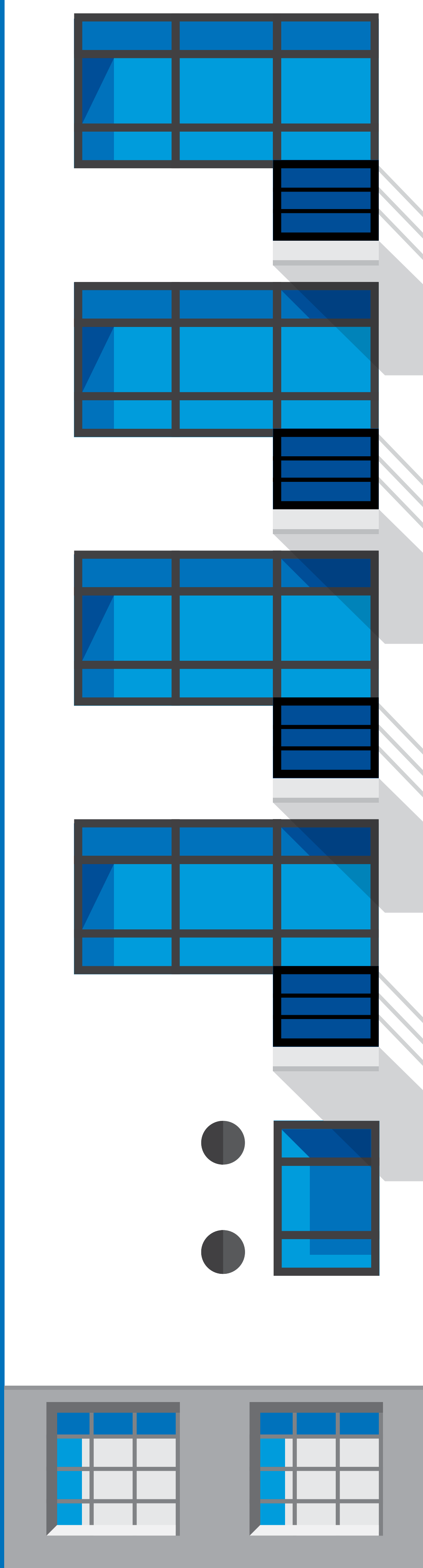
KPMG

Property Lending Barometer 2019

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



10th anniversary edition inspired by BAUHAUS100

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The buildings shown in this report have only been included for illustrative purposes. Herein we are using the term Bauhaus for buildings whose design and functional concept - in our opinion - in whole or in part evokes “Bauhaus” architectural features to a layperson.

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10th
annual edition of the survey

Interviews conducted with banks from
15
European countries

Close to
70
banks surveyed

Dear Reader,

We are pleased to present the *Property Lending Barometer 2019*, which is the 10th edition of our annual survey of banks' real estate financing. This report provides insights into lending market conditions in a number of countries in Europe and also gives a separate snapshot of their markets to highlight their unique characteristics.

The purpose of our report is to assess the prospects and sentiment for bank financing in the real estate sector in Europe, based on the views of bank representatives from 15 European countries.

The general prospects for growth seen over the last few years are expected to be hindered by weaknesses exhibited globally in the second half of 2018 and continuing over the first half of 2019, due to trade tensions, declining investments and policy concerns. Brexit is still an important and unpredictable issue, especially in European markets closely intertwined with the economy of the United Kingdom. Meanwhile, the European Central Bank (ECB) trimmed the GDP growth outlook for the eurozone to 1.4% for the next two years. Nevertheless, generally low levels of unemployment and a small increase in wages support the growth of household incomes, with a potential positive impact on future growth, especially in the more developed member states and in countries in Central and Eastern Europe (CEE).

A continuing growth trend in lending activity across Europe is expected to continue in 2019, mainly due to competitive pressure contributing to easier credit terms and conditions, particularly in the largest countries in the euro area. Meanwhile, the momentum of the increased level of activity in the market for loan portfolios in Europe is forecast to remain sustained, exceeding EUR 100 billion by the end of the year.

This report is an analysis of the findings of our survey of the leading banks active in these countries. The 2019 Barometer includes input from close to 70 banks, collected primarily via in-depth interviews and online questionnaires. Representatives from leading financial institutions have provided their views on the key issues influencing property lending.

This report first 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, and the proportion of impaired loans. We also consider areas such as banks' average and preferred loan/deal size, as well as the length of loan contract term. Furthermore, the opportunity for new financing and banks' asset class preferences have also been considered.

