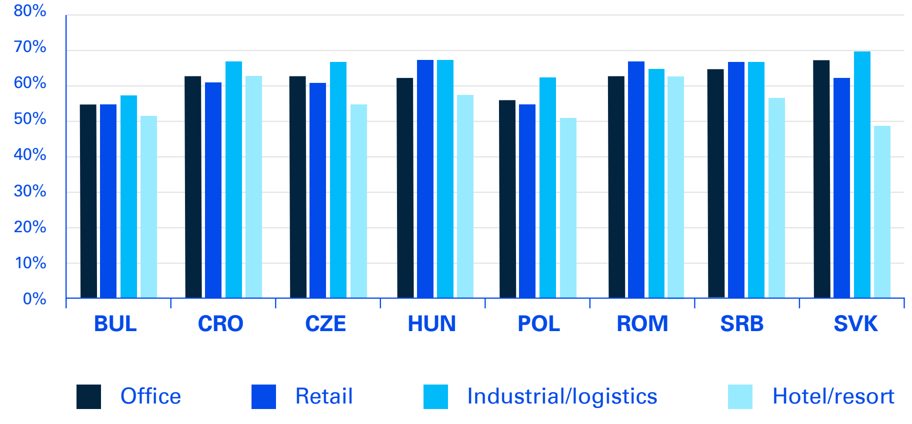
LOAN-TO VALUE RATIO

In the countries surveyed, loan-to-value (LTV) ratios for the office, retail, and industrial/logistics sectors ranged from 0.49 to 0.70, indicating capital structures where debt accounts for 49-70% and equity comprises 30–51%.

Consistent with the previous year, there was a continued trend towards aligning LTV ratios across individual asset classes, with the exception of hotels. The average LTV for residential, retail, and industrial/logistics properties across the region stood at 62%, which is nearly identical to last year's survey results.

Hotels and resorts, on average, require the highest equity ratios, with the LTV ratio for these assets across the surveyed countries at 0.56. While banks in most countries remain relatively restrictive with hotel financing, banks in Romania and Croatia show a more flexible approach, willing to offer up to 63% of credit in relation to the total appraised value of these assets. This willingness is largely driven by the significant role that tourism plays in the economies of these countries.

LOAN-TO-VALUE (LTV) EXPECTATIONS FOR FINANCING HIGHLY RATED INCOME GENERATING PROJECTS

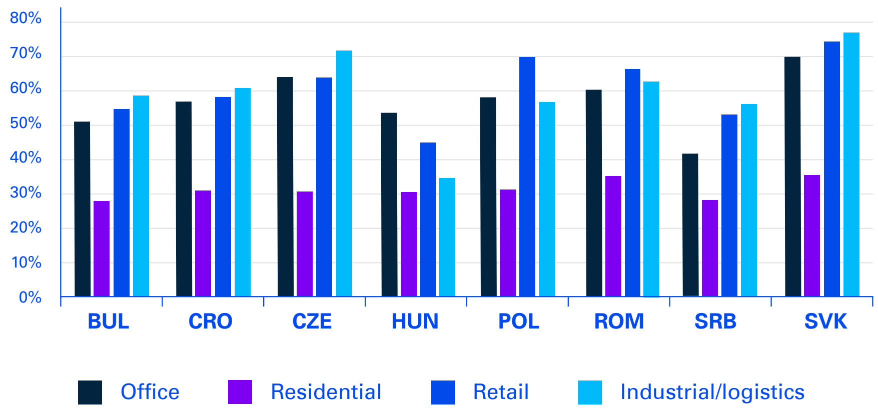


Source: KPMG Property Lending Barometer 2023

PRE-LET RATIOS

Hungarian banks require the lowest average pre-let ratio, at 41%, while Slovak banks have some of the most stringent requirements, with a pre-let ratio of 64%. This marks a continuation of last year's trend, with Slovak banks maintaining one of the strictest criteria compared to their regional counterparts. Serbian banks have the most relaxed pre-let ratio for office projects, while Hungarian banks set the lowest pre-let ratio for industrial and logistics projects, at 35%. This reflects varying levels of risk tolerance and market conditions across the region for different property types. A year-on-year comparison shows that, on average, pre-let ratio requirements (excluding residential) are slightly lower this year.

PRE-LET RATIO EXPECTATIONS FOR FINANCING HIGHLY RATED REAL ESTATE DEVELOPMENT PROJECTS



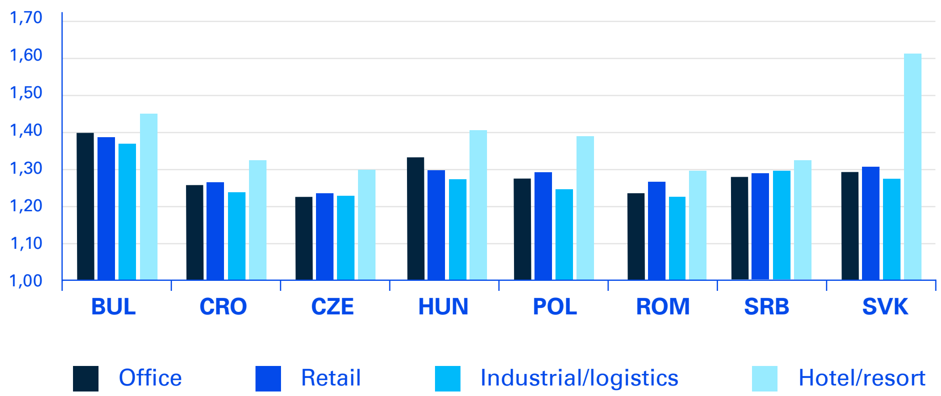
Source: KPMG Property Lending Barometer 2024

DSCR RATIOS

Banks were also asked about the debt service coverage ratios (DSCR) they expect for income-generating projects, particularly for investors with an excellent reputation and sound business plans.

In the CEE region, the highest requested DSCR is observed for the hotel and resort sector across each surveyed country. On the other hand, the lowest acceptable DSCR is for industrial and logistic properties reflecting the sector´s stable income streams and relatively lower risk profile, making it more attractive to lenders. It is necessary to mention that, based on our survey, we also observed variations in the methodology used to calculate the DSCR across different banks.

