Property Lending Barometer 2021

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

The overarching theme of the illustrations of this year's Property Lending Barometer focuses on refurbished and repurposed real estate assets, making something new out of something old, drawing a parallel with the circumstances created by the COVID-19 pandemic, which have forced market participants and individuals to adapt to the new reality.

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Dear Reader,

It has been a challenging 12 months since the last edition of the Property Lending Barometer as the different waves of COVID-19 lockdown restrictions adversely affected most economic sectors. Similarly to previous reports, the current, 12th edition of our annual survey of banks' real estate financing provides a general overview of lending market conditions in this uncertain environment in a range of countries in Central and Eastern Europe and also gives a separate snapshot of those markets surveyed to highlight their unique characteristics.

The global economy started to recover in the second half of 2020, and this momentum continued in 2021, despite the unpredictable trajectory of the COVID health crisis, especially in emerging economies. The fiscal stimulus in major markets, including most prominently the one provided by the new US administration, has provided support for renewed growth opportunities across geographies.

In the context of the pandemic crisis, financing conditions for economic activity play a key role in reducing uncertainty and supporting medium-term price stability. National fiscal policies are expected to continue to provide essential backing to the sectors most exposed to the negative effects of the pandemic and the associated containment measures. Meanwhile, equity prices have increased, mainly due to a combination of relatively low market interest rates and renewed growth forecasts for corporate earnings. While global demand appears solid, supply-side bottlenecks are a cause for concern for industrial activity in the near term. Inflation has started an upward trend in the first half of 2021, largely on account of an increase in energy prices. It is expected to rise further in the second half of the year, but it may decline next year if temporary factors will cease. Major European banks' provision levels increased significantly in 2020, foreshadowing a potential increase in the volume of non-performing loans in 2021 or beyond.

The real estate sector is facing new dimensions of uncertainty. Pandemic-related restrictions created more demand for home offices and less for traditional workspace. Thus, the office market is facing a potential decline, although more flexible, modern offices with excellent connectivity and amenities could see solid demand. The e-commerce boom has driven up interest for warehouses and other logistics assets, which may have a sustained effect in the sector, even after the pandemic. On the other hand, the abrupt drop in the hotel segment due to travel restrictions may prove to be a bit of turbulence, if demand for travel, especially leisure travel, makes a comeback sometime soon.

The objective of this report is to assess the prospects and sentiment for bank financing in the real estate sector in CEE, based on the answers of bank representatives from 11 countries. The 2021 Barometer includes input from 43 banks, collected primarily via online questionnaires and in-depth interviews. Representatives of leading financial institutions have provided their views on the key issues influencing property lending. In a sub-survey, 18 developers from seven countries have also been asked to share their approach to the financing aspects of real estate projects in the region.

In the first section of the report, we provide an overview of the Central and Eastern European market as a whole, by focusing on key issues such as the strategic importance of real estate financing for banks and the proportion of impaired loans. We also consider areas such as various banks' average and preferred loan/deal size, as well as the length of their contracted loan terms. Furthermore, the opportunity for new financing and banks' asset class preferences have also been considered. At the end of the first section, responses from developers are also revealed.

The second half of the report includes a profile for each country surveyed. In those sections we address 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.

Let me thank all of those who participated in this survey, as their co-operation was key to the success of this initiative.

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

Yours sincerely,
Andrea Sartori

12th

12th annual edition of the survey

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Interviews conducted with banks in 11 CEE countries

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Over 40 banks surveyed

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Methodology

Methodology and sample profile

Our survey provides an analytical overview of the current approach of banks to real estate financing in Central and Eastern Europe. The following countries are represented in the 2021 survey: Albania, Bulgaria, Croatia, the Czech Republic, Hungary, North Macedonia, Poland, Romania, Serbia, Slovakia, and Slovenia.

Survey[1] data was primarily collected via online questionnaires and through in-depth interviews with bank representatives. Depending on the survey participants' organisational structure, interviewees were the heads of real estate, project financing or risk management departments. Banks were selected from among the leading financial institutions operating in each individual country. The survey participants entailed 43 banks, all of which were active in the real estate market in Central and Eastern Europe over the last year. Data collection for this survey took place in May-June 2021.

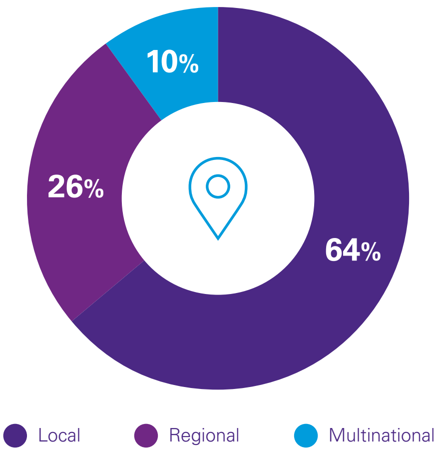
Almost two thirds of the survey participant banks were local, i.e. those operating predominantly within one European country, whilst the rest were mainly regional banks, and some multinational banks also participated.

Survey limitations

The following limiting factors should be noted:

- When the answers provided to specific questions were not sufficient to provide reliable information for a specific country, we have indicated this, or the country was omitted from that part of the analysis.
- Survey findings may be considered indicative but not representative.
- As in previous years, our assessment of the residential sector excluded residential projects whose construction costs were below EUR 10 million.

Geographic orientation of the banks included in the surveyed sample



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

Source: KPMG Property Lending Barometer, 2021

Geographic abbreviations

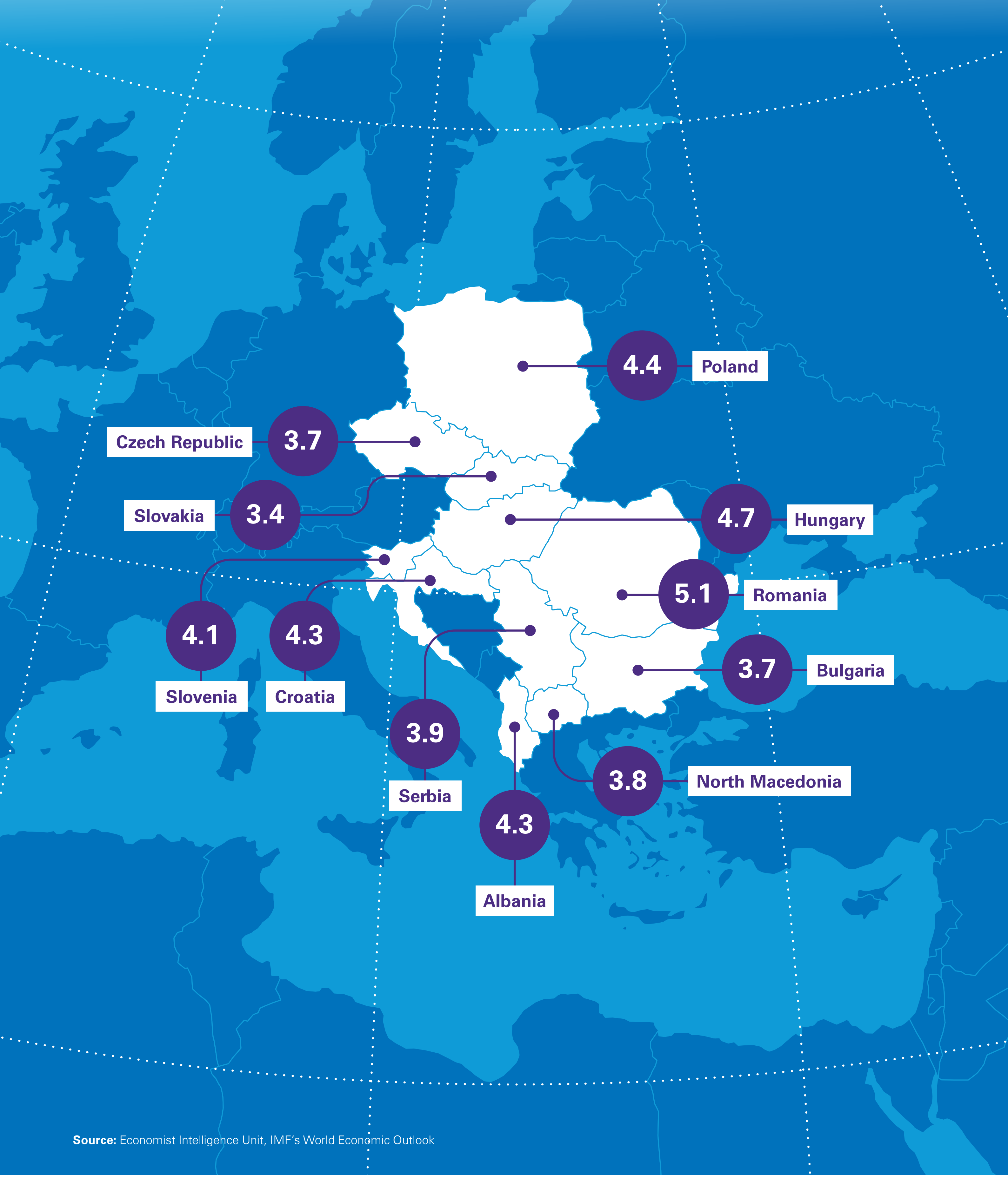
ALB – Albania; BUL – Bulgaria; CEE – Central and Eastern Europe; CRO – Croatia; CZE – Czech Republic; ECB – European Central Bank; HUN – Hungary; MKD – North Macedonia; POL – Poland; ROM – Romania; SRB – Serbia; SVK – Slovakia; SLV – Slovenia

[1] The survey also uses information obtained from public sources, which KPMG believe to be reliable. These market reports were published in 2020 and 2021 by Colliers, Cushman & Wakefield, Economist Intelligence Unit, European Central Bank, OECD, Real Capital Analytics and White & Case.

01

Overview of the CEE real estate market

Average GDP growth forecast, 2021-2023 (%)



Source: Economist Intelligence Unit, IMF's World Economic Outlook

01

Overview of the CEE real estate market

Macroeconomic outlook for the region

The year 2020 was one of contraction for most business sectors as the subsequent waves of COVID-19 lockdown restrictions took effect. The global economy started to recover in the second half of the year, and this momentum continued in the first half of 2021, despite a worsening of the health crisis in these months, especially in emerging economies. The fiscal stimulus seen in major markets, including most prominently the one provided by the new US administration, has provided support to renewed growth opportunities across geographies.

Eurozone area GDP is set to strengthen once again in 2021, based on robust production in manufacturing and a strong recovery by the services industry. These expectations are built on solid global demand and the progress of vaccination campaigns that may allow some relaxation of containment measures. The economies of Central and Eastern European countries surveyed in our report are likely to increase in real terms by an average of 5% in 2021, according to the Economist Intelligence Unit, although expectations vary significantly within the region. Romania and Hungary are estimated to be among the front-runners for year-on-year growth of over 6%, while other countries like Slovenia, the Czech Republic or Bulgaria are unlikely to reach 4% growth this year. In the medium term, annual growth patterns between 2 and 4% are expected to prevail across the region.

The first half of 2021 saw inflation rising in Europe, largely on account of an increase in energy prices. It is expected to rise further in the second half of the year, but it may decline next year if temporary factors will cease. Central and Eastern European economies have also experienced a rise in inflation this year, though differences in the region are substantial. Poland and Hungary are estimated to see an annual average consumer price index close to or even over 4% in 2021, while Slovenia is expected to keep inflation below 1%.
In terms of unemployment, the pandemic restrictions led to a fall in employment, though geographical differences are significant, mainly due to varying country profiles reflecting industry involvement and the relative success of containment measures. Some economies in the CEE region have weathered the pandemic storm reasonably well, like the Czech Republic, where the unemployment rate is not expected to rise above 3.5% in 2021. Others, like Slovakia, are set to see a rate as high as 7.6% this year, which is unlikely to decrease much even in 2022. The situation is expected to be even worse in the former Yugoslavia republics of Serbia, Croatia, and Slovenia, all forecast to suffer from an unemployment rate close to or even above 9%.

The overall macroeconomic prospects for countries in our survey show a high level of uncertainty to prevail for the next few quarters. There are clear signs of growth for the second half of 2021 due to strengthening demand and support from monetary and fiscal measures. On the other hand, there are contingencies related to the potential spread of virus mutations and the economic fallout resulting from them.

Bank lending

In the context of the pandemic crisis, the financing conditions of economic activity play a key role in reducing uncertainty and supporting medium-term price stability. National fiscal policies are expected to continue to provide essential backing to the sectors most exposed to the negative effects of the pandemic and the associated containment measures. Meanwhile, market interest rates are on the rise and further tightening of financing conditions can be expected, according to the European Central Bank.

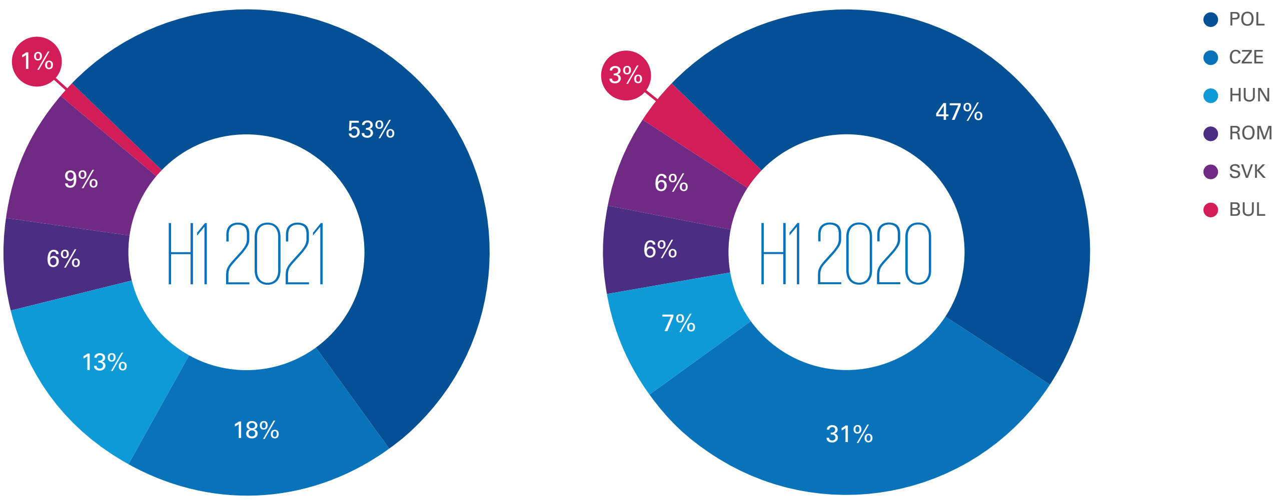
The ECB is determined to provide support to the economies via its net asset purchases under the pandemic emergency purchase programme (PEPP) with an increased total amount of EUR 1,850 billion until the pandemic crisis is over. In parallel, net purchases under ECB's asset purchase programme (APP) are set to follow a monthly pace of EUR 20 billion for as long as necessary.

The impact of COVID-19 may change the trend of a gradually declining level of activity in Europe's market for non-performing loan portfolios, although this is yet to take real effect. While a number of companies have benefited from the support of governments or renegotiated terms with lenders, this temporary period is likely to expire soon. According to Debtwire, provision levels at major European banks significantly increased in 2020, foreshadowing a potential increase in the volume of non-performing loans in 2021 or beyond.

Real estate market in Central and Eastern Europe

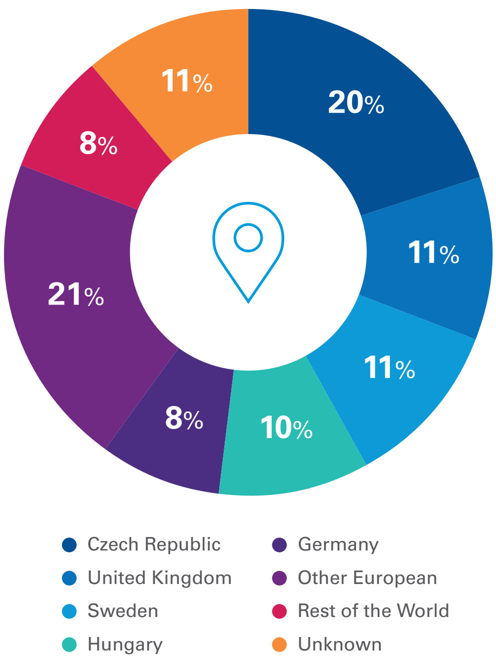
The long-term trend of growth in total investment in six major Central and Eastern European countries – the Czech Republic, Poland, Hungary, Romania, Slovakia, Bulgaria – saw an abrupt reversal in the first six months of 2021. In the first half of 2021 the total investment volume was EUR 4.9 billion, showing a 22% decrease compared to the same period of 2020. In H1 2021, investment in Poland was responsible for over half of the total transaction volume (53%), followed by the Czech Republic (18%), and Hungary (13%); hence these three countries represented over 80% of total investment in the CEE region. Slovakia, Romania and Hungary experienced the most significant growth compared to H1 2020. By contrast, Bulgaria and the Czech Republic experienced the most severe drop in investment activity compared to the same period for the previous year.

