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Property Lending Barometer 2016

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

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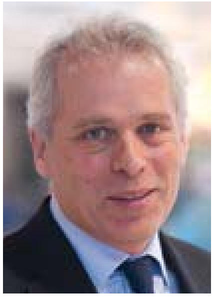

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7th
annual
edition of
the survey

Interviews
conducted with
banks from
21
European
countries

Input from
close to
100
banks

Dear Reader,

It is our pleasure to present the Property Lending Barometer 2016, which is the 7th edition of our annual survey of the finance market for real estate. The Barometer gives insight into lending market conditions in Europe and also provides separate snapshots of the countries surveyed to highlight the specific characteristics of their lending markets.

The purpose of our report is to assess the prospects and sentiment for bank financing in the real estate sector in Europe, based on interviews conducted with bank representatives from 21 European countries. This year Belgium and Ireland have been included in the survey for the first time, while Russia and Slovenia return in our research.

A gradual improvement of lending conditions seems to be a sustained trend, though the outlook and general business sentiment are less rosey for the surveyed countries. Analysts believe growth is expected to continue throughout 2016, though its intensity may taper off by the end of the year. Even though there have been notable improvements in bank financing, most countries' markets are considered to have remained tighter compared to pre-crisis levels. Limiting factors to further improvement in business sentiment include the economic slowdown in China, the tension between Russia and the European Union, and the increasing number of terror attacks in Europe. The implications of the UK "Brexit" vote to leave the European Union are as yet unforeseeable, but the result has created additional macroeconomic and political uncertainties throughout Europe and further afield.

Lending sentiment among banks in some of these countries is slightly less positive than last year, but financial institutions are clearly open to financing real estate projects. With relatively low interest rates and ample availability of finance, both from banks and alternative lenders, the macroeconomic environment is making real estate investment an appealing option for many investors. Overall, transaction volumes significantly increased throughout 2015, but showed a general decline in early 2016, although there are great differences in investment trends between European countries.

This report is an analysis of the findings of our survey of the leading banks active in these countries. The Barometer 2016 includes input from close to 100 banks active in these markets, collected primarily via in-depth interviews and online questionnaires. Representatives from leading financial institutions have provided their views on the key issues affecting property lending.

First, this report provides an overview of the European market as a whole, by focusing on key issues such as the strategic importance of real estate financing for banks, the proportion of impaired loans and banks' views on how to manage these loans. We also examine banks' average and preferred loan/deal size, as well as the length of the loan contract term. Furthermore, the opportunity for new financing and banks' asset class preferences were also considered.

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

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

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

Yours sincerely,
Hans Grönloh and Andrea Sartori

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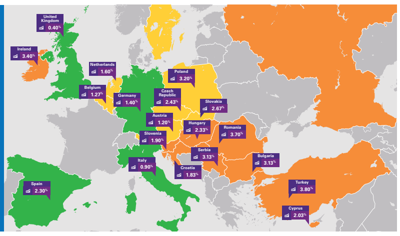

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Methodology and sample profile

This survey aims to provide an analytical overview of the current approach of banks to real estate financing in Europe. The following countries are represented in the 2016 survey: Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Germany, Hungary, Ireland, Italy, the Netherlands, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Sweden, Turkey and the United Kingdom.

The data for the survey[1] was primarily collected through in-depth interviews with bank representatives and via online questionnaires. Depending on the organizational structure, interviewees were the heads of real estate, project financing or risk management departments. Banks were selected from among the leading financial institutions operating in each individual country. The survey participants included close to 100 banks, all of which were active in the real estate market in Europe over the last year. Data collection for this survey took place in May-July 2016.

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

Comparison of surveyed countries

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

Dominant economies: These countries represent a larger proportion of the total GDP volume in Europe and they have relatively stable markets. The performance of these countries can greatly influence overall market conditions at European level. In this category we included the United Kingdom, Germany, Italy and Spain.

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

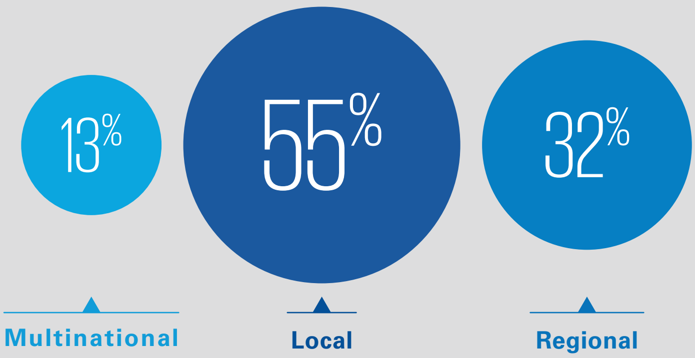
Other economies: In general, these markets have a higher risk profile in comparison to the more established countries. Also the size of some of the markets in this category is not large enough to merit inclusion among the established markets. In this category, we considered Bulgaria, Croatia, Cyprus,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

Survey limitations

The following limiting factors should be noted:

- When the answers provided to specific questions were not sufficient to provide reliable information on a specific country, we have indicated this, or the country was omitted from that part of the analysis.
- In the case of some parameters and cross-tabulations, the output of the survey may be considered indicative but not representative due to the low number of responses to some questions.
- As in previous years, our assessment of the residential sector excluded residential projects whose construction costs were below EUR 10 million.
- Most of the interviews were conducted in the weeks before the UK vote on leaving the European Union. The uncertainty regarding a potential "leave" or "remain" result is understood to be implicit in the majority of responses collected.

Geographic orientation of the banks included in the surveyed sample



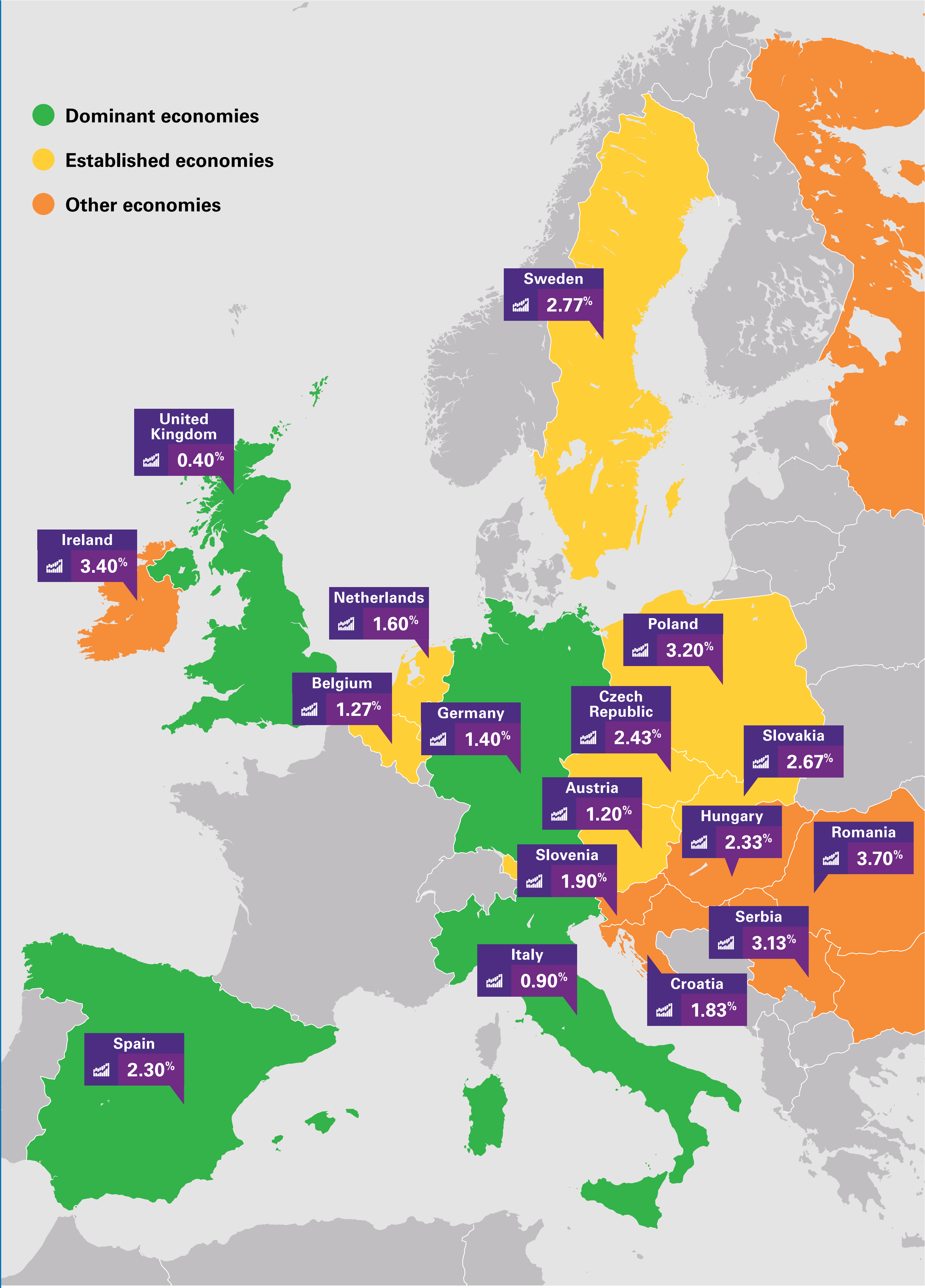
Note: *Local: Banks which are active in not more than 2 countries*
Regional: Banks which are active in at least 3 countries excluding multinationals
Multinational: Banks which are active on at least 3 continents

Source: *KPMG Property Lending Barometer 2016*

Geographic abbreviations

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

1 *The survey also uses information obtained from public sources, which KPMG believe to be reliable. The information and market reports were published in 2015 and 2016 by BNP Paribas Real Estate, Colliers International, Cushman&Wakefield, Danos Real Estate, Economist Intelligence Unit, Jones Lang Lasalle, Knight Frank, National Bank of Belgium, Real Capital Analytics and Savills.*


Dominant economies
Established economies
Other economies
Sweden
2.77%
United Kingdom
0.40%
Ireland
3.40%
Netherlands
1.60%
Poland
3.20%
Belgium
1.27%
Germany
1.40%
Czech Republic
2.43%
Slovakia
2.67%
Austria
1.20%
Hungary
2.33%
Romania
3.70%
Slovenia
1.90%
Serbia
3.13%
Italy
0.90%
Croatia
1.83%
Spain
2.30%

Overview of the European real estate market

Macroeconomic outlook of the region

The economic landscape of the European Union has been cast in a favorable hue for over a year, reflecting the synergy of various positive developments. This tendency is expected to abate somewhat by 2017. Amid the current circumstances, macroeconomic risks may limit growth prospects, as the region faces challenging geopolitical tensions originating from both close by and further afield, which are testing the symbiotic economic relations of the European Union.

The positive developments of the past year have been somewhat counterbalanced by external events, ultimately causing growth to remain moderate in the countries included in the survey, which registered an average 2.5% GDP growth in 2015 – exhibiting a 52% increase in growth compared to 2014. However, ongoing macroeconomic events and conditions will continue to influence the EU's current economy; hence, an anticipated drop in GDP growth to 2.2% in 2016, followed by 2.0% for 2017. These numbers are supported by several fundamental factors.

First, global oil supplies, despite robust demand, are at a record-high level, mostly accounted for by the steady production of OPEC and Russia. Prices have dropped more than 70% since 2014. This has had effects upon European economic activity, which has been stimulated by persistent low oil prices throughout 2015, with further implications in early 2016, leading to both a reduction of commodity prices and an increase in disposable income. In addition, the measures taken by the European Central Bank (ECB) have also eased and encouraged investment through an extension of the asset purchase program, which has been gradually expanded to an average of EUR 80 billion purchases monthly, and also broadened asset-wise, for example to include the purchase of corporate sector bonds. These measures have benefitted financing prospects in the region, with the ECB expecting positive results to materialize in the medium term.

Furthermore, a slowdown of China's economy is a source of risk with regards to both global and European economic prospects. Chinese annual GDP growth has shown a decline since 2010 (10.6%) to a level of 6.7% in H1 2016. One result of the global financial crisis is that China has become a key driver of worldwide growth, accounting for a third of global output growth since the beginning of 2010; its slow-down is expected to have further implications for global macroeconomic conditions.

Influenced by the above and a range of additional macroeconomic factors, investment increased in 2015, gaining momentum towards the end of the year. The positive tendency, however, is predicted to last only temporarily, as the price of oil and other energy sources is expected to grow, increasing inflation gradually in H2 2016. Furthermore, how much such macroeconomic factors will affect various economies in the EU varies, depending greatly on the countries' respective macroeconomic attributes and policy stances.

In 2015, structural issues gained an increasingly important position in the EU's agenda in order to preserve fruitful collaboration between members and in regards to overall competitiveness as one whole economic unit. Applying the necessary structural measures is inevitable for the favorable functioning of the EU. The surge of refugees who arrived to the European Union last year has created significant challenges to the host economies. At a global level, continuing conflicts in Ukraine are prone to elevating international tensions via numerous sanctions imposed by the EU against the Russian Federation. Meanwhile, the issue of unemployment is still on the EU agenda, although the numbers have been showing some positive signs in recent years. The effects these matters are exerting upon various economies are expected to continue through 2016 as well, testing the adaptive and reorganizational capabilities of the markets in question.

Meanwhile, the United Kingdom leaving the European Union became a significant issue. Increased economic and political uncertainty and a prolonged period of exit negotiations within the EU are some of its immediate implications. Expert opinions vary in terms of whether countries in continental Europe are expected to benefit overall or suffer from the medium to long-term consequences. At a global level, higher volatility is expected, as the UK accounts for 16% of the European Union's GDP.

Bank lending

As in the previous two years, a recovery phase is apparent in connection with bank lending, stemming from an ample supply of loans for corporations and elevated demand across all loan groups. The phenomena of negative and near-negative interest rates across Europe have fuelled borrowing activity thus far, but there is great uncertainty whether this will be sustained in the future.

The continuing quantitative easing activity of the European Central Banks is foreseen as a determinant factor in increasing borrowing opportunities and spurring investor appetites. The ECB introduced the expanded asset purchase program last year, aiming to further stimulate the economy and combat deflation. Currently, on average, EUR 80 billion is the combined monthly amount spent on the ECB's deleveraging activity entailed in its asset purchase programs. However, it remains uncertain whether the extra liquidity will lead to an increase in lending volumes in all of the economies in question, due to the fragile regional financial system, increased regulatory pressure and the high rate of non-performing loans in some of the peripheral economies.

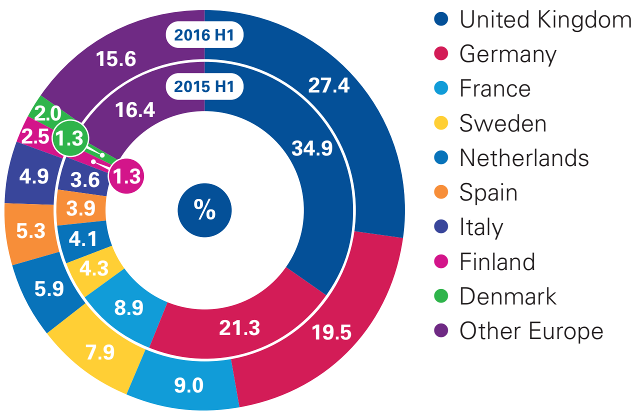
Intensive deleveraging activity took place in European markets in 2015. Its volume has increased and the loan sales reached EUR 104 billion in total value completed across 30 surveyed European countries. The UK market saw the greatest volume of loan sales deals, followed by Ireland, while the loan sales markets were also quite active in Italy and Spain. These four countries were jointly responsible for more than 75% of total deleveraging activity in Europe. As for the future of the market, the combat against non-core and non-performing assets is likely to remain on the agenda.

Real estate market in Europe

Compared to the exceptionally strong year of 2015, real estate investment in Europe declined in the first half of 2016. Investment totaled EUR 107.5 billion in the first 6 months, which is 30% lower than the comparable figure for the previous year. Among other factors, uncertainty on a range of political issues is understood to have caused the sharp decline. Due to concerns about the potential market implications of these issues, shaken investor confidence and increased risk aversion have created more competition for higher quality assets.

As for the geographical distribution of real estate investment activity, the UK and Germany preserved their first and second positions from the previous years, accounting for over one-fourth and one-fifth respectively, of the total investment volume in H1 2016. However, their overall performance declined by half in the UK and by one third in Germany, compared to the first 6 months of 2015, underperforming the market average, which contracted by 30%. France regained third place, which it held in 2014, with investments close to EUR 10 billion. Among the largest investment markets in the first half of 2016, Finland and Sweden saw the largest year-on-year increases, with 34% and 29% respectively.

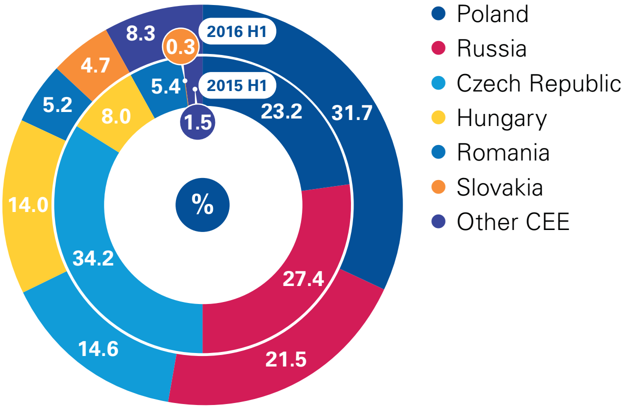
Breakdown of real estate transaction volume – Europe



Source: *Real Capital Analytics*

Central & Eastern Europe, including Russia, represents a small fraction of the aggregate European investment transaction volume, with a total value of approximately EUR 6.5 billion in the first half of 2016. Nevertheless, it has proved to bear strong growth potential. Remarkable investment activity was experienced in H1 2016 in the region, having increased by 50% over the respective half of the previous year. Poland was a top target for investments in the region (EUR 2.07 billion), while high levels of interest have returned to Hungary (EUR 910 million), as well. Russia recorded significant growth of 46% in H1 2016, with respect to the same period in the previous year, attracting approximately EUR 1.4 billion of investment despite continuing political sanctions against it and market volatility.

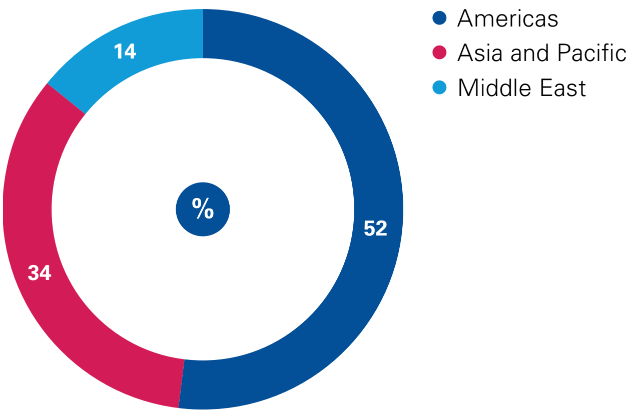
Breakdown of real estate transaction volume – Central and Eastern Europe (including Russia)



Source: *JLL*

In terms of cross-border investment, a significant upturn was experienced in 2015 in the European Union. While domestic investors continued to dominate the market, non-European investment accounted for a significant percentage of the deals. The United States was undoubtedly number one in 2015, and strengthened its position in Q1 2016 as well, most probably as a result of the strong dollar. Asian investors, including most notably China and Singapore, occupied second place in terms of non-local real estate investment volume towards the EU, followed by investors from the Middle East, such as Qatar and UAE. Regarding the destination of real estate investment, there is a tendency of increasing interest in non-UK property, as a form of diversification. The German market has felt the greatest consequent impact, increasing its share from 15% to 20% of total inflow of cross-border investment to the EU. The most preferred cities to invest in included London, Paris, Stockholm, Berlin, Birmingham and Munich.

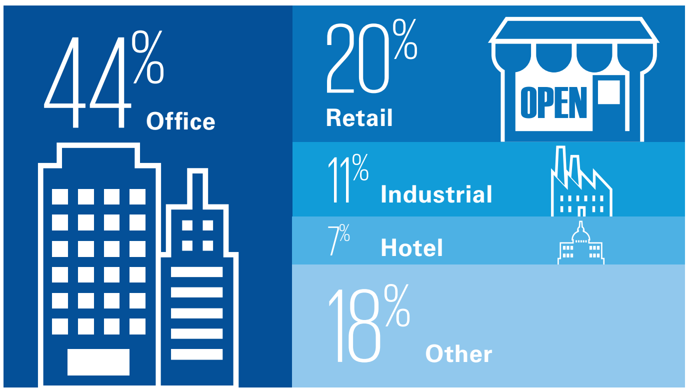
Real estate investment capital inflows to Europe by region (2015)



Source: *Cushman & Wakefield Research*

The preferences of investors in terms of asset classes are not exhibiting a notable change in comparison to the previous year: in the first 6 months of 2016 the office sector was the most favored (44%), dropping 18% to EUR 46.7 billion of investment, followed by retail (20%), industrial (11%), hotel (7%), and other (18%). A general contraction of the investment market was reflected in all sectors, though to varying degrees. The industrial sector decreased by 10%, while a 43% decrease was seen for retail, and a 44% drop for the hotel sector.