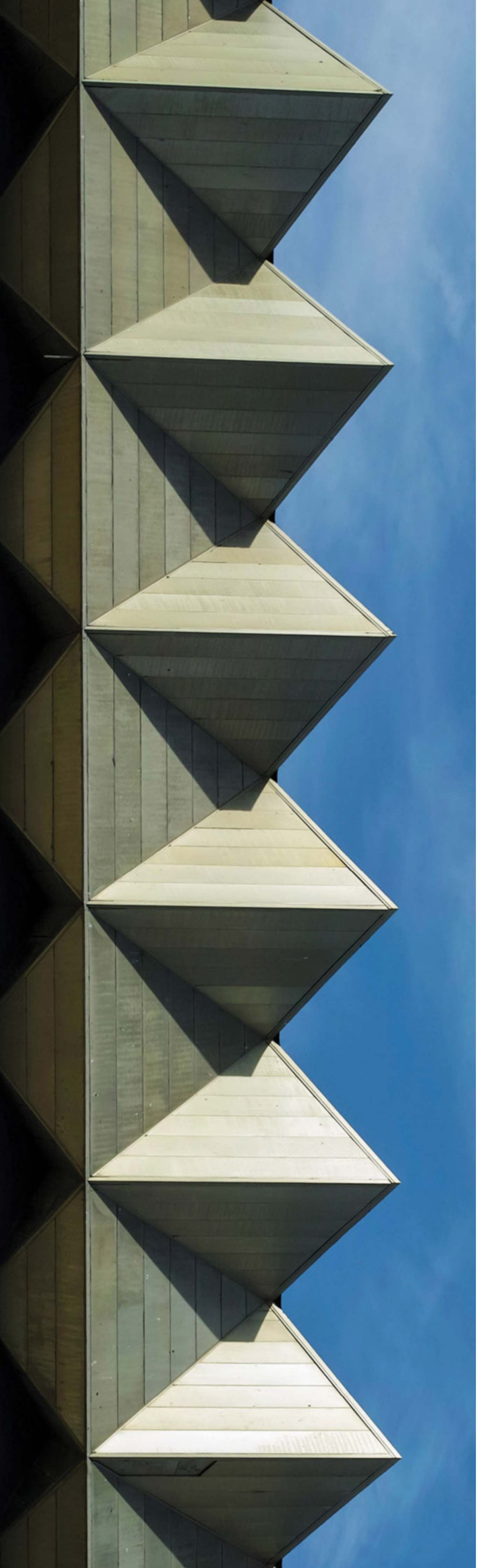
The second half of the report includes a profile for each country surveyed. In those sections we have addressed the prospects and terms available for developers and investors to finance new real estate developments and income-generating properties, and survey participants' expectations for the next 12-18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

We would like to take this opportunity to thank all of those who participated in this survey. Their cooperation 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



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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 2019 survey: Bulgaria, Croatia, the Czech Republic, Cyprus, Finland, Germany, Greece, Hungary, Ireland, the Netherlands, Poland, Romania, Serbia, Slovakia and Slovenia.

The data for the survey[1] were primarily collected through in-depth interviews with bank representatives and via online questionnaires. Depending on the survey participants' organisational structure, interviewees were the heads of real estate, project financing or risk management departments. Banks were selected from among the leading financial institutions operating in each individual country. The survey participants entailed nearly 70 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 2019.

Just over half of the survey participant banks were local, i.e. those operating predominantly within one European country, whilst the rest were mainly regional banks, as well some multinational banks participated.

Comparison of surveyed countries

Based on the countries' geographic locations, we created the following two categories for the purposes of our analysis:

Central and Eastern European economies: These countries are located in Central and Eastern Europe, including most of the Balkans. Due to their geographic proximity and relatively comparable stage of economic development these countries are assumed to bear mainly similar advantages and challenges. The grouping includes Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia and Slovenia.

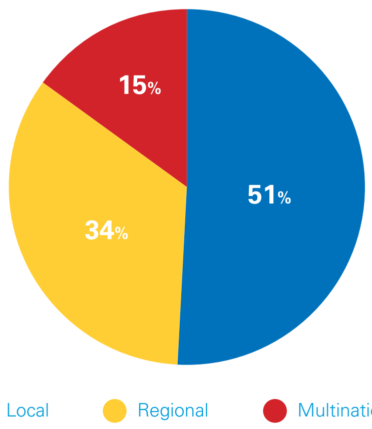
Other European economies: In contrast to the Central and Eastern European markets, the category "Other European Economies" consists of countries from across Europe, most of them representing more mature real estate markets. Due to their different economic capabilities, they provide a benchmark for assessing data from Central and Eastern Europe. This category includes Cyprus, Finland, Germany, Greece, Ireland, and the Netherlands.