AVERAGE ACCEPTABLE DSCR PER COUNTRY PER SECTOR

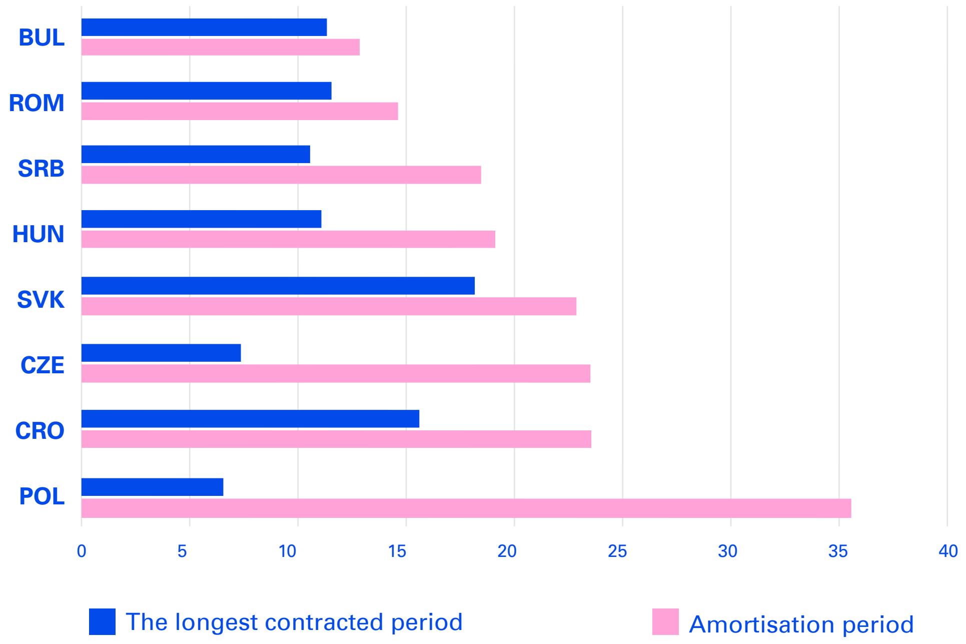


Source: KPMG Property Lending Barometer 2024

LENGTH OF THE LOAN

Bank representatives were asked about the minimum required average annual loan amortization rate that would be applied at the required LTV level for highly rated real estate projects, as well as the criteria for financing prime investment and income-generating properties. To gain a deeper understanding, we calculated the implied maximum amortization period based on the minimum amortization rate and cross-checked this with the longest loan term typically applied by banks. The disparity between these figures provides valuable insights into the market conditions and lending practices in different economies. The largest disparity between the amortization period and the term of the loan agreement is commonly observed in many Western European countries.

MAXIMUM AMORTIZATION PERIOD AND LONGEST CONTRACTED TERM AVAILABLE (IN YEARS)



Source: KPMG Property Lending Barometer 2024

04

Managing impaired loans

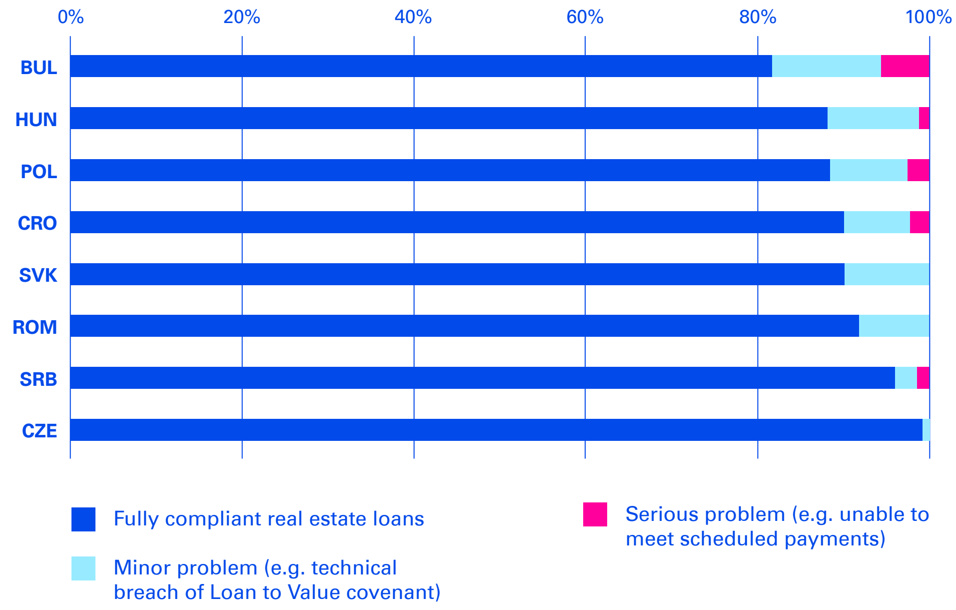
Our survey reveals that, on average, there has been no significant increase in the number of problematic loans within the real estate sector. The average percentage of loans with serious issues decreased slightly year-on-year, falling to below 1.5% of the total loan volume. Loans exhibiting minor issues, such as technical breaches of loan-to-value (LTV) covenants, account for an average of less than 8% of the total loan volume, which represents a slight increase compared to the previous year.

The Czech Republic and Serbia continue to boast the lowest percentage of impaired loans, maintaining this trend from previous years. Compared to the previous year, Bulgaria successfully reduced the number of problematic loans, decreasing the percentage from 22% to 18%. In contrast, all other countries surveyed experienced a slight increase in the number of minor impairments, with the most notable increases observed in Poland, Hungary, and Romania.

The majority of surveyed bankers (73%) believe that the volume of problematic loans within their total real estate lending portfolio will remain stable by the end of 2024, which aligns closely with their expectations from the previous year. This suggests that the majority of banks expect the current situation to persist, without significant shifts in loan quality.

Compared to the previous year, the percentage of respondents expecting a decline in portfolio quality has slightly decreased. Conversely, there has been a slight increase in the expectation that portfolio quality will improve in the coming months, with 15% of bankers anticipating an improvement compared to previous years, when a smaller percentage shared this view.