Breakdown of real estate transaction volume – Central and Eastern Europe



Source: Colliers

Investment in Central and Eastern Europe by origin of investors, H1 2021



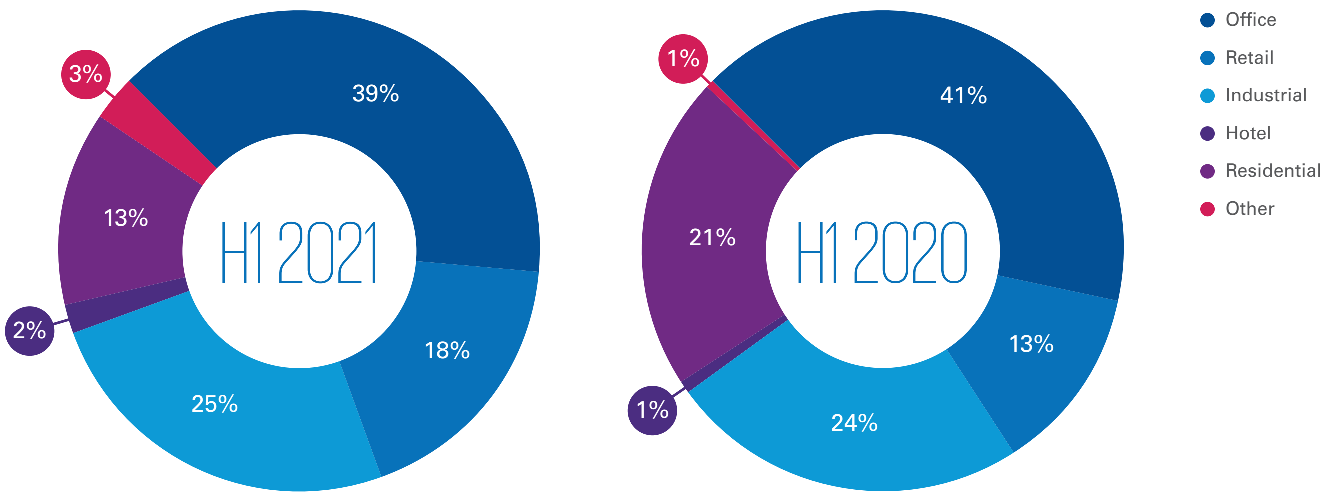
Source: Colliers

European investors took more than an 80% share of total investment in commercial property in Central and Eastern Europe in the first half of 2021, continuing to dominate the market. Within the region, Czech and Hungarian investors were most active, with shares of 20% and 10%, respectively. Other European investors also played a key role, with British, Swedish, and German purchasers taking significant shares of the market (11%, 11%, 8%, respectively). Investment from outside Europe was less substantial, all other continents making up a total of 8% of investments, though they are expected to be more active in the second half of 2021.

There have been notable changes in the breakdown of investment by asset type in Central and Eastern Europe since last year, mainly due to the strengthening of activity related to retail projects. When it comes to transactions, office is still the biggest asset class (39%), followed by industrial (25%) and retail (18%), residential (13%) and hotel (2%), based on data from the first half of 2021. Besides the strengthening retail sector, industrial/logistics and residential also experienced strong demand, but supply fell short of these needs, temporarily hindering the growth of these segments.

The average prime yields of the economies represented in our survey continued their long-term trend of decline, though at a moderate rate in the first half of 2021. Nevertheless, in a number of countries, yields started a slight increase in some segments. For example, the Czech Republic, Hungary, Romania and Serbia recorded a 10-25 percentage point increase in office sector prime yields in Q2 2021. On average, office sector yields in Q2 2021 decreased compared to a year ago with an average of 0.07 percentage points, which is lower than the decrease of yields in high street retail, at an average of 0.15 percentage points, and much less intense than the decrease in the logistics sector (0.44 percentage points). Current yields range between 4.0 and 10.5% with significant differences seen across countries and cities.

Investment by asset type – Central and Eastern Europe, H1 2021



Source: Colliers

02

Managing impaired loans

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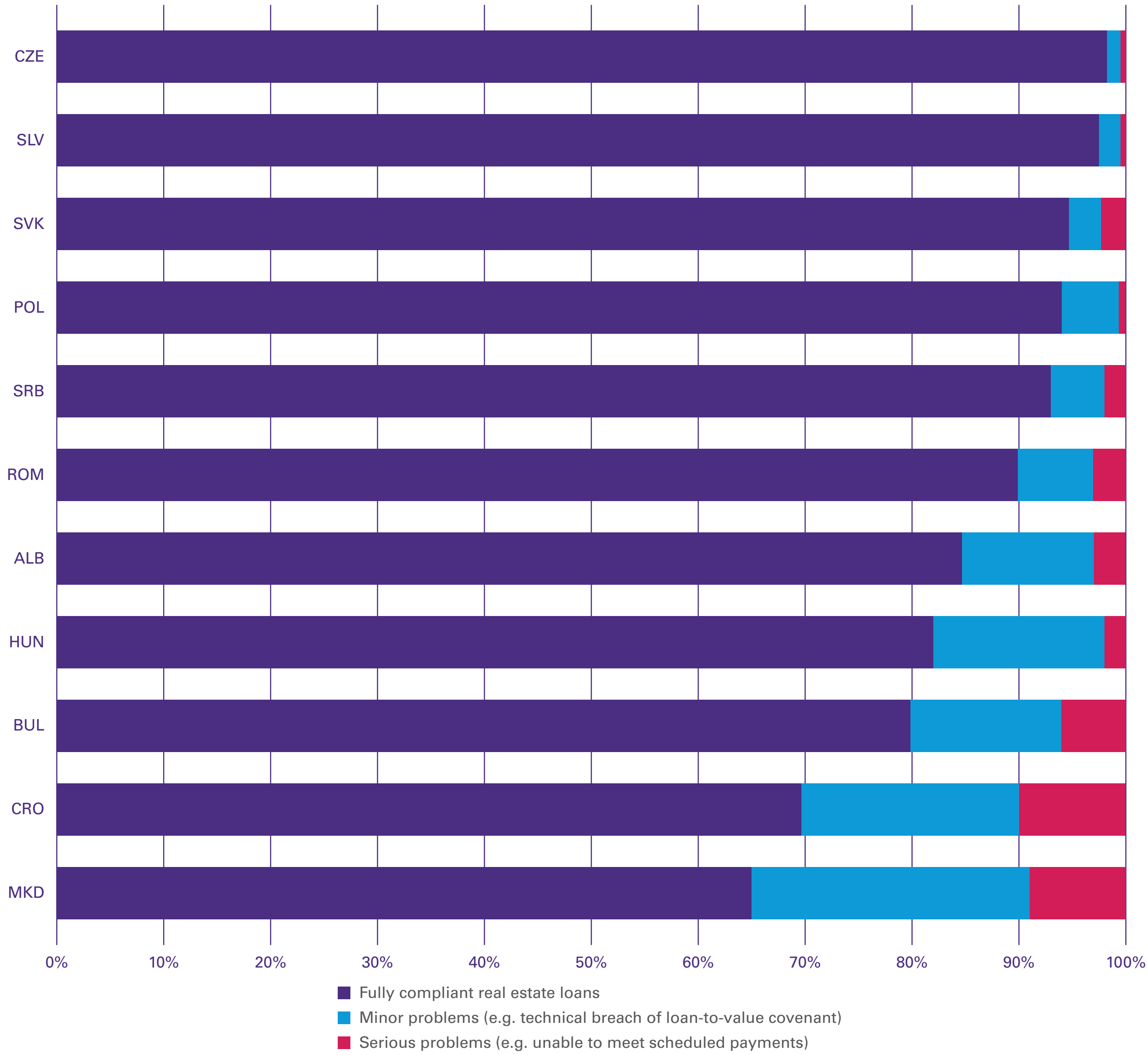
Managing impaired loans

One recent negative trend is the deterioration of real estate loan portfolios, due to the economic repercussions of the pandemic, which began last year.

This year's survey shows that in most countries the level of impaired loans at those banks surveyed is relatively low, although not as low as last year. The proportion of fully compliant loans is particularly high in the Czech Republic and Slovenia (with the current rate of fully compliant loans exceeding 97%), while there are six countries with a ratio below 90%, three of them even below 80%, including Bulgaria (79.9%), Croatia (69.7%), and North Macedonia (65%).

Proportion of impaired real estate loans per country



Source: KPMG Property Lending Barometer, 2021

03

Prospects for real estate loan portfolios

03

Prospects for real estate loan portfolios

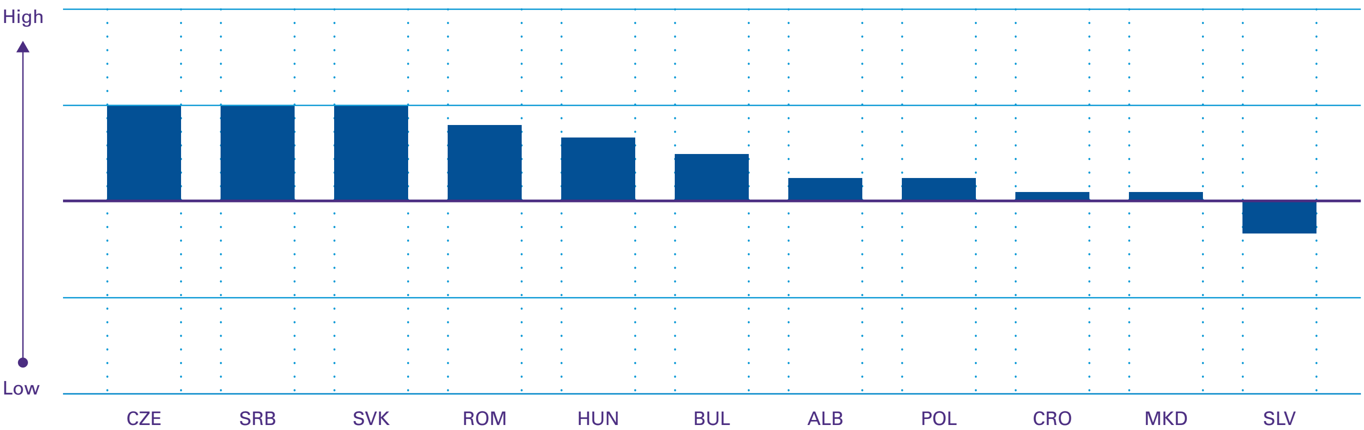
In this section, banks' expectations for the future of their real estate loan portfolios are revealed in light of recent developments and their strategic approach to real estate financing, compared to other opportunities.

Strategic importance of real estate financing

Overall, for banks in Central and Eastern Europe the strategic importance of real estate financing has clearly increased compared to last year.

Survey respondents from the Czech Republic, Serbia, and Slovakia acceded great importance to real estate financing, while all other countries surveyed, except Slovenia, also confirmed that real estate financing bears strategic importance. Slovenian banks afforded it below average importance.

Strategic importance of real estate financing for banks



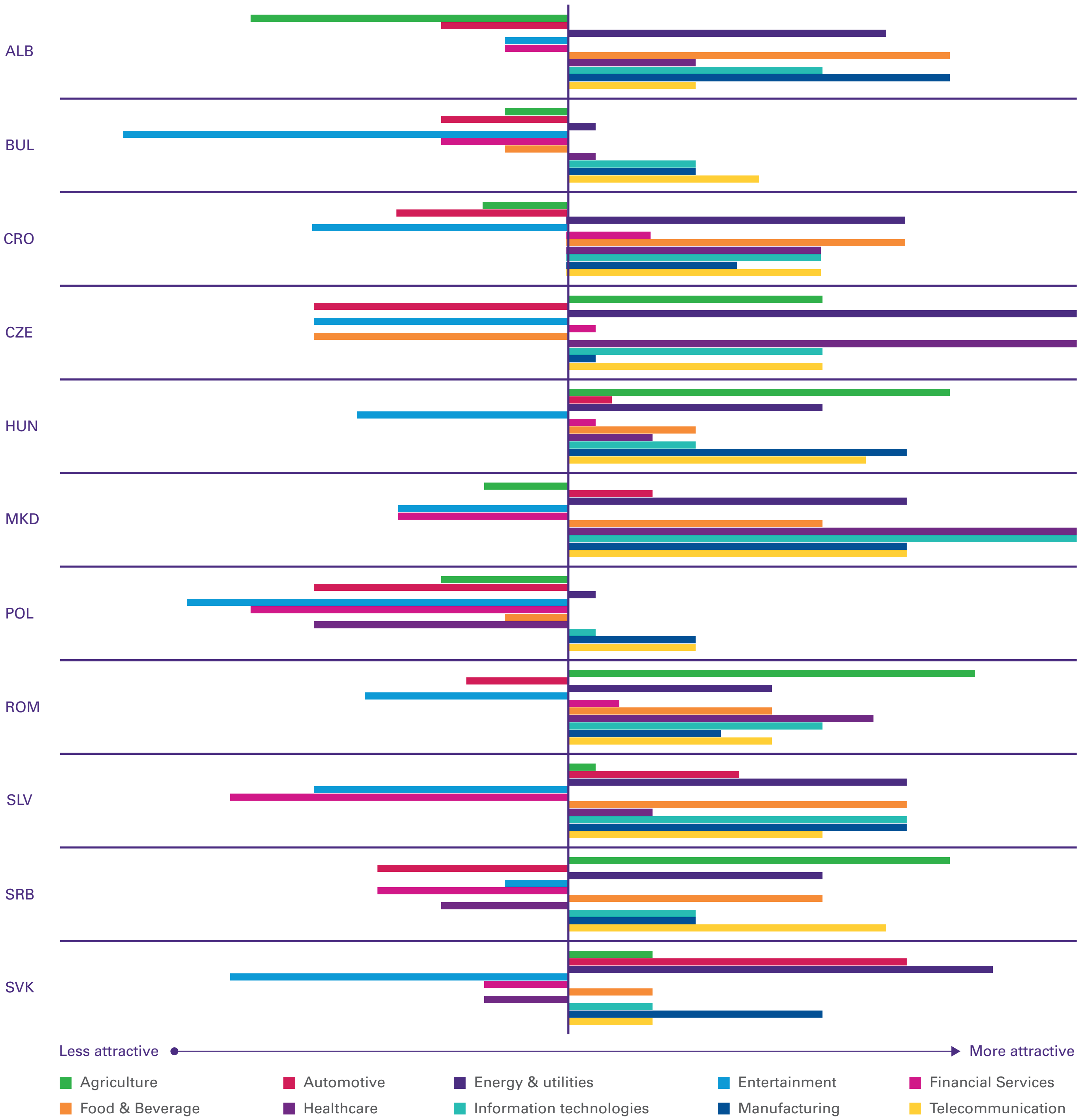
Source: KPMG Property Lending Barometer, 2021

The attractiveness of real estate financing compared to other industries

Those surveyed revealed what other industries they find attractive in terms of financing compared to real estate, and what industries are less attractive. Overall, energy & utilities, telecommunication, manufacturing, and information technologies were identified as the most preferred, followed by food & beverage, healthcare, and agriculture. Industries that appear less preferred than real estate include automotive, financial services, and entertainment.

In a country-by-country comparison, the relative preference for industries is revealed. For example, energy & utilities, a regional favourite, is particularly attractive for banks in the Czech Republic and Slovakia. At the other end of the scale, the least popular industry in the region, entertainment, relatively speaking, had the lowest score in Bulgaria and Poland.

Attractiveness of other industries compared to real estate



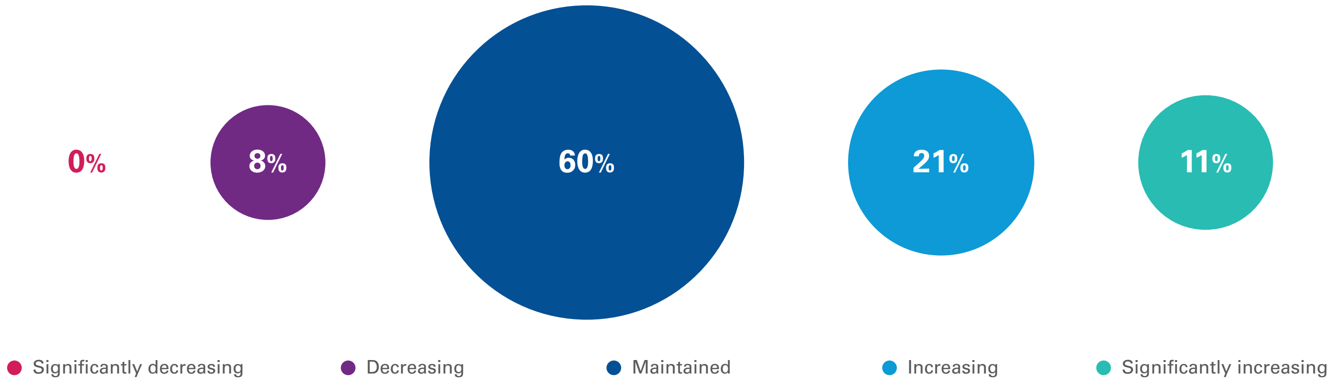
Source: KPMG Property Lending Barometer, 2021

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

Compared to the reverse trend seen last year, banks in the region increased their focus upon real estate financing, as shown by our results below.

With the exception of Poland, banks from all countries in the CEE region indicated an increase or no changes since the previous year. The most significant increases in focus were reported by North Macedonia, Albania, Croatia, and Slovenia. Half of respondents in Poland indicated a moderate decrease in focus, while the other half indicated a maintaining of focus on real estate financing compared to the previous year.