Investment by asset type in Europe (H1 2016)



Source: *Real Capital Analytics*

In line with the trend seen in recent years, a significant compression of prime yields has been seen, and is expected to continue in 2016. No significant changes have been administered regarding rental fees, which remain at relatively low levels across Europe, continuing to lure investment. The low cost of capital is expected to stay unchanged and, together with the promised quantitative easing activity, will most probably lead to an inflation of asset prices. The future of the real estate investment market is affected greatly by the current high level of uncertainty reflected by increased levels of volatility. Diversification will presumably gain further momentum, illustrated by greater activity in the markets of Scandinavia, Southern and Central-Eastern Europe. Nevertheless, core markets shall continue to attract the highest interest.

Managing impaired loans

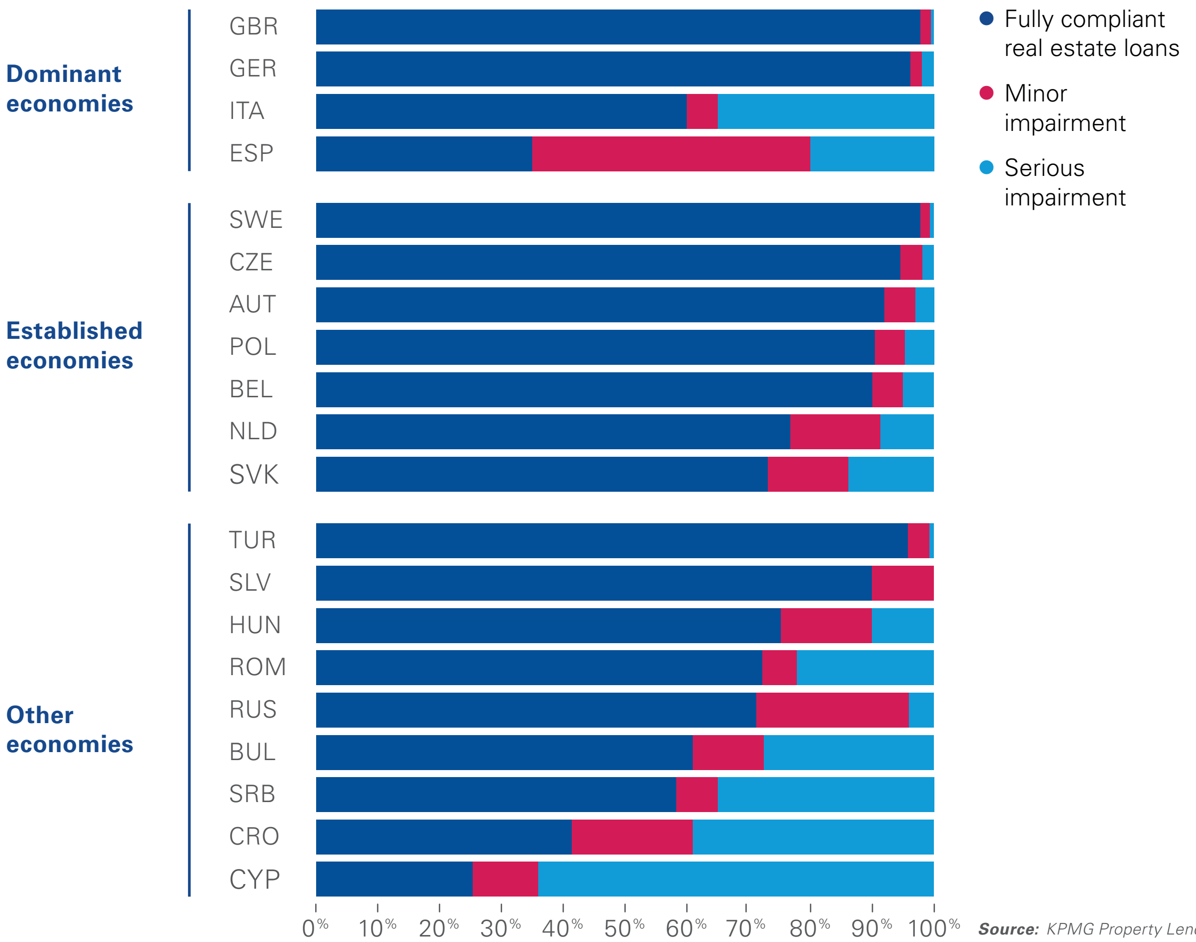
Financing in the real estate sector is prone to being impacted by economic cycles; hence, the global economic crisis has had a detrimental effect on banks' lending activity. The extent of its impact varied across Europe. Countries in other economies saw the proportion of impaired real estate loans increase the most, partly because significant part of loans were denominated in foreign currency. While banks have various options when dealing with impaired loans, such as restructuring, foreclosing or selling these non-performing loan (NPL) portfolios, due to improving market conditions, the gap between the price offered by investors for NPL portfolios and banks' expectations has narrowed, which has led to more transactions. However, NPL portfolio transactions are more common in Western European countries, so banks in the less established markets are still facing difficulties caused by the sizeable proportion of non-performing loans in their loan portfolios.

In this part of the survey we focus on banks' options to manage real estate loans where there is a technical breach of contract, or where debtors cannot pay their capital and/or interest on time.

Current state of and future expectations for impaired loans
Fully compliant loans are, in general, more common in dominant and established economies, than in other economies. The proportion of fully compliant loans was in the range of 73-98% in these countries, with the exception of Italy (60%) and Spain (35%), where the financial sectors are still suffering from or have only recently managed to get through the impact of the global financial crisis. Due to structural reforms and increased activity in the real estate sector, the ratio of non-performing loans by banks in Spain is expected to decrease. Among established economies, the highest ratio of fully compliant loans is in Sweden at 98%, the Czech Republic (95%) and Austria (92%).

Responses from other economies vary greatly, in a range between 25% and 96%. Cyprus is at the bottom of the list, with 64% of real estate loans reported to be seriously impaired, and an additional 11% having minor impairment. Banks in Croatia and Serbia also reported a high proportion of impaired

Proportion of impaired real estate loans per country



Source: *KPMG Property Lending Barometer 2016*

loans: 59% and 42% respectively. However, banks in Turkey and Slovenia have fully compliant real estate loans in over 90% of their portfolios. According to our survey of participating banks, in the case of Italy, the proportion of real estate loans with serious impairments increased significantly in 2016 compared to last year.

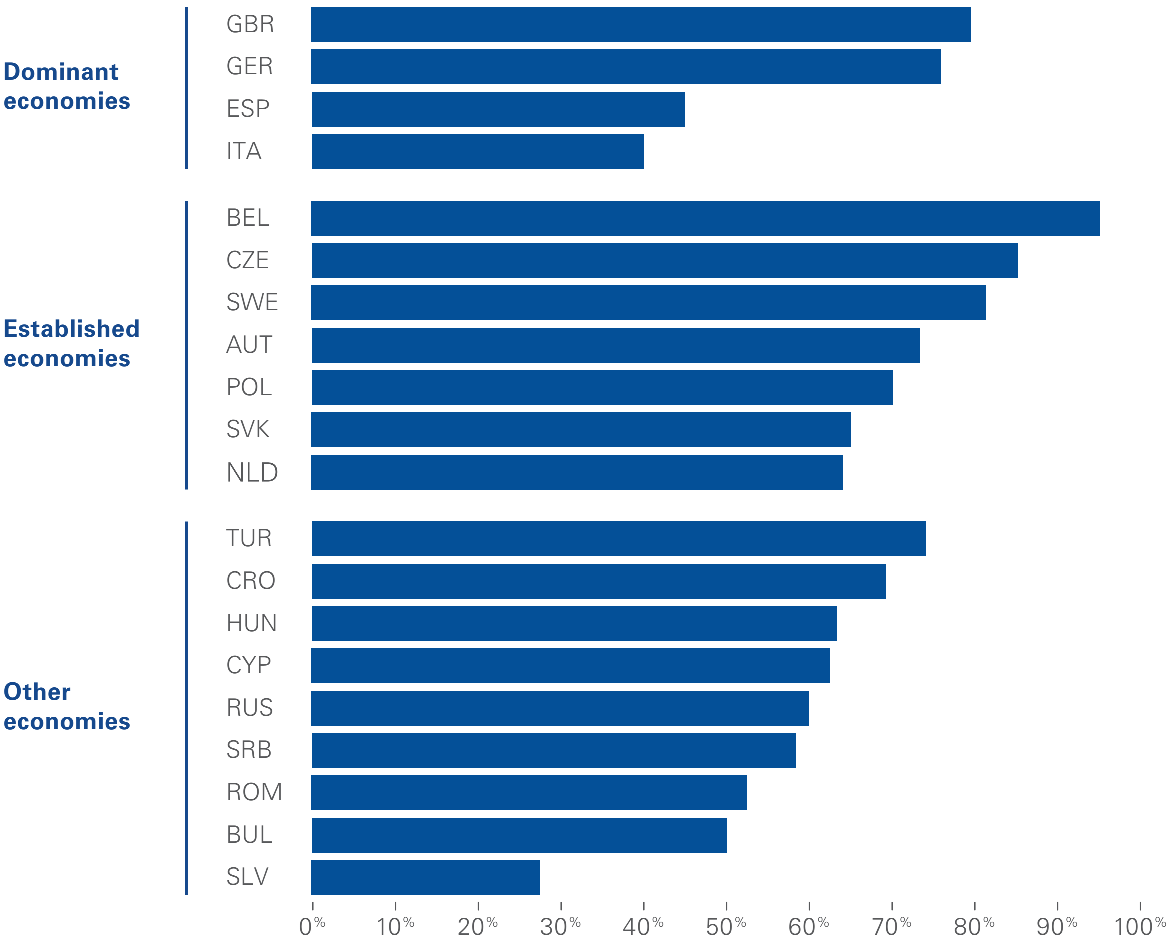
Restructuring as an opportunity to manage impaired loans

The responses of bank representatives queried in our survey confirmed that over two-thirds of their impaired real estate loan portfolios can be successfully managed through restructuring. This sentiment confirms that the rescheduling or restructuring of loans is still a preferred approach by banks for managing problematic loans.

The highest average ratio of impaired loans that may be managed through restructuring was reported by financial institutions in Belgium (95%), the Czech Republic (85%) and Sweden (81%). Meanwhile, banks in Slovenia (28%), Italy (40%) and Spain (45%) indicated significantly smaller proportions, which suggests that banks in these countries do not think that restructuring can resolve the most problematic loans.

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

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



Source: *KPMG Property Lending Barometer 2016*

Prospects for real estate loan portfolios

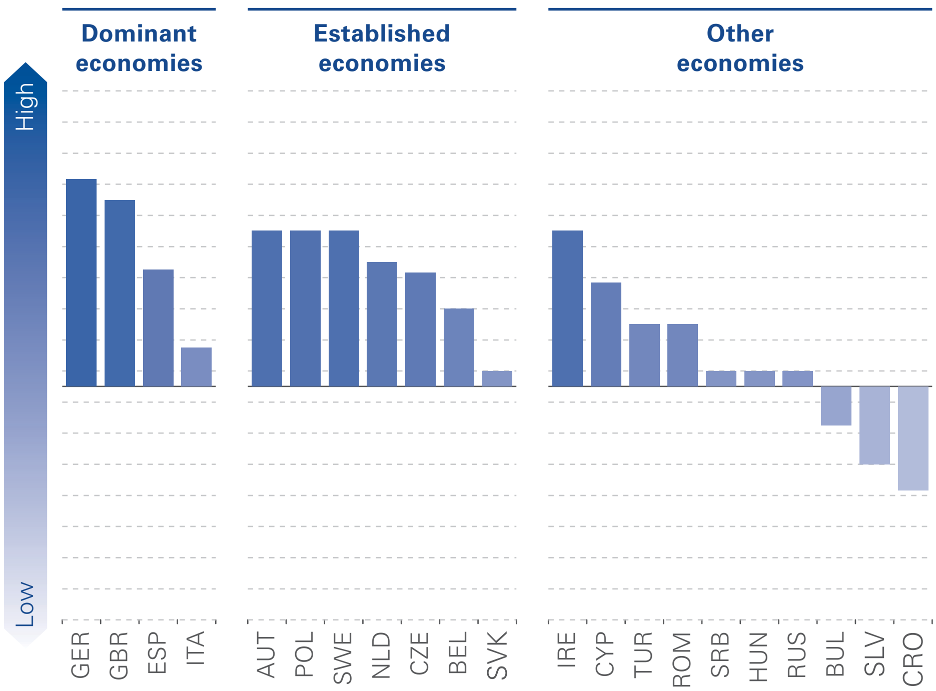
In this section, banks' expectations for the future of their real estate loan portfolios are assessed in light of recent developments and their strategic approach to real estate financing.

Strategic importance of real estate financing
Overall, real estate financing is strategically more important for banks operating in dominant and established economies. Among the other economies, answers vary greatly, with Ireland and Cyprus indicating a relatively high strategic importance for real estate financing compared to their peers.

Among the dominant and established economies, banks in Germany and the UK assigned the highest importance to real estate financing, while Slovakian and Belgian banks ranked it at a lower level of importance. Regarding banks operating in other economies, bank representatives from Croatia, Slovenia and Bulgaria indicated that real estate financing is not considered strategically important for banks.

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

Strategic importance of real estate financing for banks



Source: *KPMG Property Lending Barometer 2016*

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

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

Only a minority (27%) of the respondents from the dominant economies indicated some extent of increase since last year, whereas in the case of the established markets, 29% of the banks held this opinion. Forty-eight per cent of bank representatives in the dominant countries indicated that their lending activity maintained its focus on real estate financing, compared with 61% of responses from banks operating in established economies.

In the other economies the proportion of respondents stating that there was an increase in their bank's focus on real estate financing was 28%. Similarly to answers from dominant and established markets, 54% of respondents from banks operating in less established markets indicated that their focus on real estate financing was maintained compared to the previous year.

Most important factors affecting real estate loan portfolios

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

Overall, the most significant factor for banks in Europe was the macroeconomic conditions in the local market. The responses show that 2016 brought more uncertainties to local economies that may significantly affect banks' lending activities.

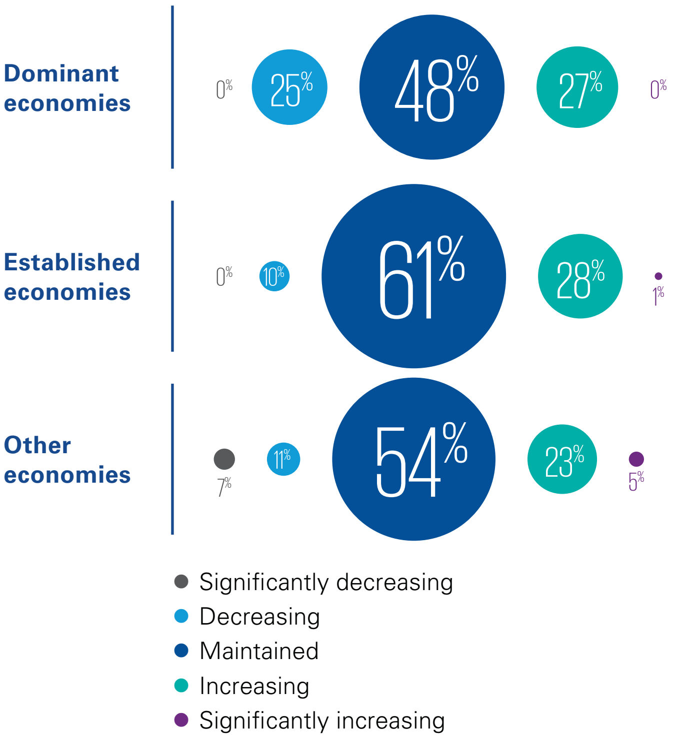
In dominant economies, the second most important factor was the lack of prime properties, which highlights in these more mature markets that the increased investment activity is expected to result in a lack of quality properties which could negatively impact loan portfolio prospects. It remains an open question whether investors and banks are willing to take significantly higher risks in order to expand their portfolios by investing in or financing more risky assets.

In established economies, the activities of the European Central Bank and/or National Banks were indicated to be the most important factor, presumably because they are the primary beneficiaries of the ECB's current programs. Local and European macroeconomic conditions, as well as the lack of prime properties, also received relatively high scores.

In the other economies, similar to last year, the local macroeconomic environment was identified as the most significant factor, followed by the lack of active investors. The lack of prime properties is not considered to affect the loan portfolios of banks operating in these markets as significantly compared to banks in dominant and established economies.

Overall, on average, fear of a potential setback regarding macroeconomic conditions in local markets has gained importance since last year among the survey respondents. This has become a key risk consideration, not only for banks in other economies, but also for banks operating in dominant and established markets.

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



Source: *KPMG Property Lending Barometer 2016*

Most important factors affecting real estate loan portfolios

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

Source: *KPMG Property Lending Barometer 2016*

When bank representatives were asked from which sources they expected additional funds to come from if the overall size of their share in financing decreases, the majority of respondents stated that additional funds may come from private equity, followed by insurers/pension funds. Extra equity from the developer/investor was also indicated as a source of potential additional funds in Germany, Spain and Russia. Bonds were also mentioned as potentially significant sources by Swedish, Austrian and Polish banks.

Disposing of loan portfolios
The general tendency that banks in other economies are more inclined to dispose of part of their loan portfolios was confirmed this year. On average, 40% of the banks in these markets indicated their willingness to dispose of part of their loan portfolios. Among banks in dominant and established economies, the proportion of banks considering a disposal is significantly lower at only 30% and 20% respectively. According to market research data, even though banks in other economies are more willing to dispose of part of their loan portfolios, there are more transactions closed in the dominant and established economies.

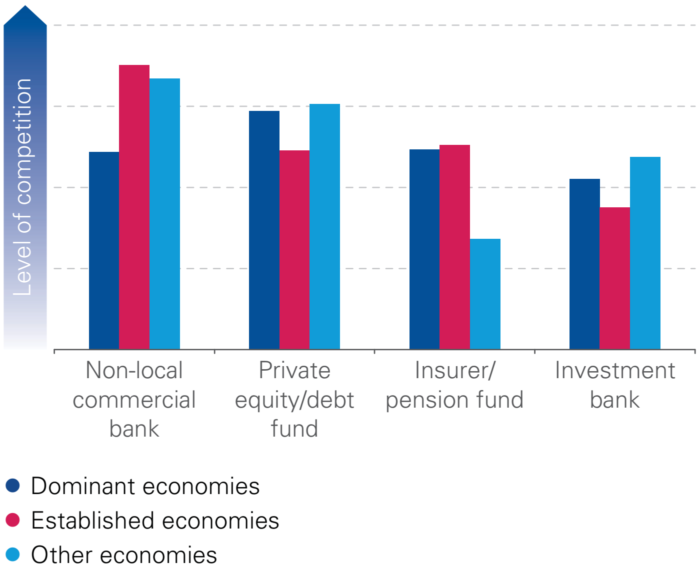
Over two-thirds of those surveyed in Russia, Cyprus and Croatia stated that they are considering selling part of their commercial loan portfolios in the next 12-18 months. Furthermore, in Spain, Italy and Bulgaria, half of the participants also responded affirmatively. Whereas in Germany, Belgium, Austria, as well as in Ireland, Turkey, and Slovenia, none of the banks are considering disposing of their loan portfolios.

The answers show that, in general, banks in those countries which have a larger proportion of impaired loans are more inclined to dispose of their loan portfolios. Among those banks that are considering disposing of part of their loan portfolio, 50% have indicated a strategic exit as the main reason behind their decision. Other factors such as capital adequacy were also mentioned by banks.

Regardless of banks' potential willingness to dispose of part of their loan portfolios, the complexity of such transactions reduces the demand for these investment opportunities. For investors, it is complicated to manage loan portfolios due to often complex regulatory and tax structures.

Alternative lenders
Bank representatives were asked which alternative lender they considered to be their biggest competitor in terms of banks' traditional real estate lending. Their responses show that banks in established and other economies consider non-local commercial banks as their key competitor, while in dominant economies private equity/debt funds are considered to be banks' main competitors.

Competition with alternative lenders



Source: *KPMG Property Lending Barometer 2016*

When queried as to how they expect the activities of alternative lenders to change in 2016 compared to 2015, in terms of real estate lending, respondents expected all alternative lenders to become more active than before. The consensus among banks operating in established economies reflected a higher level of expected activity for alternative lenders, but there is no significant difference between the responses in all country groups.

Regarding which alternative lenders have more positive growth prospects in terms of their lending activity, responses varied widely based on the maturity of the markets respondent banks are operating in. In dominant economies, private equity/debt funds are expected to expand their lending activity the most, followed by non-local commercial banks. In established markets, insurers/pension funds are deemed to have stronger prospects in that respect, relatively in line with non-local commercial banks and private equity/debt funds. In other economies, private equity/debt funds are expected to increase their lending activity the most by far in 2016.