PROPORTION OF IMPAIRED REAL ESTATE LOANS PER COINTRY



Source: KPMG Property Lending Barometer 2024

05

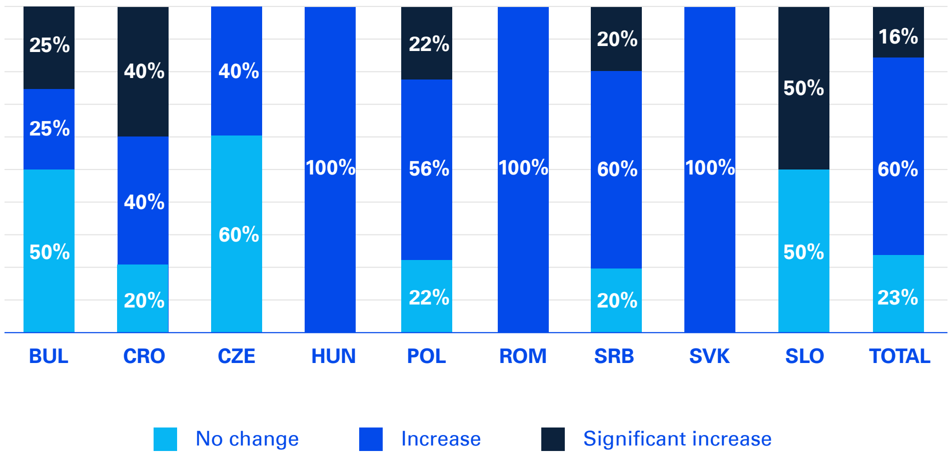
ESG and real estate financing

We are witnessing the dynamic emergence of new market practices in real estate finance that incorporate aspects of sustainable development. This process is gaining momentum in the face of climate challenges and the growing need for economic transformation. The catalyst for such changes is the EU Sustainable Finance Framework developed by the European Commission. It is a comprehensive set of rules, tools and guidelines that provide direction for the financial sector to promote transparency, highlight the importance of managing climate-related risks and direct capital towards environmental and social change.

The core pillars of the EU framework for sustainable finance include the EU Taxonomy, the Sustainable Finance Disclosure Regulation (SFDR), the Green Bond Standard (EU GBS), the Corporate Sustainability Reporting Directive (CSRD) and climate benchmarks. Ongoing legislative changes are already influencing financing criteria and their full implementation in the coming years will revolutionize lending practices. Sustainable finance will become a key component of economic transformation, enabling the financial sector to more effectively support environmental and social initiatives.

Banks in Central and Eastern Europe, like their counterparts in other parts of the continent, are actively adapting their strategies to meet these new requirements. Environmental, social and governance (ESG) principles are becoming an integral part of lending policies, according to the KPMG survey results. More than 75% of financial institutions in the region reported an increased emphasis on ESG in their operations compared to the previous year. Particularly dynamic changes were observed in Hungary, Romania and Slovakia, where all respondents reported a significant increase in the importance of ESG in lending decisions. This trend reflects growing awareness and engagement within the financial sector, which is actively supporting sustainable economic development in the region.

HOW MUCH FOCUS IS ON ESG AND REAL ESTATE FINANCING WITHIN THE BANK'S LENDING ACTIVITIES COMPARED TO ONE YEAR AGO?

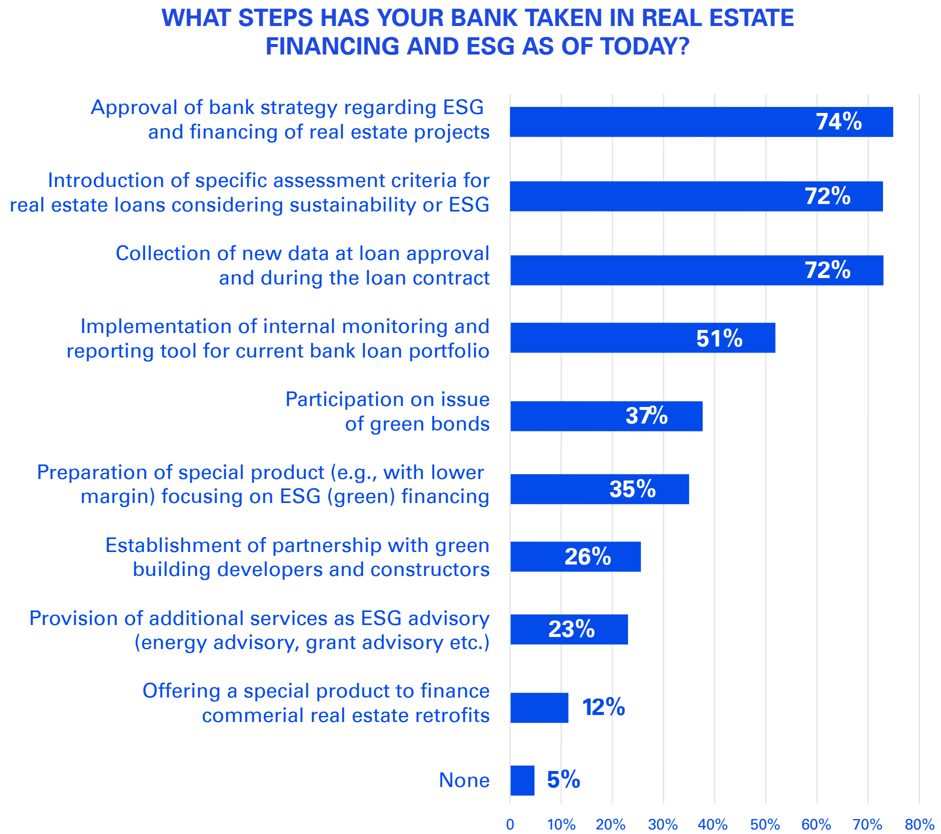


Source: KPMG Property Lending Barometer 2024

The strongest focus has been on the approval of banks' strategies regarding ESG and financing of real estate projects, reported by 74% of respondents. In addition, 72% of banks are currently collecting new data, highlighting their increased commitment to transparency and monitoring asset performance against environmental goals. Similarly, 72% of respondents have introduced specific assessment criteria for real estate loans that incorporate sustainability or ESG considerations. In addition, more than half of the banks surveyed have implemented internal systems to monitor the bank loan portfolio.

Banks in the CEE region are also expanding their offerings to include new products focused on green finance. Compared to 2023, there has been a visible increase in the number of banks participating in green bond issues, offering green financing at reduced margins, or introducing additional services such as ESG advisory or partnerships with developers and builders of sustainable buildings. This reflects a broader shift in approach to ESG. However, despite the visible progress, the survey results indicate that there is still significant potential to expand the range of specified financial products and initiatives related to ESG.