Focus on real estate financing within the banks' lending activity



Source: KPMG Property Lending Barometer, 2021

Most important factors affecting real estate loan portfolios

Similar to previous years, banks' representatives identified the key drivers affecting real estate portfolios.

Mainly due to the pandemic environment, the relative weights of factors influencing real estate portfolios have fundamentally changed since last year. The pandemic situation and macroeconomic conditions in local markets are seen as the most significant factors for banks in the CEE region, followed by the lack of prime properties, and increased property values.

Broken down county by country, some differences are notable. According to our results, the pandemic situation is of primary concern for a majority of those surveyed in Hungary, while the macroeconomic conditions of the local market were reported as relatively important by respondents from Romania, Serbia, Slovenia, and Croatia. The lack of prime properties was most concerning for banks in the Czech Republic.

Most important factors affecting real estate loan portfolios

Pandemic situation	★★★★★
Macroeconomic conditions in local market	★★★★
Lack of prime properties	★★★
Increased property values	★★★
Macroeconomic conditions in Europe	★★
Lack of active investors	★★
Activities of European Central Bank / National Banks	★★
Lack of equity	★
New strategy	★

Source: KPMG Property Lending Barometer, 2021

Disposing of loan portfolios

With the exception of Poland, none of the survey participants indicated their willingness to consider disposing of any of their performing commercial property loan portfolios in the upcoming 12-18 months. With regards to their non-performing property loan portfolios, banks from Slovakia, Slovenia, Albania, and Bulgaria indicated a consideration to dispose part of their portfolios, partly due to a strategic exit. This was not the case for participants from other countries.

04

Opportunities for financing new real estate projects

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Opportunities for financing new real estate projects

Survey participants revealed their approach to opportunities in terms of bank financing for real estate projects.

New financing

There was little difference in terms of respondents' openness to finance income-generating projects, as each country showed a positive overall response. The most positive answers were received from the Czech Republic and Hungary. The openness of banks in other surveyed Central and Eastern European countries was more moderate, but still positive in this respect.

Regarding banks' willingness to finance new developments, responses also revealed a positive attitude, with the exception of Poland. Banks from Albania and Serbia were most open, while representatives from Bulgaria, Slovenia and Slovakia showed only modest openness.

Compared to the previous year, banks' openness significantly improved, especially in terms of financing new developments.

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

Source: KPMG Property Lending Barometer, 2021

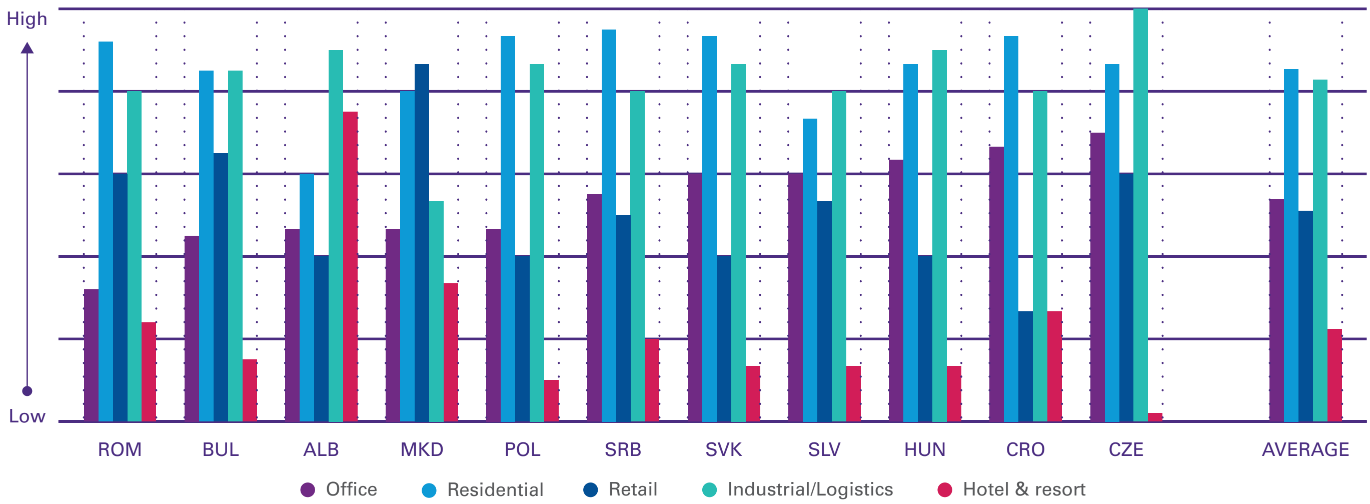
Asset class preferences

Banks were also queried about their preferred asset class for development financing.

Compared to responses from the previous year, the residential asset class rose to the most popular position among banks surveyed, closely followed by last year's favourite, the industrial/logistics asset class.

No change can be observed regarding a trend of hotel & resorts being the least preferred asset class on average, especially in the Czech Republic and Poland. Retail was also less preferred, with the exception of North Macedonia.

Banks' sector preferences in providing development financing by asset class



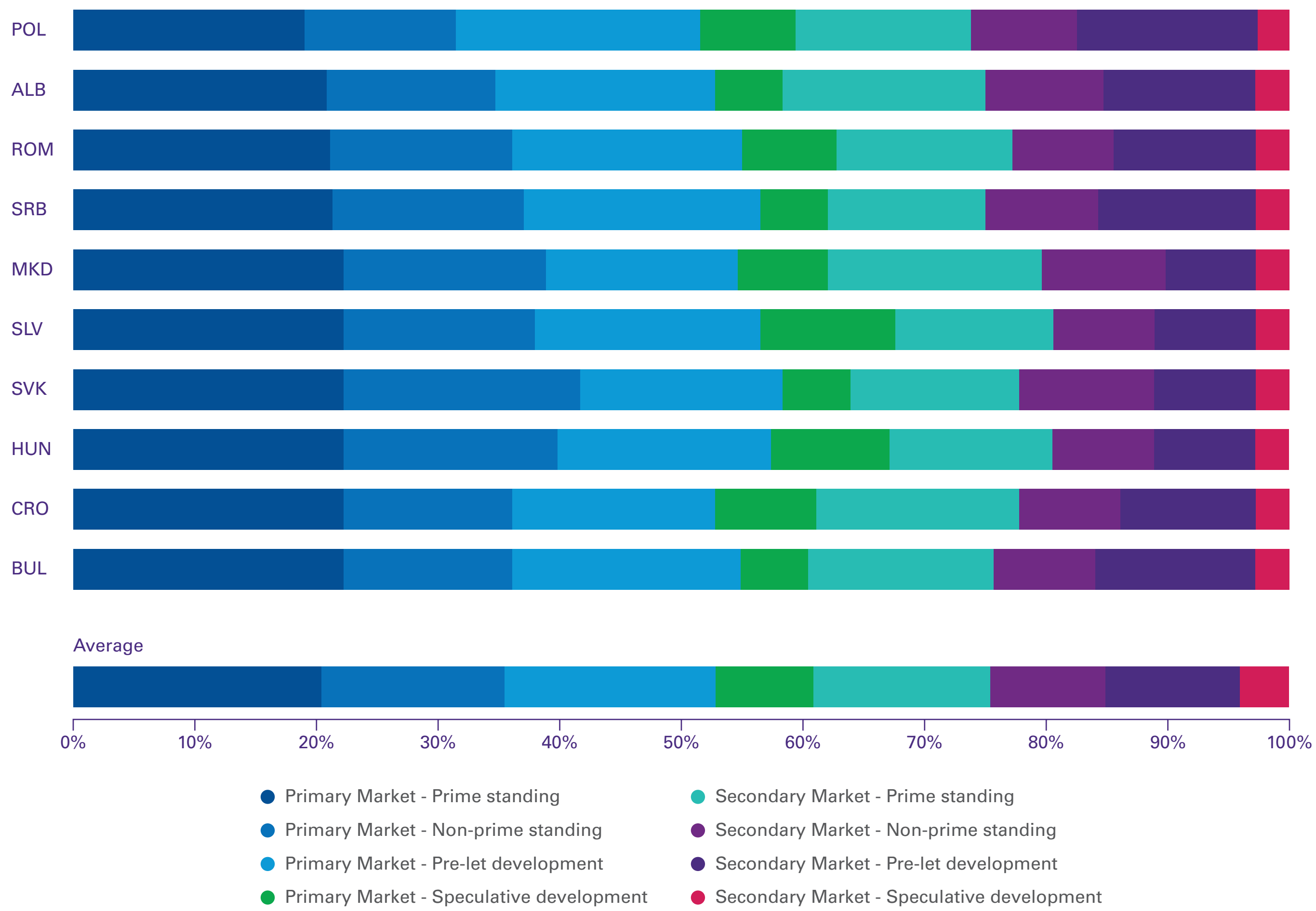
Source: KPMG Property Lending Barometer, 2021

Financing in primary and secondary markets

Survey participants were also asked about their priorities for providing financing in primary and secondary markets for real estate projects in the next 12-18 months.

Respondents confirmed, on average, their clear preference to finance projects in primary markets, especially prime standing investments. Representatives from Slovenia and Hungary were particularly in favour of these opportunities. Pre-let developments and more moderately non-prime standing investments in the primary market were popular across all markets, even more than prime standing projects in secondary markets.

Bank's preferences in providing financing in primary and secondary markets



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

Source: KPMG Property Lending Barometer, 2020

Alternative financing

Those surveyed maintained their negative view of providing financing other than senior loans (i.e. mezzanine, whole loans, stretch senior) when considering the financing of real estate projects. Banks in almost two-thirds of the surveyed countries are not open to providing alternative financing at all. Banks in most of the remaining countries in the sample showed very limited interest, including banks in Romania, Serbia, and Bulgaria. There is only one country, Albania, where half of survey participants confirmed their openness to provide financing other than senior loans for real estate projects.

Criteria for financing

Representatives of those surveyed identified the most important criteria for selecting real estate projects to finance.

Similar to previous years, banks participating in our survey confirmed that in a majority of countries the most important criteria for obtaining financing for a real estate project are a strong business model and the quality of the asset. There were only two countries, Albania and Serbia, where the reputation and references of the developer/operator were indicated to be equally important.

The reputation and references of the developer/operator, the financial background of the developer/investor, the pre-letting/pre-sale level, and the level of owners' equity were also scored as quite important.

The least important criterion across all countries was the size of the requested loan.

Sustainability, a new factor included in this year's survey, also received a relatively low response level from survey participants.

Bank's most important criteria when considering real estate financing

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

Source: KPMG Property Lending Barometer, 2021

Loan-to-cost ratios (LTC)

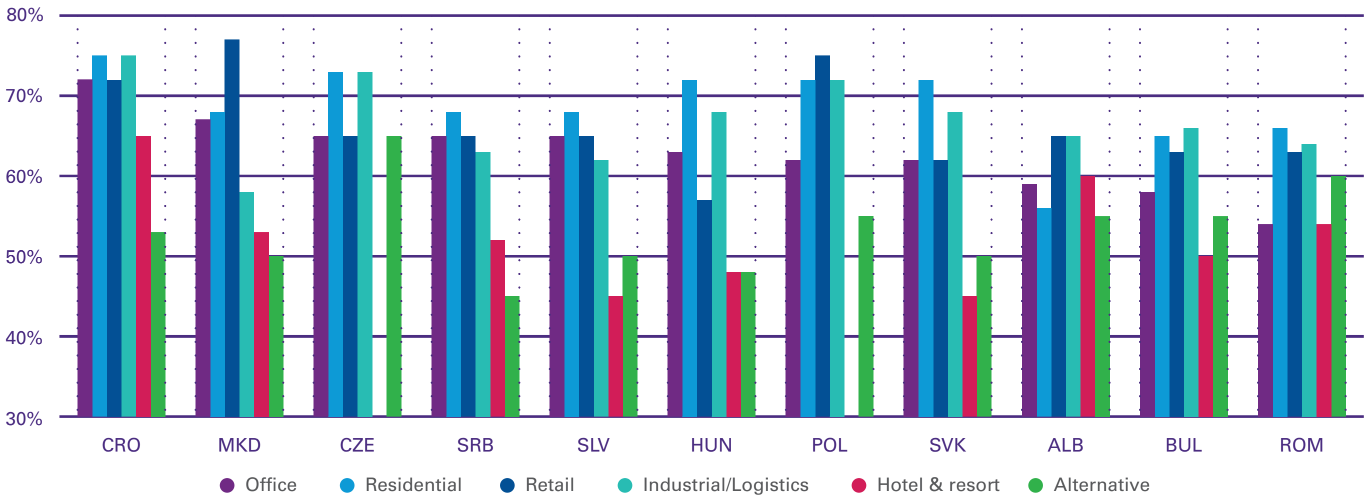
Bank representatives were also questioned regarding their technical criteria for financing. The loan-to-cost ratios they chose varied by country and asset type.

Overall, average loan-to-cost ratios vary between 0.59 and 0.69 across countries, with a regional average of 0.62. In a country-by-country comparison, banks in Serbia, Slovenia, Bulgaria, and Hungary require the highest level of equity, with average LTC ratios of 0.59. Meanwhile banks in Croatia, the Czech Republic, and Poland are the least conservative, with average LTC ratios of 0.69, 0.68, and 0.67, respectively.

Survey respondents in Central and Eastern Europe indicated loan-to-cost ratios for the office, residential, retail, industrial/logistics and hotel sectors in a range of 0.53 and 0.69 (i.e. reflecting a capital structure of 53-69% debt and 47-31% equity). On average, the residential sector has the highest LTC ratio, 0.69, followed by industrial/logistics and retail at 0.67 and 0.66, respectively.

Alternative assets (i.e. student housing, senior homes) and hotels/resorts require the highest equity ratios in most of the countries surveyed, in a range of 0.35-0.55 LTC.

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



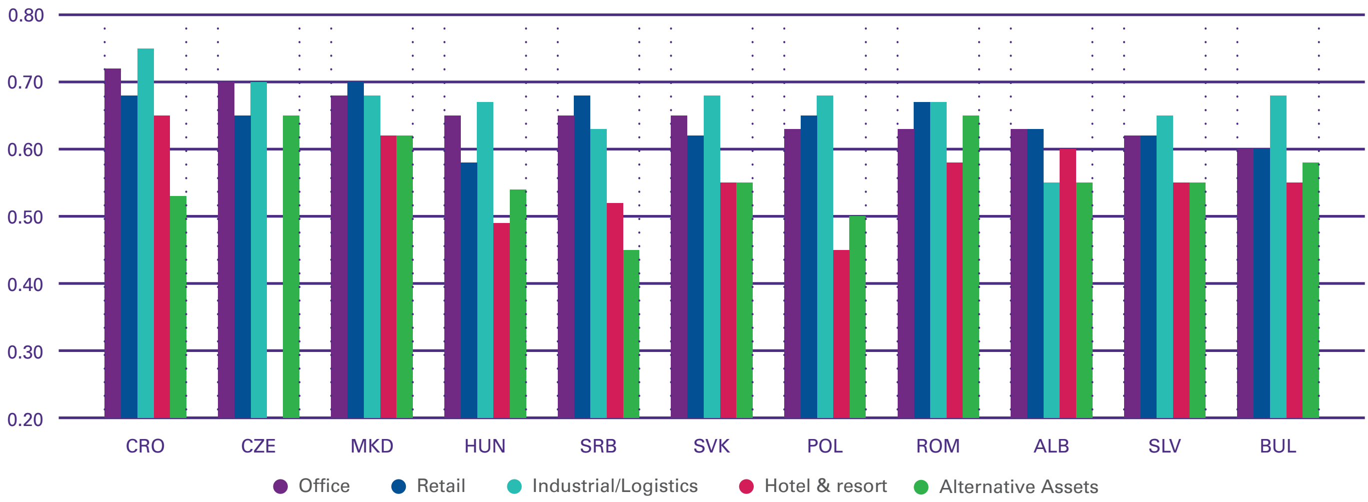
Source: KPMG Property Lending Barometer, 2021

Loan-to-value ratios (LTV)

In those countries surveyed, the loan-to-value ratios for the office, retail, industrial/logistics, and alternative assets (i.e. student housing, senior homes) range from 0.45 to 0.75 (i.e. reflecting a capital structure of 45-75% debt and 55-25% equity). The industrial/logistics sector, on average, has the highest LTV ratio, 0.67, followed closely by office and retail, at 0.65 and 0.64, respectively.

Hotel/resorts, on average, require the highest ratio of equity, with the average LTV ratio for countries included in the survey being 0.55. While banks in most countries in this group are quite restrictive, banks in Croatia and North Macedonia are willing to provide 62-65% credit in proportion to the total appraised real estate value for these types of assets.