Opportunities for financing new real estate projects

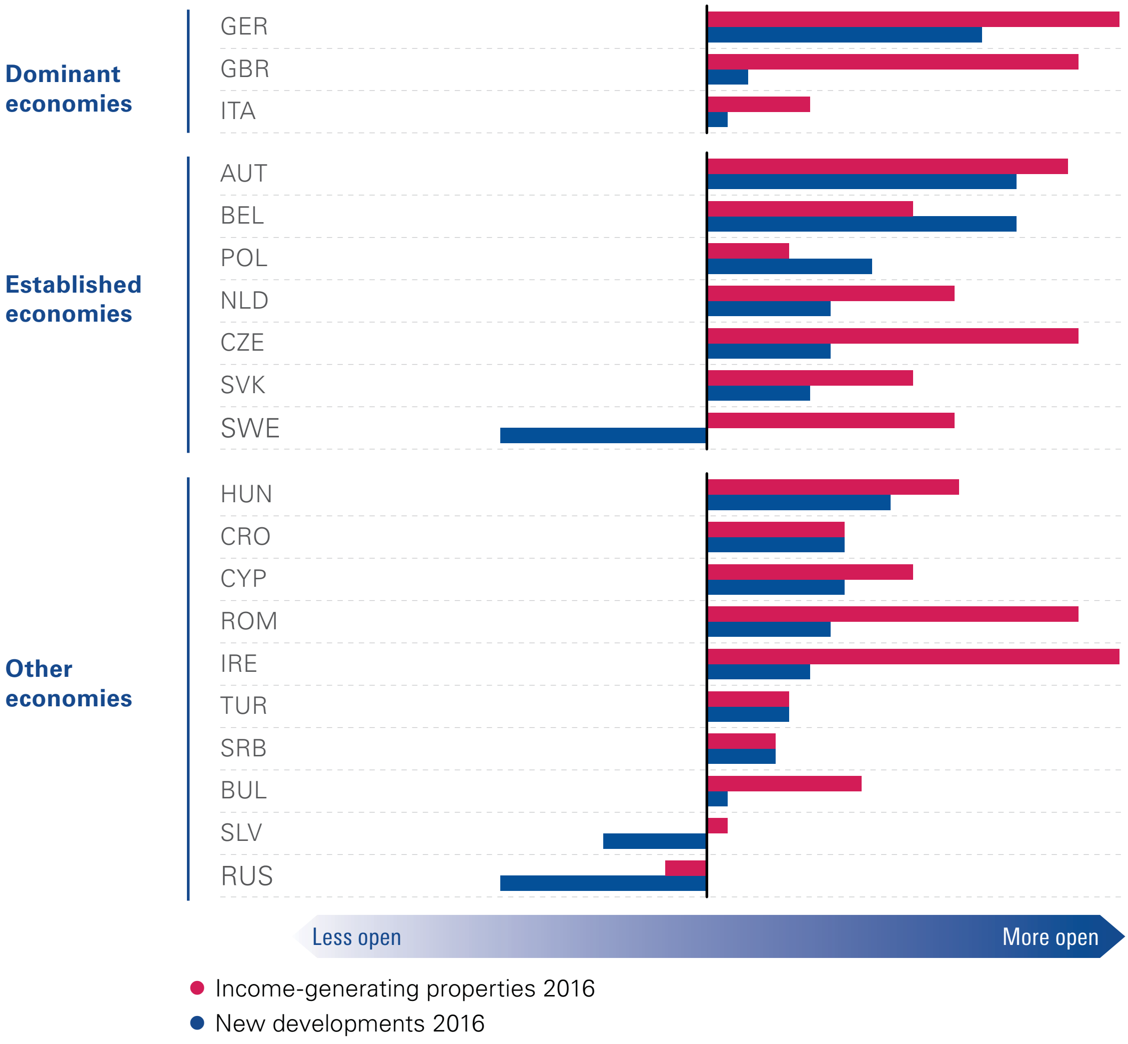
This section assesses the opportunities for developers in obtaining bank financing for real estate projects.

New financing

With a couple of exceptions, banks in most of the markets appear to be showing at least some extent of openness for financing income-generating projects. On average, banks in dominant and established economies are somewhat more open to financing real estate projects, especially income-generating projects.

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

Openness of banks to finance development/income-generating projects



Source: *KPMG European Property Lending Barometer 2016*

However, when it comes to new developments, banks in general are still more risk averse and less willing to finance such projects, even in more mature markets.

In the dominant economies surveyed, banks in general did not show a great degree of openness towards financing new developments, with the exception of Germany, where respondents indicated moderate openness. Among the established markets, Austrian and Belgian banks are quite open to financing such projects.

Among the other economies, banks in Hungary exhibited the greatest openness towards financing new development projects. Respondents from Russia and Slovenia indicated that their banks are less open to financing such projects.

Asset Class Preferences

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

Office and residential are the most preferred asset classes among the surveyed banks in the dominant economies. In established economies, residential is clearly the most preferred asset class. The second most preferred asset class is office, closely followed by retail and industrial. The most favored asset class among banks operating in other economies is office space, followed by the retail, residential and industrial sectors. The popularity of the residential sector decreased in certain countries such as Romania, Bulgaria or Serbia among banks operating in other economies compared to the last year. However in Hungary or Cyprus banks prefer residential projects more than last year. In the established economies, the office sector gained in preference compared to 2015. Among the dominant countries in terms of preference of financing industrial properties, the most significant increase was observed in Italy.

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

Banks' sector preferences in providing development financing by asset class

Note: *The longer the colored bar, the more preferred the asset class is for the banks.*
Source: *KPMG Property Lending Barometer 2016*

Criteria for financing

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

Like last year, there is a consensus among the surveyed banks, regardless of the size and the risk profile of their markets, that the most important criterion for obtaining financing for a project is a strong business model and the quality of the asset.

The reputation and references of the developer/operator is also ranked very high, especially in dominant and other economies. Other important criteria in all market groups were the financial background of the developer/investor and the level of owner's equity. In other economies, the pre-letting/pre-sale level of the project was also indicated as one of the most important criteria when considering real estate financing.

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

Banks' most important criteria when considering real estate financing

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

Source: *KPMG Property Lending Barometer 2016*

Loan-to-cost ratios (LTC)

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

When comparing the results of the market groups we can observe that, on average, banks in more established countries require less equity from developers. Similar to last year, surveyed banks from the dominant markets were more conservative in this regard compared to banks in established economies. In general, they require more equity when financing a development project.

The loan-to-cost ratios in the dominant economies for the office, residential, retail, industrial/logistics and hotel sectors are in the range of 0.51 and 0.75 (i.e. reflecting a capital structure of 51-75% debt and 49-25% equity). On average, the residential sector has the highest LTC ratio at 71%, followed by office and retail at 63% and 62% respectively.

In the case of the established economies, the loan-to-cost ratios are between 0.48 and 0.80 (i.e. reflecting a capital structure of 48-80% debt and 52-20% equity). In these markets the residential sector also has the highest LTC ratio on average at 70%, followed by office and retail equally at 68%.

In general, banks in "other" economies require more equity from developers, mainly due to the more risky nature of these markets, which has resulted in more conservative lending policies followed by the respective banks. The loan-to-cost ratios are in a range of 0.48 and 0.75 (i.e. reflecting a capital structure of 48-75% debt and 52-25% equity). In these markets the LTC ratios are the highest on average for the office and retail sectors at 63%, followed by residential and industrial at 62%.

As in previous years, the hotel sector requires the highest equity ratio in most of the countries in the range of 35-50%.

Loan-to-value ratios (LTV)

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

In the case of the dominant economies, the loan-to-value ratios for the office, residential, retail and industrial/logistics sectors range from 0.53 to 0.72 (i.e. reflecting a capital structure of 53-72% debt and 47-28% equity). The office and retail sectors, on average, have the highest LTV ratios, both 64%, followed by industrial and hotel equally at 61%.

The range is slightly broader in the case of the established economies, at a ratio of between 0.55 and 0.75 (reflecting a capital structure of 55-75% debt and 45-25% equity). The lowest average proportions of equity are required for the office and retail sectors (32%), while the most equity is needed for hotel and resort projects (39%).

The loan-to-value ratios by banks in other economies range from 0.28 to 0.75 (reflecting a capital structure of 28-75% debt and 72-25% equity). The least equity is required for office and retail (38%) projects, on average, while the most equity is required for hotel and resort projects (43%).

The hotel sector's loan-to-value ratio is still the lowest among all the asset classes in all market groups, with an average of 59%. On average, the highest LTV ratio is provided to retail and office projects in each market group.

Pre-let ratios

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

In line with last year's survey results, answers from respondents confirmed that banks in more established economies tolerate less risk in relation to the speculative nature of real estate projects and require developers to achieve a higher pre-let ratio when financing a project.

Pre-let ratios for office and retail projects in the dominant economies are on average 56% and 59% respectively, while for industrial it is 66%.

In established markets, banks' average pre-let requirement for office developments is 59%, 65% for retail developments and 78% for industrial developments.

In regard to banks operating in other economies, the pre-lease requirements of banks for office developments on average is 49%, 53% for retail and 58% for industrial.

Based on the answers from respondents involved in our survey, banks are less open to speculative developments of industrial properties. Reflecting the fact that, it is more common in the industrial segment to develop properties according to a "build to suit" concept, which means that the property is developed based on the (dominant) tenant's specific needs and requirements.

Debt service coverage ratios

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

Particularly in dominant and established economies, banks indicated a wide range of DSCR expectations even within the country groups. German and Swedish banks require significantly higher DSCR ratios compared to their peers, presumably because in many other aspects they are ready to offer very favorable terms for clients, hence their expectation for cash flows to cover close to or over 200% of the relatively lower debt service.

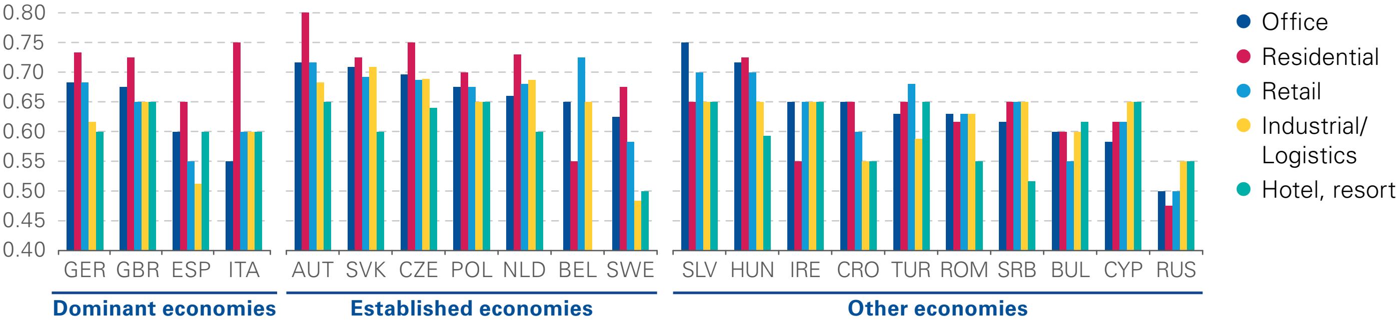
Considering all responses, on average, the required DSCR ratios were the lowest in the office and retail sectors, followed by industrial and hotel.

The dominant economies' banks require the lowest DSCR ratio for the industrial asset class at an average of 1.44. This is followed by hotel, office and retail; however, the difference between the DSCR ratios in various asset classes is relatively insignificant.

Banks operating in the established economies expect the lowest average ratio for offices (1.33) followed by retail (1.35), industrial (1.43) and hotel/resorts (1.51).

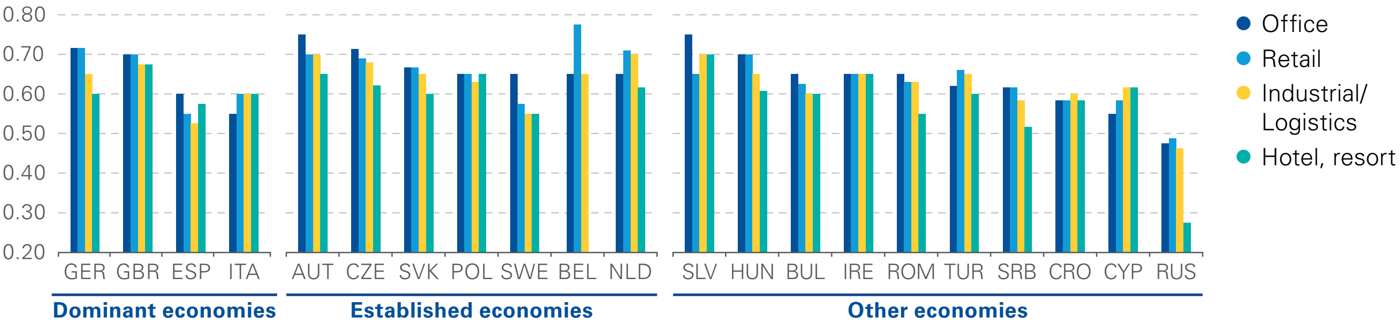
The lowest DSCR requirements of banks operating in other economies are for retail and office with an average of 1.33. The required average for the industrial asset class is 1.35 and 1.37 for hotel/resort assets.

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



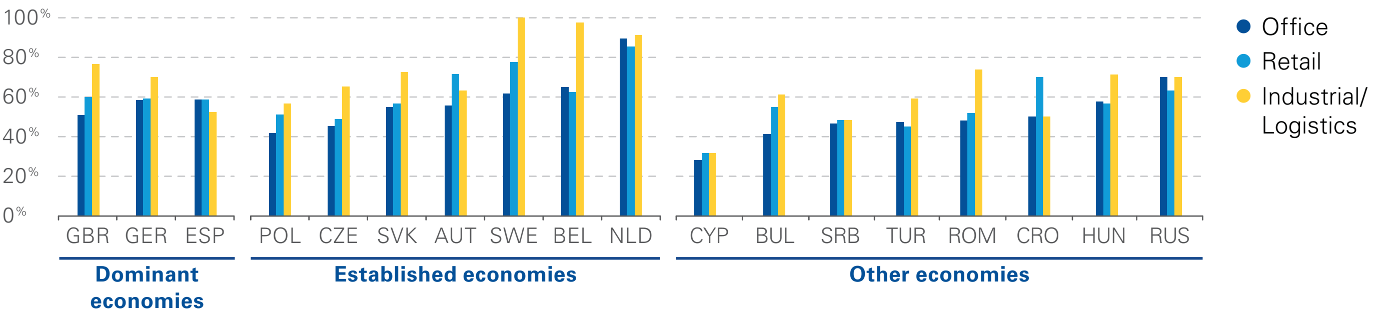
Source: *KPMG Property Lending Barometer 2016*

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



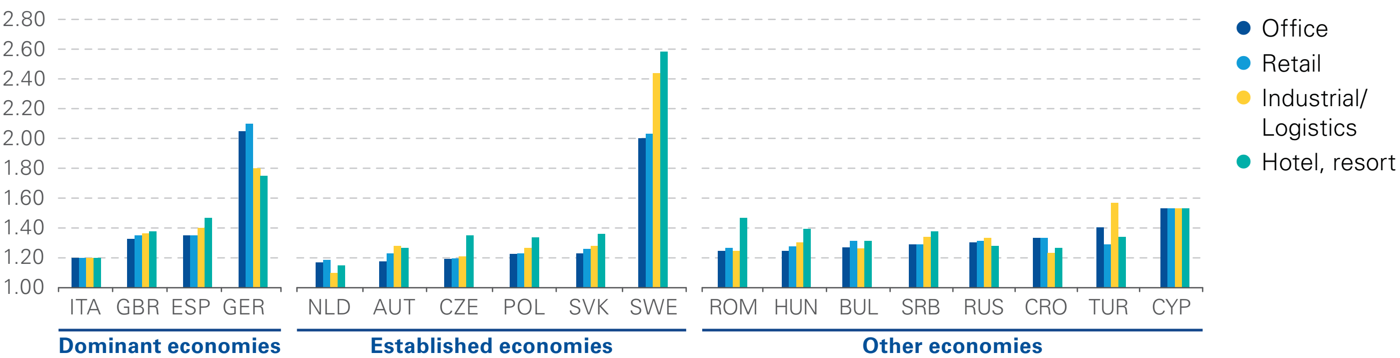
Source: *KPMG Property Lending Barometer 2016*

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



Source: *KPMG Property Lending Barometer 2016*

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



Source: *KPMG Property Lending Barometer 2016*

Interest premiums

In addition, banks included in our survey were asked to state a range for the interest premium they would apply on a 3-month Euribor basis, if a developer or investor of outstanding reputation with a solid business plan approached them.

Here we only present two asset classes, office and retail, i.e. those which were typically key focus sectors from a real estate investment perspective in Europe in 2016. Premiums for all the asset classes in each country are presented in the country profile section of this report.

The lowest loan interest premiums are available in economies with low risk profiles and well established real estate markets. Recent increased competition among financing institutions in these economies has also contributed to the more favorable conditions available to borrowers.

Last year, the improved economic environment across Europe resulted in the easing of financing conditions among banks, hence they required relatively low interest premiums in most markets. Taking the average of responses, the required interest premiums indicated by representatives of the banks included in our survey do not show any significant change compared to last year.

According to them, the premium applied on new office and retail developments in the dominant economies currently ranges from 1.6-3.0%. On average, German banks require the lowest premiums.

For the established economies, the applied premium by banks for office and retail developments is in a range of 1.3-4.3%. Banks in Belgium require the lowest premiums, while the highest are required in the Netherlands.

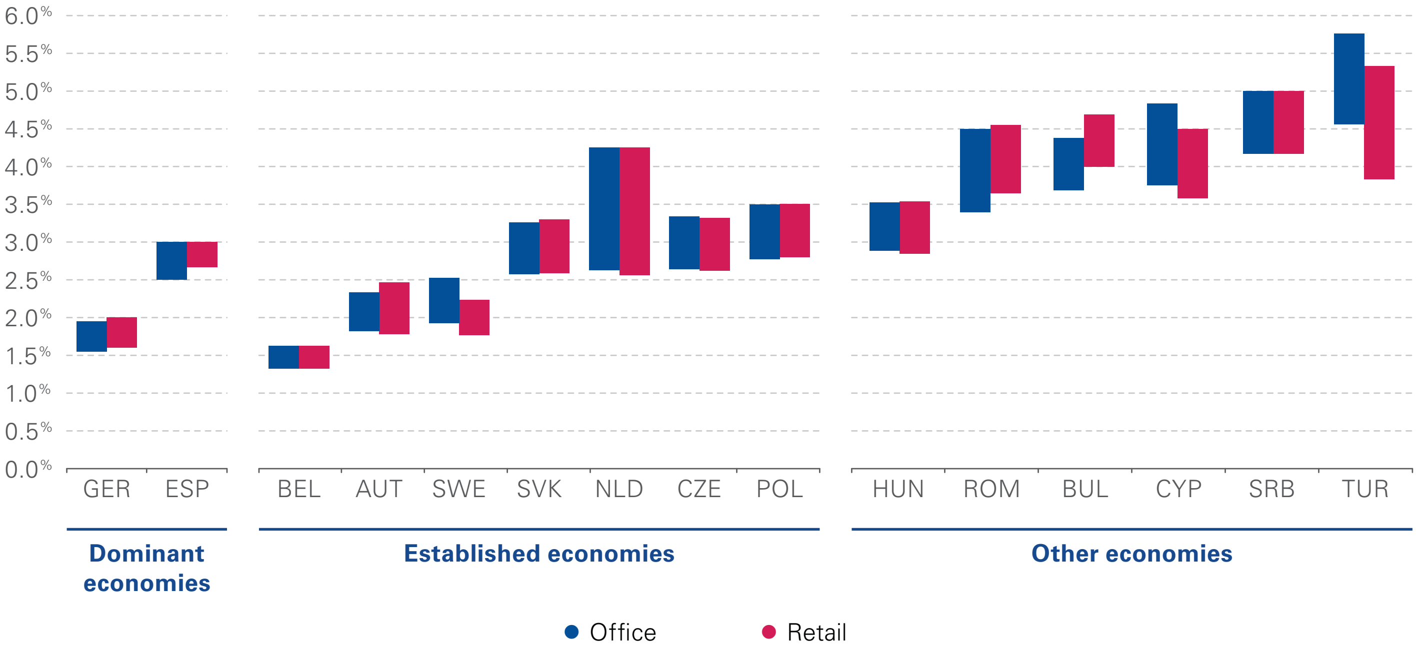
Among the other economies, the premiums required by banks for office developments are in a range of 2.9-5.8%, while the premium range is 2.8-5.5% for retail. Hungarian banks require the lowest premiums, while banks in Serbia and Turkey set the highest premium levels.

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

The ranking of the countries in the case of income-generating projects is similar to that for new development projects. A lower premium is applied by most of the banks for income-generating projects, as there is less risk associated with such projects (i.e. a lack of development and leasing risk). The required risk premiums, because of these risks, vary across the countries. For example, German banks require premiums that are lower by 30-35 basis points for income-generating office and retail asset classes compared to that for new developments. Banks in the Netherlands mandate lower premiums (by 63-92 basis points) for office and retail income-generating projects than for new developments.

Among the dominant and the established economies, German, Swedish and Belgian banks apply the lowest premiums, while the highest are applied by Slovakian and Czech banks. In the case of the other economies, banks in Hungary require the lowest, while Russian banks require the highest premiums for income-generating projects.

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



Source: *KPMG Property Lending Barometer 2016*

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

Source: *KPMG Property Lending Barometer 2016*

Length of loan

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

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

Overall, banks in more mature markets operate in competitive environments which drive them to apply low amortization rates; however, their internal policies limit the longest term of the loan they contract for. Consequently, the difference between the implied maximum amortization period and the available maximum contracted length of the loans is much greater in dominant (17 years) and established economies (16 years), than in other economies (4 years).