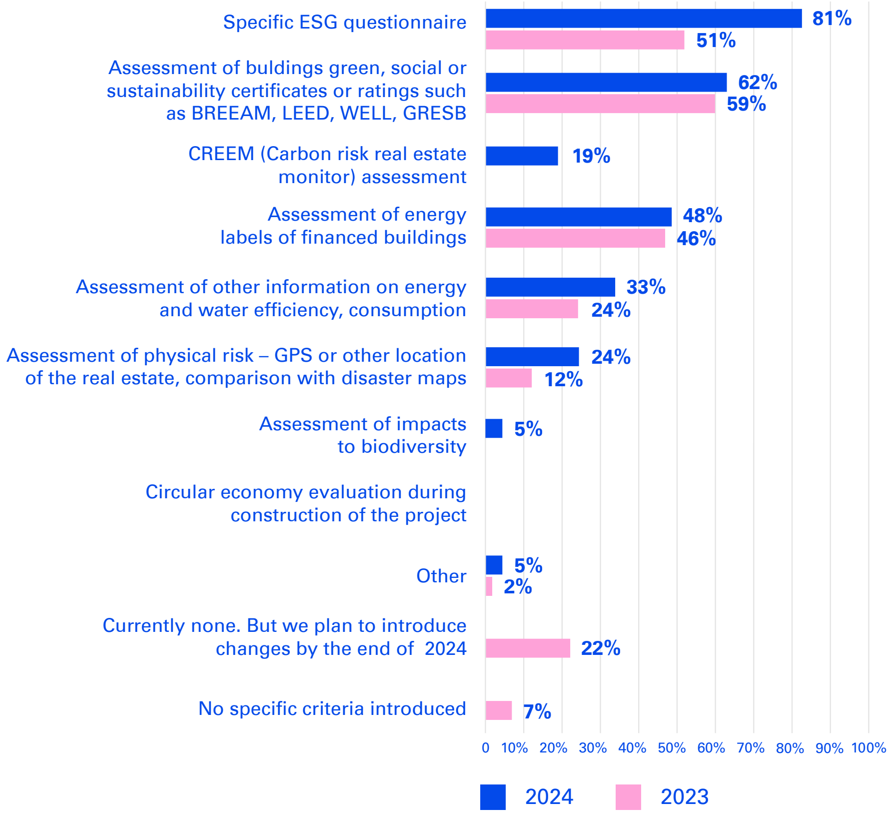
Undoubtedly, one of the most eagerly awaited changes in banks' offerings by commercial real estate market participants is the introduction of special products to finance real estate retrofits. In Europe, banks are increasingly recognizing the importance of supporting retrofitting efforts in the real estate sector, while only 11% of survey respondents from the CEE region offer such products. When analyzing the potential expectations of the market in that context, it is worth noting that nearly 60% of modern office space in selected countries in the CEE region is over 10 years old, while in the retail sector this figure exceeds 50%.



Source: KPMG Property Lending Barometer 2024

Looking at the details, a similar trend can be observed in real estate lending criteria. While the vast majority of banks (40 out of 43) have incorporated sustainability-related criteria into their real estate lending practices and attention to these factors has increased compared to 2023, gaps remain. This is evidenced by the fact that over 80% of respondents have implemented specific ESG questionnaires and over 60% consider multi-criteria building certifications in their assessments. However, the survey results still indicate that the region lacks well-developed lending policies with holistic evaluation of real estate from an ESG perspective. Despite the progress made compared to last year's outcomes, less than half of respondents take into account the results of energy performance certificates or assess additional data on energy and water consumption, which are critical to understanding resource efficiency.

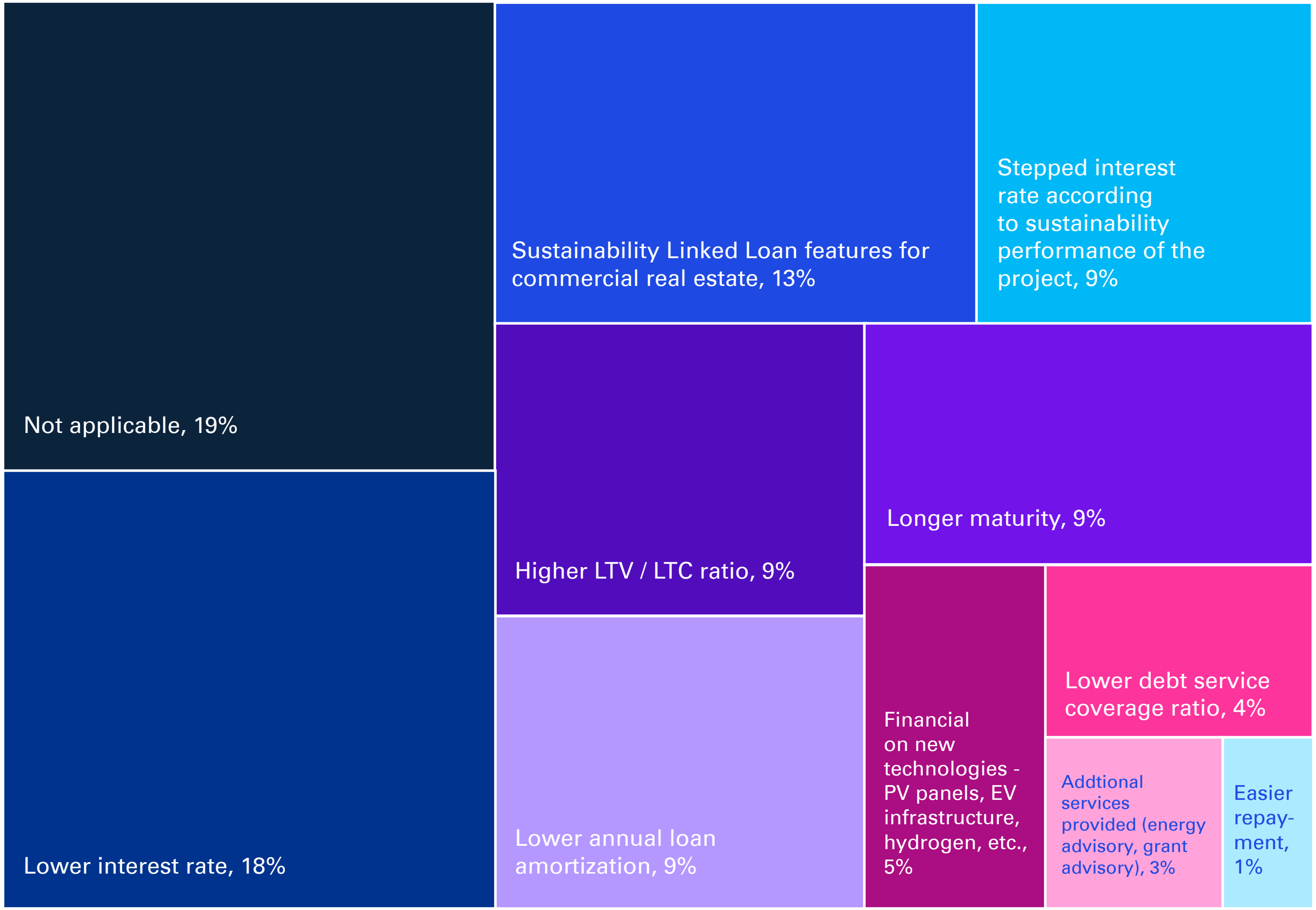
WHICH SPECIFIC ASSESSMENT CRITERIA FOR REAL ESTATE LOANS CONSIDERING SUSTAINABILITY OR ESG HAVE YOU INTRODUCED?