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



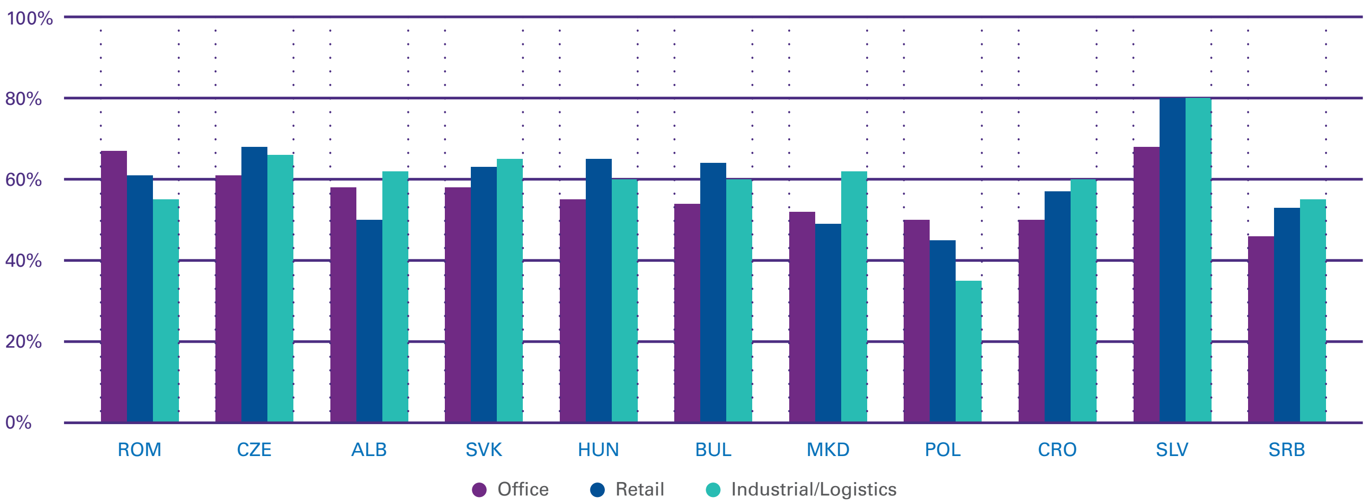
Source: KPMG Property Lending Barometer, 2021

Pre-let ratios

Average pre-let ratios range 43-80% across the markets surveyed. Banks in Poland, on average, demand the lowest pre-let ratios at 43%, while banks in Slovenia are most restrictive with an 80% average pre-let ratio requirement.

In a country-by-country comparison, pre-let ratios in the office sector are the lowest in Serbia with average values of 46%. Pre-let ratios in retail are relatively low in Poland, averaging 45%, and banks in Poland also demand the lowest ratios in the industrial/logistics sector, averaging 35%.

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, 2021

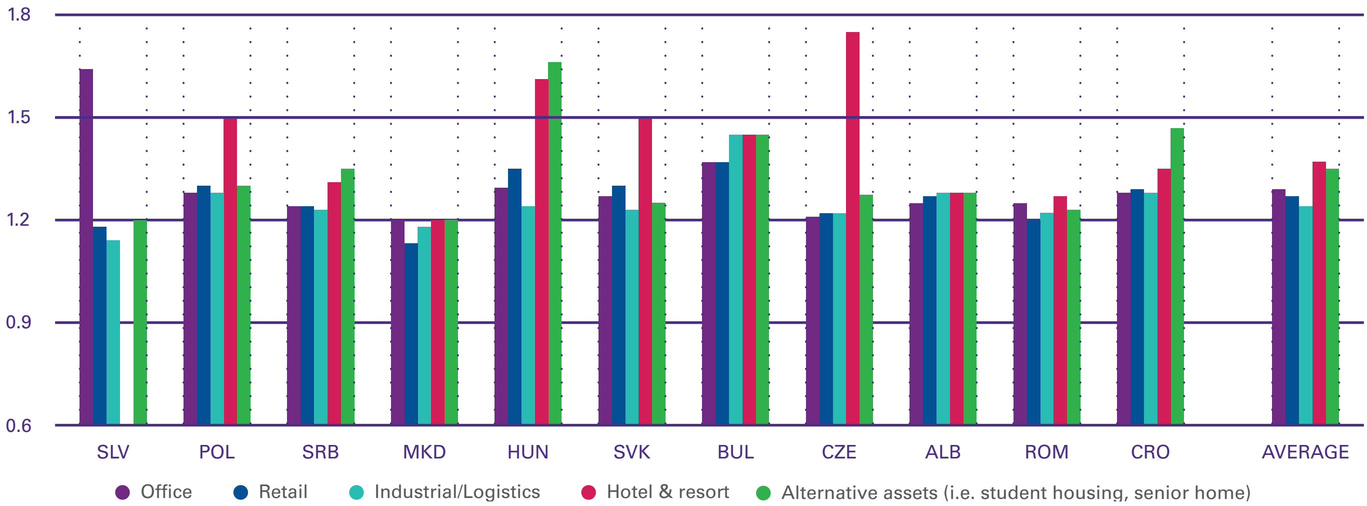
Debt service coverage ratios

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

Similar to the previous year's results, income-generating industrial/logistics projects offer the lowest DSCR ratios (averaging 1.24) in the surveyed Central and Eastern European countries. They are followed by retail assets with an average ratio of 1.27. The hotel & resort asset class had the highest average DSCR ratio of 1.37.

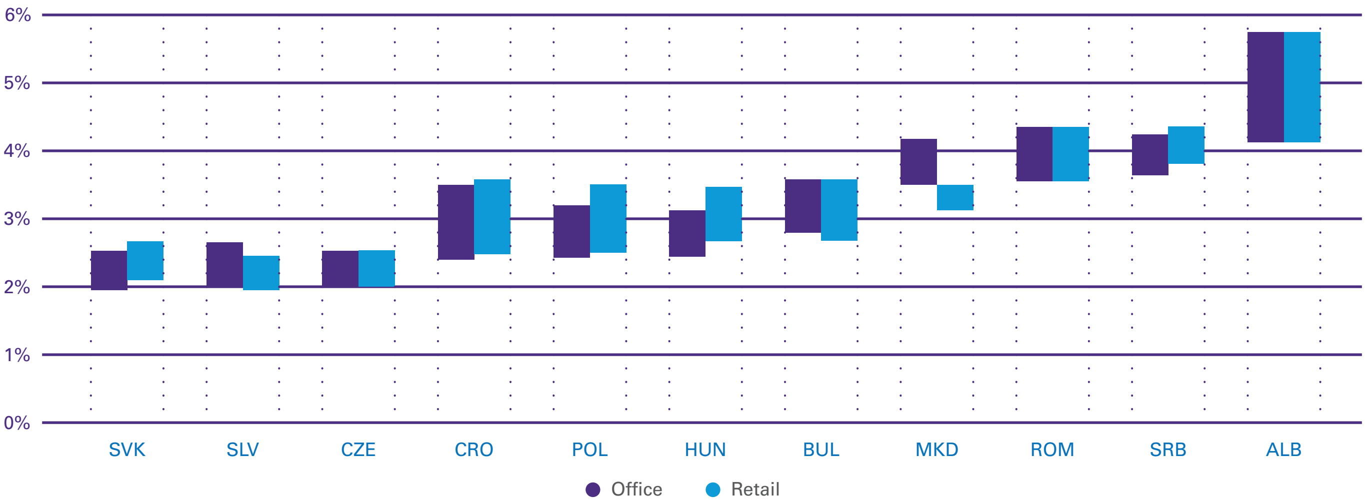
In a country-by-country comparison, banks in North Macedonia expect the lowest level of DSCR ratios at 1.18, on average. By contrast, the highest ratios are expected in Hungary and Bulgaria (1.39 and 1.37, respectively).

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, 2021

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



Source: KPMG Property Lending Barometer, 2021

Interest premiums

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

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

A general trend prevails that interest premiums are the lowest in economies with lower risk profiles and well established real estate markets, spurred by competition among financing institutions that have contributed to more favourable conditions available to borrowers.

Compared to the previous year, banks required relatively lower interest premiums in most markets. The market downturn in 2020 appears to have eased, in this respect, since the start of the pandemic.

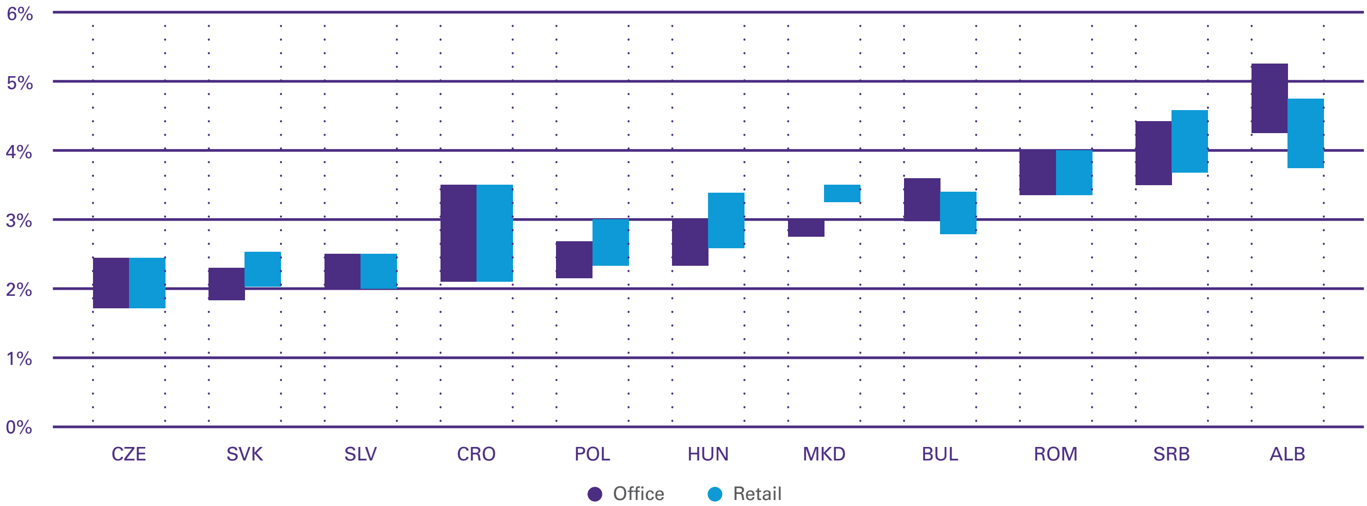
The premium applied to new office and retail developments in Central and Eastern European economies currently ranges 1.80-5.75%. On average, Slovakian banks require the lowest premiums, while Albanian banks require the highest.

Participating banks indicated the interest premium that they would apply on a 3-month Euribor basis on loans for high quality income-generating property projects.

The required risk premiums vary country by country. For example, Czech banks require premiums that are relatively similar (only 18 basis points lower) for income-generating office and retail asset classes compared to that for new developments. Meanwhile, banks in Poland mandate lower premiums (by 33-40 basis points) for office and retail income-generating projects than for new developments.

Among the surveyed economies, Czech and Slovakian banks apply the lowest premiums, while the highest are applied by Serbian and Albanian banks.

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



Source: KPMG Property Lending Barometer, 2021

Length of loan

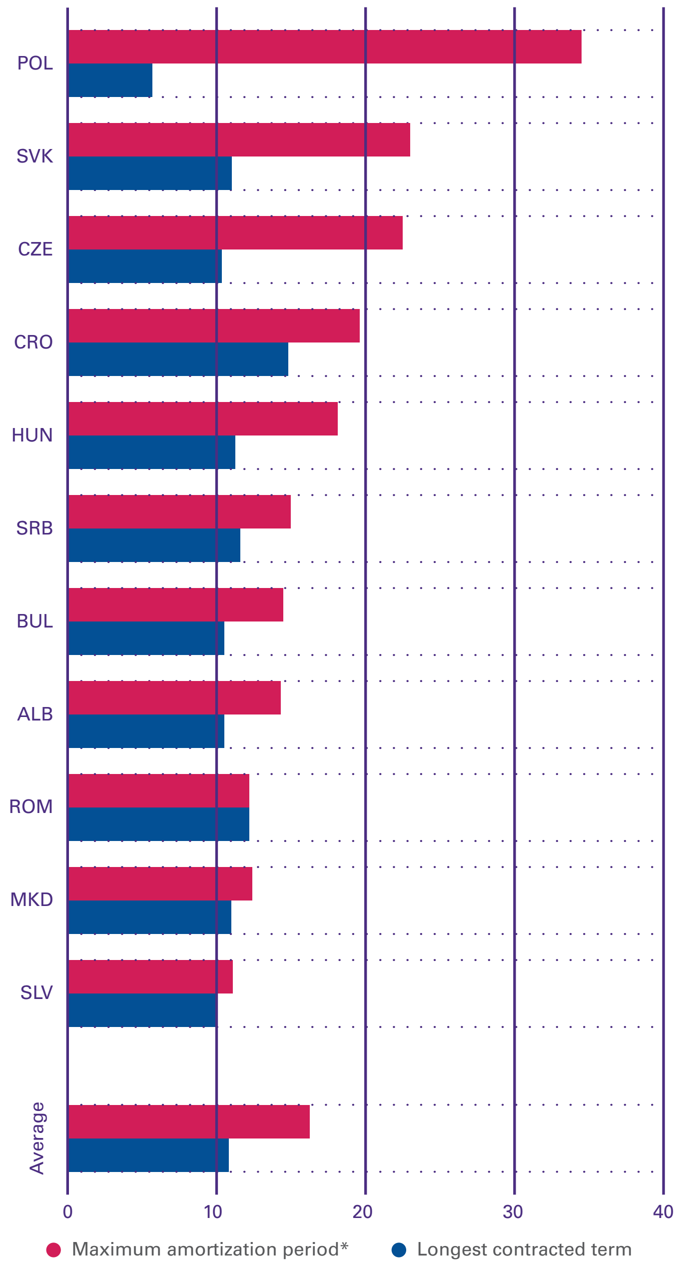
Bank representatives were asked about the minimum required average annual loan amortization rate that would be applied at the required LTV level for highly rated real estate projects, as well as what the longest contracted term of the loan would be for financing a prime investment/ income generating properties. We have calculated the implied maximum amortization period from the minimum amortization rate, and cross checked that with the longest contracted term banks apply. The difference reveals insights into the market conditions the banks in various economies operate in.

In line with the trend seen in previous years, 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 more established economies like Poland (29 years) and the Czech Republic (13 years) than in other countries of the region, like Albania (4 years) and North Macedonia (1 year).

In the countries surveyed, the implied maximum amortization period of the loan and the available maximum contracted length of the loan range 11-34 years and 6-15 years, respectively. Banks in Poland, when certain conditions are met, are ready to apply the lowest amortization rate (2.9%).

There are differences between the amortization rates applied for different asset classes as well. Taking the average of all surveyed countries, the rates range 5.4-6.9%, with office projects receiving the most favourable terms, and alternative assets (i.e. student housing, retirement homes) the least favourable ones. In parallel, on average, the available maximum contract length applied by banks for different asset classes ranges 10.2-11.4 years, somewhat greater than last year.

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



* Implied maximum amortization period expressed in years which is calculated from the minimum annual amortization rates (expressed as a percentage) provided by survey participants.

Source: KPMG Property Lending Barometer, 2021

05

Developers' perspectives on financing real estate projects

05

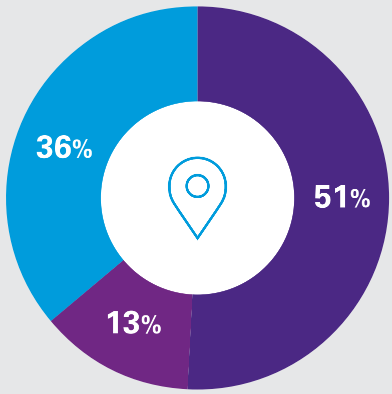
Developers' perspectives on financing real estate projects

This year's survey also included a special enquiry targeting developers themselves, who have shared their approach to different aspects of real estate financing in their respective markets.

Geographic and sector orientation

Eighteen developers located in seven countries from Central and Eastern Europe – Bulgaria, Croatia, Hungary, Poland, Romania, Serbia, and Slovakia – have provided responses to our specific survey. Just over half of the developers surveyed were local, i.e. active in not more than two countries, while over a third of them were international, i.e. active also outside of the CEE region. In terms of their sector focus, on average, participating developers are mostly involved with offices, followed by retail and residential developments.