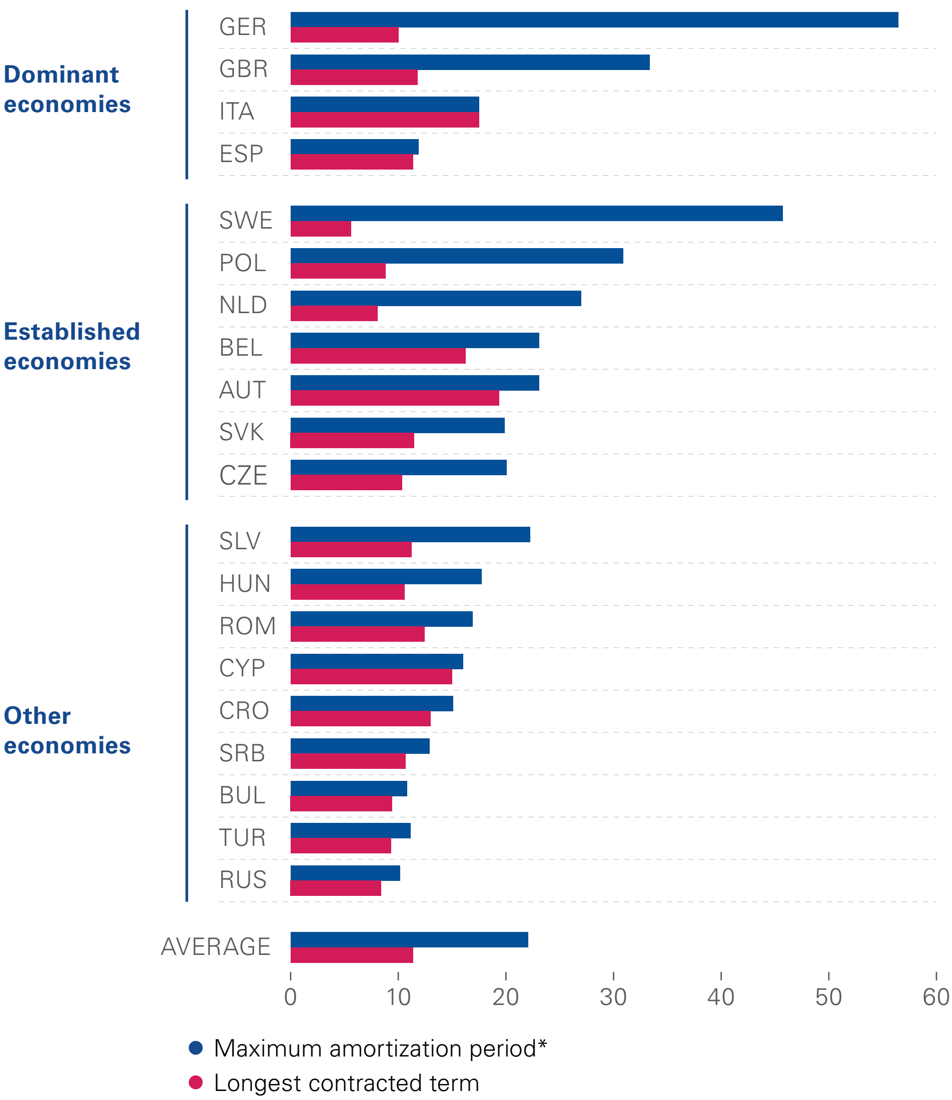
Taking the average of responses, banks operating in dominant and established markets require lower annual loan amortization rates and are ready to sign longer term contracts than banks in other economies. The implied maximum amortization period of the loan and the available maximum contracted length of the loan range between 12-56 years and 10-18 years respectively. German banks, when certain conditions are met, are ready to apply the lowest level of amortization rate (1.8%), and Spanish banks the highest (8.4%) within the dominant economies. Interestingly, the maximum contracted length of the loan is the lowest in Germany (10 years) and highest in Italy (18 years).

In established economies, the implied maximum amortization period of loans ranges from 20-46 years, while the available maximum length of the contracts is in a range of 6-19 years. Similar to Germany, when certain conditions are met, Swedish banks are ready to apply the lowest amortization rates (2.2%) and still their maximum length of contract is the lowest (6 years). The smallest difference between the implied maximum amortization period and the maximum contracted length of loans is in Austria, comparing the implied maximum amortization period (23 years) against the available maximum contracted length (19 years).

In other economies, the lowest amortization rates are applied in Slovenia (4.5%), and the highest in Russia (9.9%). The most restrictive practice is followed by banks in Russia, also in terms of available maximum contracted length of the loan (8 years), while banks in Cyprus are ready to sign loan contracts for 15 years, the longest duration among those in the market group.

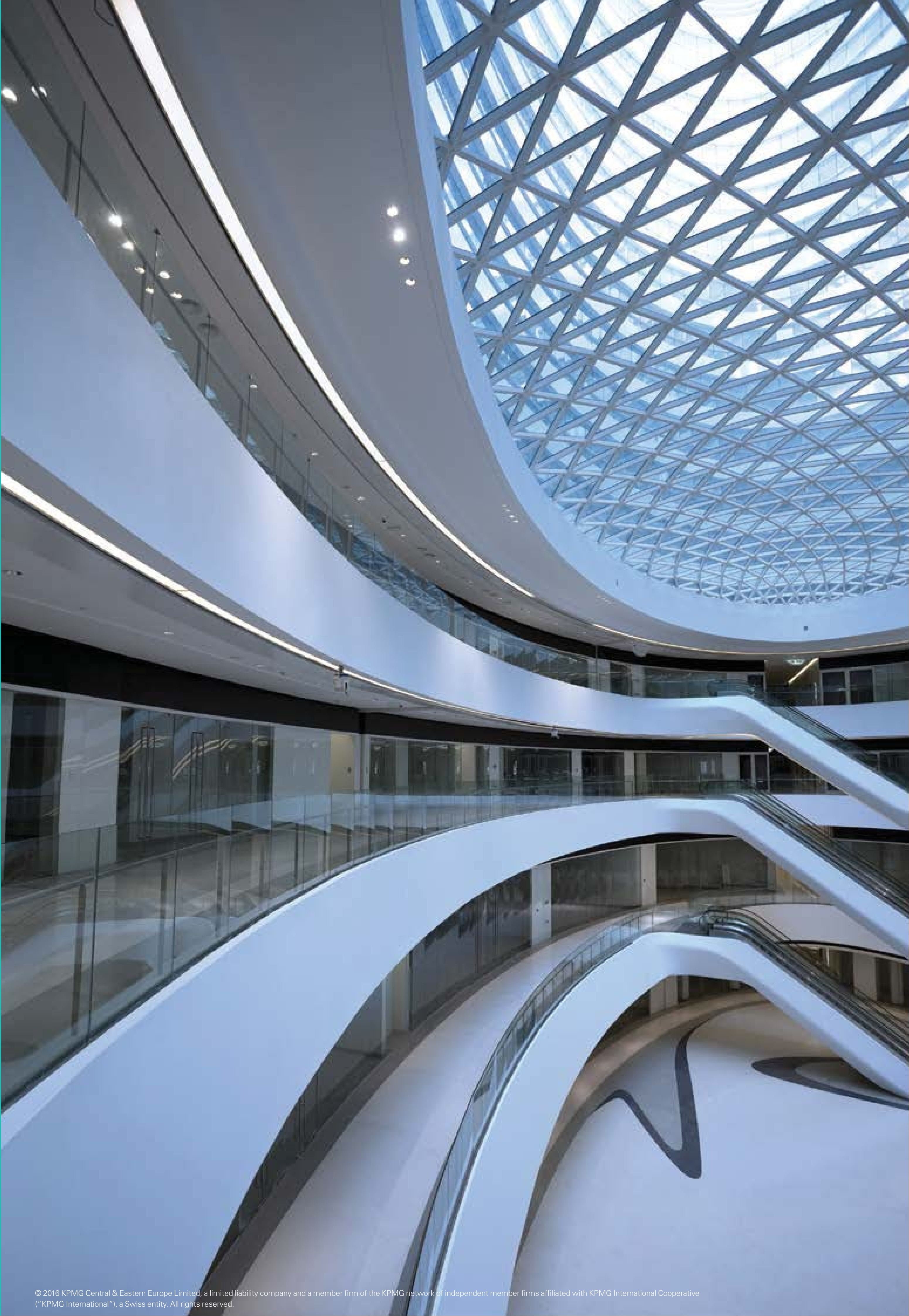
In terms of asset classes, taking the average of all surveyed countries, there are no significant differences between the amortization rates applied for different asset classes. The rates range between 5.2-6.1%. Similarly, on average, the available maximum contract length applied by banks for different asset classes ranges from 11.2 to 11.7 years.

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



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

Source: *KPMG Property Lending Barometer 2016*



Conclusions

The prospects for each country's real estate market are generally affected by the macroeconomic outlooks and the perceived risk profiles of the respective economies.

The European landscape remains favorable for financing conditions like last year, though overall business sentiment is less optimistic with regards to the foreseeable future.

The investment markets of those countries surveyed in H1 2016 have witnessed a slight downturn compared to H1 2015. Nevertheless, in comparison with the first quarter of the current year, a moderate increase was registered. The UK, Germany and France accounted for 65% of the transaction volume during H1 2016.

The proportion of non-performing loans is still high in many of the less stable economies; therefore, banks are still only cautiously open to offering real estate financing in these markets.

There is no change indicated by respondents in terms of their preference of restructuring problematic loans rather than seeking foreclosure, especially in more established economies.

The proportion of fully compliant loans is higher than 75% in all surveyed Western European countries, with the exception of Italy and Spain. However, in Bulgaria, Serbia, Croatia and Cyprus the proportion of fully compliant loans is still below 65%.

Alternative lenders are placing increasing pressure upon banks. Those surveyed in established and other economies consider that, among the alternative lenders, non-local commercial banks were their biggest competitors. In dominant markets, private equity/debt funds were considered the biggest competition threat to banks.

Like in previous years, our findings indicate that, in most of the countries surveyed, banks prefer financing income-generating projects compared to new developments.

The preferred asset class in the dominant economies is office, followed by residential, while in established economies, residential is clearly preferred, followed by office and retail. Banks in other economies prefer the office sector the most, followed by residential. The hotel sector remains the least preferred by banks in terms of financing.

In this year's survey we highlighted that banks in more mature markets are driven to apply lower amortization rates; however, their internal policies limit the term length of the loan they contract for. Consequently, the difference between the implied maximum amortization period of the loan and the available maximum contracted length of the loans is much greater in dominant and established economies (16-17 years) than in other economies (4 years).

Over 40% of the surveyed banks in 2016 indicated either high or very high reliance on valuations provided by external service providers, while less than 25% indicated either low or very low reliance.

The focus on real estate financing has either increased or stayed unchanged since last year among the surveyed countries except for in Sweden, Slovenia, Croatia, Cyprus and Russia, where banks indicated a decrease.

Banks from established countries were the most open to participating in and leading club deals, as 60% of the banks indicated some extent of openness for both. In the case of other economies, close to 53% of the banks were either open or very much open to participating in and leading club deals. By contrast, approximately 40% of the surveyed banks from dominant countries indicated some openness to participate in and leading club deals.

In the second part of our report, we provide a separate analysis for each country. In these country profiles we aim to emphasize the surveyed countries' unique characteristics as reflected by their varying market fundamentals, as well as the present and prospective financing conditions.

Country profiles

Austria

"Favorable financing conditions and a stable market outlook lead to increased transaction volume."

Erich Thewanger

Overview

Austria's economy grew by 0.8% in 2015, and, for the first time since 2011, the GDP growth rate is expected to exceed 1% in 2016 (reaching 1.1%). This is mainly driven by increasing domestic demand (especially consumer spending) stimulated by the recent tax reform that is expected to boost private consumption. The unemployment rate is expected to increase in the short term, from 5.7% in 2015 to 5.9% in 2016, as a direct result of recent government reforms (e.g. promoting employment of women and increasing the retirement age), and due to the large number of incoming refugees. However, in the mid-term, labor supply is forecast to be absorbed by the growing economy.

Real estate investment activity in Austria outperformed the previous year and totaled EUR 3.1 billion in 2015. Austrian investors were the key players in the market, although demand from international investors, such as Germany and the United States, was also high. The office segment witnessed lively investor interest in Q1 2016 and the total investment volume reached EUR 211 million, whereas retail and industrial segments were less active during the first quarter. Increased investor interest in the retail sector is forecast, owing to the decreased number of investment opportunities in the office sector. Austrian prime yields stood at around 4.0-6.5% for offices, 3.4-4.3% for high street retail and 6.25-6.75% for logistics at the end of H1 2016.

Lending market

The strategic importance of real estate financing for banks in Austria is noteworthy, according to all respondents. Based on 50% of those surveyed, a slight increase was measured in the importance of such financing activity in their own banks, while the other half indicated that the situation had not changed.

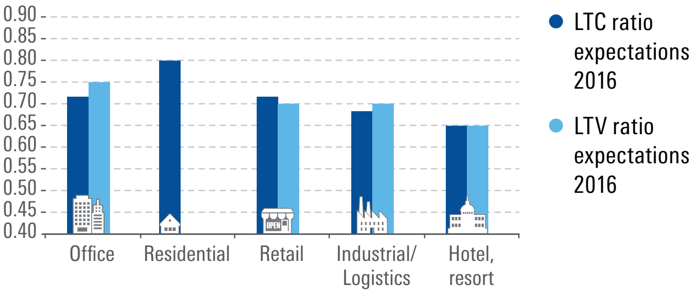
Respondents also signaled that Austrian banks are definitely open to financing both new developments and income-generating projects, with an inclination towards the latter. The opposite is shown by the breakdown of loans provided for these categories in the past 12-18 months, demonstrating a slightly greater percentage for new developments. Banks indicated non-local commercial banks followed by private equity/debt funds as their biggest competitors among alternative lenders. All respondents found the level of provisions made in relation to real estate loans adequate. While Austrian banks' average loan size is between EUR 11 and 38 million, the preferred size is between EUR 13 and 30 million.

Future of real estate loan portfolios

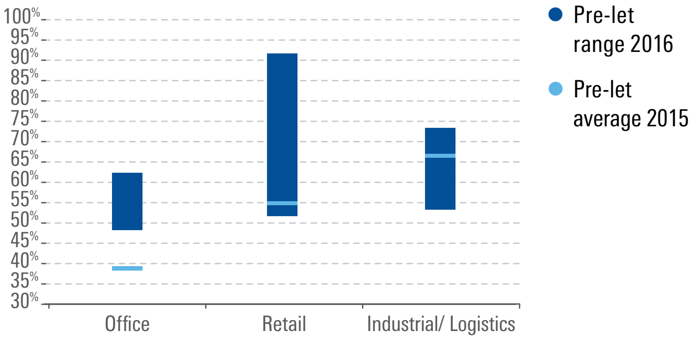
Two-thirds of those surveyed agree that the banking sector's portfolio sizes will remain unchanged. At the same time, 75% of the respondents anticipate an increase in the portfolio size of their own banks in the next 12-18 months.

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

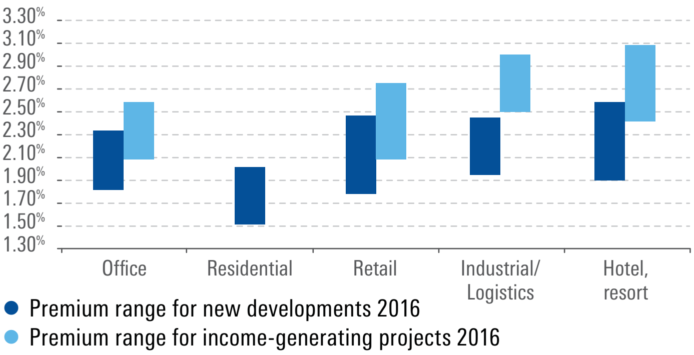
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



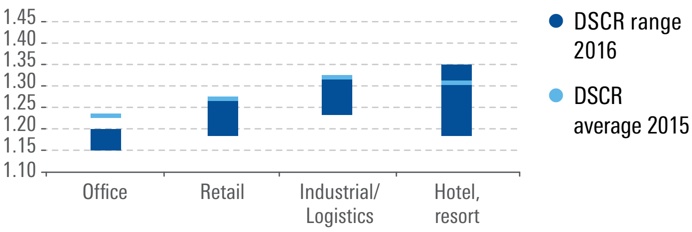
Pre-let ratio expectation for projects



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



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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Belgium

"We are seeing a prudent and slow return to pre-crisis levels."

Veerle Coussee

Overview

Following a period of economic stagnation in 2012-2013, the Belgian economy grew by 1.3% in 2014 and 1.4% in 2015 due to strong private consumption. Economic growth is forecast to be 1.3% in 2016. The unemployment rate remained stable at 8.6% in 2015 and 2016, but is expected to decrease from 2017 on. A relatively high level of public debt (106% of the GDP in 2015) is expected to decline only from 2018 on. The government's recent "tax shift" program has exerted upward pressure on prices and the inflation rate is expected to increase from 0.6% in 2015 to 1.6% in 2016. The Brexit is expected to affect the Belgian economy in a number of ways, as the UK is Belgium's fourth-largest trading partner and an important source of FDI.

During the first quarter of 2016, the Belgian real estate market registered a total investment volume of EUR 757 million, which is a 6% decrease Y-o-Y, keeping in mind that Q1 2015 was a record high quarter in terms of investment activity. The majority of transactions were office acquisitions whose volume totaled EUR 520 million, which corresponds to approximately half of the total office investment volume of the previous year, while the retail and industrial segment saw a more modest period. Owing to increased demand from Asian (50% share of the total investment volume) and Belgian investors (29% share), prime office yields with standard lease agreements further decreased and stood at 5.5% at the end of H1 2016. High street retail yields stood at 3.5%, while industrial yields at around 6.5%.

Lending market

In 2016, approximately half of those surveyed considered real estate financing important, while the other half regarded it as moderately important. Based on their responses, banks seem to be open to financing income-generating projects, as well as providing development financing; however, they also expressed a preference for new developments. This is in line with the division of the total loan volume in the past 12-18 months, as 75% of loans were provided for new developments and 25% for income-generating projects.

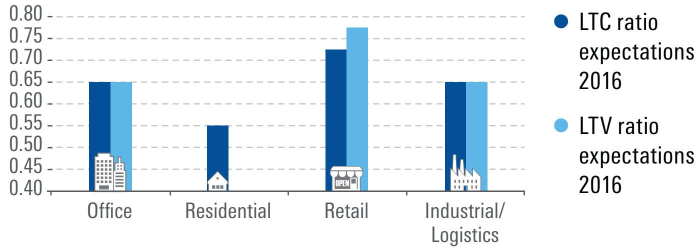
As far as the banks' competitors in traditional real estate lending are concerned, banks' representatives considered non-local commercial banks to be the most competitive alternative lenders, followed by insurer/pension funds. All of the banks indicated that the level of provisions made in connection with real estate loans was slightly higher than adequate. The average loan size for 2016 was between EUR 9 and 14 million. The preferred loan size was set somewhat higher, between EUR 15 and 20 million.

Future of real estate loan portfolios

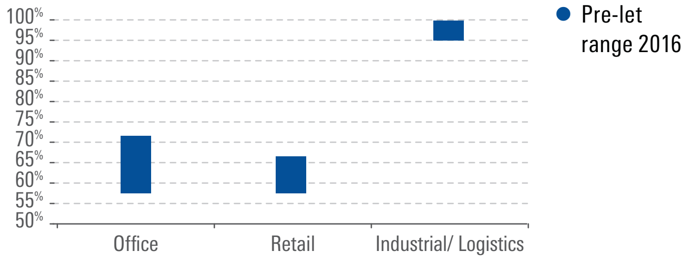
As for the prospects for the entire banking sector's real estate loan portfolio size in the next 12-18 months, approximately half of the banks expect an increase, while the other 50% believe the situation will be unchanged. The prospects regarding their own bank's real estate portfolio size are similar to what they expect for the banking sector as a whole.

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

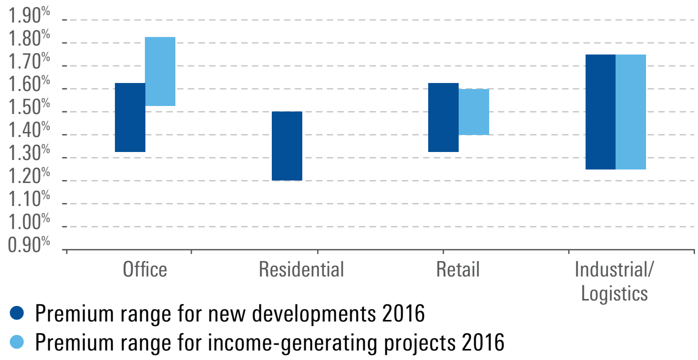
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



Pre-let ratio expectation for projects



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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Bulgaria

"The market continues to grow slowly with increasing investor confidence and more favorable financing conditions from banks."

Nikola Kedov

Overview

GDP growth in Bulgaria accelerated from 1.6% in 2014 to 3.0% in 2015, which represents the highest rate of growth since 2008. The increase was boosted by the robust performance of exports and the completion of a number of EU-financed infrastructure projects. The level of absorption of EU-funds is expected to weaken in subsequent years; however, this is projected to be partially offset by strengthening domestic demand. As a result, the present level of GDP growth is expected to be maintained in 2016. Along with this achievement, the unemployment rate decreased from 11.2% in 2014 to 10.1% in 2015, and is expected to decline further to 9.5% in 2016. Bulgaria has been facing a period of deflation since 2014, with a drop in prices by 1.4% in 2014 and 0.1% in 2015, primarily driven by low oil and energy prices. Prices are forecast to fall further in 2016 by 0.6%, followed by the return of inflation from 2017 forward.

The Bulgarian investment market recorded only a few transactions in the course of 2015, totaling EUR 210 million, which is approximately a 10% decrease compared to the total investment volume for 2014. Similar to the previous year, distressed assets and local investors dominated the market. The most attractive segments in 2015 were development land followed by retail and office properties, with shares of 57%, 23% and 9% of the total investment volume respectively. Investors' appetites increased in the first half of 2016, but only a few larger transactions were recorded in the commercial segments. Higher demand for prime assets – predominantly for office and retail schemes – is expected in 2016. Prime yields further decreased in Sofia, and in H1 2016 prime office yields stood at around 8.5%, prime retail at 8.5%, and prime logistics at 10.5%.