Source: KPMG Property Lending Barometer 2024

When returning to the increased emphasis on ESG in the financial sector, a closer look at the growing range of sustainable finance products offered by banks reveals significant changes compared to last year's survey results. More than half of respondents are developing specialized financial ESG-focused products this year, up from 19% last year. When it comes to the details of the offer, banks' products most often include lower interest rates and sustainability features for commercial real estate loans. Furthermore, there has been an increase in the number of banks offering lower annual loan amortization, higher loan-to-value (LTV) ratios, and tiered interest rates linked to the sustainability performance of the project.

WHAT ARE THE KEY FEATURES OF YOUR SPECIAL PRODUCT FOCUSING ON ESG FINANCING (GREEN FINANCING) COMPARED TO YOUR STANDARD LOAN PRODUCT?



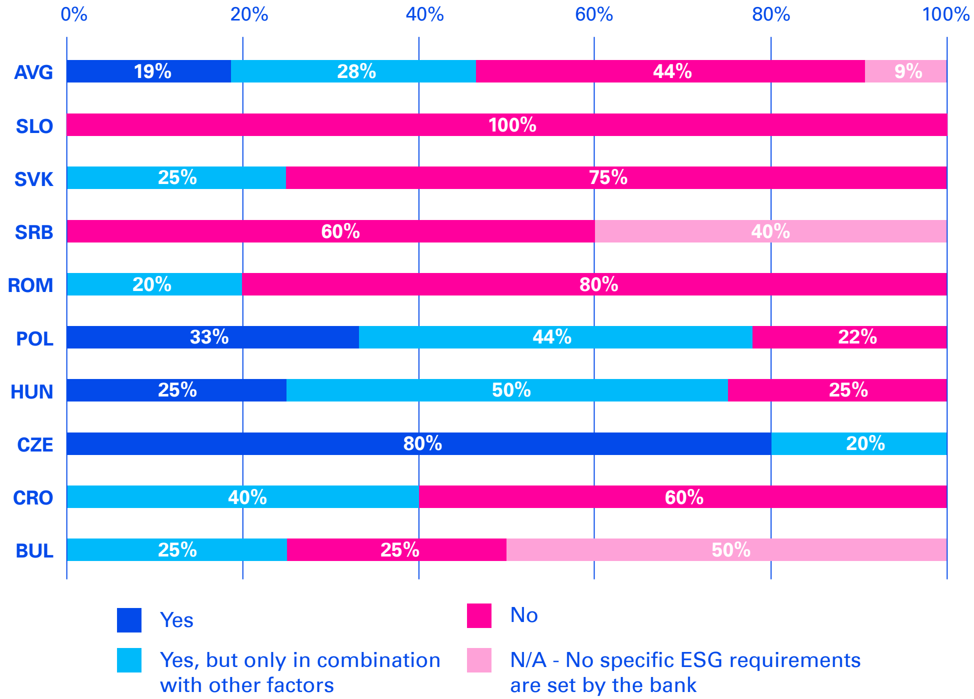
Source: KPMG Property Lending Barometer 2024

Banks are required to adopt stricter ESG compliance measures in their lending policies due to changing legislation. However, when analyzing the results for the CEE region as a whole, there has been no significant change over the past year in the number of banks refusing to lend due to ESG non-compliance (either alone or in combination with other factors). The results of the survey show that 44% of banks have still not denied financing to investors for non-compliance with internal ESG standards in the past year, while 9% have no specific ESG requirements in place. Nevertheless, there are clear regional differences. The attitude of local central banks in Central and Eastern Europe is an important driver for the implementation of sustainable financial practices. The survey results suggest that investors in the Czech Republic, Poland, and Hungary are increasingly facing refusals of financing when they do not meet the bank's internal ESG expectations.

AUTHOR OF THE CHAPTER:

Monika A Debska-Pastakia FRICS MRTPI
KPMG Poland
Partner Associate
+48 664 080 096
mdebska-pastakia@kpmg.pl

HAVE YOU REFUSED TO PROVIDE BANK FINANCING TO AN INVESTOR DUE TO NON-COMPLIANCE WITH YOUR BANK'S INTERNAL REQUIREMENTS FOR ESG WITHIN THE PAST 12 MONTHS?



Source: KPMG Property Lending Barometer 2024

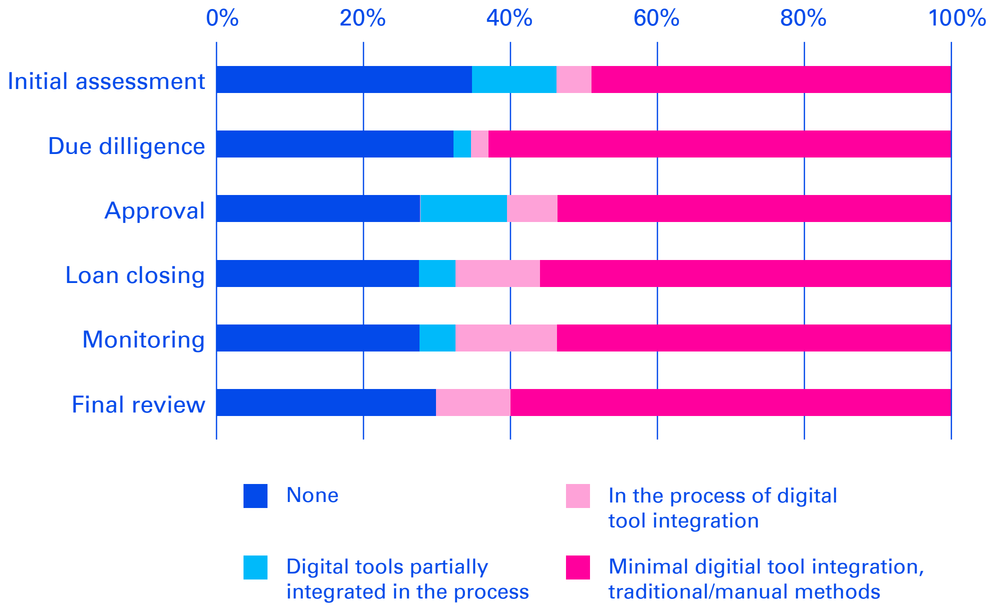
06

Digitalization and technology in real estate financing

For the first time, the Property Lending Barometer explores the role of digitalization and technology in financing large-scale real estate projects. While AI is transforming the banking industry, our survey indicates that digitalization is not yet common practice in the processing of such large loans. The majority of banks—56%—rely on traditional methods, particularly in due diligence. Only 7% have partially digitized their processes, and none have adopted digital tools for final reviews. Looking ahead, 14% plan to digitalize monitoring, 8% aim for broader integration, and onl 2% intend to enhance due diligence processes.