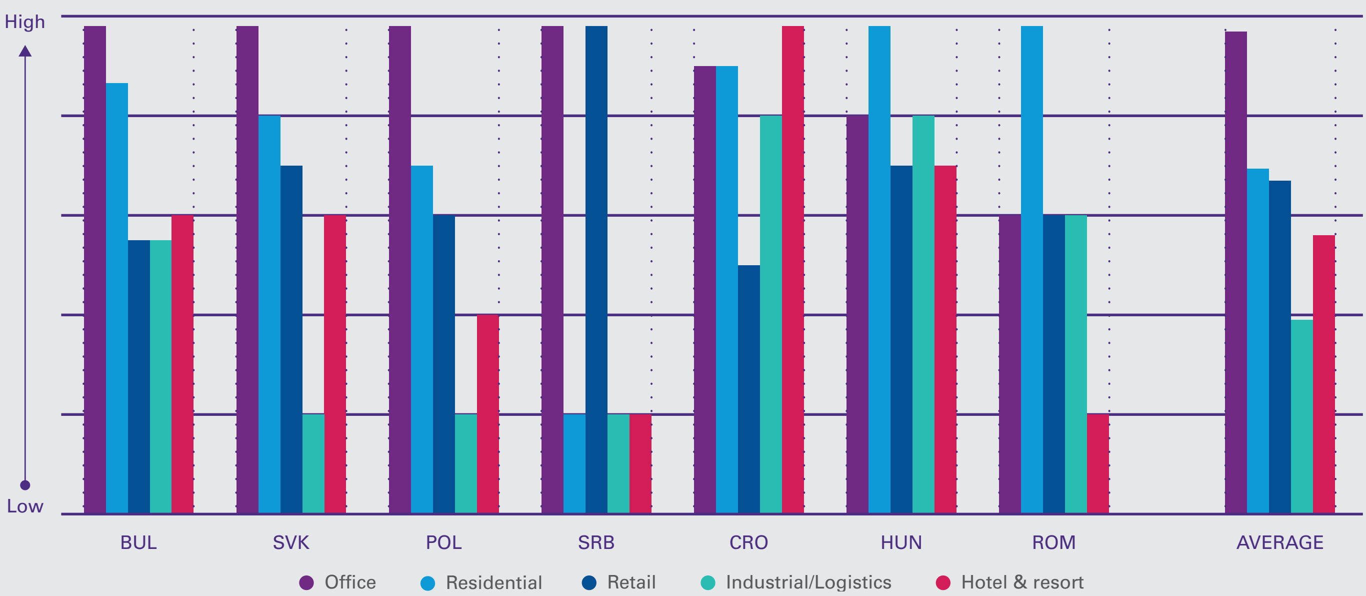
Geographic orientation of the developers included in the survey sample



Note: Local: Developers which are active in not more than two countries
Regional: Developers which are operating in several countries in the CEE, except multinationals
International: Developers active also outside of the CEE region

Source: KPMG Property Lending Barometer, 2021

Sector focus of developers' activities



Source: KPMG Property Lending Barometer, 2021

Involvement in bank financing

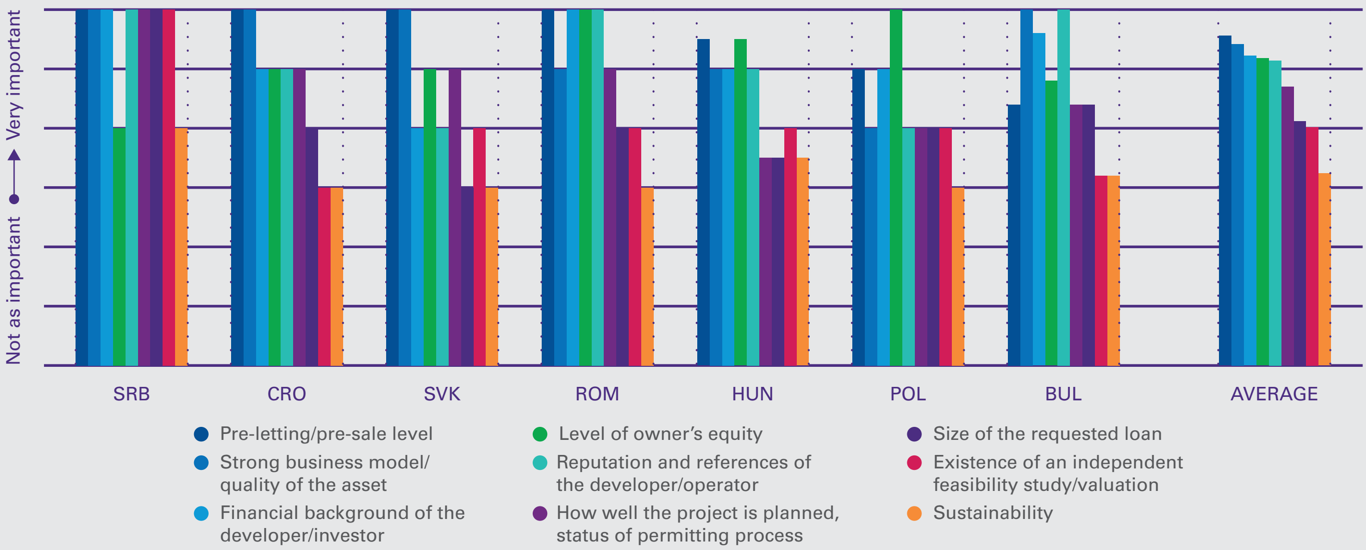
Eighty-two per cent of respondents obtained financing in the last 3 years from a bank for the development of a real estate project, while 70% of the developers surveyed used financing in this same period for completing a real estate transaction. All of them plan to use financing for development in the next 1-2 years, and over 90% of them will need financing for transactional purposes in the near future.

Banks' criteria for financing

Developers provided responses about how they see banks' criteria for financing real estate projects. According to their responses, the pre-let/pre-sale level of the asset appeared to be the most important aspect for assessment, closely followed by the strong business model/quality of the asset. There are, however, differences across countries, e.g. the level of owners' equity was ranked as most important for banks in Poland.

For the most part, these findings appear to align with the responses from our banking participants.

Financing criteria perceived by developers

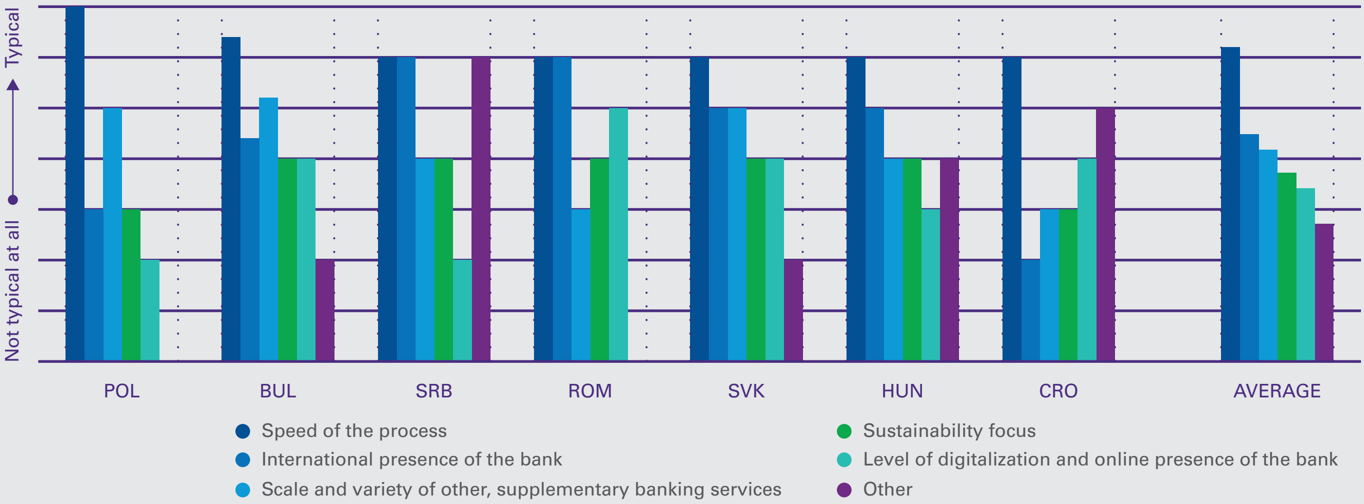


Source: KPMG Property Lending Barometer, 2021

Criteria for choosing a financing bank

Developers prioritize the speed of the process as the most important criterion for choosing a financing bank, followed by the international presence of the bank. The ideal length of the financing process, as indicated by our respondents, would be 2-3 months. However, in reality the process takes much longer, i.e. 4-6 months, on average.

Importance of various factors when choosing a bank, according to developers

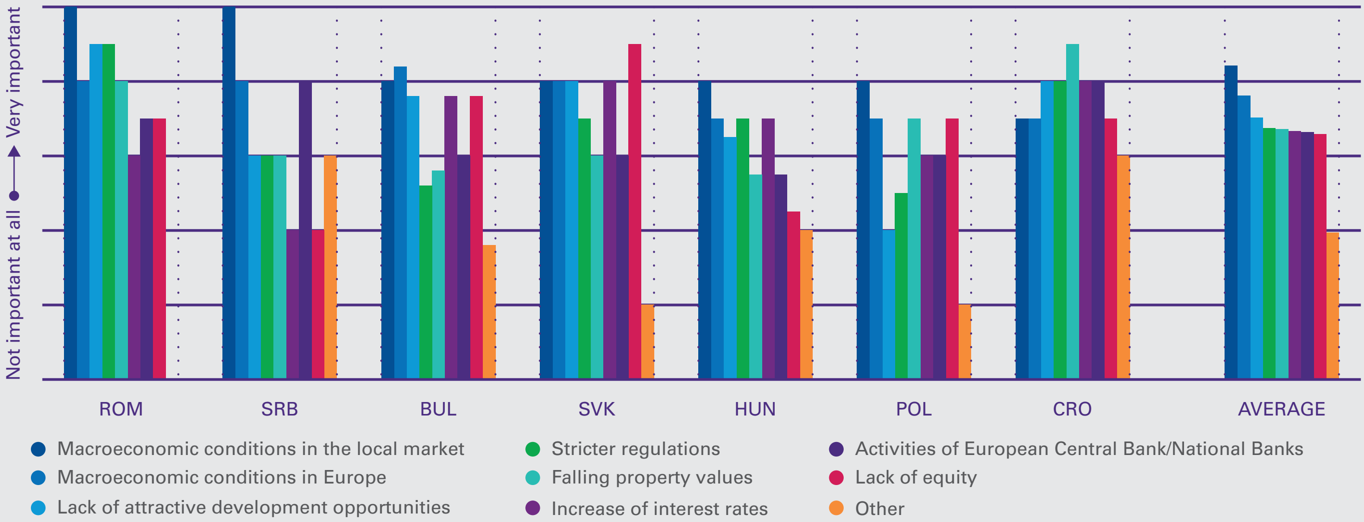


Source: KPMG Property Lending Barometer, 2021

Factors negatively affecting developers' future plans

Developers were also asked what factors would affect their future plans most adversely. Macroeconomic conditions in the local market generated the most concern, followed closely by macroeconomic conditions in Europe, and the lack of attractive development opportunities.

Factors which developers think will affect their future plans negatively

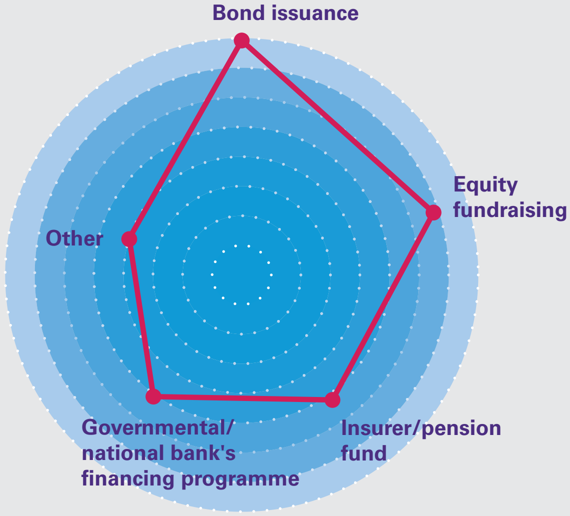


Source: KPMG Property Lending Barometer, 2021

Alternatives to bank financing

When asked about the alternatives to bank financing for real estate developments, our respondents ranked bond issuance as the most realistic option, followed by equity fundraising.

Alternatives for bank financing

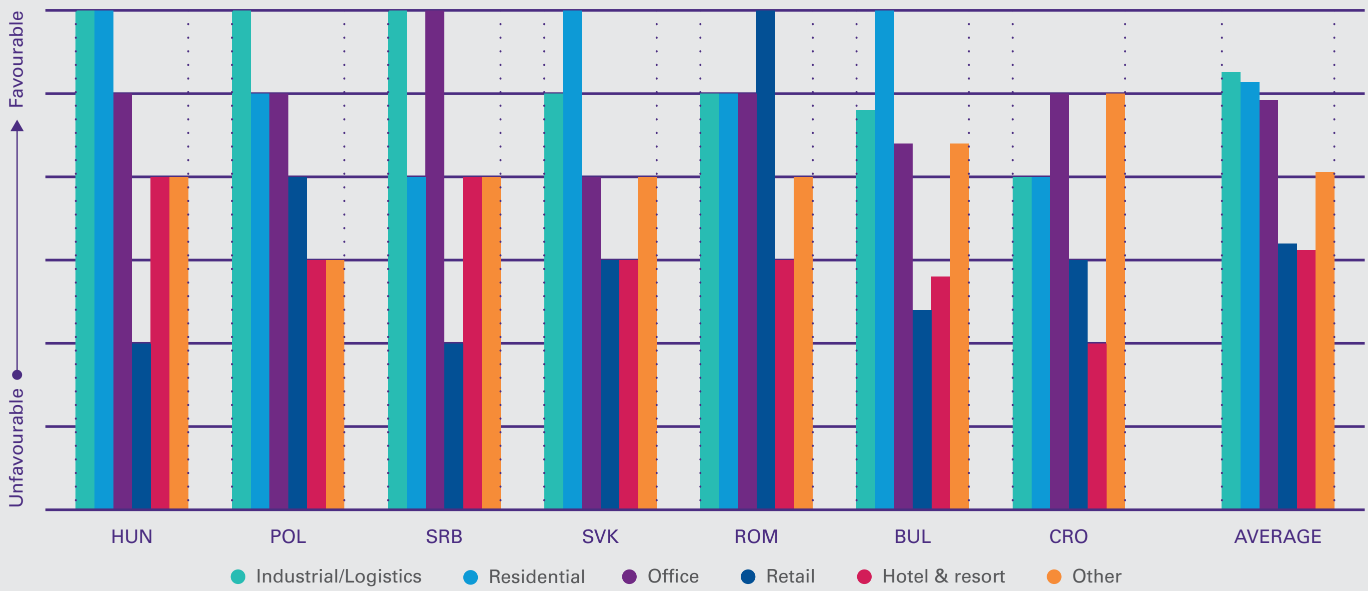


Source: KPMG Property Lending Barometer, 2021

Risk profiles of real estate segments

Developers were also asked about how favourable the risk/return profile of different real estate segments are for them. The industrial/logistics segment was deemed as most favourable, followed by residential and office. There are, however, significant differences among countries, e.g. in Romania, developers indicated that retail offers the most favourable risk/return profile.

The risk/return profile of real estate segments



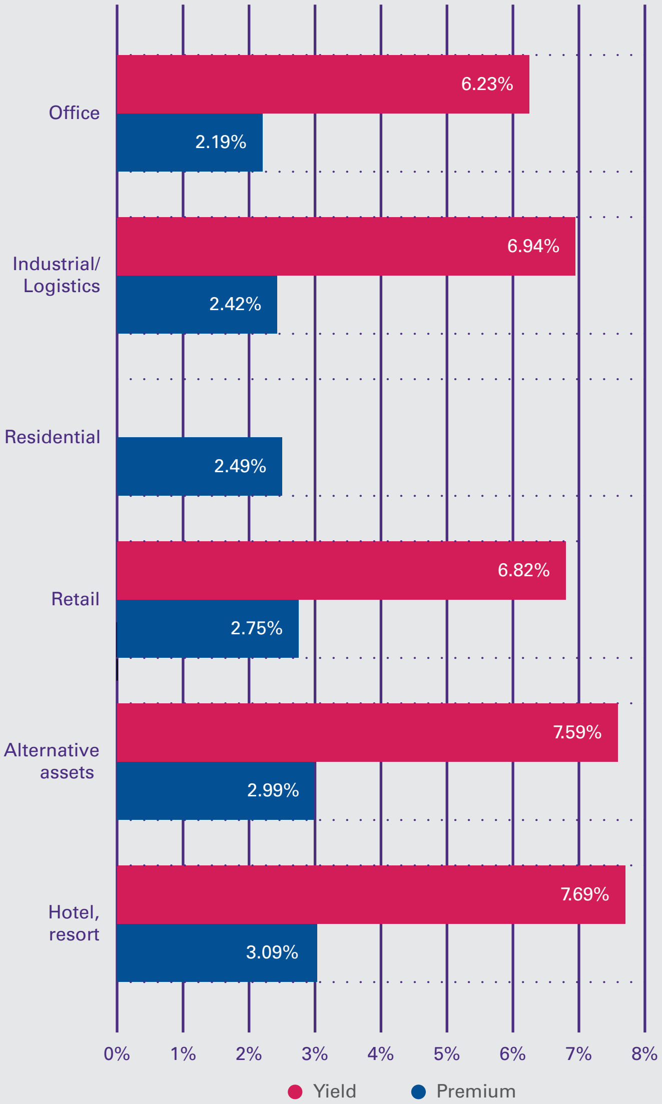
Source: KPMG Property Lending Barometer, 2021

Real estate premiums and yields in different segments

Developers' expectations regarding the lowest loan interest premiums (on a 3-month EURIBOR basis) available to prime developers in different segments at the end of 2021 were also queried. According to their responses, office assets will require the lowest premiums (2.19%), followed by industrial/ logistics (2.42%) and residential developments (2.49%).

Regarding their expectations for yields from different asset classes at the end of 2021, our respondents gave a similar ranking of the asset classes, with office projects offering the lowest yields (6.23%) and hotel projects the highest (7.69%).

Expectations of developers regarding yields and premiums



Note: Due to the heterogeneity of the CEE region, indicated average yields and premiums are only used for the relative positions of sectors.

Source: KPMG Property Lending Barometer, 2021

06

Conclusion

06

Conclusions

- Despite the general shock of the COVID-19 pandemic, and the geographic proximity of the countries surveyed, overall perspectives on their real estate markets are mainly contingent upon the macroeconomic outlook and the perceived risk profiles of their respective economies.

- Market interest rates are on the rise as a response to increasing inflation, also partly reflecting a general confidence in gradually improving market conditions. However, if this situation persists, it is expected to lead to a tightening of financing conditions, according to the European Central Bank.