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 this part of the analysis.
- In the case of some parameters and cross-tabulations, survey findings may be considered indicative but not representative due to the low number of responses to some questions.
- As in previous years, our assessment of the residential sector excluded residential projects whose construction costs were below EUR 10 million.

Geographic orientation of the banks included in the surveyed sample



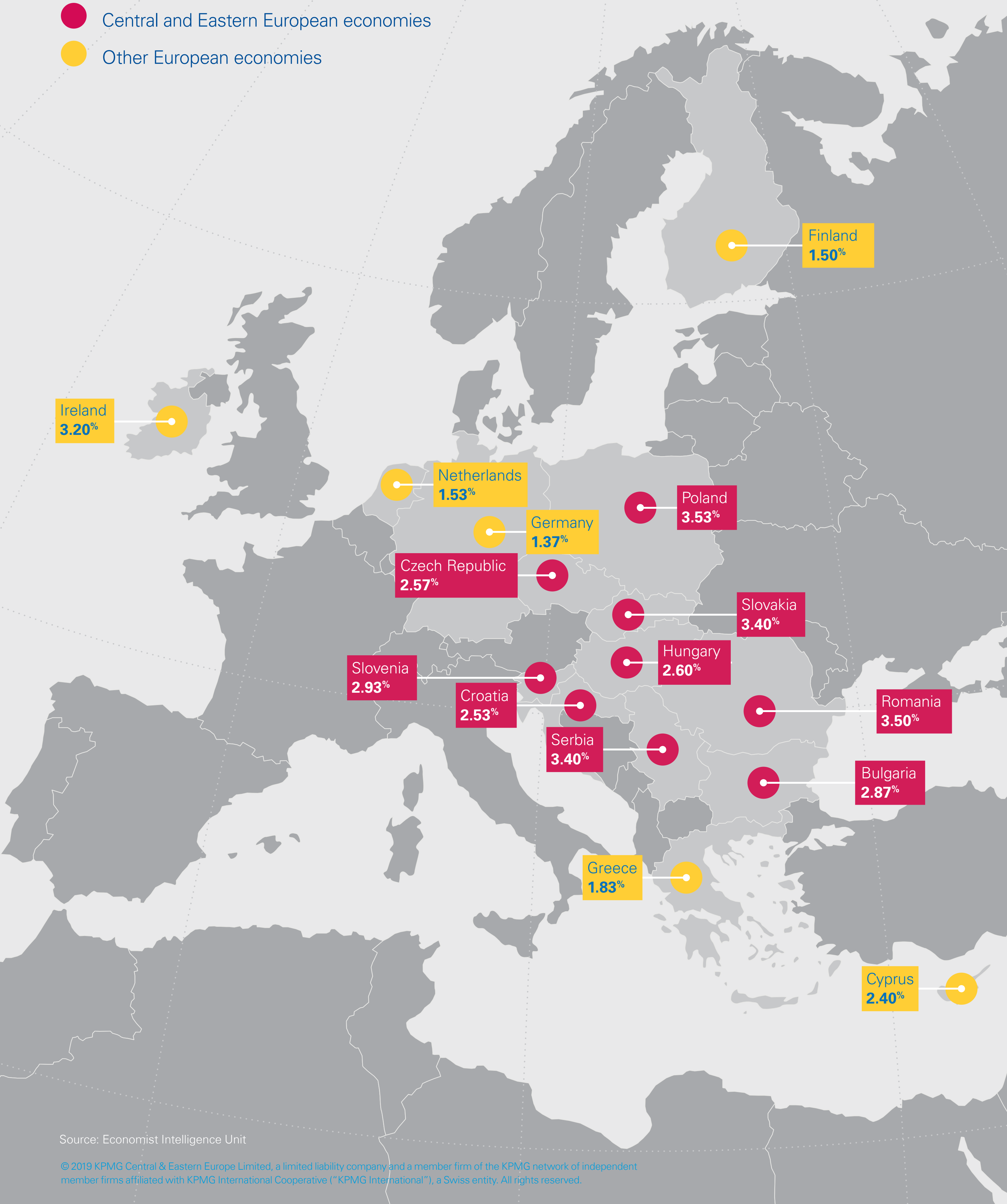
Note:
Local: Banks which are active in not more than 2 countries
Regional: Banks which are active in at least 3 countries excluding multinationals
Multinational: Banks which are active on at least 3 continents
Source: KPMG Property Lending Barometer, 2019