Only a few respondents currently use digital tools in the property lending process. The only digital tools in use are AI and PropTech solutions, with 'PropTech' referring to an umbrella term that encompasses various technologies within the real estate sector, along with the outputs and data they generate. These tools are used minimally, primarily for basic tasks such as data collection or preliminary screening. The integration of new technologies, such as AI, faces challenges like strict regulatory frameworks (AI Act, GDPR), the need for transparent, auditable, and secure systems, and ensuring high-quality, unbiased training data. These regulatory and financial hurdles, along with the necessity for ongoing oversight, hinder banks from rapidly adopting advanced AI systems, limiting their use primarily to automation rather than complex analytics. Compliance and technological demands thus impede wider AI implementation in banking.

DIGITALIZATION OF THE REAL ESTATE LENDING PROCESS



Source: KPMG Property Lending Barometer 2024

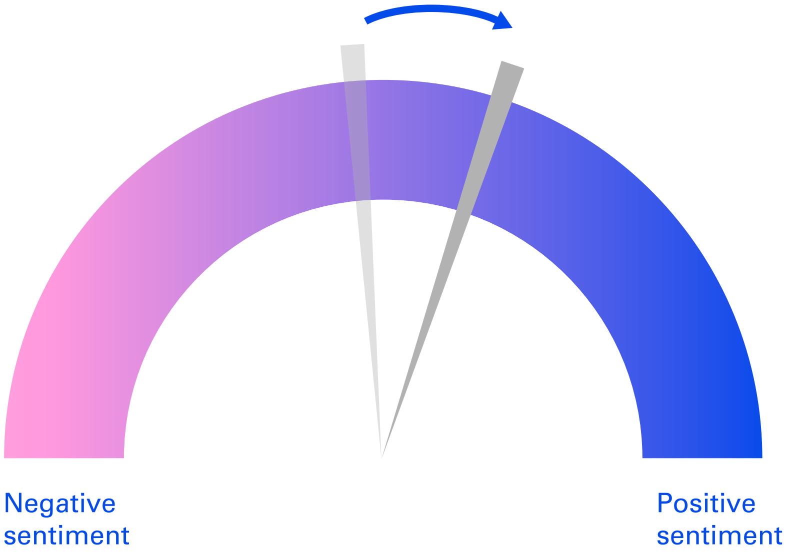
07

KPMG Property Lending Barometer

The Property Lending Barometer is a specialized indicator designed to assess and capture the sentiment of banks in the CEE region toward real estate financing. It serves as a tool to understand the priorities and perspectives of financial institutions regarding their engagement with the real estate property market.

By analysing key aspects of banks' approaches, this barometer offers a nuanced perspective on how the banking sector views real estate financing. It highlights trends in risk appetite, growth potential, and strategic focus, providing insights into the dynamics of property lending in the CEE region. Through its detailed evaluation, the Property Lending Barometer reflects the confidence and challenges banks face in navigating the evolving real estate landscape. The KPMG Property Lending Barometer evaluates:

- The strategic importance of real estate for banks operating in the CEE region.
- Banks' focus on real estate financing within their portfolios.
- Projected growth in average loan sizes and overall portfolio sizes.
- Changes in LTV (loan-to-value) and LTC (loan-to-cost) ratios compared to the previous year, reflecting shifts in risk appetite and lending criteria.
- Interest rate premium trends.
- The expected development of portfolio quality.



08

Conclusions

Photo: Penta Real Estate

- After years of stalled growth, the European economy is gaining momentum on its path to recovery. In Q3, the EU economy increased by 0.9% compared to Q3 2023. The EU commission predicts growth of 1.0% by year-end as investments pick up the gradual loosening of interest rates.

- European investment is set to slowly recover from the weakest year, transaction wise, since 2013. Total investments for Q1-Q3 2024 have reached €113.3 billion marking a 5% annual rise, however, this is still about 40% below the five-year Q1-Q3 average.

- The CEE has demonstrated remarkable resilience compared to other parts of Europe, even as the broader European investment market faced a subdued quarter. Signs of a gradual recovery are emerging and the CEE-6 countries (BUL, CZE, POL, HUN, ROM, SVK) are expected to close the year with investment volumes up by approximately 40% year-on-year.

- As indicated by Colliers and CBRE, the proportion of office transactions has declined on a year-on-year basis. In the first three quarters of 2024, the volume of transactions in the office, retail, and industrial/logistics sectors reached a comparable percentage share of the total transaction volume.

- The transaction data indicate a stabilization in yield compared to the 2023 figures. This suggests that the market has undergone significant adjustments.

- The overall strategic importance of real estate remains high within the CEE. Twenty-five percent of respondents indicated that real estate financing has become more important than it was in the previous year. Responders from Bulgaria and Romania showed waning interest in real estate financing, however. In contrast, Polish bankers highlighted real estate financing the most among the surveyed countries.

- A shift in key factors influencing banks' real estate portfolios can be observed compared to the previous year. The most significant change was the decreased impact of increased financial costs, which were considered a key factor in 2023.

- Banks have identified ESG, along with macroeconomic conditions in Europe and local markets, as some of the most important factors this year. The significance of ESG has grown in response to an increasing number of mandatory requirements stemming from legislation such as the EU Taxonomy and the Corporate Sustainability Reporting Directive (CSRD).

- Most bankers from non-EUR countries reported an average of 75% of loans provided in foreign currency (EUR). There has been a slight increase in the share of local currency loans compared to the previous year. However, the majority of loans will continue to be provided in foreign currency (EUR).

- Financing new development within the CEE has slightly increased on average compared to last year. The ratio of new development to income-generating projects is approximately equal on average. In countries like Slovakia, Bulgaria, and Hungary, new development financing is at the forefront, while in the Czech Republic, the volume of new development financing remains low, despite a recent uptick.