- The long-term growth trend in total investment in Central and Eastern Europe saw an abrupt reversal in the first six months of 2021. In the first half of 2021, total investment volume was EUR 4.9 billion, showing a 22% decrease compared to the same period of 2020.

- There is a recent negative trend of deteriorating real estate portfolios in a number of countries, due to the pandemic shock starting last year.

- Compared to the previous year's results, the strategic importance of real estate financing has clearly increased for banks in Central and Eastern Europe, especially in the Czech Republic, Serbia, and Slovakia.

- Bank representatives have expressed their institutions' continued openness to offering real estate financing for income-generating projects across all countries included in our survey. Compared to the previous year's responses, banks' openness to finance new developments significantly improved, with banks being the most open in Albania and Serbia.

- The relative weights of the factors influencing the real estate portfolios of banks surveyed have fundamentally changed since the previous year's survey, mainly due to the pandemic. The situation that emerged from the health crisis and the macroeconomic conditions in local markets remain the most significant factors for banks in the CEE region, followed by the lack of prime properties, and increased property values.

- Bank representatives surveyed also provided their responses as to what other industries they find attractive to finance compared to real estate. Overall, energy & utilities, telecommunication, manufacturing, and information technologies were identified as the most preferred over the financing of real estate projects.

- There is a prevailing tendency that banks in general continue to offer more favourable terms when financing income-generating projects compared to new developments.

- The residential asset class became the most popular among banks surveyed, closely followed by the industrial/logistics asset class.

- Similar to results from the previous year, respondents from Central and Eastern Europe confirmed, on average, their clear preference for financing projects in primary markets, especially prime standing investments. Representatives from the Czech Republic were particularly in favour of these opportunities.

- The difference between the implied maximum amortization period of the loan and the available maximum contracted length of the loans is much greater in more established economies of the region, like Poland (29 years) and the Czech Republic (13 years), than in other countries surveyed, like Albania (4 years) and North Macedonia (1 year).

- According to the developers surveyed, industrial/logistics projects offer the most favourable risk/return profiles in 2021-2022.

The following section of our report provides a market-specific analysis for each country surveyed. These country profiles highlight the markets' unique characteristics as reflected by their varying market fundamentals, as well as the present and prospective conditions for financing.

07

Country Profiles

Albania

Zdravko Moskov

"After the initial shocks from the coronavirus pandemic causing a significant increase in office space vacancies, the Albanian real estate market seems to be in a recovery mode with increased demand for class A office space and several new office projects in the pipeline. Retail properties, particularly shopping centres, appear to have been more stable despite the lockdowns with vacancy rates remaining at pre-Covid levels."

Pyramid of Memory
Tirana

Economic forecast/data **Source:** IMF's World Economic Outlook and Albanian Institute of Statistics

5.0% **GDP growth** 2021 F | -0.6% **Inflation** 2021 Q1 | 11.9% **Unemployment rate** 2021 Q1

Prime yields, Q2 2021 **Source**: Colliers

11.00% **High Street Retail** | 9.50% **Office**

Lending market

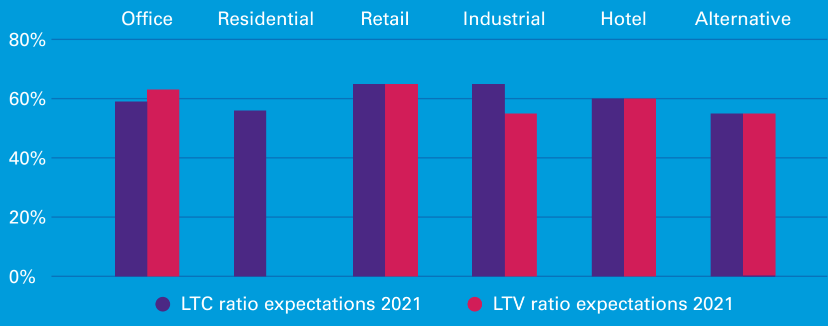
Half of Albanian banks surveyed view real estate financing as having below average strategic importance, while the remaining survey participants consider it important or extremely important. Half of survey participants maintained their previous year's level of focus on the sector, while the others reported an increase or significant increase in their focus on real estate. While financing income-generating projects is clearly of interest to Albanian banks, they are even more open to supporting new developments.

The most potent alternative to real estate bank financing in Albania is provided by non-local commercial banks, followed by private equity/debt funds. The rate of provisions against loans in the sector is judged to be adequate by all participants. Average loan sizes vary from EUR 4 to EUR 7 million, while the preferred range is higher, between EUR 5 - EUR 8 million.

Future of real estate portfolios

Half of survey participants in Albania forecast a moderate increase for the size of the whole banking sector's real estate lending portfolio in the next 12-18 months, while the remainder expect a moderate decrease or no change. As for the size of their own banks' portfolio in the same period, half of them expect no change, and the rest expect a moderate increase.

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



Pre-let ratio expectations for projects

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

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

Source: KPMG Property Lending Barometer, 2021

Bulgaria

Zdravko Moskov

"Although Covid-19 caused a slow-down in some segments of the market (i.e. office, retail, hotels, etc.), the upward trend in other segments (i.e. logistics, residential, etc.) is expected to be sustained due to a number of factors such as the increasing prices of building materials, increasing purchasing power and availability of bank financing. Office space is expected to begin to recover not earlier than the end of 2021, while expectations are upbeat in the long-term. Retail parks in regional cities are now receiving inreased focus, as this market is currently underdeveloped and they are an attractive option in case of continuing restrictions on traditional shopping malls."

2 Saborna Street
Sofia

Economic forecast **Source:** Economist Intelligence Unit

3.8% **GDP growth** 2021 F | 6.2% **Inflation** 2021 F | 6.7% **Unemployment rate** 2021 F

Prime yields, Q2 2021 **Source**: Cushman & Wakefield

5.25% **High Street Retail** | 7.50% **Office** | 8.00% **Industrial**

Transaction volume and YoY change H1 2021

EUR 20 m

-90%

Source: Colliers

Lending market

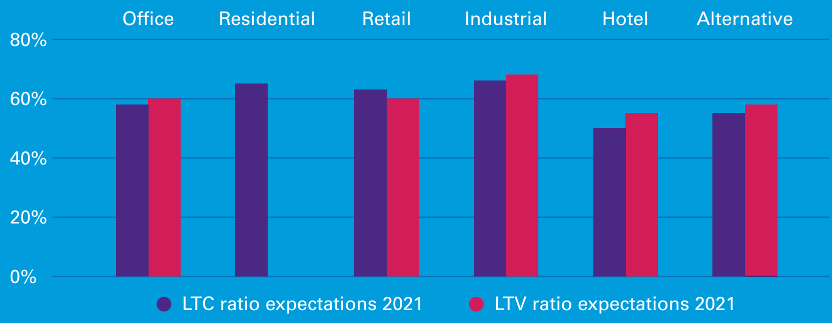
Half of respondents indicated real estate financing as having medium strategic importance, while the other half conferred it greater importance. Half of the banks increased their focus on the industry moderately, while the same portion maintained it. Bulgarian banks are clearly open to finance income-generating projects and they are moderately open to new developments.

Private equity/debt funds are the most significant alternative lenders, followed by non-local commercial banks and investment banks. The provision level for real estate financing is considered adequate by an overwhelming majority of Bulgarian respondents. The average loan size varies from EUR 10 to EUR 15 million, which is significantly higher than the previous year's figure. Meanwhile, the preferred amount is between EUR 16 and EUR 23 million.

Future of real estate portfolios

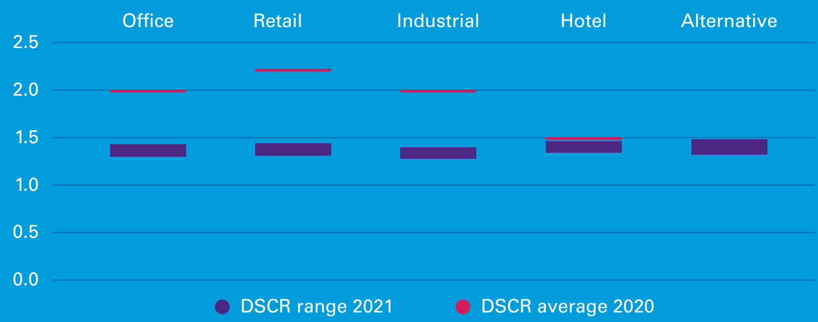
Half of the banks represented in our survey see a decrease in the size of the entire banking system's real estate loan portfolio in the next 12-18 months, while a quarter foresee no change, and the rest expect a slight increase. The same proportions were reported in terms of the banks' expectations for changes in the size of their own portfolios. These are somewhat more positive prospects compared to sentiments recorded for the previous year.

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



Pre-let ratio expectations for projects

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



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

Source: KPMG Property Lending Barometer, 2021

Croatia

Paul Suchar

"An expected pandemic recovery has attracted new developments, while real estate demand and prices are forecast to continue their steady increase."

Economic forecast

Source: Economist Intelligence Unit

5.7% **GDP growth** 2021 F

3.5% **Inflation** 2021 F

8.9% **Unemployment rate** 2021 F

Prime yields, Q2 2021

Source: Cushman & Wakefield

7.00% **High Street Retail**

7.75% **Office**

8.50% **Industrial**

Key investment transactions H1 2021

City	Property	Seller	Buyer
Adriatic coast	Sunce hoteli	Andabak family	Eagle Hills
Zagreb	Logistic centre	Alca d.d.	M7 Real Estate (M7 CEREF II fund)
Zagreb	Logistic centre	Helios	M7 Real Estate (M7 CEREF II fund)

Source: KPMG research

Transaction volume H1 2021

EUR 290 m

Source: Colliers

Lending market

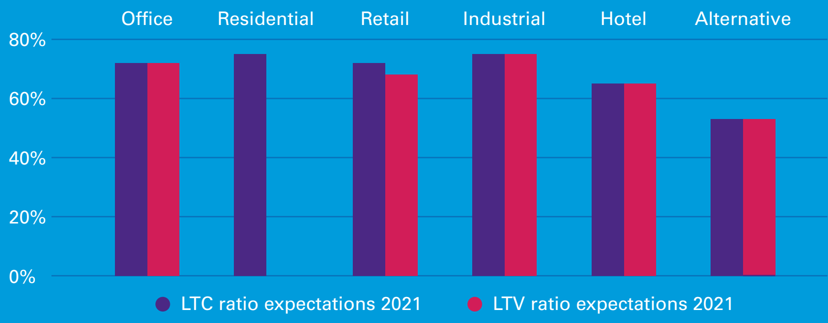
Survey respondents in Croatia consider real estate financing as having average strategic importance. Two-thirds of the banks maintained their focus on real estate compared to last year, while the rest reported a significantly increasing focus. Croatian participants are clearly open to financing income-generating properties, and moderately open to financing new developments.

Non-local commercial banks and private equity/debt funds are seen as the most notable rivals for real estate financing. Two-thirds of Croatian banks recognized the level of provisions in the banking sector as adequate, while the rest considered the level moderately high. The average loan sizes experienced no significant change compared to the previous year and are between EUR 6 to 17 million, with preferred sizes falling in a somewhat higher range, between EUR 11 to EUR 18 million.

Future of real estate portfolios

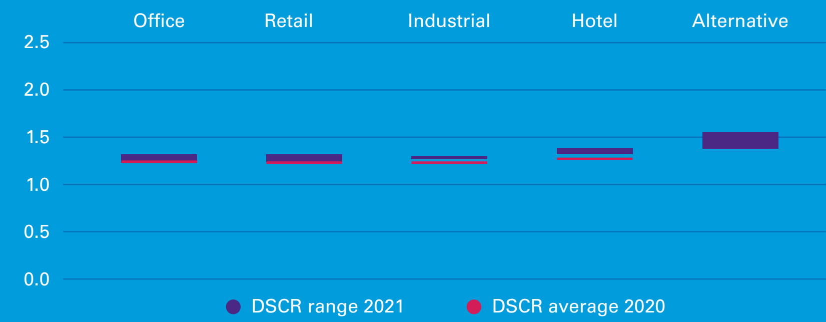
Two-thirds of Croatian participants predict a moderate increase in the size of the whole banking sector's real estate loan portfolio, while the rest expect no change. Regarding their own bank, two-thirds of respondents expect a moderate increase, while the rest expect a significant increase in the size of their real estate loan portfolio in the next 12-18 months.

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



Pre-let ratio expectations for projects

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



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

Source: KPMG Property Lending Barometer, 2021

Czech Republic

Pavel Kliment

"Investors have overcome the waiting-mode period and they are optimistic again regarding the economic recovery. They still have a significant amount of capital to deploy on the market. However, investment activity remains low, particularly due to the lack of product caused by reduced development activity across all real estate sectors. There has been no change in lending terms and interest margins are relatively stable due to the high level of competition in the Czech market. The exception is the logistic sector, where banks are following investors in increasing their exposure to the best performing sector of recent years."

Palladium shopping centre
Prague

Economic forecast

Source: Economist Intelligence Unit

3.6% **GDP growth** 2021 F | 3.9% **Inflation** 2021 F | 3.4% **Unemployment rate** 2021 F

Prime yields, Q2 2021

Source: Cushman & Wakefield

4.75% **High Street Retail** | 4.00% **Office** | 4.00% **Industrial**

Key investment transactions H1 2021

City	Property	Seller	Buyer
Brno	Velký Špalíček	Generali	Diocese of Brno
Prague	Forum Karlín	Amundi	PPF
Prague	Parkview	Skanska	Immobilien
Prague	City Park Hostivař	Codeco	Swiss investor
Prague	Proton Therapy Center	Immorent	Raiffeisen Leasing

Source: KPMG research

Transaction volume and YoY change H1 2021

EUR 630 m

-71%

Source: Real Capital Analytics

Lending market

Half of survey participants acknowledged real estate financing as having relatively significant importance for their bank strategically, a quarter of them deemed it of very high importance, while the rest assigned average importance to it. Three-quarters of respondent banks maintained their focus on the sector relative to the previous year, whereas the others had a moderate increase in their interest. Similar to last year, Czech respondents showed a high level of openness to financing income-generating projects and were moderately interested in new developments.

Insurer/pension funds were selected as the most notable rivals in real estate financing, while those surveyed consider non-local commercial banks, investment banks and private equity/debt funds as notable competitors too. Three-fourths of the banks indicated that the level of provisions in the banking sector is adequate, while the rest deemed the current level somewhat too high. The average loan size varies from EUR 19 to EUR 28 million, while the preferred range is higher, between EUR 25 to EUR 40 million, similar to the previous year's figures.

Future of real estate portfolios

Half of Czech participants predict the size of the whole banking sector's real estate portfolio to remain unchanged in the next 12-18 months, while the remaining banks expect an increase. Expectations for their own banks' portfolio sizes are clearly positive, with all banks expecting an increase.

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

Pre-let ratio expectations for projects

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

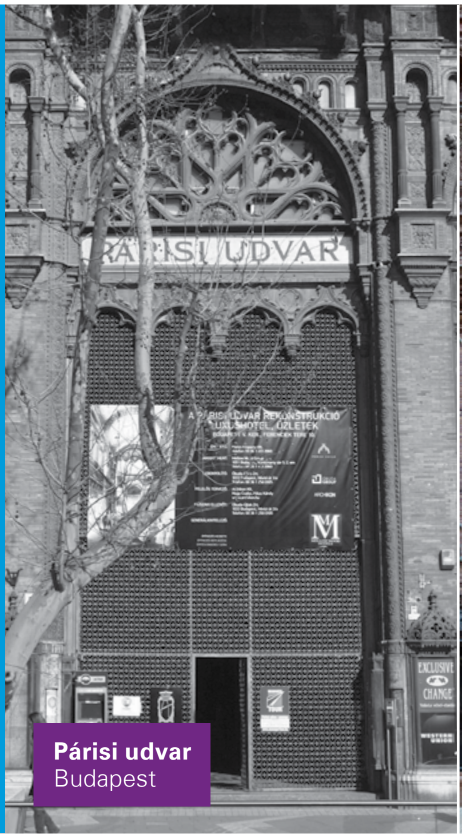
Loan interest premium to be applied by banks for highly rated real estate projects

Source: KPMG Property Lending Barometer, 2021

Hungary

Pál Dános

"Banks' openness to provide financing has improved compared to last year regarding both new developments and income-generating projects in Hungary. Office, the long time favourite, has been overtaken as the most preferred asset class this year, not only by the previous year's favourite, industrial/logistics, but also by residential properties. Hungarian developers have the same preference, saying they believe industrial/logistics assets and residential projects to be among the most favourable risk/return profiles."