Lending market

Currently the majority of banks in Bulgaria do not regard real estate financing to be strategically of great significance; however, compared to one year earlier, its importance visibly increased. Those banks surveyed reported a willingness to finance both new developments and income-generating projects, with a modest preference for the latter. The percentage of loans provided in the past 12-18 months for income-generating projects was at 60%, while new developments received 40%.

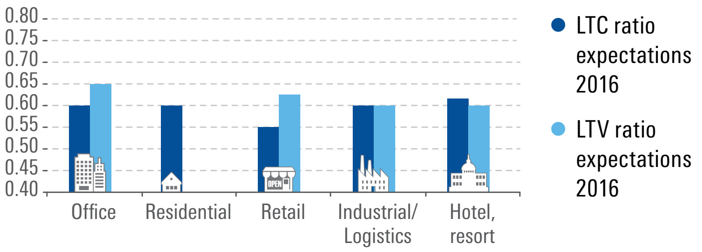
As for the most competitive alternative lenders, survey respondents consider non-local commercial banks and private equity/debt funds to be the most influential. Seventy-five per cent considered the level of provisions against real estate loans adequate, while 25% regarded them slightly below adequate. Based on their responses, the average loan size, ranging between EUR 3 and 8 million, was slightly tighter than the preferred range of EUR 3 and 15 million.

Future of real estate loan portfolios

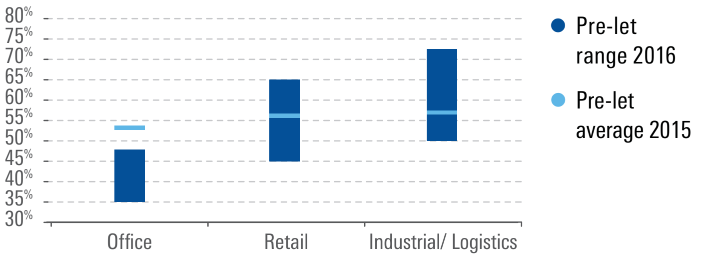
Regarding the future, all bank representatives indicated that the portfolio size of both the banking sector and their own bank will exhibit increases in the upcoming year. The survey shows a unanimous expectation for the market to demonstrate an upturn in the near future.

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

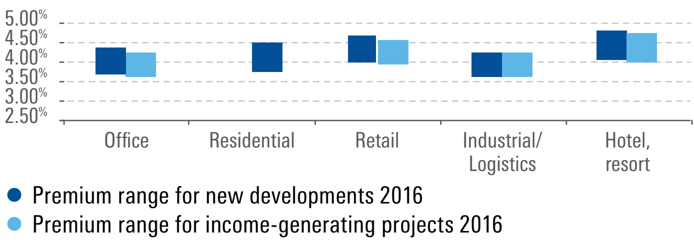
LTC ratio expectations for financing new developments and
LTV ratio expectations for financing income-generating projects



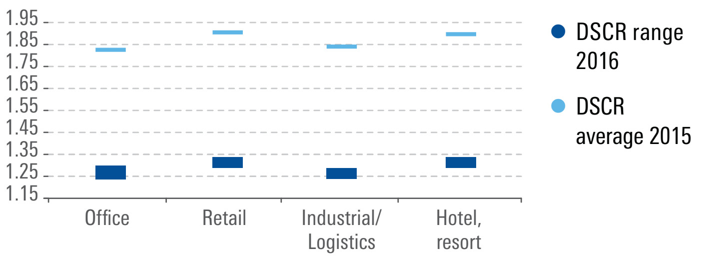
Pre-let ratio expectation for projects



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



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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Croatia

"Banks are open to financing sound real estate opportunities."

Paul Suchar

Overview

After a period of economic contraction since 2009 (representing the long-lasting effects of the global financial crisis), Croatian GDP expanded by 1.7% in 2015. The recovery was predominantly driven by a record tourism season, as well as strengthening domestic demand and the performance of the export sector. The expansion of the economy is expected to continue with an annual growth rate of 1.8% in 2016, mainly supported by increasing domestic demand. The positive economic outlook is also apparent from a falling unemployment rate, dropping from 19.8% in 2014 to 17.4% in 2015, and forecast at 15.1% for 2016.

The recovery of the commercial real estate sector continued throughout 2015 and Croatia became one of the leading countries in the South-East Europe (SEE) region in H1 2016 in terms of investment volumes. Currently, the hotel and hospitality sector is the most attractive one for investors and developers due to tourism growth as well as a favorable finance environment and brownfield development opportunities. Besides these sectors, several notable retail and office transactions took place across Croatia in 2015 and in H1 2016, supported by a better economic climate and improved investor sentiment. A further increase in investor demand is expected due to the level of saturation of some of the core CEE markets and higher yield opportunities. Prime yields in Zagreb stood at around 8.25% for offices, 8.0% for high street retail and 9.0% for logistics at the end of H1 2016.

Lending market

According to survey respondents, real estate financing has rather moderate strategic importance, as not more than 33% indicated that it is somewhat important to them. For the majority of the banks in question, their focus on real estate financing was maintained compared to the previous year, while one-third reported a decrease in that focus. Banks in Croatia are currently open to financing new development and income-generating projects, showing a notable improvement compared to the previous period. As for a breakdown of the total volume of real estate financing in the past 12-18 months, 70% was dedicated to new developments and 30% provided for income-generating projects.

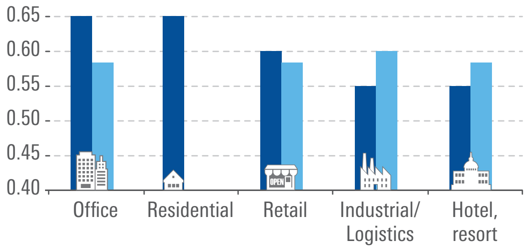
Non-local commercial banks were reported to be the greatest competitors of those surveyed, with investment banks and private equity/debt funds following in a ranking of key competitors. Close to two-thirds considered the level of provisions in the bank sector adequate, with one third regarding it below adequate. The average loan size of EUR 5-6 million was below the preferred range of between EUR 10 and 11 million.

Future of real estate loan portfolios

The majority of respondents believe that the sector's real estate loan portfolio size will not change, while one-third expect a decrease in the upcoming 12-18 months. At the same time, those surveyed have a slightly more negative outlook for their own situation, as two-thirds of them anticipate a downturn.

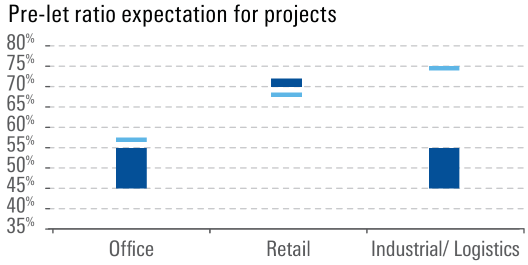
Financing expectations of highly rated development and income-generating projects in the next 12-18 months

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



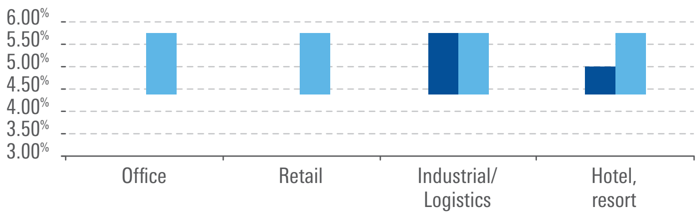
- LTC ratio expectations 2016
- LTV ratio expectations 2016

Pre-let ratio expectation for projects



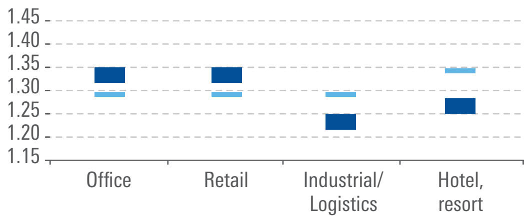
- Pre-let range 2016
- Pre-let average 2015

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



- Premium range for new developments 2016
- Premium range for income-generating projects 2016

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



- DSCR range 2016
- DSCR average 2015

Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Cyprus

"Given improving economic indicators and banks' appetite to fund new projects, the greatest challenge is still the extent to which the resolution of the NPLs impact will be on the Cypriot real estate market."

Christophoros Anayiotos

Overview

Following a 3-year period of recession in Cyprus, the economy started to expand again in 2015 with a GDP growth rate of 1.6%. The recovery was mainly driven by increasing household spending (backed by a negative inflation rate), implementation of structural reforms in the tourism sector and improving performance on the part of exports. The economic expansion is expected to continue in 2016, with GDP growth accelerating to 2.2%. An improvement in the labor market is forecast, with the unemployment rate set to decrease from 14.9% in 2015 to 11.8% in 2016. The period of deflation which began in 2013 is anticipated to come to an end in 2016.

In line with the economic recovery and increasing household spending, the Cypriot real estate market started to recover in 2015. The government is making efforts and offering incentives to investors to stimulate the recovery of the sector. Similar to the previous years, financing can be considered the greatest obstacle to improved investment activity, due to the bank sector's high NPL levels and strict lending criteria. As in the first half of 2015, the residential sector appears to be the most targeted segment, although the office sector is showing signs of stabilization as well. The slowly recovering economy of recent years has affected the retail and industrial segments, therefore higher vacancy levels and lower rents were observed in 2015. Prime yields stood at around 5.25% both for offices and retail at the end of H1 2016.

Lending market

According to a new Cyprus Central Bank directive under consideration, lending criteria are expected to be reformed in Cyprus, including the procedures regarding financing real estate mortgages. The main aim is to simplify the procedures for granting loans and to boost the economy with new lending. Based on survey participants' responses, two-thirds of their banks regard real estate financing either important or extremely important. Compared to the previous year, one-third of banks saw a decrease in their level of focus on lending activities, while two-thirds indicated the situation had remained unchanged. Banks in Cyprus seem to be open to finance income-generating projects and they are also willing to provide financing for new developments. However, a slight preference for financing income-generating projects can be noted. Regarding the breakdown of loans, 80% were provided for new developments, while 20% were dedicated to income-generating projects in the past 12-18 months.

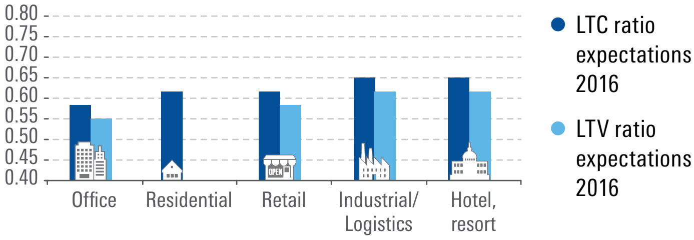
Private equity/debt funds were considered to be the most significant competitors for banks' real estate financing activity, followed by non-local commercial banks. Two-thirds of those surveyed found the level of provisions against real estate loans adequate, while one-third considered it to be too low. While banks' average loan size was between EUR 3 and 8 million, the preferred size would be lower: between EUR 1 and 2 million.

Future of real estate loan portfolios

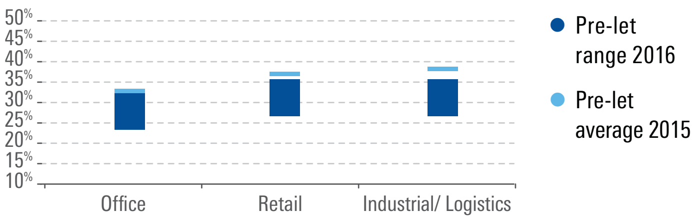
Two-thirds of those banks included in the survey agree that the banking sector's portfolio size will decrease in the upcoming 12-18 months. One-third anticipate the same in the case of their own bank's portfolio size, while two-thirds foresee the situation to be unchanged.

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

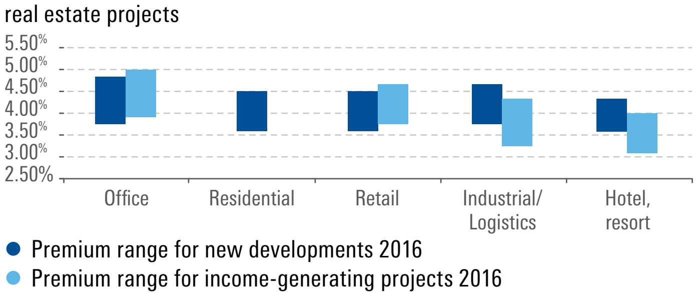
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



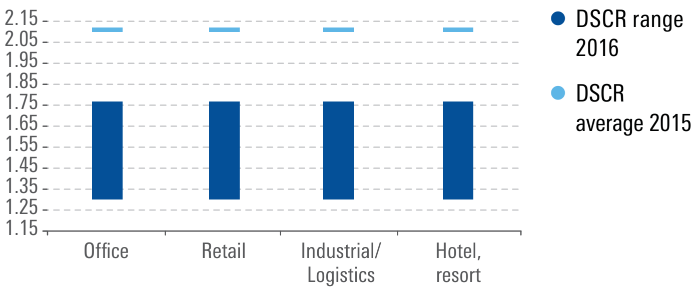
Pre-let ratio expectation for projects



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



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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Czech Republic

"The real estate financing market is highly competitive in the Czech Republic. The main change compared to last year relates to the decrease of minimum annual amortization rates."

Pavel Kliment

Overview

The growth rate of the Czech economy accelerated from 2.0% in 2014 to 4.3% in 2015, growth which was primarily driven by a peak in the absorption of EU funds. The GDP growth rate is projected to decrease to relatively lower levels (i.e. 2.3-2.6% per year) in the period between 2016 and 2018, mainly supported by an increasing domestic demand (fuelled by improving labor market conditions and low inflation), and the performance of export-oriented industries. The unemployment rate decreased from 7.7% in 2014 to 6.5% in 2015, and further improvement is forecast for 2016 with a rate of 5.7%.

The Czech Republic remained one of the top countries in the CEE region in terms of transaction volume in H1 2016, totaling EUR 950 million, which represents an 18.5% share within the region. Due to the sale of the Palladium Shopping Center in H1 2015, growth for the first half of 2016 was 26% less than the same period for the previous year (excluding this transaction, H1 2016 volume would show a 34% increase). In H1 2016 the retail sector represented a 47% share of total investment volume followed by office and industrial sectors, at 22% and 8% respectively. Domestic investors dominated the Czech investment market: 65% of offices and 59% of retail properties were acquired by local investors. High demand further compressed prime yields in Prague, at 5.0% for offices, 6.5% for logistics and 4.0% for high street retail at the end of H1 2016.

Lending market

This year more than half of those surveyed considered real estate financing strategically either extremely important or important, while the remaining respondents regarded it as moderately important. The majority, 86%, rated the level of provisions made in connection with real estate loans adequate, with 14% ranking the current level below adequate.

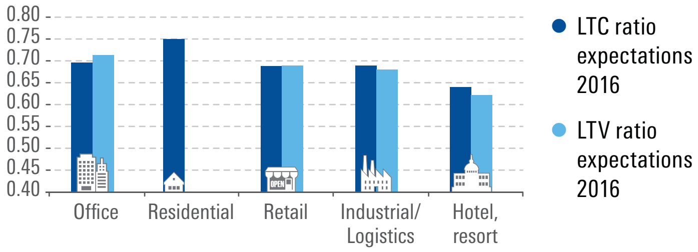
Consistent with the importance of alternative lenders, non-local commercial banks are considered the most significant competitors to banks' traditional real estate lending, followed by private equity/debt funds and insurer/pension funds. Based on survey participants' responses, banks seem to be more open to financing income-generating projects than providing development financing. In the last 12-18 months, 74% of the total volume of real estate loans of banks was dedicated to income-generating projects and 26% to new developments. The share of new developments on total financing slightly increased comparing to 2015. The average deal size of banks in the past year was between EUR 11 and 16 million, while the preferred deal size would be in the range of EUR 14 and 21 million.

Future of real estate loan portfolios

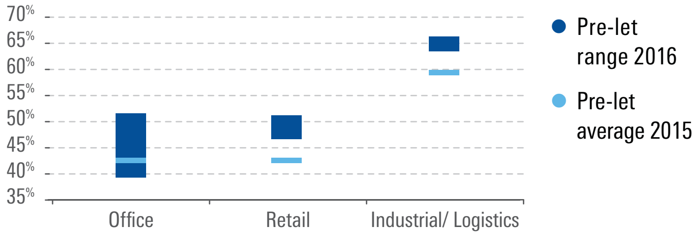
As for the last year, the great majority, 87%, of respondents forecasted an increase in the banking sector's portfolio size for the upcoming 12-18 months, while a slightly lower but still decisive two-thirds believed this tendency to be valid for their own bank as well. The responses suggest that banks in general highly anticipate the expansion of real estate loan portfolios in the near term.

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

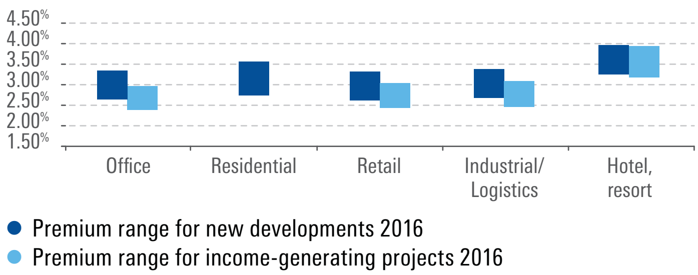
LTC ratio expectations for financing new developments and
LTV ratio expectations for financing income-generating projects



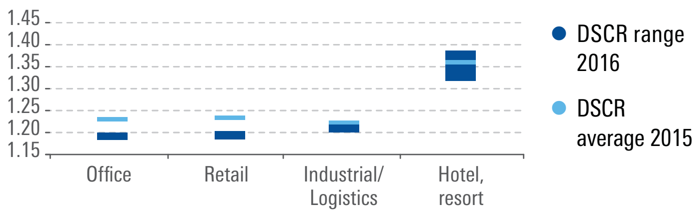
Pre-let ratio expectation for projects



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



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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Germany

"The German commercial real estate investment market has exhibited great buoyancy supported amongst other things by a continued favorable financing environment and a notable increase in lending activities"

Sven Andersen

Overview

Although the GDP growth rate decreased slightly from 1.6% in 2014 to 1.5% in 2015, the German economy has solid fundamentals and a similar growth rate is expected to be achieved in 2016 and 2017. With wages rising and the unemployment rate at a record low, domestic spending was the key driver of economic growth. The unemployment rate of 4.6% in 2015 is the lowest among the surveyed countries, and the rate is projected to decrease further to 4.3% in 2016, followed by a slight increase in 2017 (to 4.4%) and 2018 (4.6%) as a result of increasing net migration. The inflation rate has been low or negative since 2014. Prices increased by 0.1% in 2015 and are expected to rise by 0.3% in 2016.

The German commercial real estate investment market decreased by 36% and totaled EUR 20.9 billion in H1 2016, owing to the lack of available properties in core markets. It is worth mentioning that 2015 was a record year in terms of investment volumes, and this is the second strongest half year in Germany since the financial crisis. The hotel segment, followed by the industrial sector, both gained momentum in H1 2016, with EUR 2.1 billion transaction volumes for each. The office sector remained the most sought-after asset class with a 42% share of the total transaction volume, while the share of the retail sector dropped by 2% and represented 23% due to the lack of prime properties. Investor demand put downward pressure on prime yields, thus yield compression was observed in all segments in key cities at 3.7-4.35% for offices, 3.3-3.9% for high street retail and 5.4-5.7% for logistics.

Lending market

According to survey respondents, the strategic importance of real estate financing is the highest in Germany among the surveyed countries. Almost two-thirds of banks experienced a notable increase in the level of focus on such lending activities compared to one year earlier, while one-third found the situation to have remained unchanged. Banks in Germany are fully willing to finance income-generating projects and the majority are also open to provide financing for new development, although to a lesser extent. The breakdown of loans between these categories showed a similar pattern: 82% of financing was provided for income-generating projects, while only 18% was dedicated to new developments in the past 12-18 months.

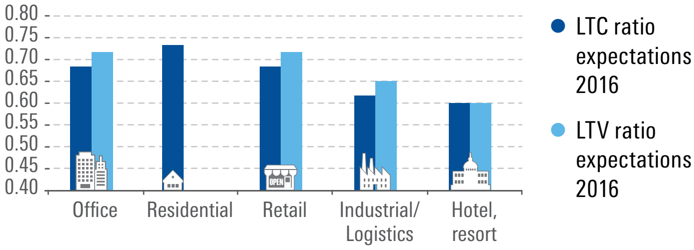
The most significant competitors for banks' real estate financing activity were considered to be non-local commercial banks, followed by insurer/pension funds. Survey participants were divided on the level of provisions made in connection with real estate loans: two-thirds found that level to be adequate, while one-third considered the level is too low. There is also a notable difference in comparing the average loan size to the preferred amount: the preferred deal, ranging between EUR 42 and 135 million, is situated significantly above the actual average range of EUR 24 and 31 million.

Future of real estate loan portfolios

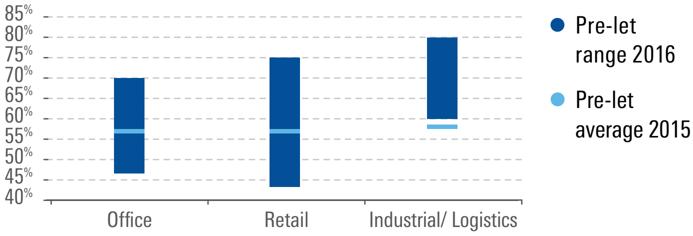
Participating banks anticipate that the German real estate loan market will maintain an unchanged position in the upcoming 12-18 months. Meanwhile, the answers regarding the real estate loan portfolio size of their own banks bear expectations for growth, with two-thirds of respondents indicating a positive change.