- Banks are more willing to participate in club loans or provide syndicated loans compared to the previous year.

- The observed trend of a slight decrease in interest rate premiums persists. Similarly, the convergence of required interest rate premiums across different asset types remains apparent (with the exception of the hotel sector). As was the case last year, development projects, on average, still demand higher premiums compared to income-generating projects.

- Industrial/logistics assets emerged as the preferred choice for most surveyed banks, except in Bulgaria and Serbia, where residential financing is preferred, and Romania, where retail financing takes precedence.

- The average LTV and LTC for the region remained largely unchanged compared to the previous year. The LTC across countries and sectors ranges from 0.46 to 0.73, while the LTV ranges from 0.49 to 0.70.

- Banks typically require the smallest DSCR for industrial and logistics parks. Highest DSCR is required for hotel and resort sector across each surveyed country. Overall, the average DSCR in the region has remained relatively consistent compared to the previous year.

- The ongoing trend of banks requiring variable interest rates to be hedged with financial derivatives (e.g., interest swaps) continues to persist and remains a standard practice.

- No significant increase in impaired loans has been observed in comparison to the previous year. On average, only 1.5% of the total loan volume presents significant issues, marking a slight year-on-year decrease. In contrast, loans with minor issues have slightly increased, although they still remain below 8%.

- 77% of our responders confirmed the growing importance of sustainable financing. A core pillar of this trend is the EU framework for sustainable finance including EU Taxonomy, the Green Bonds Standard (EU GBS), Sustainable Finance Disclosure Regulation (SFDR), the Corporate Sustainability Reporting Directive (CSRD) and climate benchmarks.

- Almost all participants reported that their institution has incorporated ESG criteria into real estate evaluation, with roughly the same number of bankers mentioned implementing specific ESG questionnaire.

- More than 75% of bankers confirmed having a strategy regarding ESG and financing of real estate projects, and more than 72% of surveyed banks introduced specific assessment criteria for real estate loans considering their sustainability and collecting new data at loan approval and during the loan contract.

- Failure to meet ESG criteria requirements is a significant factor in loan rejection, with 19% of surveyed banks citing it as a reason for rejection on its own and up to 47% when combined with other criteria. Czech and Hungarian banks have the most rigid policy regarding ESG non-compliance, where 100% of those surveyed declined financing if ESG criteria were not met.

- On average, 56% of bankers utilize digital tools to a minimal extent, preferring traditional methods, particularly in the due diligence process. Future digital implementation is planned by 14% of bankers, with a focus on the monitoring processes.

- The current digital tools in use are AI and PropTech solutions. These tools are used sparingly, primarily for basic tasks such as data collection and preliminary screening. There are several challenges to integrating new technologies, including strict regulatory frameworks (such as the AI Act and GDPR), the need for transparent, auditable, and secure systems, and the necessity for high-quality, unbiased training data.

09

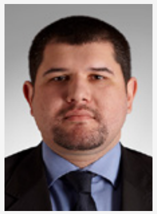
Country Insights & Contacts

In 2024, investment activity showed signs of recovery, driven by a few sizable transactions with logistics and retail properties involving both local and international investors. However, despite this growth, overall investment volumes remain subdued and continue to lag behind historical levels. While there is a slowdown in market dynamics, asset classes that gained traction recent years, such as the industrial and logistics properties along with retail parks, remain in focus with new developments on the horizon.

The Bulgarian banking system continues to maintain a strong capital and liquidity position. In a competitive environment, Bulgarian banks have demonstrated their willingness to finance new real estate projects.

The Bulgarian National Bank has further introduced a new, yet moderate measure to cool down the mortgage market, as interest rates remain among the lowest in Europe. A gradual increase in interest rates is anticipated, influenced by rising deposit rates that serve as a reference index.

The importance of ESG factors has become increasingly tangible, influencing the decisions of investors, lenders, tenants, and other stakeholders due to developments in the reporting landscape, as 2024 marked the first reporting period under CSRD, and the first period local banks will report their Green Asset Ratio.



BULGARIA
Zdravko Moskov
Partner
+359 2 9697 650
zmoskov@kpmg.com

While the number of issued building permits for residential units has increased year on year, the residential sector expects a decline in the number of transactions and a slight stabilization in prices, partially also influenced by the introduction of a new real estate tax. The office market still exhibits a steady demand for new modern units in accessible locations. With larger cities having a somewhat saturated retail offering, only a few small and mid-size developments, mostly in the retail park format, are taking place around smaller cities and urban areas. The hospitality sector remains stable, with new investments predominantly focusing on the development of premium category hotels. Currently, the industrial and logistics appear as the most prosperous segment, recording solid growth and attracting both domestic and foreign investors. Logistics stock mostly concentrates around the (three) largest cities.

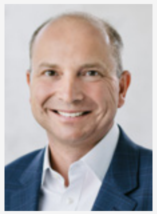
Banks continue consider and support new real estate developments (in all real estate segments) and finance real estate related transactions if they are comfortable with the overall structure. ESG parameters play an important role in the assessment and decision-making processes, especially as the ticket size increases.

CROATIA
Milas Ognjen
Director
+385 1 5390 103
omilas@kpmg.com

The European Central Bank's interest rate cuts signal a strategic shift towards monetary easing, aimed at alleviating restrictive financing conditions and gradually lowering borrowing costs. Despite these adjustments, commercial banks are remaining cautious, diligently assessing market risks before extending new loans. In the Czech Republic, local investors continue to be a dominant force in the real estate market, even as investment activity remains subdued.

ESG considerations are rapidly becoming integral to real estate financing, with banks increasingly aligning their lending strategies to support sustainable projects. Preferential financing terms for green developments are gaining momentum, signalling a broader shift toward environmentally conscious investment strategies. ESG criteria are now firmly embedded in industry decision-making, influencing market behaviour and shaping investment strategies in the CEE real estate sector as we move into the next year.

Despite global shifts and geopolitical uncertainties, the outlook for the Czech real estate market remains strong. We're looking at a steadier, less volatile market environment— well positioned for strategic investment.



CZECH REPUBLIC
Pavel Kliment
Partner
+420 222 123 573
pkliment@kpmg.cz

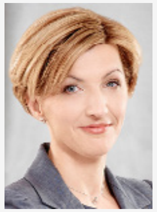
The Hungarian commercial real estate sector experienced a further contraction in investment volume in 2024, driven by rising yields, elevated financing costs, and subdued rental demand across most submarkets. While key local lenders anticipate an increase in residential mortgage activity compared to 2023, lending conditions for commercial properties have become more stringent, particularly for office assets, as risk perceptions related to future uncertainties of hybrid office use and ESG issues have heightened. Emerging trends in sustainability and digitalization are reshaping the sector from both tenant and owner perspectives, with a notable impact on financing practices. The growing emphasis on ESG criteria is increasingly influencing decision-making among all stakeholders in the real estate industry.