Geographic abbreviations

BUL – Bulgaria; **CEE** – Central and Eastern Europe; **CRO** – Croatia; **CZE** – Czech Republic; **CYP** – Cyprus; **EMEA** – Europe, Middle East and Africa; **FIN** – Finland; **GER** – Germany; **GRE** – Greece; **HUN** – Hungary; **IRE** – Ireland; **NED** – Netherlands; **POL** – Poland; **ROM** – Romania; **SRB** – Serbia; **SVK** – Slovakia; **SLV** – Slovenia

1 *The survey also uses information obtained from public sources, which KPMG's Real Estate Practice considers reliable. These market reports were published in 2018 and 2019 by BNP Paribas, Colliers, Cushman & Wakefield, Debtwire, Economist Intelligence Unit, European Central Bank, Eurostat, OECD, Real Capital Analytics.*

Average GDP growth forecast (2019 - 2021)



Source: Economist Intelligence Unit

Overview of the European real estate market

Macroeconomic outlook for the region

While developed regions, including Europe, have mostly recovered from the global financial crisis of the last decade, economic growth has not been dynamic and long enough to create a stable, comprehensive high standard of living. Weaknesses shown globally in the second half of 2018 have continued into 2019, due to trade tensions, declining investments as well as policy concerns.

Annual GDP growth slowed from 3.5% to 3.2% globally, while in the most advanced European countries it is anticipated to move gradually closer to 1% or below. For the export-oriented eurozone, the European Central Bank trimmed the GDP growth outlook to 1.4% for the next two years (previously forecast at 1.6% in 2020 and 1.5% in 2021). However, reflecting the diverse economic conditions within the European Union, the average real GDP growth for the period 2019-2021 is anticipated to increase in some countries, like in Poland (3.53%), and in Romania (3.5%), while it is expected to remain low in other economies, like in Germany, Finland, and the Netherlands (at close to or below 1.5%).

Globally, headline consumer price inflation in advanced economies is anticipated to decrease to 1.5% in 2019 and slightly higher to 2% in 2020. Europe's key trading partners, the United States and Japan, forecast an improvement in both years. Meanwhile, in the European Union, a slight change is expected in inflation, due to low energy prices and demand pressures. In some Central and Eastern European markets, a somewhat higher average consumer price index is expected, e.g. in Romania (4%), Hungary (3.6%), and Bulgaria (2.8%).

The global context of unemployment is favourable, showing the lowest OECD-wide rate in 40 years. Reforms have been made to boost job creation, support collective bargaining and flexible work schedules. In line with this pattern, unemployment in the European Union (28) is still decreasing with a year-end rate of 6.8% in 2018, though there are major differences amongst the member states. By the end of 2019 a record low rate is estimated in the Czech Republic (2.2%), and very low rates for Germany (3.2%), the Netherlands (3.3%) and Hungary (3.5%) as well.

Meanwhile, the unemployment rate still remains relatively high in Greece (18.3%) and Serbia (11.8%). In general, low unemployment and a slight increase experienced in wages support the growth of household incomes. Improvements are significant in more developed states, such as Sweden and Germany, as well as in a number of CEE countries.

Global uncertainties, however, could throw some shade on the economic outlook, most notably trade tensions between Europe, China, and the United States. An 0.6% decrease of global GDP is even expected to be the consequence of the trade war between the two largest economies, the United States and China. However, on its own China could cut back global GDP by an anticipated 1.75% due to the uncertainty created by its monetary, fiscal and quasi-fiscal policies and a projected decline in domestic demand. International relations, currently ruled by multilateral agreements created in the era of post-war recovery, are being challenged by lower levels of investment and trade and growing uncertainties. Brexit, for one, is still an important and very unpredictable issue, especially in European markets closely intertwined with the economy of the United Kingdom.

The aforementioned macroeconomic and political factors may have an effect on different European economies to a varying degree, influenced by their respective economic conditions and policy approaches.