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

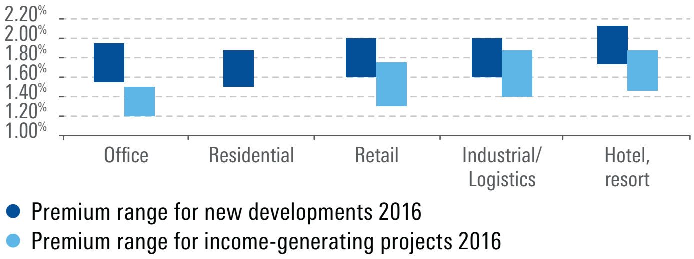
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



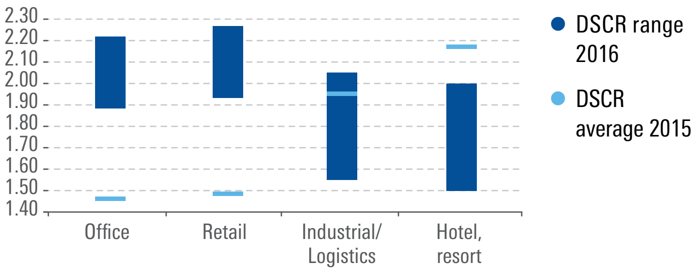
Pre-let ratio expectation for projects



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



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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Hungary

"The market has seen a significant level of improvement due to growing investment appetite and better financing conditions."

Andrea Sartori

Overview

Mainly driven by a peak in the absorption of EU funds allocated for the period 2007-2013, the Hungarian economy expanded by 3.7% in 2014 and 2.9% in 2015. The GDP growth rate is forecast to slow to 2.0% in 2016, as a result of a decrease in EU funding and public investment. The unemployment rate reached an all-time low of 6.8% in 2015 and is forecast to decrease further, to 6.6% in 2016. Mainly as a result of sustained low oil prices, the consumer price index declined by 0.2% in 2014 and 0.1% in 2015. However, deflationary pressures are expected to be offset by an income tax cut and prices are forecast to increase again in 2016 (by 0.4%).

The total investment volume amounted to EUR 910 million in H1 2016, which represents an 18% share of the total transaction volume in the CEE region. This data has already exceeded the total volume for 2015, which signals an exceptionally strong year in the Hungarian investment market. The most attractive segments were retail and office with shares of 39% and 35% respectively, followed by the logistics sector with a 26% share of the total volume. The key players on the market – as in the previous years – were real estate funds. Improving market fundamentals and liquidity on the market are expected to support investment activity in the second half of the year. As a consequence of the increased investment activity during the previous quarters, prime yields decreased further and stand at around 6.75% for prime office, 6.0% for prime high street retail and 8.25% for prime logistics at the end of H1 2016.

Lending market

The favorable macroeconomic tendencies supported banks' lending activity in Hungary. Those surveyed assigned relatively moderate importance to real estate financing, with one-third of respondents observing an increasing significance compared to one year earlier. In general, banks are open to financing both new developments and income-generating projects, slightly favoring the latter. In terms of loans provided by survey participants in the last 12-18 months, the breakdown of loans between new developments and income-generating properties was relatively balanced, showing slightly greater preference for income-generating projects.

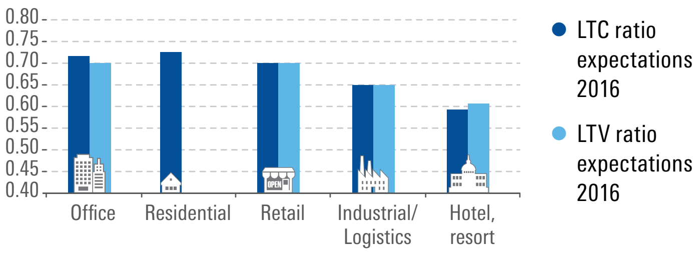
Respondents assessed non-local commercial banks as their greatest competitor in real estate financing, followed by private equity/debt funds and insurer/pension funds. The level of provisions made in connection with real estate loans was considered adequate by the great majority, 78%, with 22% reporting it to be slightly higher than adequate. In terms of the average and preferred loan size, great differences were not registered, as the average range was between EUR 15 and 20 million, while the preferred amount would be between EUR 16 and 26 million.

Future of real estate loan portfolios

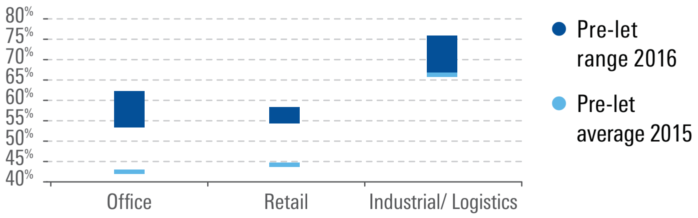
More than two-thirds of the banks included in the survey anticipate an increase in the entire banking sector's real estate loan portfolio size in the next 12-18 months, while 11% expect a significant increase. As for the prospects of their own bank, two-thirds believe that their portfolio size will increase, and the other third expect the situation to remain unchanged.

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

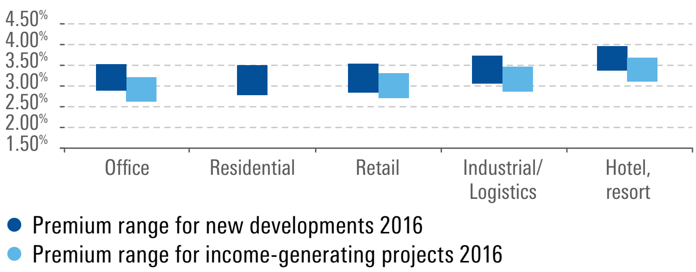
LTC ratio expectations for financing new developments and
LTV ratio expectations for financing income-generating projects



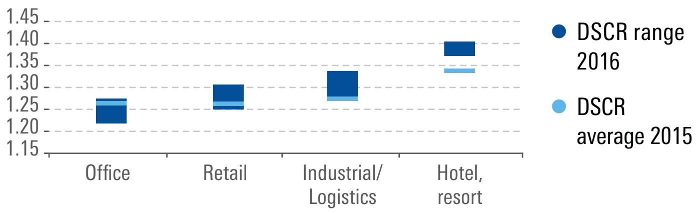
Pre-let ratio expectation for projects



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



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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Ireland

"Real estate credit availability and terms have improved, driven by growth in the underlying economy and a more competitive lending environment."

David O'Kelly

Overview

The expansion of the Irish economy accelerated from 5.2% in 2014 to 7.8% in 2015, the latter being the highest rate among the eurozone countries. This favorable tendency was supported by an increase in private consumption, a surge in exports and a significant growth in investments. The GDP growth rate is forecast to decrease to 4.5% in 2016 and 2.4% in 2017, primarily reflecting base effects and the deterioration of the external economic environment, notably the potential negative impact of the Brexit. The unemployment rate decreased from 11.3% in 2014 to 9.5% in 2015, and a further decrease to 8.0% is forecast for 2016. Ireland successfully managed to decrease its public debt level from the 120% peak in 2012 to 93.8% in 2015, with anticipated further decreases in the years that follow.

Ireland closed an outstanding half year of 2016 in terms of investment activity that totaled EUR 2.8 billion, which is more than 80% of the total investment volume of 2015 (EUR 3.4 billion). The most popular segments on the Irish market are office and retail segments with shares of 52% and 24% respectively, of the total investment volume in Q2 2016. A majority of the transactions are concentrated in Dublin whose share totaled 92% in Q2 2016. Domestic and international investors are similarly active on the market. Prime properties will be the most sought-after assets in the short term. Owing to the outstanding performance of the Irish real estate investment market, downward pressure on prime yields is expected in the short term. Prime yields in Dublin stood at around 4.25% for offices, 4.0% for high street retail and 5.75% for logistics at the end of Q2 2016.

Lending market

All of the surveyed bank participants in Ireland indicated that real estate financing is strategically important for them. They agreed that their focus on real estate financing had seen a slight increase within the bank's lending activity compared to the previous period. Irish banks are open to financing income-generating projects, and half of the banks surveyed have also shown a willingness to provide financing for new developments.

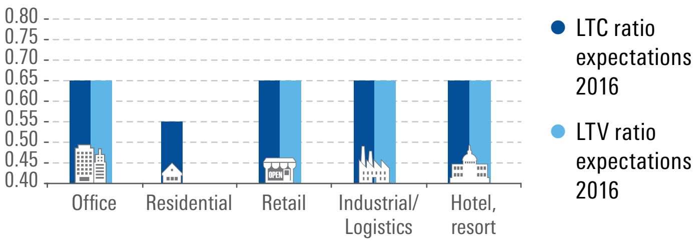
Investment banks and non-local commercial banks are considered the strongest competitors to banks in terms of traditional real estate financing, followed by non-bank lenders.

Future of real estate loan portfolios

Half of the banks queried in the survey predicted a slight increase regarding the overall banking sector's expected real estate portfolio size, while the other half expected the situation to remain the same. Regarding forecasts for changes to their own bank's portfolio size, all of the participants expect an increase in the next 12-18 months.

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

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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Italy

"Higher transaction volumes are driving demand for commercial real estate debt and while banks are held back by legacy issues, non-bank investors are entering the credit market."

Maurizio Nitrati

Overview

Following a prolonged period of recession, the Italian economy started to recover in 2015, reaching a moderate GDP growth of 0.6%. Growth is primarily driven by strengthening domestic demand, and the recovery is forecast to continue with GDP growth increasing to 0.7% in 2016 and 0.9% in 2017. The economy's current challenge is to find measures to enhance economic growth, bank lending activity and unemployment rate, while coping with public debt constraints. Recently approved reforms affecting the resolution of NPLs, labor market and public administration are expected to have a positive effect on economic growth, but only in the medium term.

Italy remained one of the most dominant countries in terms of investment volume in the course of H1 2016 among the countries included in this survey. Total transaction volume amounted to EUR 5.3 billion in H1 2016, representing a 5% decrease compared to the same period in 2015 that registered the highest transaction volumes since 2008. Similar to previous quarters, international investors (80% of whom were European) dominated the market with a 65% share. The majority of transactions were recorded in the office sector (with a share of 46%), followed by the retail sector (26%). Prime yields in Rome and Milan are shrinking, and stood at 4.25-4.5% for offices, 3.25% for high street retail and 7.0-7.75% for logistics at the end of H1 2016.

Lending market

Italy has not conducted a bailout program for its financial institutions, though it is probable that its high level of non-performing loans will require a systemic solution. In particular, NPL ratio rose to approximately 16%, well above the European average.

This year all survey participants considered real estate financing to be of moderate importance strategically. Compared to the previous year, they indicated that the focus on real estate financing within their lending activities has decreased. Based on their responses, banks are open to financing income-generating projects, as well as providing development financing, however they are exhibiting a preference for income-generating properties. In the last 12-18 months, 85% of the total volume of real estate loans of banks was dedicated to income-generating projects and only 15% to new developments.

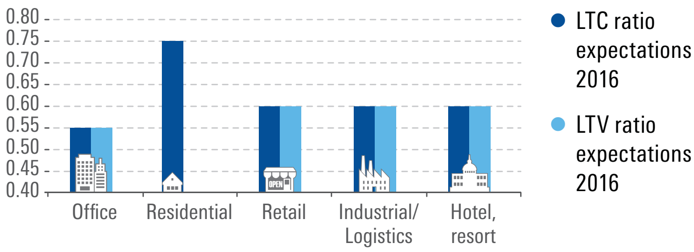
Banks surveyed in Italy regard private equity/debt funds as the most active alternative lenders, followed by insurer/pension funds. Recent changes in Italian alternative investment funds (AIF) legislation also introduced the possibility to establish direct lending AIF, which may foster such trend. All bank representatives rated the level of provisions made in connection with real estate loans adequate. The average loan size of banks in the past year was between EUR 13 and 18 million, while the preferred loan size would be similar, in a range of EUR 13 and 20 million.

Future of real estate loan portfolio

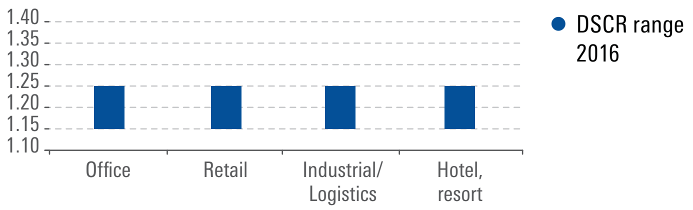
For the upcoming 12-18 months, half of respondents forecasted an increase in the banking sector's portfolio size; meanwhile, the other half believed the situation to remain unchanged. Regarding their own bank's real estate portfolio size, half of the banks expected a decrease.

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

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



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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Netherlands

"Growth in investment volumes have increased demand for real estate financing while supply remains scarce due to the relatively limited number of lenders."

Frank Mulders

Overview

Following the period of recession in 2012 and 2013, the recovery of the Dutch economy started in 2014 continued and the GDP growth rate accelerated from 1% in 2014 to 2% in 2015. A similar level of growth is also forecast to be sustainable in 2016-2018, with an annual growth rate of 1.8-1.9%. The performance of the economy is driven by strong domestic consumption fuelled by a robust labor market, increasing wages (due to lower labor taxes), low inflation and additional government stimulus. In addition, increased competitiveness resulting from a weaker euro, recovering housing market and a moderate improvement in credit supply also contributed to a positive climate. Unemployment decreased from 7.4% in 2014 to 6.9% in 2015, and a further drop to 6.2% is forecast for 2016. Consumer price inflation has been close to zero since 2014 and is not expected to change significantly in 2016.

The real estate investment market in the Netherlands recorded an outstanding year in 2015, totaling EUR 11.0 billion, which is a 15.3% upward shift compared to 2014. In the course of 2015, international investors dominated the market, with a 66% share. Total investment volume was EUR 6.3 billion in H1 2016, which is almost identical to that of H1 2015. The most targeted sector in Q1 2016 was the office segment, where the total transaction volume reached EUR 1.1 billion, followed by the residential and retail sectors. Due to the lack of properties in the industrial segment, the total transaction volume fell by 15% Y-o-Y and stood at EUR 355 million in Q1 2016. As a result of increased investment activity, prime yields declined in all segments and stood at around 5.0-6.1% for office and 4.0-5.0% for high street retail while prime logistics yields stood at 5.9-7.0%.

Lending market

According to the banks included in the survey, 40% of them regarded real estate financing important this year, while an additional 20% considered it extremely important. The majority of banks in the Netherlands are open to finance income-generating properties, as well as to provide development financing, with a preference for financing income-generating projects. In terms of the breakdown of real estate loans, 77% of loans were provided for income-generating projects, while 23% were for new developments.

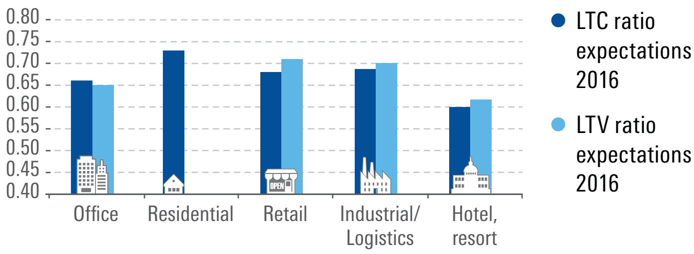
Bank representatives indicated that non-local commercial banks are the most competitive alternative to banks in terms of real estate financing, followed by insurer/pension funds and investment banks. The great majority, 80% of respondents, rated the level of provisions made in connection with real estate loans adequate. The average loan size was in a range of EUR 8 and 31 million, while the preferred loan size was reported as between EUR 8 and 66 million.

Future of real estate loan portfolios

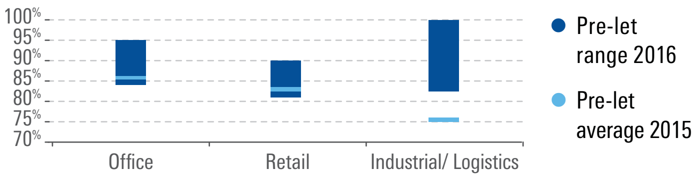
In the Netherlands, the great majority of those surveyed (around 80%) expect an increase in the entire banking sector's real estate loan portfolio size in the next 12-18 months. Regarding the prospects for their own bank's real estate loan portfolio size, 60% of survey participants anticipate an increase, while 40% expect a decrease.

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

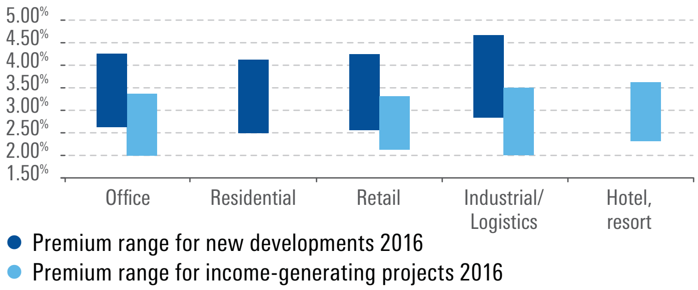
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



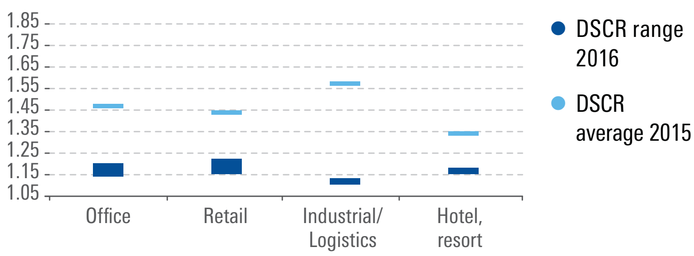
Pre-let ratio expectation for projects



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



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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Poland

"Relatively stable and favorable financing conditions and competition between banks are important pillars of the continuously thriving real estate investment market."

Steven Baxted

Overview

The expansion of the Polish economy continued and the GDP growth rate increased from 3.3% in 2014 to 3.7% in 2015, supported by robust private consumption fuelled by an increase in wages and employment and a significant upsurge in investments. This strong economic growth is forecast to continue in 2016, driven by domestic demand, however with a slight decrease in the GDP growth rate to 3.3%. Consumer prices fell by 1% in 2015 and deflation is forecast to continue throughout 2016. The unemployment rate decreased from 12.3% in 2014 to 10.5% in 2015 and is forecast to decline further to 9.6% in 2016.

Poland remained one of the most preferred locations in the CEE region for real estate investments. Total investment volume exceeded EUR 2.07 billion in H1 2016. Poland registered some 40% of the total transaction volume within the CEE region in H1 2016. During the first half of 2016, the retail sector dominated the investment market with a total investment volume of EUR 1.02 billion, followed by the office (EUR 786 million) and industrial (EUR 261 million) sectors. It is foreseen that Poland will preserve its momentum in the second half of the year, its total transaction volume potentially reaching EUR 4 billion. In H2 2016 prime office acquisitions are expected to lead the investment market. A downward pressure on prime yields, particularly in the office and industrial segments, is anticipated. Prime office yield in Warsaw stood at around 5.5% and high street retail yields at 5.25%, whereas prime industrial yield was at 7.25%.

Lending market

In 2015 legal regulations changed significantly in Poland. Recommendations from the Polish Financial Supervision Authority and new rules concerning loan insurance came into force. Banks in Poland are now more motivated to concentrate on even more responsible lending and maintain higher quality loan portfolios. Those banks surveyed indicated that real estate financing is of strategic importance to them, registering a slight increase in sentiment compared to one year ago. Polish banks are open to financing both new developments and income-generating projects, exhibiting a minor preference towards new development projects. In terms of the breakdown of the total loan volume provided, 42% was related to new developments, while 58% went to income-generating projects in the last 12-18 months.

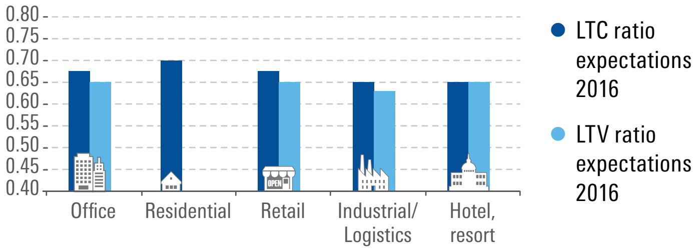
Non-local commercial banks are considered by far the strongest competitors for banks in terms of traditional real estate financing, with private equity/debt funds following next, tied with insurer/pension funds. Respondents indicated unanimously that the level of provisions made in connection with real estate loans was adequate, with 100% of respondents choosing this answer. As for the average loan size this year, the range was between EUR 23 and 41 million, while the preferred loan size would be in a higher range of between EUR 36 and 44 million.

Future of real estate loan portfolios

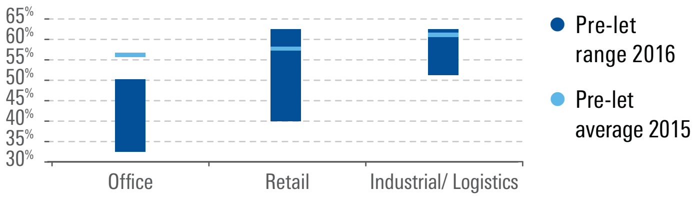
Regarding the question of the overall banking sector's and their own bank's expected real estate portfolio size, responses were identical: 40% of respondents expect an increase, 40% believe the situation will remain unchanged, and only 20% consider a slight decrease probable. This suggests that banks in general expect a moderate increase in their real estate lending activity and their own future to move in parallel with the overall movements of the market in the forthcoming 12-18 months.