In terms of the market cycle, a recent sentiment survey by RICS revealed that two-thirds of industry professionals believe the sector has already reached its lowest point. Looking ahead, a gradual recovery is anticipated across the commercial real estate market. However, certain subsegments, particularly second-tier office buildings, are expected to face ongoing challenges that may necessitate structural changes to adapt to evolving market conditions.

HUNGARY
Pál Dános, MRICS
Associate Partner
+36 30 239 3377
pal.danos@kpmg.hu

Despite continued limited investment activity in Europe, Poland is already seeing the first signs of improvements in investor sentiment and an increasing demand for commercial real estate. Simultaneously, 2024 saw a significant shift in the structure of real estate assets being acquired. After years of strong interest in the logistics sector, investors are returning to office and retail assets, which accounted for over 80% of transaction volume in Q1-Q3 2024. Banks remain cautious in providing financing for new developments, with increasing emphasis on assessing projects against ESG criteria. Financial institutions are systematically changing their credit risk assessment models to adapt to Basel III requirements and changes in EU legislation.

The outlook for 2025 is positive, driven by an expected increase in investment activity following interest rate cuts by the ECB and the FED. However, additional key factors that will shape investment sentiment in Poland are the growing importance of ESG criteria and their influence on property valuations, shifts in market dynamics across different real estate sectors, and the assessment of the CEE region's investment prospects in the next 12 months.



POLAND
Katarzyna Nosal-Gorzen
Partner
+48 60 449 6021
knosal@kpmg.pl

Romania's real estate market showed resilience in 2024, with steady activity and some positive shifts. While office developments have slowed, the industrial and logistics sectors have been expanding, driven by significant infrastructure projects. Financing remains challenging, with bank loans available but often at higher interest rates, though this may ease in the near future as the European Central Bank could reduce rates. Meanwhile, the residential sector is benefiting from wage growth and anticipated lower inflation, which could make properties more affordable for buyers in the coming years.

In 2025, the real estate market is expected to see moderate growth, despite delays in EU Recovery and Resilience Plan investments, potential tax changes following elections, and ongoing global geopolitical challenges. While uncertainties and economic pressures may slow progress, the rapid expansion of infrastructure projects, increased foreign and domestic investments, rising wages that have outpaced inflation, and strong performance in the industrial and retail sectors are driving optimism. These factors could trigger a ripple effect, benefiting other areas such as the residential and logistics sectors.

ROMANIA
Ori Efraim
Partner
+40 372 377 790
oefraim@kpmg.com

Official data showed an objective overview of the real estate market in Serbia indicating current stagnation. Residential real estate is one of the most popular segments for investment especially in Belgrade. Business premises are more often rented, but there is noticeable demand for warehouses. Serbia has been aligning its laws with EU standards, including reforms in property rights, land use, and real estate transactions. Banks are using ESG criteria in their risk management strategies. Projects with poor ESG profiles are considered higher risk, which can affect their ability to secure financing. Also, there is a growing trend towards green loans and bonds specifically designed to finance environmentally sustainable projects.

A further stabilization of the market and economic recovery is expected in the coming period. These forecasts rely on current market dynamics, but any change in the global geopolitical landscape could further stabilization of the market and economic recovery is expected in the coming period. These forecasts rely on the current market dynamics, but any change in the global geopolitical landscape could impact the local economy. EXPO Belgrade 2027 and the following years up to the event will bring numerous investments to the Serbian market and will help increase the current selling trends in real estate.

SERBIA
Sanja Kočović
Associate Partner
+38 1 1120 50518
skocovic@kpmg.com

In Slovenia, the real estate market is undergoing significant transformation, driven by a surge in demand and evolving buyer preferences. Recent changes in bank financing regulations have enhanced accessibility, with new players entering the market, fostering competition and innovation. This landscape shift emphasizes sustainable investments, as ESG criteria increasingly influence lending decisions, pushing developers toward eco-friendly projects. Additionally, the digitalization of financing processes has streamlined operations, allowing for quicker approvals and enhanced transparency. These trends collectively not only reshape the financing of real estate but also position Slovenia as a forward-thinking market, balancing growth with sustainability and technological advancement.

By 2025, Slovenia's real estate market is expected to see steady property value growth, driven by increasing urbanization and a strong demand for residential spaces. influenced by ESG trends, the demand for eco-friendly and energy-efficient properties will rise. Regulatory changes may include stricter sustainability requirements, impacting financing options. Additionally, the continued digitalization of the banking sector will streamline loan processes, making financing more accessible for buyers.

SLOVENIA
Boštjan Malus
Partner
+38 612 364 330
bostjan.malus@kpmg.si

The changes in the economic environment in 2024 have impacted the real estate financing sector in Slovakia. Rising interest rates, a more cautious approach by banks to lending, and the growing importance of ESG factors have shaped the supply and demand for financing across various market segments.

Higher borrowing costs have led to a slow-down in loan demand, particularly in the residential segment. Here, the combination of increasing interest rates and stagnating or, in some cases, falling property prices has been most pronounced. However, this trend has affected the entire sector, with varying impacts across different segments.

In the office premises market, although rising borrowing costs have not been fully offset by rental income growth, loans in this category maintain stable credit quality, partially due to long-term lease agreements. Banks, however, continue to favour financing industrial and logistics parks.

The growing prominence of ESG factors is reshaping the landscape of real estate financing. Compared to last year, when some banks lacked formal ESG criteria, this year has seen their integration into lending practices, with an increasing—albeit partial—offering of preferential terms for green projects. While this shift reflects a broader commitment to sustainability, the momentum behind the adoption of sustainable buildings is largely driven by rising client demand for energy-efficient and environmentally friendly solutions.

SLOVAKIA
Maxim Michal
Partner
+421 2 599 84404
mmaxim@kpmg.sk

AUTHORS OF THE SURVEY:
Pavel Dolák
Elżbieta Czerpak
Ladislav Jeřábek
Josef Kupec
Klára Černoušková
Andrej Jankola
Václav Benedikt Loula

RESPONSIBLE FOR COORDINATING THE SURVEY:
Pavel Dolák

+420 222 123 452
pdolak@kpmg.cz

Published in December 2024

kpmg.com
home.kpmg/socialmedia