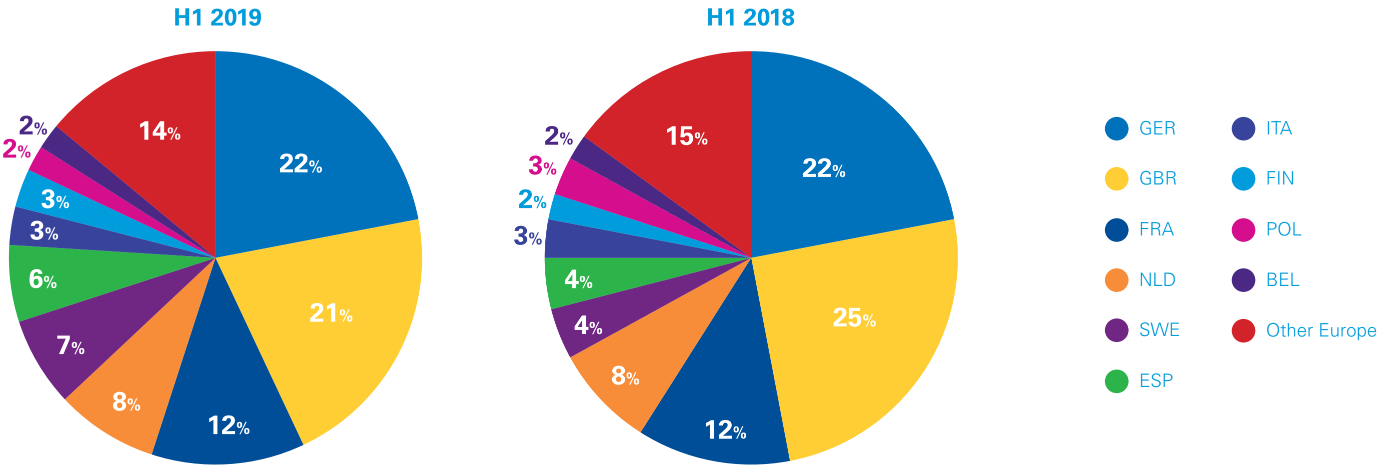
Bank lending

There has been a medium-term trend of continuing growth in lending activity across Europe since 2014, backed by eased lending conditions and sustained demand across all loan categories. In 2019 this trend is expected to continue, mainly due to competitive pressure contributing to easier credit terms and conditions, especially in the largest euro area countries.

The European Central Bank's sustained quantitative easing has exerted a positive effect on borrowing opportunities in Europe for many years, and has been a major factor in improving the prospects for bank lending. In December 2018 the ECB decided to end net purchases under the Asset Purchase Programme (APP), but announced that it intends to continue reinvesting the principal payments from maturing securities purchased under the APP for as long as necessary to maintain favourable liquidity conditions.

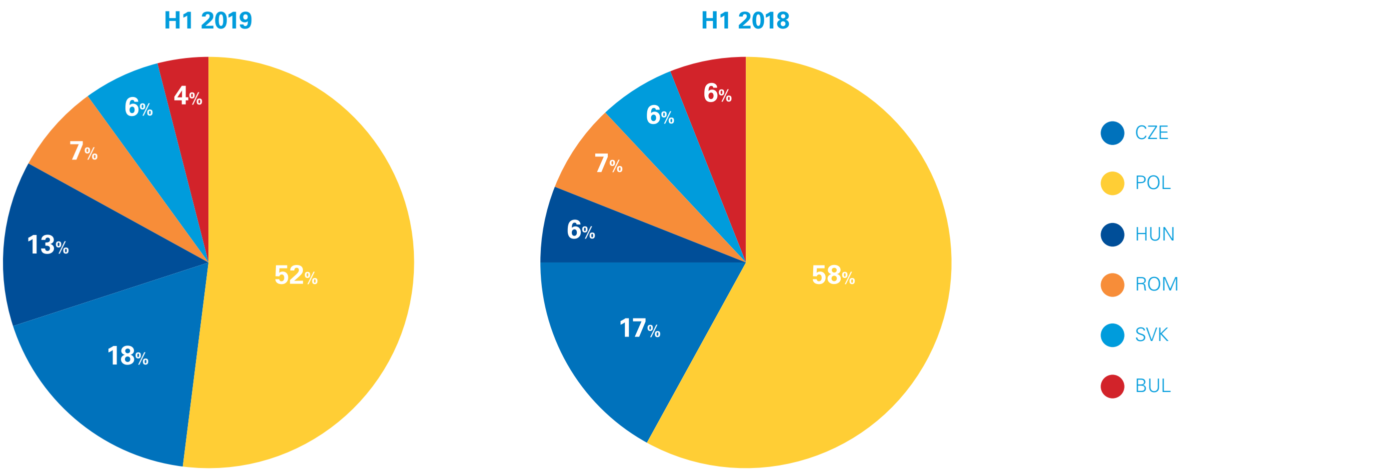
The increased level of activity in the market for loan portfolios in Europe has kept its momentum for the last 12 months. The pressure for banks to consolidate their balance sheets and sell more of their non-performing loan portfolios remains a key market driver. Consequently, the European loan portfolio market has experienced closed deals amounting to around EUR 50 billion in the first half of 2019. During that period, Greece took over from Italy as the most active country in the European market for loan sales. This year, European deal volumes are forecast to exceed EUR 100 billion, representing a further increase compared to the strong performance seen over the last several years.