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

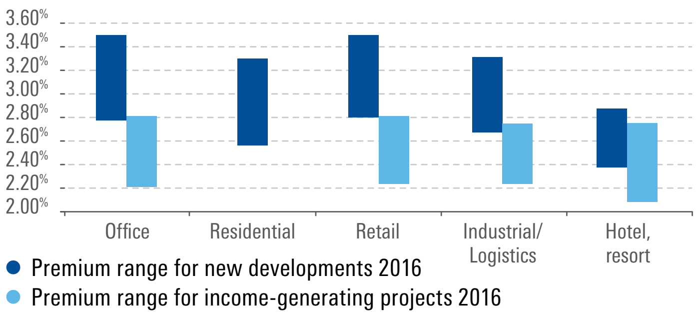
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



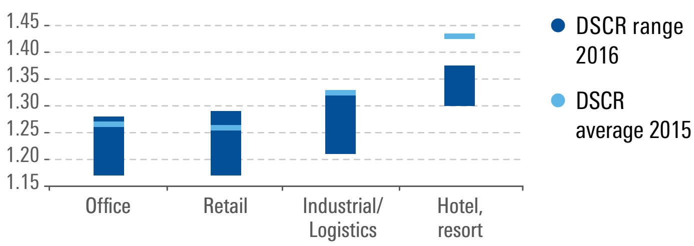
Pre-let ratio expectation for projects



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



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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Romania

"Statistics show that the real estate market has started performing at its potential and this positive trend should continue as long as the economy shows sustainable growth and the banks commit to supporting the real estate sector."

Ori Efraim

Overview

The economic expansion of Romania has continued and GDP growth rate there accelerated from 3.0% in 2014 to 3.8% in 2015, mainly driven by robust domestic demand. An increase in private consumption was enhanced by a cut in VAT on food products from 24% to 9% (effective from June 2015), an overall reduction of VAT from 24% to 20%, as well as the reduction of the VAT rate on supplies of drinking, irrigation water and agriculture goods and services to 9% (effective January 2016). Other factors such as the increase in wages and pensions, payments from abroad and an expansion of new consumer loans. In addition, investment activity also contributed to strong growth data. The above mentioned factors are expected to accelerate the GDP growth rate to 4.5% in 2016. At the same time, according to the IMF, tax cuts and wage increases may threaten the country's financial stability in the mid-term. Consumer prices decreased by 0.6% in 2015 and deflation is expected to continue through 2016, with a further decrease in prices by 0.9%.

In H1 2016 the contracted transaction volume for property reached EUR 340 million, which is 80% higher than the same period of 2015, possibly foreshadowing a strong year on the Romanian market. The favorable yield spread between Romania and other CEE markets such as Poland and the Czech Republic has improved the financing environment, which, along with robust economic growth, may support investment activity. The dominance of Bucharest within the country's property market is still strong, with the capital bearing a 48% share of the total volume, although major acquisitions took place in the city of Sibiu as well. The retail sector was the most popular segment amongst investors, followed by the office sector, with shares of 45% and 38% respectively, while the industrial sector accounted for 17% of the total investment volume in H1 2016. Prime yields decreased in Bucharest and stood at around 7.5% for offices, 9.0% for high street retail and 9.0% for industrial properties at the end of H1 2016.

Lending market

In 2016, 40% of those surveyed considered real estate financing important, while 60% stated it to be moderately important. Compared to the previous year, 40% of the banks reported an increase in their focus on real estate financing within their lending activities. Based on the information provided by respondents, banks appear to be more open to financing income-generating projects than providing development financing. In terms of the breakdown of total loan volume, 63% was provided for income-generating projects, while 37% was for new developments in the last 12-18 months.

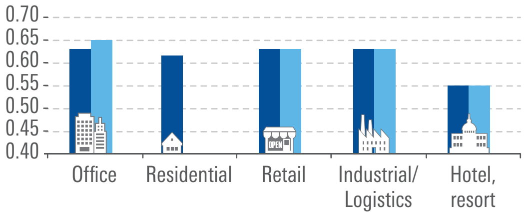
As for competitors to banks' traditional real estate lending, survey participants regarded non-local commercial banks as highly competitive, followed by private equity/debt funds. The level of provisions versus real estate loans was considered adequate by all respondents. The average loan size of 2016 was between EUR 11 and 29 million, quite in line with the preferred loan size which was set between EUR 10 and 32 million.

Future of real estate loan portfolios

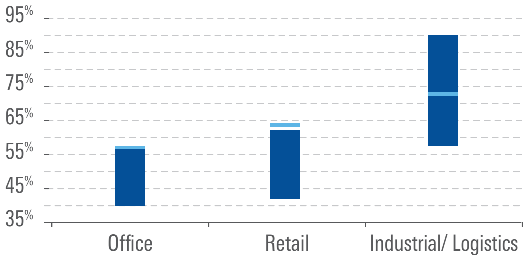
Regarding prospects for the entire banking sector's real estate loan portfolio size in the next 12-18 months, all of those surveyed in Romania expect an increase. At the same time, 60% of these banks foresee an increase in their own bank's real estate portfolio size, while 40% believe the situation to be unchanged.

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

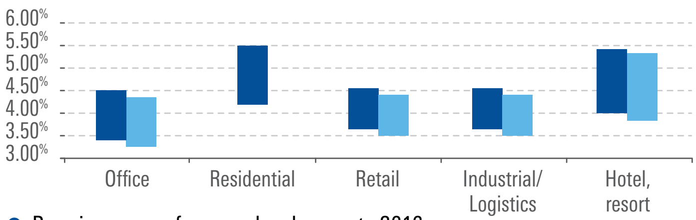
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



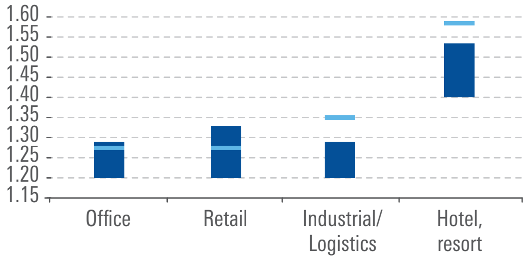
Pre-let ratio expectation for projects



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



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

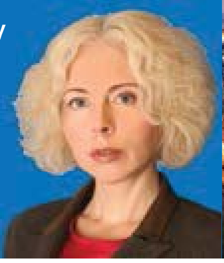


Sources: *KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)*

Russia

"A greater volume of deals on the real estate market inspires confidence that the economy is catching up. At the same time financing remains rather expensive due to the limited number of banks actively dealing with real estate sector and foreign investors are still skeptical about making active moves."

Svetlana Fonareva



Overview

The Russian economy contracted by 3.7% in 2015, mainly driven by a fall in oil prices and economic sanctions. It is suffering from a sharp decline in private consumption and investments and weak economic confidence, increasing borrowing costs and high inflation. These factors are forecast to have a prolonged negative effect upon the economy, with GDP decreasing further by 1.3% in 2016. A potential slow recovery is expected to start in 2017. The unemployment rate increased from 5.2% in 2014 to 5.6% in 2015 and is expected to reach 6.2% in 2016. The inflation rate increased sharply from 7.9% in 2014 to 15.5% in 2015, but it is expected to drop to 6.2% in 2016 due to restrained domestic demand.

In H1 2016 the country's total investment volume exceeded EUR 1.4 billion, which represents a 46% increase on a Y-o-Y basis. Domestic investors were the key players on the Russian market with a share of 89%, which is a slight increase (+7%) compared to H1 2015. Similar to the previous quarters, the office segment attracted the most investors and amounted to 58% of the total volume, followed by industrial, hotel and retail segments with almost equal shares. Despite the increased investor interest, prime yields can be considered as stable and stood at around 10.5% for offices, 12.5% for high street retail and 12.75% for industrial at the end of H1 2016.

Lending market

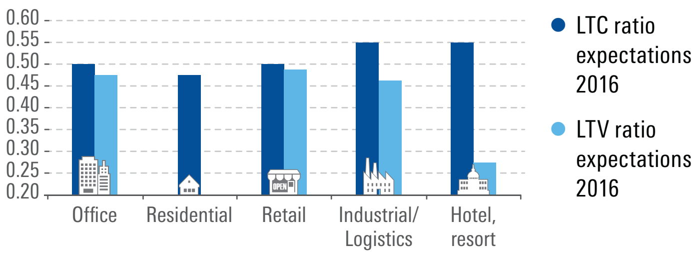
There was a divided opinion among survey respondents in terms of the strategic importance of real estate financing: the majority, 60%, found it moderately important, while 20% at either end of the sentiment scale considered it either "not important" or "extremely important". Sixty per cent of respondents reported a decrease of some level in the focus of their bank's lending activities on real estate financing, while the remaining 40% found it unchanged. Banks in Russia seem to be moderately willing to finance both new developments and income-generating projects, with the former standing in a less-favored position: 40% of banks not interested in financing such activities at all. According to their responses, among all real estate loans, 26% were dedicated to new developments and 74% to income-generating projects in the last 12-18 months in Russia. The majority found the level of provisions made in connection with real estate loans to be of an adequate level. Banks designated non-local commercial banks as their biggest competitors, followed by private equity/debt funds and investment banks in terms of real estate lending.

Future of real estate loan portfolios

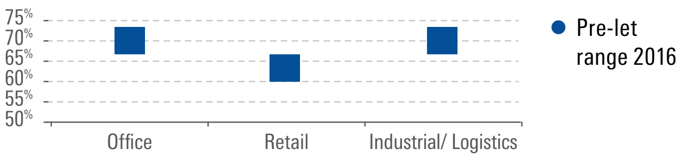
For the entire market's real estate portfolio size, 60% of respondents foresee an unchanged situation, while the remainder expect a decrease. Regarding a forecast for their own portfolio, 20% envisage a decrease, while the majority, 80%, expect no changes in the upcoming 12-18 months.

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

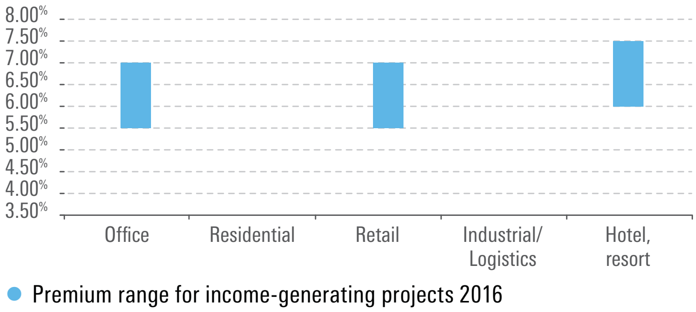
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



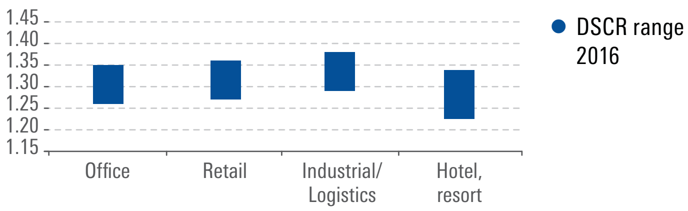
Pre-let ratio expectation for projects



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



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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Serbia

"Economic reforms and recovery, supported by favorable financing rates, appear to be bringing modest optimism to the real estate loan market in Serbia."

James Thornley

Overview

Following the recession in 2014, the Serbian economy started to recover in 2015 with a 0.7% increase in GDP supported by the economic reforms implemented and low oil prices, which was only partly offset by fiscal tightening under an IMF program. Industry, meanwhile, recovered from the severe flooding the country suffered in May 2014. The growth rate of the economy is forecast to accelerate to 2.2% in 2016, boosted by investment activity and export performance through an increase in trade with Serbia's trading partners and rising competitiveness. The unemployment rate has been relatively high and is expected to decrease only slightly from 19.3% in 2015 to 18.9% in 2016. Consumer prices increased by 1.5% in 2015 and an inflation rate of 1.2% is forecast for 2016.

Increased investor activity was registered in Serbia in H1 2016. In contrast with previous years, when distressed assets comprized the target assets, investors turned towards prime properties. The most significant acquisitions took place in the retail segment by a South African real estate investment trust (REIT), which purchased the Delta City shopping center in Belgrade in Q1 2016 for EUR 127.7 million. Lone Star's portfolio acquisition was another notable transaction in the region, which included a property in Serbia. As a result of the increased investor interest and strengthening market conditions, prime yields decreased significantly in the office and industrial segments, although a decline in the retail segment was also observed. The prime office yield stood at around 9.25%, 7.75% for retail and 11.25% for industrial at the end of Q2 2016.

Lending market

According to survey respondents, real estate financing occupies a modestly significant position in terms of its strategic importance, presenting a slight increase in the focus dedicated to this area compared to one year earlier. Respondents indicated an identical overall willingness to finance new developments and income-generating projects, showing a slight decrease in terms of new developments and a minor increase for income-generating projects compared to responses for the previous period. Responses indicated that in the past 12-18 months, 28% of real estate loans were provided for new developments, while 72% were dedicated to income-generating projects.

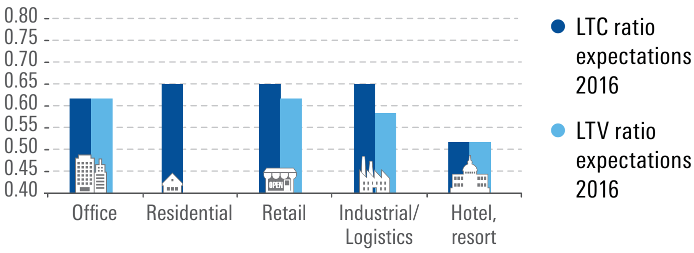
As for the importance of alternative real estate lenders, banks in Serbia consider non-local commercial banks to be the most competitive, followed closely by private equity/debt funds. All participants rated the level of provisions in the Serbian bank sector adequate, showing a significant increase in this sentiment compared to responses from the previous year. While banks' average loan size was between EUR 10 and 17 million, the preferred size was reported as between EUR 7 and 17 million.

Future of real estate loan portfolios

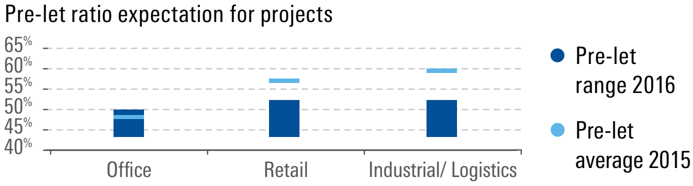
In terms of both the entire banking sector's portfolio and their own bank's portfolio, respondents registered expectations for a modest increase in the upcoming 12-18 months. Two-thirds anticipate an upturn, while the remainder considers an unchanged situation to be most probable.

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

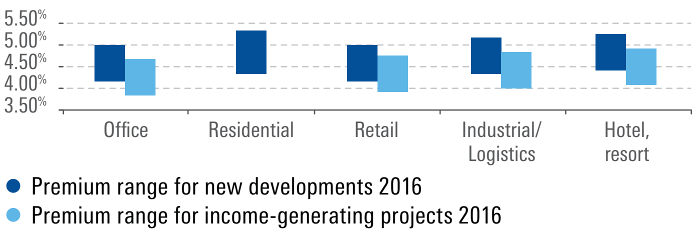
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



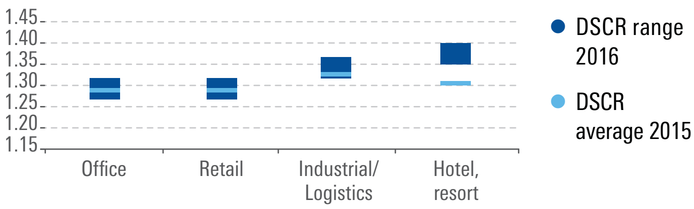
Pre-let ratio expectation for projects



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



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

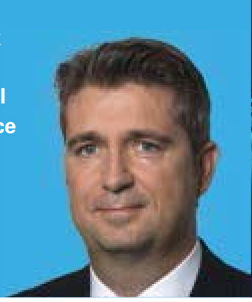


Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Slovakia

"Continual growth of the Slovak economy is underpinning the appetite of banks in terms of real estate lending and the confidence of the investors in the market."

Rastislav Nemec



Overview

The expansion of the Slovakian economy continued, its GDP growth rate accelerating from 2.5% in 2014 to 3.6% in 2015. Key drivers of the increase were substantial private consumption and investment activity boosted by a peak in the absorption of the EU funds allocated under the 2007-2013 programming period. The economic expansion is projected to decrease but still remain relatively strong, with a GDP growth rate of 3.0% in 2016. Robust domestic demand is foreseen to maintain this progress, supported by improving labor market conditions. Slovakia's unemployment rate decreased from 12.8% in 2014 to 11.5% in 2015 and a further decrease, down to 9.8%, is forecast for 2016.

The country's economic expansion underpinned the continued improvement of the real estate investment market whose total investment volume was EUR 310 million in H1 2016; meanwhile, according to projections, 2016 will likely outperform the total investment volume of 2015. One notable transaction closed in the office and retail segments, while a portfolio and a single asset deal were completed in the industrial sector during H1 2016. Institutional and international investors were the key players on the Slovakian market and their increased interest is also expected to continue in the second half of 2016. Industrial, retail and office sectors offer relatively high yields and encouraging market conditions for investors, therefore heightened demand is forecast. Property yields in Slovakia are expected to compress further due to increasing investor activity. Prime yields in Bratislava stand at around 7% for offices, 7.5% for retail and 7.75% for logistics at the end of H1 2016.

Lending market

Based on survey participants' responses, real estate financing occupies a position of moderate significance in their activities. Income-generating projects were considered slightly more important than new developments. In terms of the breakdown of the loans provided, income-generating projects were favored, accounting for 70%, while 30% of loans were dedicated to new developments in the past 12-18 months.

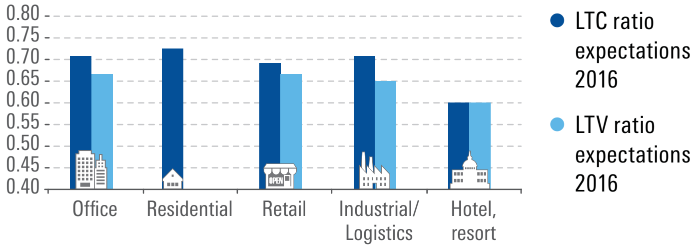
Non-local commercial banks were ranked as the most competent alternatives to banks in terms of traditional real estate lending, followed by private equity/debt funds. The range of the average deal size was set by survey respondents between EUR 13 and 20 million, while their preferred volume stretched from EUR 13 to 22 million. Half of the respondents found the level of provisions adequate, while the other half rated it somewhat higher than necessary.

Future of real estate loan portfolios

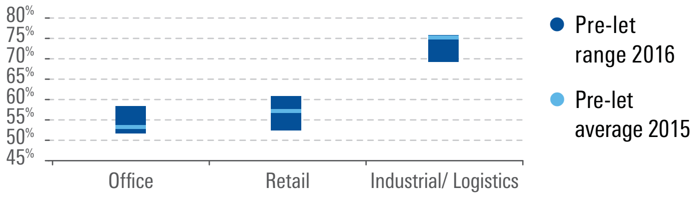
The overall outlook for the future of the Slovakian banking sector's real estate portfolio size was undoubtedly positive, as 83% of respondents predicted an increase. General beliefs regarding any change in the case of their own bank varied, with half of the respondents forecasting an increase in the upcoming 12-18 months.

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

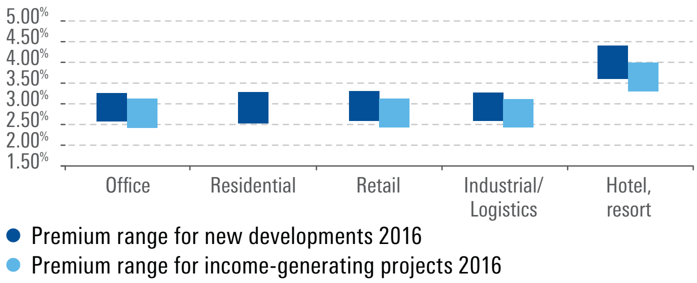
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



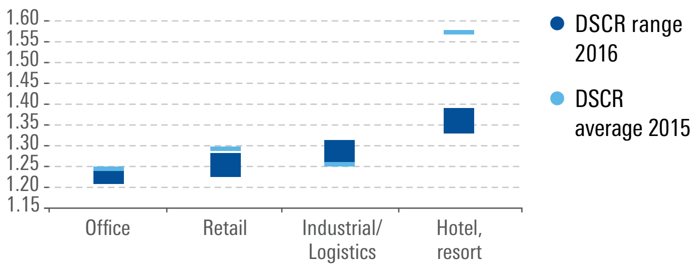
Pre-let ratio expectation for projects



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



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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Slovenia

"The expectations regarding the development of the real estate market and its funding are positive."

Sonja Znidarcic

Overview

Following the recession recorded in 2012 and 2013, the recovery of the Slovenian economy started in 2014 and continued in 2015; however, the country's GDP growth rate decreased slightly from 2.9% to 2.6%. This progress was supported by low energy prices, rising employment, and exceptionally high public spending at the end of the drawdown period of the 2007-2013 EU funding program. GDP growth, primarily driven by increased private consumption, rising wages and higher levels of employment, is forecast to remain moderate at 1.8% in 2016, as public investments are expected to be lower. The unemployment rate decreased from 13.1% in 2014 to 12.3% in 2015, and is expected to decrease further to 11.7% in 2016. Slovenia recorded a decrease of 0.8% in consumer prices and this deflation is expected to continue through 2016, with prices decreasing further by 0.1%.