Párisi udvar
Budapest

Economic forecast

Source: Economist Intelligence Unit

6.0% **GDP growth** 2021 F

6.0% **Inflation** 2021 F

4.4% **Unemployment rate** 2021 F

Prime yields, Q2 2021

Source: Cushman & Wakefield

5.50% **High Street Retail**

5.20% **Office**

6.50% **Industrial**

Key investment transactions H1 2021

	City	Property	Seller	Buyer
	Budapest	Magyar Nobel-díjasok Parkja Phase I-II	WING	GTC
	Budapest	BC140	Erste Ingatlanalap	M7 Real Estate CEREF I.
	Budapest	Váci Greens D	SkyGreen Buildings	GTC
	Budapest	B&B Budapest	B&B Hotels	Primonial REIM
	Mátraszentimre	Hunguest Grandhotel Galya	HUNGUEST Hotels	N/A

Source: KPMG research

Transaction volume and YoY change H1 2021

EUR 373 m

60%

Source: Real Capital Analytics

Lending market

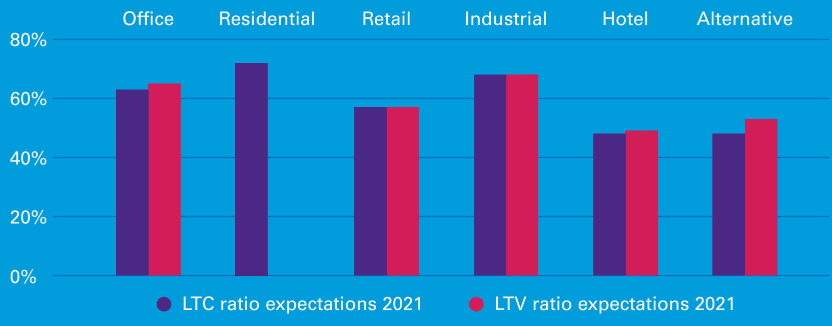
Two-thirds of survey participants in Hungary consider real estate financing as having moderately high strategic importance, while a third of them consider it of average importance. The overwhelming majority of Hungarian banks maintained their level of focus on the sector compared to that seen in the previous year. The participants are strongly open to finance income-generating projects and are also interested in new developments.

This year, private equity/debt funds were reported as the most notable alternative lenders for Hungarian real estate financing, followed by non-local commercial banks. The level of provisions in the banking sector is considered adequate by close to two-thirds of those surveyed, while the rest consider it too high. The average loan size falls into a range of EUR 17 - 28 million. The preferred size is somewhat higher, between EUR 19 - EUR 33 million.

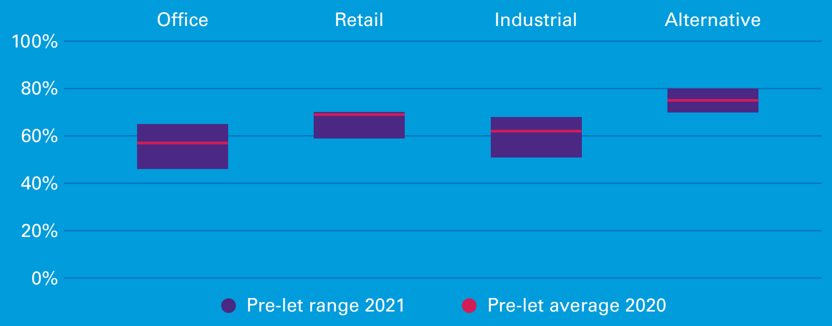
Future of real estate portfolios

Over 80% of participating banks in Hungary predict a moderate increase in the size of the whole banking sector's real estate lending portfolio in the next 12-18 months, while the rest expect no change. They are somewhat less positive regarding their own banks' prospects, with two-thirds of them expecting a moderate increase in the size of their loan portfolio.

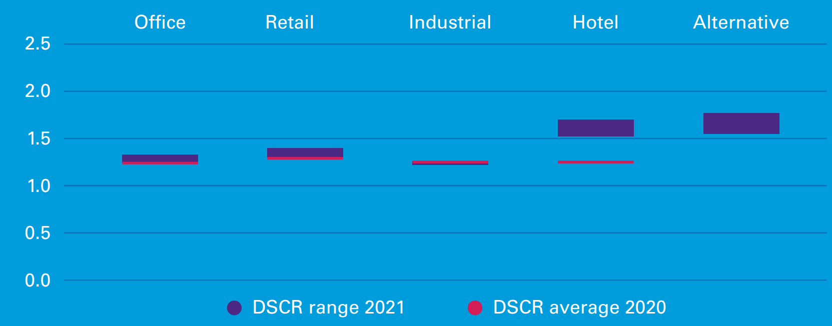
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



Pre-let ratio expectations for projects



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



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

Source: KPMG Property Lending Barometer, 2021

North Macedonia

Riste Pachadziev

"Following the slowdown in 2020 caused by the global pandemic, the real estate market in North Macedonia showed positive signs, especially in the office segment. The recovery in demand was reflected by an increase in the occupied office area as well as several major transactions in H1 2021. Growth is expected to continue in the short- and mid term as new projects in the pipeline reach completion. Banks remain focused on financing retail and residential development projects."

Ristic Palace
Skopje

Economic forecast **Source:** Economist Intelligence Unit

4.2% **GDP growth** 2021 F | 2.6% **Inflation** 2021 F | 15.8% **Unemployment rate** 2021 F

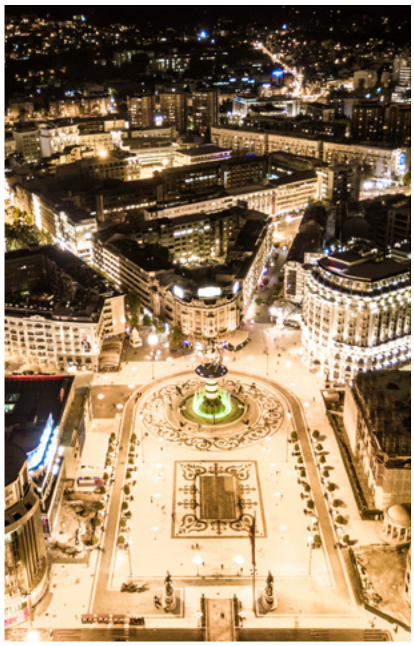
Prime yields, Q2 2021 **Source**: FORTONMKA, Cushman & Wakefield

9.00% **High Street Retail** | 9.25% **Office** | 12.00% **Industrial**

Key investment transactions H1 2021

City	Property	Seller	Buyer
Skopje	Ramstore mall Skopje and Ramstore retail stores	Ramstore Bulgaria EAD	City Plaza DOO Skopje
Skopje	American University of Europe - FON	Fine Skopje DOO	Maarif Trade DOOEL Skopje

Source: KPMG research



Lending market

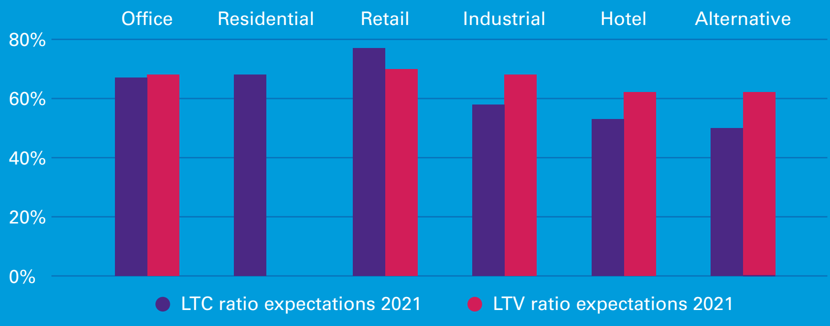
Banks in North Macedonia which participated in the survey view real estate financing as having average, below average or above average strategic importance, in equal proportions. A third of the banks maintained their previous year's level of focus on the sector, while the remaining banks reported an increase or significant increase. Financing income-generating projects is particularly interesting for respondents, while they are also quite open to supporting new developments, with a slight preference for the former option.

Non-local commercial banks are the most notable rivals in North Macedonian real estate financing, followed by investment banks and private equity/ investment funds. The rate of provisions against loans in the sector is judged to be adequate by over 60% of participants, while the rest consider it too low. Average loan sizes vary from EUR 4 to EUR 6 million, while the preferred range is lower, ranging EUR 3 - 4 million.

Future of real estate portfolios

Close to 70% of respondents in North Macedonia foresee a moderate or significant increase in the size of the whole banking sector's real estate lending portfolio in the next 12-18 months, while the remaining banks expect a moderate decrease. As for the size of their own banks' portfolio in the same period, all banks expect a moderate or significant increase.

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



Pre-let ratio expectations for projects

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

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

Source: KPMG Property Lending Barometer, 2021

Poland

Katarzyna Nosal-Gorzen

"Poland continues to be considered as a very attractive market for real estate investors in the CEE region. The outbreak of COVID in 2020 created some turbulence on the real estate market. However, the economy's quick recovery resulted in a significant increase of GDP in 2Q 2021 of over 10%, and a significant increase in the number of real estate transactions in recent months, with new investors entering into Poland and new sectors like PRS attracting capital, supports our believe that Poland has been continuously recognised as a trustworthy market with stable financial conditions.."

Centrum Praskie Koneser
Warsaw

Economic forecast

Source: Economist Intelligence Unit

4.6% **GDP growth** 2021 F

5.2% **Inflation** 2021 F

6.1% **Unemployment rate** 2021 F

Prime yields, Q2 2021

Source: Cushman & Wakefield

5.35% **High Street Retail**

4.75% **Office**

5.40% **Industrial**

Key investment transactions H1 2021

City	Property	Seller	Buyer
Poland	M1 portfolio - 4 retail parks	Chariot (Griffin Real Estate)	EPP
Poznan	Galeria Pestka	global investment manager	Henley Investments
Wroclaw, Cracow	11 office buildings of more than 100,000 sq m GLA	BUMA Group	REINO Capital
Warsaw	REGENT	Cosmar Polska	PHN Property Management
Poland	Panattoni portfolio of more than 285,000 sq m GLA	Panattoni	Ares Management Corporation

Source: KPMG research

Transaction volume and YoY change H1 2021

EUR 2,550 m

-13%

Source: Real Capital Analytics

Lending market

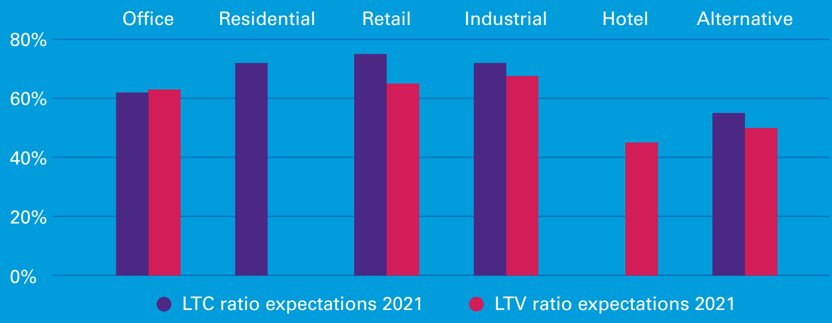
Half of the participating banks in Poland see real estate financing as having average importance, while a quarter of respondents see it as less important, and the rest consider it extremely important. Half of the Polish participants maintained their level of focus on the real estate sector, while the remaining half decreased their focus moderately compared to the previous year. Local banks are moderately open to financing income-generating projects, and are not open to financing new developments.

Similar to results from the previous year, non-local commercial banks are the most potent rivals to our respondents for real estate financing, followed by private equity and debt funds. A majority of the participating banks agrees that the provision level in the bank sector against real estate loans is adequate. The size of the average loan falls into a range of EUR 36 - EUR 49 million, with a preferred size between EUR 45 to EUR 90 million.

Future of real estate portfolios

Survey participants' expectations for changes in the size of the entire banking sector's real estate loan portfolio vary broadly. Half anticipate no change, while the remainder are equally divided between expecting a moderate decrease or a moderate increase. As for their own banks' portfolio size, half of respondents predict a decrease, while a quarter of them expect no change, and the rest expect a moderate increase in the next 12-18 months.

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



Pre-let ratio expectations for projects

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

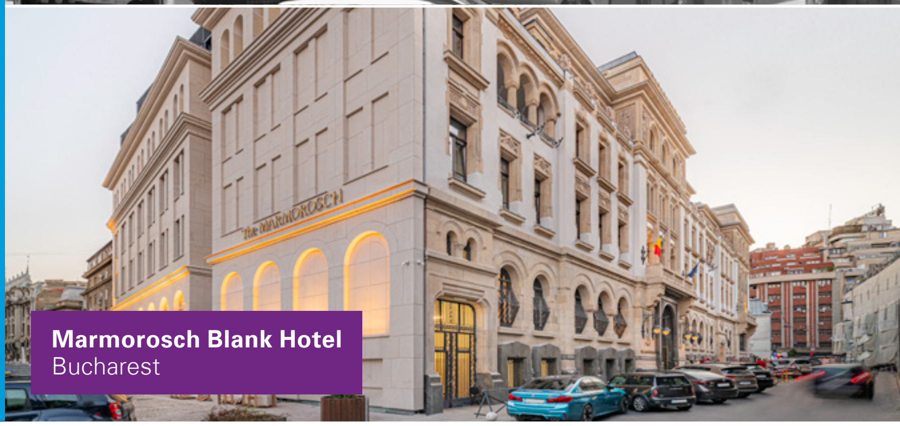
Loan interest premium to be applied by banks for highly rated real estate projects

Source: KPMG Property Lending Barometer, 2021

Romania

Ori Efraim

"Anticipating the post-COVID recovery, the real-estate market in Romania gained fresh ground fueled by optimism and an overall improvement of the economy. Leading the advance, the logistics and industrial market maintained its growth rate, whilst a growing appetite for premium residential encouraged a significant advance on the market. Looking forward, investors have regained the confidence lost in 2020 and could restart projects paused during the pandemic, stimulating an upward trend for the Romanian real estate market."



Marmorosch Blank Hotel
Bucharest

Economic forecast

Source: Economist Intelligence Unit

7.2% **GDP growth** 2021 F | 7.1% **Inflation** 2021 F | 5.4% **Unemployment rate** 2021 F

Prime yields, Q2 2021

Source: Cushman & Wakefield

7.50% **High Street Retail** | 7.15% **Office** | 8.00% **Industrial**

Key investment transactions H1 2021

City	Property	Seller	Buyer
Reşiţa	Cladire	Portico Investments România	Lidl România
Bucharest	Campus 6.2 and 6.3	Skanska	S IMMO AG
Bucharest	The Light One	River Development	Uniqa Group
Bucharest	Hotels: Venezia, Central and Opera	Alpha Real Estate Service	Zeus International
Timisoara, Arad, Caransebes	Neidentificat	Catalyst Capital	CTP

Source: KPMG research

Transaction volume and YoY change H1 2021

EUR 464 m

29%

Source: Real Capital Analytics

Lending market

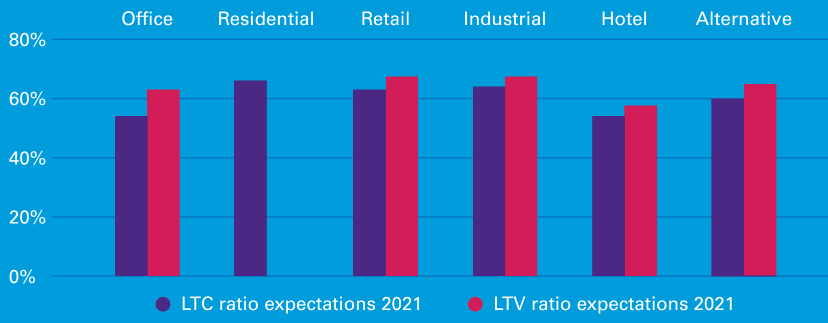
Banks in Romania that participated in our survey were divided in terms of their view on real estate lending's strategic importance to them: 40% consider it of average importance, 40% see it of relatively high importance, while the remainder view it as having very high importance. Meanwhile, close to two-thirds of the banks maintained their focus on real estate lending compared to in the previous year, while the rest increased their focus to some extent. Romanian banks are moderately open to financing both new developments and income generating projects, with a slight preference for the latter.

Private equity/debt funds prevailed as the most significant rivals to banks in Romania in terms of real estate financing, followed by non-local commercial banks. Sixty per cent of respondents described the level of provisions against real estate loans in the bank sector as adequate, while the remaining banks were equally divided in their view of the level as lower or higher than adequate. The average loan size ranges from EUR 7 to EUR 17 million, while the preferred size is between EUR 8 and EUR 20 million.

Future of real estate portfolios

Eighty per cent of those surveyed believe the whole banking sector's real estate loan portfolio will increase or significantly increase in the next 12-18 months, while the rest expect no change. Regarding their own banks' portfolios, they all agree, expecting a moderate increase.