Breakdown of real estate transaction volume - Europe H1 2019, H1 2018



Source: Real Capital Analytics

Breakdown of real estate transaction volume - Central and Eastern Europe H1 2019, H1 2018



Source: Colliers

The performance of real estate markets in Europe

A trend of declining total investment volume in Europe continued, reaching only EUR 114.3 billion in the first 6 months of 2019, which is 15% lower than the comparable figure for the previous year. This sustained slackening is mainly due to a combination of moderate economic prospects, political uncertainties, a shortage of suitable assets, and changing demand patterns across Europe.

Real estate investment activity varied greatly across the various economies in the region. Germany and the UK attracted almost half of the total European transaction volume in the first 6 months of 2019, while both markets suffered major declines against the comparable figures for last year. Deepening political uncertainties regarding Brexit, as well as a sluggish retail sector had an adverse impact on the UK property market, falling 31%. Deal activity in Germany also fell considerably, by 17% compared to the first half of 2018. Other countries in the top 10 markets that suffered major declines include Belgium and Poland, where deal activity retracted by 37% and 36%, respectively. Meanwhile, a few markets managed to grow significantly in the first half of 2019. Sweden tops the list with a 67% year-on-year increase, followed by Spain (39%).

Investment volumes, in aggregate, significantly and consistently increased in the six major CEE countries (the Czech Republic, Poland, Hungary, Romania, Slovakia, Bulgaria) in the last five years. In the first half of 2019 the total investment volume was EUR 5.5 billion – equivalent to a slight drop compared to the figure for the first half of 2018.

However, historically growth has been seen in the second half of each year, so overarching growth trends may be sustained this year as well. In H1 2019, investment in Poland was responsible for just over half of total transaction volumes (52%), followed by the Czech Republic (18%). Meanwhile, the Czech market registered the most significant growth compared to H1 2018, at a rate of 83%, followed by Hungary, which grew by 35%. The four remaining countries in this group saw year-on-year decreases: Bulgaria (-70%), Slovakia (-44%), Poland (-20%) and Romania (-3%).

European investors continued to dominate cross-border commercial property investment in Europe, but compared to previous years, their share of total cross-border investments waned, reaching just over 40% in 2018. The level of external capital inflows continued its downward trend, dropping by 9% in 2018. Meanwhile, the appetite of American investors jumped by almost 10% compared to that seen in 2017, making them clearly the most dominant source of investment from outside of Europe, especially in France, Germany and the UK. Asian investor activity plunged by almost 20%, allowing no more than a 17% share of their investment in the total market. Their key target markets are the UK, and, to a lesser extent, Germany and Central & Eastern Europe. Middle-Eastern investors significantly cut back on their investment activity, by 27%, compared to that registered in 2017, while most of their investments went to the UK and Germany.

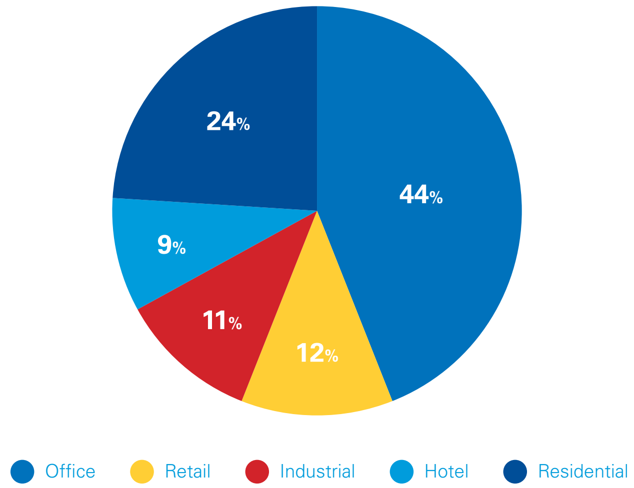
Cross-border investment in Europe, 2018

Source: BNP Paribas Real Estate

In a breakdown of investment by asset type in Europe the residential sector has experienced a notable increase in its share compared with last year's figure. Data from the first half of 2019 show that the office sector is still the most significant (at 44%), followed by residential (24%), retail (12%), industrial (11%) and hotel (9%). The retail sector suffered a dramatic decline in investment, by 51%, compared to that for the same period of 2018, while the industrial and office segments also decreased significantly. On the other hand, investment in residential and hotel assets increased, by 7% and 3%, respectively.