Similar to other South-East Europe (SEE) countries, the improved economic environment and low interest rates have positively affected Slovenia's real estate investment market in the course of 2015, as well as in H1 2016. Most transactions are related to the hotel and retail segment whose shares comprize 46% and 31% respectively, in 2015. The most notable transactions in 2015 were the acquisitions of two Supernova Shopping Centers by Revetas Capital and a share deal in H1 2016 between Lone Star and Centrice Real Estate GmbH, which consists of 31 commercial properties in the SEE region. Seventy-one per cent of the portfolio is located in Slovenia and most of it consists of retail properties. Besides the retail segment, the hotel sector witnessed a significant number of transactions in 2015, with the acquisition of Kempinski Hotel Palace, and Liburnia Riviera Hotels acquiring four Slovene hotels in Portoroz. The most active investors were Croatian in the course of 2015. At the end of H1 2016, prime office yield in Slovenia stood at around 8.5%, 7.0% for retail and 10.0% for logistics.

Lending market

Half of the respondents considered real estate financing to be moderately important within their activities. Half of the survey participants indicated that their focus on real estate lending has significantly decreased compared to the previous period. Banks indicated that they are moderately open to finance income-generating projects, as well as new developments.
A breakdown of the total volume of real estate loans provided showed a preference for income-generating projects, as 80% of loans were dedicated to those in the past 12-18 months.

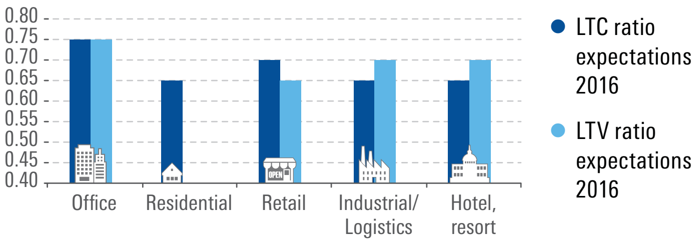
Private equity/debts funds, as well as insurer/pension funds, were ranked as the most competitive alternative lenders. The level of provisions made in connection with real estate loans was considered adequate by half of those surveyed, while the other half reported it to be less than adequate. As for the average and preferred loan size, a moderate difference can be noted, as the average was approximately EUR 3 million, while the preferred amount would be between EUR 6 and 7 million.

Future of real estate loan portfolios

Expectations regarding the future of the Slovenian banking sector's portfolio size were undoubtedly positive, as 100% of respondents anticipated an increase. However, all participating banks foresee the situation to remain unchanged in the next 12-18 months for their own bank's portfolio size.

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

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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Spain

"The positive market trends and the increase of transactions continue alongside the granting of mortgages to individuals and the financing of new projects and the sale of NPLs."

Francisco Javier Lopez Torres

Overview

Following a prolonged period of recession until 2013, the recovery of the Spanish economy started in 2014 with a GDP growth rate of 1.4% and continued also in 2015 with growth accelerating to 3.2%. In addition to the reforms implemented by the government earlier, the robust increase was also supported by favorable labor market developments, an increasing supply of credit and low oil prices. The momentum of the economic expansion is forecast to be maintained and GDP is projected to increase by 3% in 2016 driven by private consumption. Unemployment is still relatively high among the eurozone countries, although it has been exhibiting a downward trend since the peak of 26.1% recorded in 2013. In 2015, the unemployment rate was 22.1%, which is forecast to decrease to 19.7% in 2016. The relatively high public debt ratio of Spain (i.e. 99.2% in 2015) is forecast to increase further, reaching a peak of 100% in 2017.

The Spanish real estate investment market soared in 2015 and the total investment volume reached EUR 11.7 billion. In H1 2016 the total investment volume reached EUR 5.7 billion, representing a 5% decrease on a Y-o-Y basis. The momentum of the Spanish real estate investment market is forecast to lose its pace, although Spain is expected to preserve its dominant role in terms of investment volume. In the first quarter of 2016, international investors (mainly from the US, UK and Germany) dominated the market. The retail sector was the most targeted sector with EUR 800 million invested, followed by hotels at EUR 300 million, while the office sector accounted for EUR 219 million in Q1 2016. Due to a combination of increased investor appetite and a lack of quality offering which spurred increased competition for prime products, yield compression was observed on the market and a further decrease is anticipated. Prime yields in Madrid and Barcelona stood at 4.0-4.25% for offices, 3.65% for high street retail and 7.0-7.25% for logistics.

Lending market

Half of those surveyed indicated that real estate financing occupies a moderately important position in their activities, while the other half consider it important or extremely important. All bank representatives indicated that the level of focus on real estate financing within their lending activity remained the same compared to the previous year. Banks in Spain are open to finance both new developments and income-generating projects. Regarding the breakdown of real estate loans made during the last 12-18 months, 56% of them were dedicated to income-generating projects.

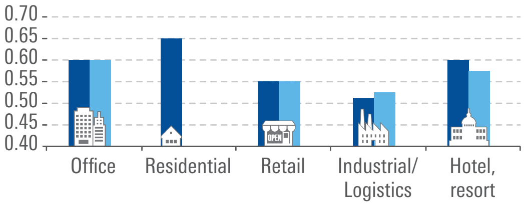
As for alternative lenders for real estate projects, those surveyed regarded private equity/debt funds as their greatest competitor, followed by non-local commercial banks and investment banks. Half of the respondents found the level of provisions made in connection with real estate loans adequate, while the other half rated it less than adequate. The average loan size between EUR 17 and 25 million was far below the preferred loan size of approximately EUR 80 million.

Future of real estate loan portfolios

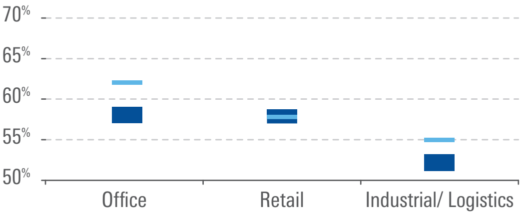
According to the respondents, 75% of banks surveyed in Spain expect a downturn in the entire banking sector's real estate loan portfolio size in the next 12-18 months. The prospects for their own bank's real estate loan portfolio size are slightly less negative, as only 25% envisage a decrease, while 50% expect the situation to remain unchanged.

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

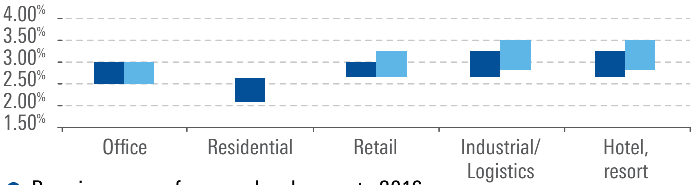
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



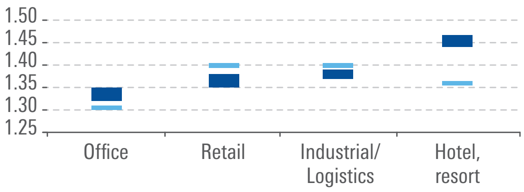
Pre-let ratio expectation for projects



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



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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Sweden

"High demand and excellent financing conditions have resulted in historically low yields."

Björn Flink

Overview

The expansion of the Swedish economy continued with its GDP growth rate accelerating from 2.4% in 2014 to 3.8% in 2015. This strong performance was driven by robust domestic demand due to an improving labor market and increased government spending. A relatively lower (but still significant) GDP growth of 3.1% is forecast for 2016, supported by continued robust domestic demand. Government spending is projected to rise in 2016 due to the large influx of migrants and greater expenditures towards the welfare system. Unemployment decreased from 7.9% in 2014 to 7.4% in 2015, and a further fall to 7.2% is expected in 2016. Consumer price inflation has been close to zero since 2013, and this will not likely change in 2016.

The total real estate investment volume in the first quarter of 2016 reached a record high level of EUR 2.9 billion, which represents a 27% increase over the same period of the previous year. Similar to 2015, domestic investors were the key players in the market, but a significant increase was also observed in the case of the foreign capital investments, representing a 24% share of the total transaction volume. Stockholm remained the most active market in terms of property investment in Sweden. Prime yields owing to the relatively low cost of capital, lack of prime products and high demand from investors further decreased and stood at 3.7-4.0% for offices, 3.8-4.25% for high street retail and 6.15% for logistics in Q2 2016.

Lending market

In 2016, 40% of those surveyed considered real estate financing extremely important, while 20% considered it important. Compared to the previous year, 20% of banks reported a decrease regarding their level of focus on real estate financing within the banks' lending activities, while 80% anticipate that focus to be maintained. Based on their responses, banks seem to be much more open to financing income-generating projects than providing development financing. Regarding the breakdown of total loan volume, 91% was provided for income-generating projects in the last 12-18 months.

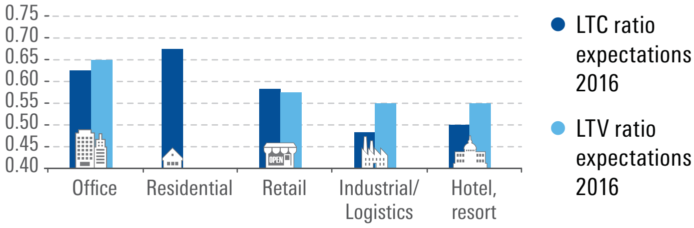
Eighty per cent of banks in the survey regarded the level of provisions made in connection with real estate loans adequate, while 20% considered it somewhat higher than adequate. The average loan size in 2016 was between EUR 43 and 73 million, while the preferred loan size would be between EUR 50 and 81 million.

Future of real estate loan portfolios

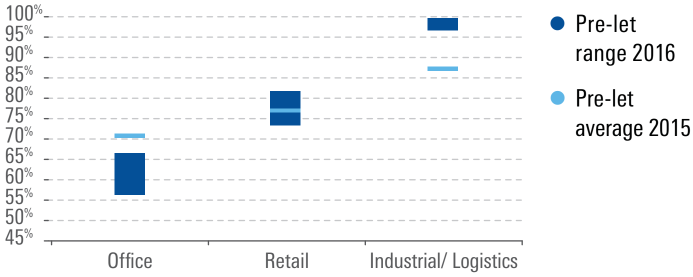
Regarding the prospects for the whole banking sector's real estate loan portfolio size in the next 12-18 months, 60% of those surveyed see an increase, 20% expect it to remain unchanged, and another 20% foresee a decrease. In terms of the expected growth in their own bank's real estate loan portfolio, 60% expect an increase, while the remaining 40% maintain that the current level is likely to remain unchanged in the next 12-18 months.

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

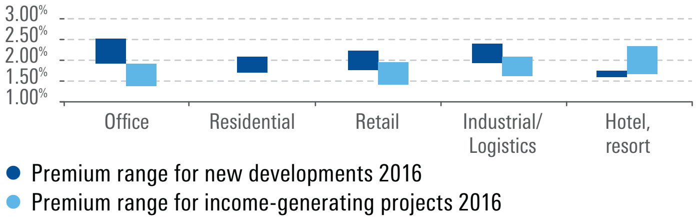
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



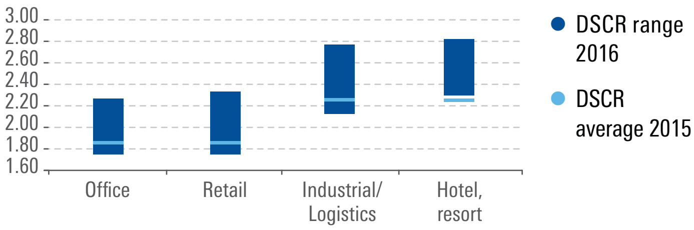
Pre-let ratio expectation for projects



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



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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

Turkey

"The macroeconomic outlook, developer leverage and the perceived risks to and within the country amid recent developments is impacting real estate investment and financing."

Murat Alsan

Overview

The growth rate of the Turkish economy accelerated from 3.0% in 2014 to 4.0% in 2015, supported by strong domestic demand and low oil prices. The expansion of the economy is expected to continue also in 2016, but a number of risks may negatively affect the outlook. Domestic demand is forecast to remain the major source of growth supported by low oil prices and a 30% increase in minimum wages effective from 1 January 2016. However, the growth forecast is associated with significant risk factors, including an unstable domestic security situation, the recent coup attempt, the effect of Russian sanctions on Turkish exports since the beginning of 2016, and the deterioration of investors' sentiment resulting in capital outflows. The unemployment rate increased from 10% in 2014 to 10.3% in 2015, with a forecast decrease to 9.7% in 2016. Consumer price inflation remained relatively high in 2015 (7.7%) and is not expected to decrease significantly in 2016.

The Turkish real estate investment market was highly affected by economic and political uncertainties in 2015. The most sought-after segment was office, followed by development projects and retail. In Q1 2016 only one notable transaction was recorded in all segments. Investors' interest towards industrial properties was subdued in the first quarter of 2016, owing to the lack of investment opportunities, while in the retail sector uncertainty contributed to decreasing interest on the part of investors. However, developments and refurbishments as well as opportunistic investments remain on their radar screen. As a majority of marketed properties have been acquired by owner-occupiers, or for redevelopment purposes, prime yields remained stable and stood at 6.8% for offices, 5.8% for high street retail and 8.75% for industrial in Istanbul.

Lending market

Eighty per cent of banks surveyed reckon that real estate financing occupies a moderately important position in their activities, while another 20% consider it extremely important. There was unanimity that the focus on real estate financing within banks' lending activity remained the same compared to the previous year. Banks proved to be open to finance both new developments and income-generating projects. Regarding the breakdown of real estate loans, 57% were dedicated to income-generating projects in the last 12-18 months.

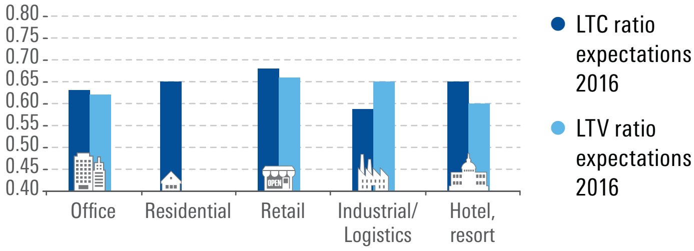
Regarding alternative lenders, those surveyed regarded non-local commercial banks as their greatest competitors, followed by private equity/debt funds and investment banks. Sixty per cent of respondents found the level of provisions made in connection with real estate loans adequate, while the other 40% considered it to be less than adequate. The average real estate loan size was between EUR 19 and 39, while the preferred loan size would be between EUR 19 and 41 million.

Future of real estate loan portfolios

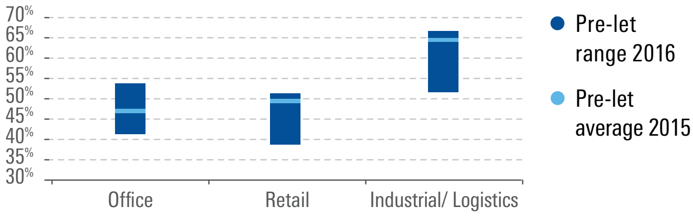
According to survey participants' input, 60% of their banks expect the whole banking sector's real estate loan portfolio size to be unchanged in the next 12-18 months, while 40% believe it will increase. Regarding the prospects for their own bank's real estate loan portfolio, 80% envisage the situation to remain the same, and 20% expect their portfolio to decrease.

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

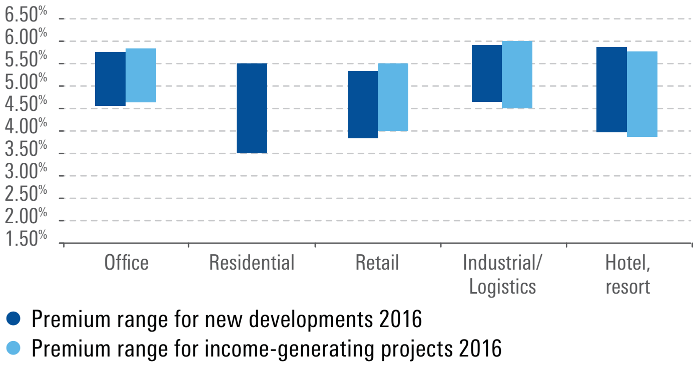
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



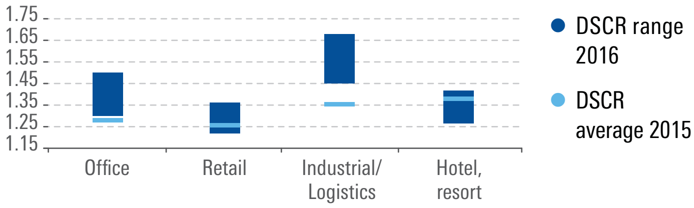
Pre-let ratio expectation for projects



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



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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

United Kingdom

"The EU referendum vote has undoubtedly created uncertainty in the UK economy and specifically the real estate market. A weaker pound though is likely to draw investment in better quality assets funded by non-traditional lenders."

Andrew Jenke

Overview

The UK economy grew by 2.3% in 2015, driven by strong domestic demand including private consumption and business investment. Following the country's vote to leave the EU on 23 June 2016, analysts revised their GDP growth forecasts downward primarily due to the uncertainty about the potential impact of the Brexit. According to the Economist Intelligence Unit, the UK economy is expected to lose momentum, with growth decreasing to 1.5% in 2016 and widely expected to reduce by 1.0% in 2017. The unemployment rate decreased from 6.2% in 2014 to 5.4% in 2015, and a further decrease to 5.1% is forecast for 2016. Consumer price inflation was close to zero in 2015, although a sharp depreciation of the pound in response to the Brexit vote may contribute to an increase in inflation in forthcoming years.

The real estate investment volume in the UK is the highest in Europe, with London being one of the most popular destinations for investors. However, owing to the uncertainties about the outcome of the EU referendum, the UK witnessed a significant decrease in terms of investment volumes. The total transaction volume amounted to EUR 29.5 billion in H1 2016, which represented a 45% decrease on a Y-o-Y basis. In recent years, international investors have been very active on the market. In H1 2016, they comprized half of all UK transactions. As seen in previous years, investors are looking for opportunities in the second-tier and the best-secondary market, due to the lack of available investment products in London. Prime yields decreased compared to the first half of 2015, although it is expected that prime yields will remain stable through 2016 (except for in certain locations). In Q2 2016, prime investment yields in London stood at 3.25% for offices, 2.25% for high street retail and 4.25% for logistics.

Lending market[1]

There is uncertainty regarding the evolution of the market in light of the consequences of Brexit. According to the market players surveyed, 80% of respondents regarded real estate financing either as important or extremely important this year. Sixty per cent of them indicated that the level of focus on real estate financing within their lending activity remained the same compared to the previous year. The majority of these financial enterprises are open to financing income-generating properties, as well as to providing development financing, with a preference for financing income-generating projects. Regarding the breakdown of loans in the UK, 74% of loans were provided for income-generating projects in the last 12-18 months, while 26% went to new developments.

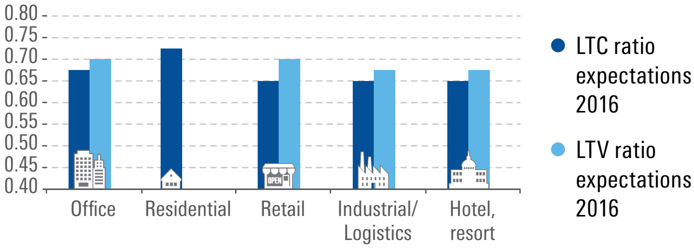
Market players indicated investment banks to be the most competitive alternative to banks regarding real estate financing, followed by private equity/debt funds. All of the participating financial institutions rated the level of provisions made in connection with real estate loans adequate. The average loan size was set between EUR 53 and 67 million, while the preferred loan size would be between EUR 44 and 58 million.

Future of real estate loan portfolios

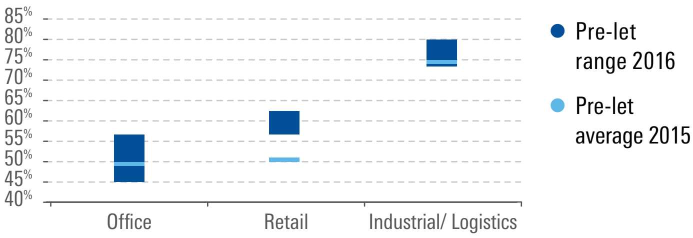
A majority of those surveyed (60%) expect an increase in the entire banking sector's real estate loan portfolio in the next 12-18 months, while 40% expect it to decrease. Regarding the prospects for their own real estate loan portfolio, 80% of the market players expect an increase, while 20% expect the current situation to prevail.

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

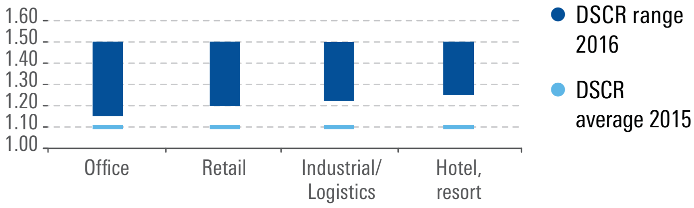
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income-generating projects



Pre-let ratio expectation for projects



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



Sources: KPMG Property Lending Barometer 2016, Cushman & Wakefield (Yields)

1 *This year, our sample of respondents from the UK comprized a range of financial institutions with very heterogeneous profiles including market players providing real estate loans but not considered banks.*

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Produced by: KPMG's Creative Services. Publication Date: October 2016.