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



Pre-let ratio expectations for projects

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

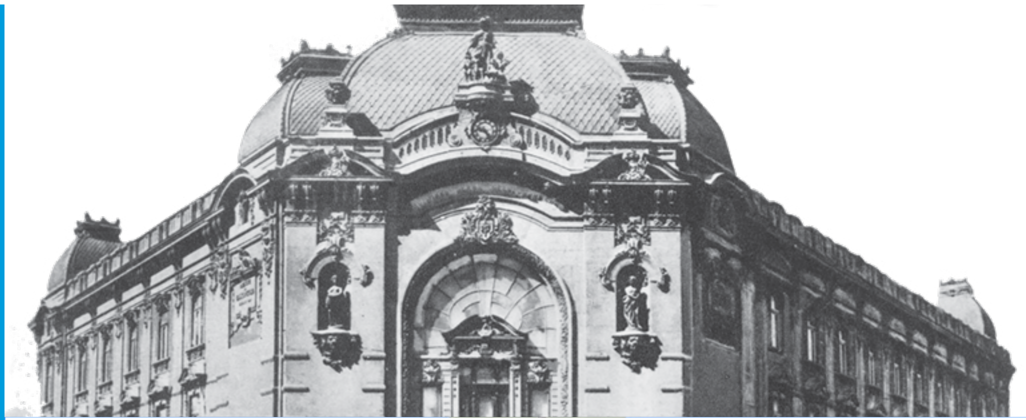
Loan interest premium to be applied by banks for highly rated real estate projects

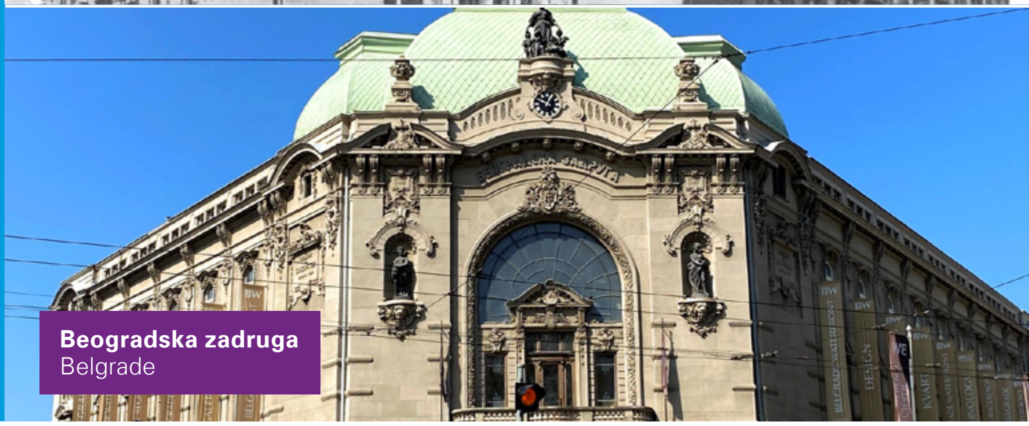
Source: KPMG Property Lending Barometer, 2021

Serbia

Sanja Kocovic

"The strategic importance of real estate financing has increased for banks in Serbia compared to last year, as well as banks' openness to finance new developments and income-generating projects. The residential asset class rose to the most popular position among banks surveyed, closely followed by last year's favourite, the industrial/logistics asset class."





Beogradska zadruga
Belgrade

Economic forecast

Source: Economist Intelligence Unit

5.5% **GDP growth** 2021 F

6.5% **Inflation** 2021 F

10.5% **Unemployment rate** 2021 F

Prime yields, Q2 2021

Source: Cushman & Wakefield

7.00% **High Street Retail**

8.25% **Office**

9.25% **Industrial**

Key investment transactions H1 2021

City	Property	Seller	Buyer
Kragujevac and Krusevac	Kragujevac Plaza and Kruševac Shopping Park	NEPI Rockcastle	BIG CEE
Belgrade	BIGZ building	Beta Partners d.o.o. Belgrade	Marera Real Estate Partners d.o.o. Belgrade and Aleksandar gradnja d.o.o. Belgrade
Belgrade	Global Trade Center's (GTC) Belgrade office portfolio	Globe Trade Centre (GTC)	Indotek Group, Hungary
Belgrade	Hotel 88 Rooms	MK Mountain Resort d.o.o. Belgrade	Arena Hospitality Group d.d. Croatia
Belgrade	CTPark Belgrade North	Eyemaxx, Austria	CTP Invest Srbija

Source: KPMG research

Lending market

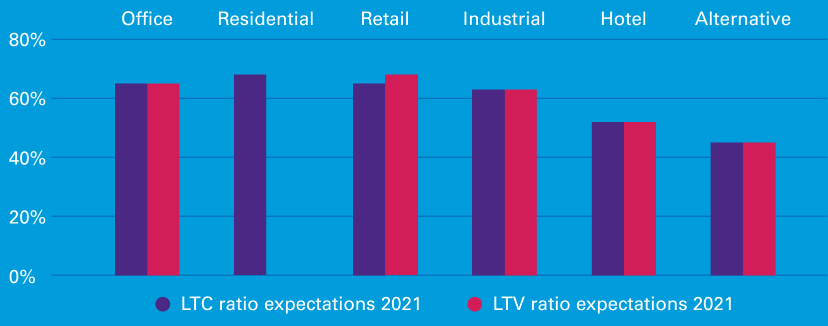
All survey participants in Serbia consider financing the real estate sector as having above average strategic importance. Seventy-five per cent of banks maintained their focus on the sector, while the rest increased their level of real estate financing activity. Both new developments and income-generating projects appear to attract the interest of respondents.

Non-local commercial banks and investment banks share the first place in ranking as potent alternative lenders for real estate in Serbia, followed by private equity and debt funds. A majority of banks consider the level of provisions in the bank sector against real estate loans as adequate. The average deal/loan size ranges EUR 10 - 16 million, while the preferred range is from EUR 14 to EUR 24 million, at a higher level than the range seen in the previous year's survey.

Future of real estate portfolios

Three-quarters of survey participants in Serbia anticipate that the size of the country's total real estate lending portfolio will increase somewhat, and the rest expect no change. Respondents reported their expectations regarding their own banks' real estate lending portfolio in similar proportions as for the whole banking sector.

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



Pre-let ratio expectations for projects

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

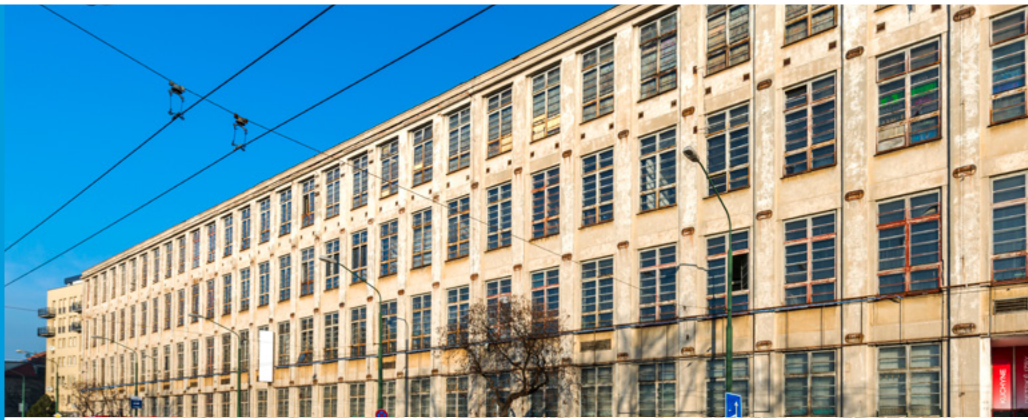
Loan interest premium to be applied by banks for highly rated real estate projects

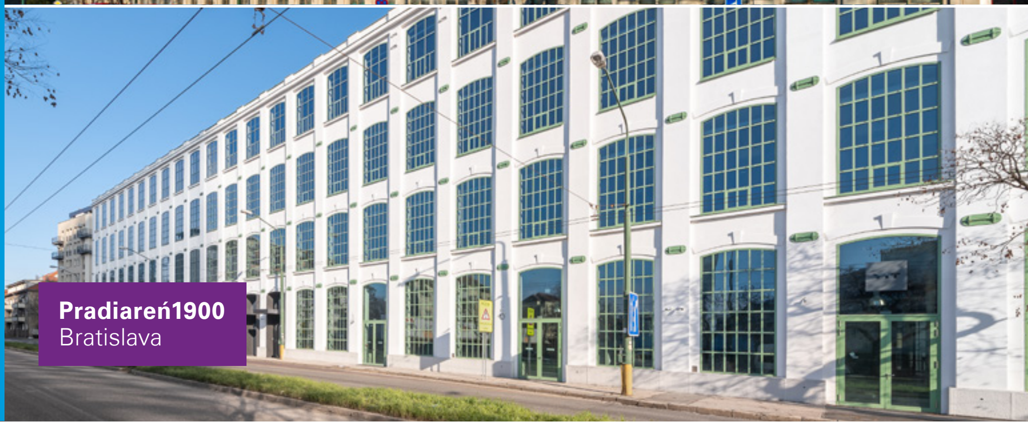
Source: KPMG Property Lending Barometer, 2021

Slovakia

Michal Maxim

"Despite COVID-19 pandemic uncertainties, real estate financing remains an important part of banks' business in Slovakia. However, it is likely they will be more cautious and diligent regarding developers' references and overall project quality."





Pradiareň1900
Bratislava

Economic forecast

Source: Economist Intelligence Unit

4.4% **GDP growth** 2021 F

3.2% **Inflation** 2021 F

7.6% **Unemployment rate** 2021 F

Prime yields, Q2 2021

Source: Cushman & Wakefield

5.00% **High Street Retail**

5.75% **Office**

5.75% **Industrial**

Key investment transactions H1 2021

City	Property	Seller	Buyer
Bratislava	Aupark	Unibail-Rodamco-Westfield	WOOD & Company
Bratislava	Zuckermandel offices	J&T Real Estate	ERSTE
Košice	Cassovar Business Center	Undisclosed	InTeFi
Vysoké Tatry-Štrbské Pleso	Grand Hotel Kempinski	Redside	J&T
CZ & SK	Arete Invest CEE II (11 properties)	Arete	Cromwell

Source: KPMG research

Transaction volume and YoY change H1 2021

EUR 539 m

93%

Source: Real Capital Analytics

Lending market

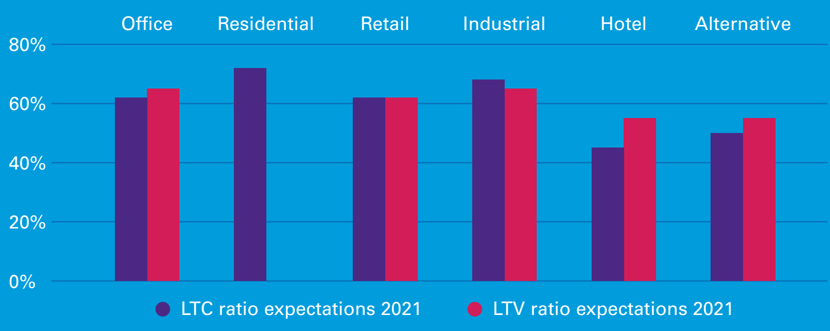
A majority of banks that participated in the survey in Slovakia view real estate financing as having moderate strategic importance. Banks are equally divided in their responses regarding whether their level of focus on the sector will decrease, be maintained or increase. According to their responses, banks in Slovakia are open to some extent to financing both new developments and income-generating projects, with a slight preference for the former.

Non-local commercial banks remained the most notable rivals for commercial banks in Slovakia in relation to real estate financing, followed by private equity/debt funds. The rate of provisions against loans in the sector is judged to be adequate by over 60% of participants, while the rest consider it somewhat high. Average loan sizes vary from EUR 7 to EUR 18 million, while the preferred range is higher, between EUR 17 - EUR 32 million. These values are slightly higher than last year.

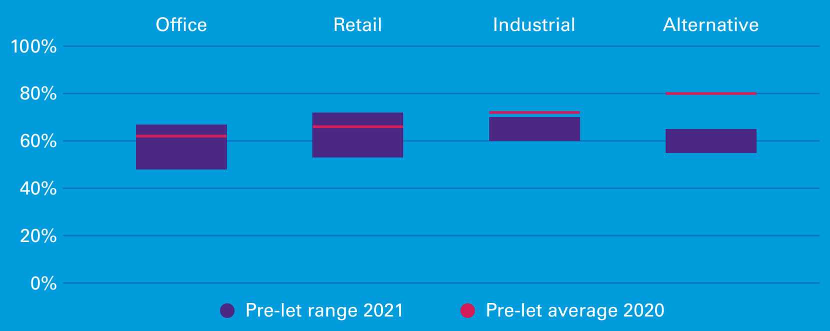
Future of real estate portfolios

A third of banks in Slovakia foresee no change in the size of the whole banking sector's real estate lending portfolio in the next 12-18 months, while the remainder expect a slight decrease or increase, in equal proportions. As for the size of their own banks' portfolio in the same period, two-thirds of them expect a slight increase, and the rest expect a moderate decrease.

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



Pre-let ratio expectations for projects



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

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

Source: KPMG Property Lending Barometer, 2021

Slovenia

Boštjan Malus

"In the last year there were not many significant transactions made on the market due to the covid situation. Key transactions that were realized were in the retail segment, involving bigger shopping centres, aimed at the financial restructuring of the biggest retailer in Slovenia."

Galerija Cukrarna
Ljubljana

Economic forecast

Source: Economist Intelligence Unit, Statistični urad Republike Slovenije

3.6% **GDP growth** 2021 F

2.1% **Inflation** 2021 F

4.3% **Unemployment rate** 2021 F

Prime yields, Q2 2021

Source: Cushman & Wakefield

7.00% **High Street Retail**

7.25% **Office**

9.00% **Industrial**

Key investment transactions H1 2021

City	Property	Seller	Buyer
Ljubljana	Papirservis	Papir servis	LIN nepremičnine
Ajdovščina	Inprima	Inprima	Kurivo Gorica
Multiple cities	12 Mercator stores	Mercator	Iskra Impuls
Multiple cities	Planet Tuš	Alfi fund	AH Invest 1
Multiple cities	Spar store	Spar	N/A

Source: KPMG research

Lending market

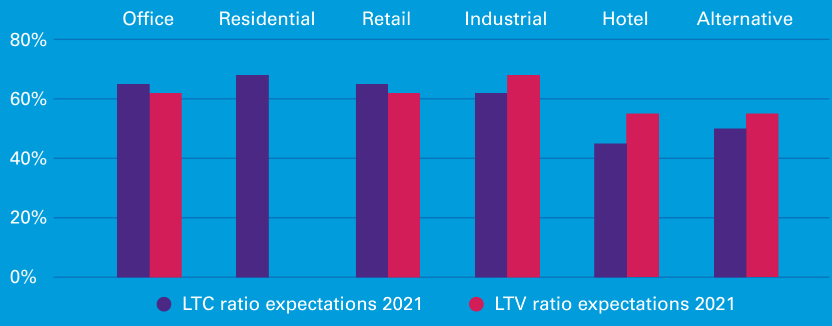
Two-thirds of those surveyed in Slovenia view real estate financing as having below average strategic importance, while the rest consider it important. Over 60% of the banks maintained their previous year's level of focus on the sector, while the rest reported a significant increase. Financing income-generating projects is particularly interesting for Slovenian banks, but they are still moderately open to new developments.

The most notable rivals for Slovenian real estate financing are non-local commercial banks, followed by private equity/debt funds. The rate of provisions against loans in the sector is judged to be adequate by all participants. Average loan sizes vary from EUR 5 to EUR 17 million, while the preferred range is between EUR 10 - EUR 20 million.

Future of real estate portfolios

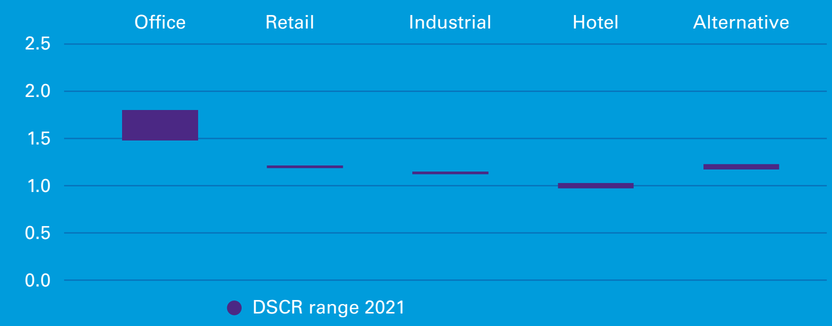
Over 60% of participant banks in Slovenia forecast no change to the size of the whole banking sector's real estate lending portfolio in the next 12-18 months, while the rest expect a moderate increase. As for the size of their own banks' portfolio in the same period, respondents' answers reflect a similar pattern.

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

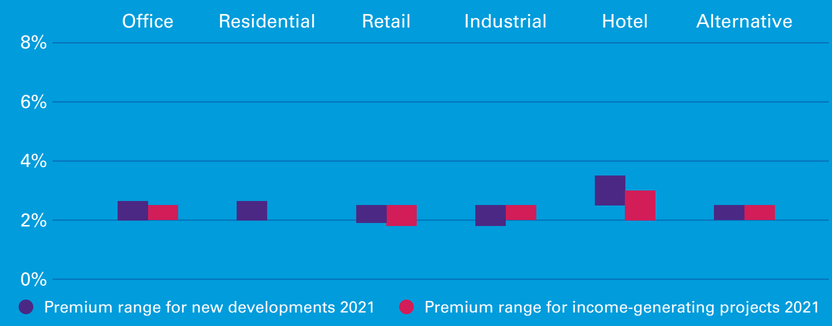


Pre-let ratio expectations for projects

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



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



Source: KPMG Property Lending Barometer, 2021

The buildings shown in this report have only been included for illustrative purposes. The overarching theme of the illustrations of this year's Property Lending Barometer focuses on refurbished and repurposed real estate assets, making something new out of something old, drawing a parallel with the circumstances created by the COVID-19 pandemic, which have forced market participants and individuals to adapt to the new reality.

Credits

Page 2 - Bujnovszky Tamás
Page 4, 6 - Bujnovszky Tamás
Page 11 - Bujnovszky Tamás
Page 18, 20, 22, 23 - Aria Hotel
Page 24, 25 - Bujnovszky Tamás
Page 48 - Bujnovszky Tamás
Page 54 - Mihai Georgiadi - Cumulus is an architecture firm bringing together decades of experience, ideas and complementary abilities to provide integrated services of design, planning and architecture.
Page 58 - YIT Slovakia a.s.
Page 60 - Energetika Ljubljana & Mestna občina Ljubljana.

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