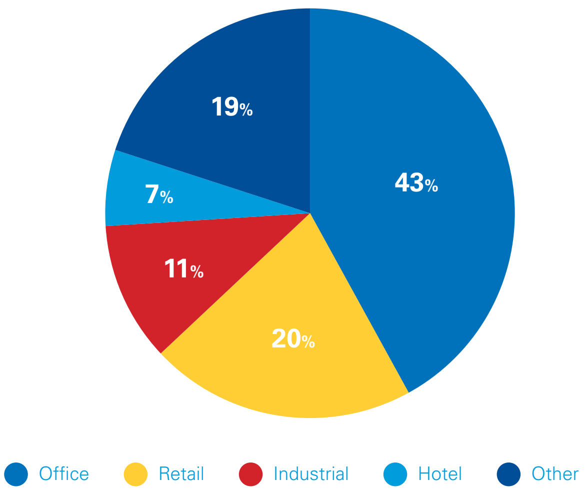
Prime yields are expected to continue their decline in 2019 in the economies included in our survey, though differences are apparent among them. In CEE countries, office sector yields in Q2 2019 decreased compared to those from a year earlier, by an average of 0.19 percentage points, which is comparable to the decrease of yields in high street retail, by an average of 0.18 percentage points, but less intense than that seen in the logistics sector (0.29 percentage points). Current yields range between 3.75-12.5%, with significant differences apparent among regions and cities. In the context of the overall decline, Slovenia, Cyprus and Serbia are likely to experience a stabilization of yields, based on Q2 2019 data. In other European economies in our survey, logistics yields decreased the most, by an average of 0.45 percentage points, followed by office and high street retail, decreasing 0.18 and 0.08 percentage points, respectively. Q2 2019 yields range between 2.5-5.75% in these countries.

Investment by asset type in Europe, H1 2019*



Source: Real Capital Analytics *Excluding development site sales

Investment by asset type in Europe, H1 2018



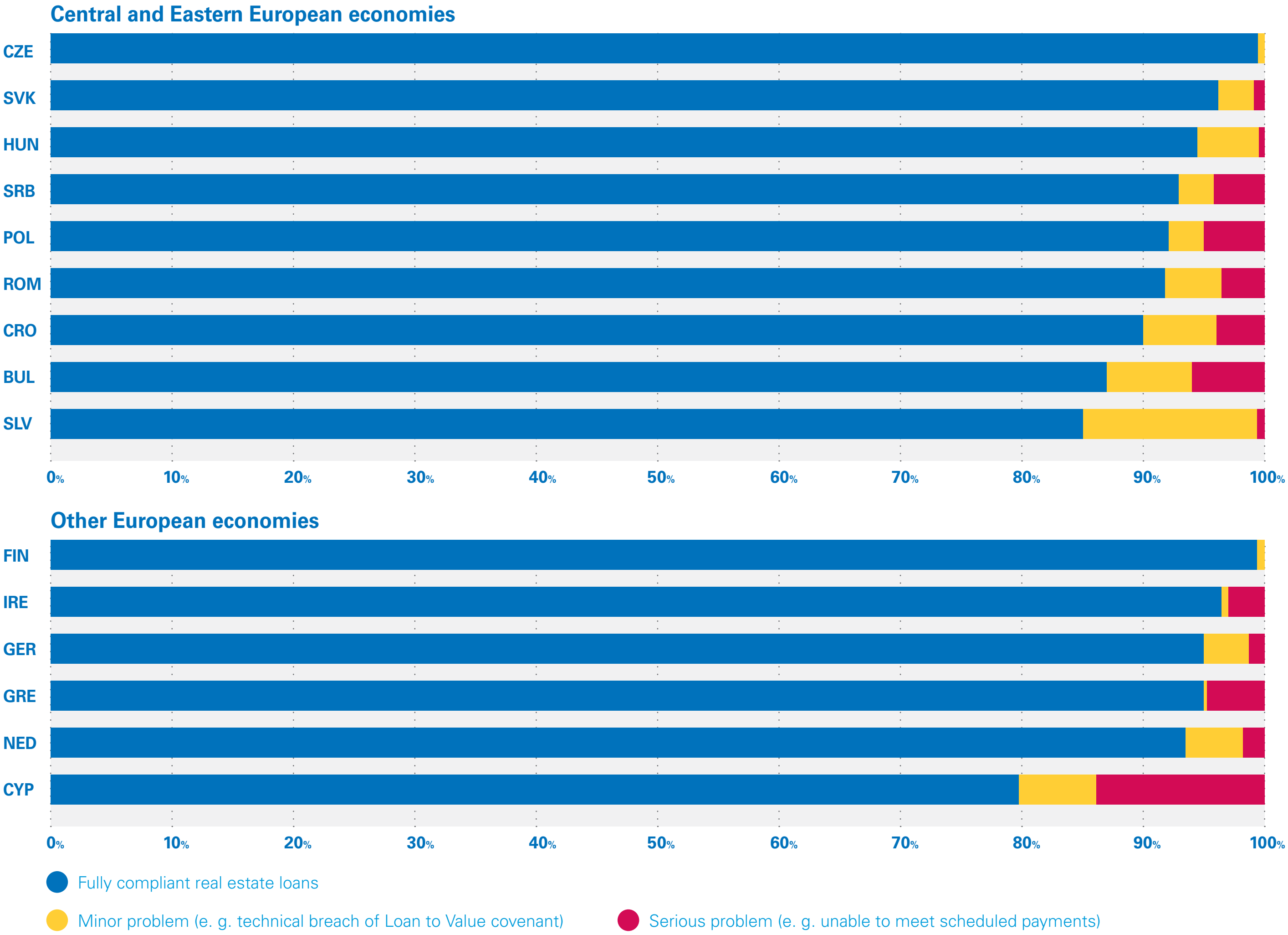
Source: Real Capital Analytics

Managing impaired loans

Banks applied various measures for dealing with impaired loans following the global economic crisis of the previous decade, including restructuring, foreclosing or selling non-performing loan portfolios. Western European markets have seen a quicker and more extensive recovery in terms of managing impaired loans, but other European countries have eventually followed suit.

This year's survey confirmed the successful management of impaired loans across all countries in consideration. The proportion of fully compliant loans is particularly high in Finland and the Czech Republic (with the current rate of fully compliant loans exceeding 99%), while the only countries with a ratio below 90% are Bulgaria (87%), Slovenia (85%), and Cyprus (81%).

Proportion of impaired real estate loans per country



Source: KPMG Property Lending Barometer, 2019

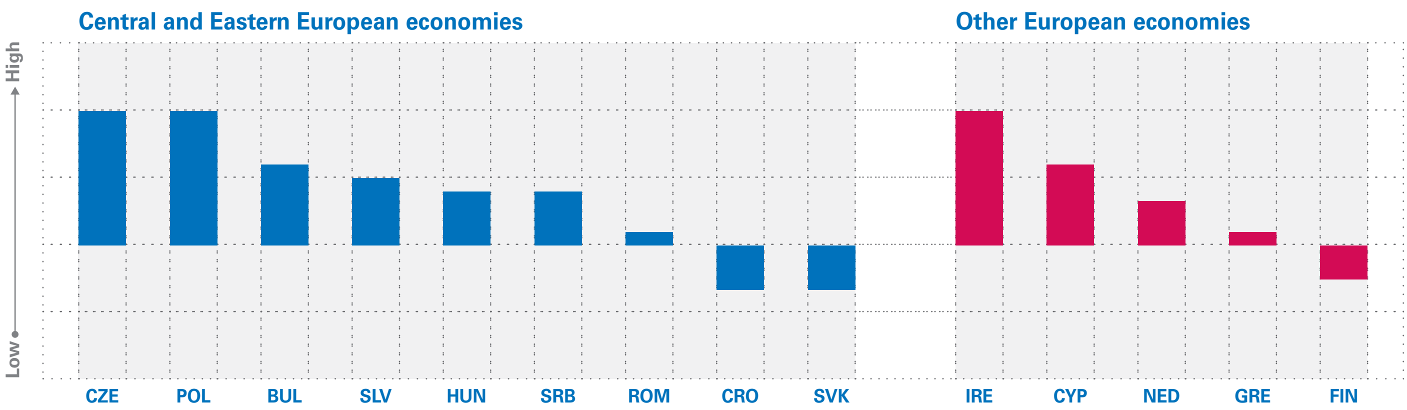
Prospects for real estate loan portfolios

This section of the survey focuses on banks' expectations for the future of their real estate loan portfolios in light of recent developments, and their strategic approach to real estate financing compared to that for other opportunities.

Strategic importance of real estate financing

The 2019 results of our survey revealed that the long-term difference between more established economies and those in Central and Eastern Europe in terms of the strategic importance of real estate financing has gradually levelled out. Banks from Ireland, the Czech Republic and Poland responded most positively, whereas most of those surveyed also confirmed that they see significant strategic importance of real estate financing. Representatives of only a few countries, including Croatia, Finland, and Slovakia, afforded it below average importance.

Strategic importance of real estate financing for banks



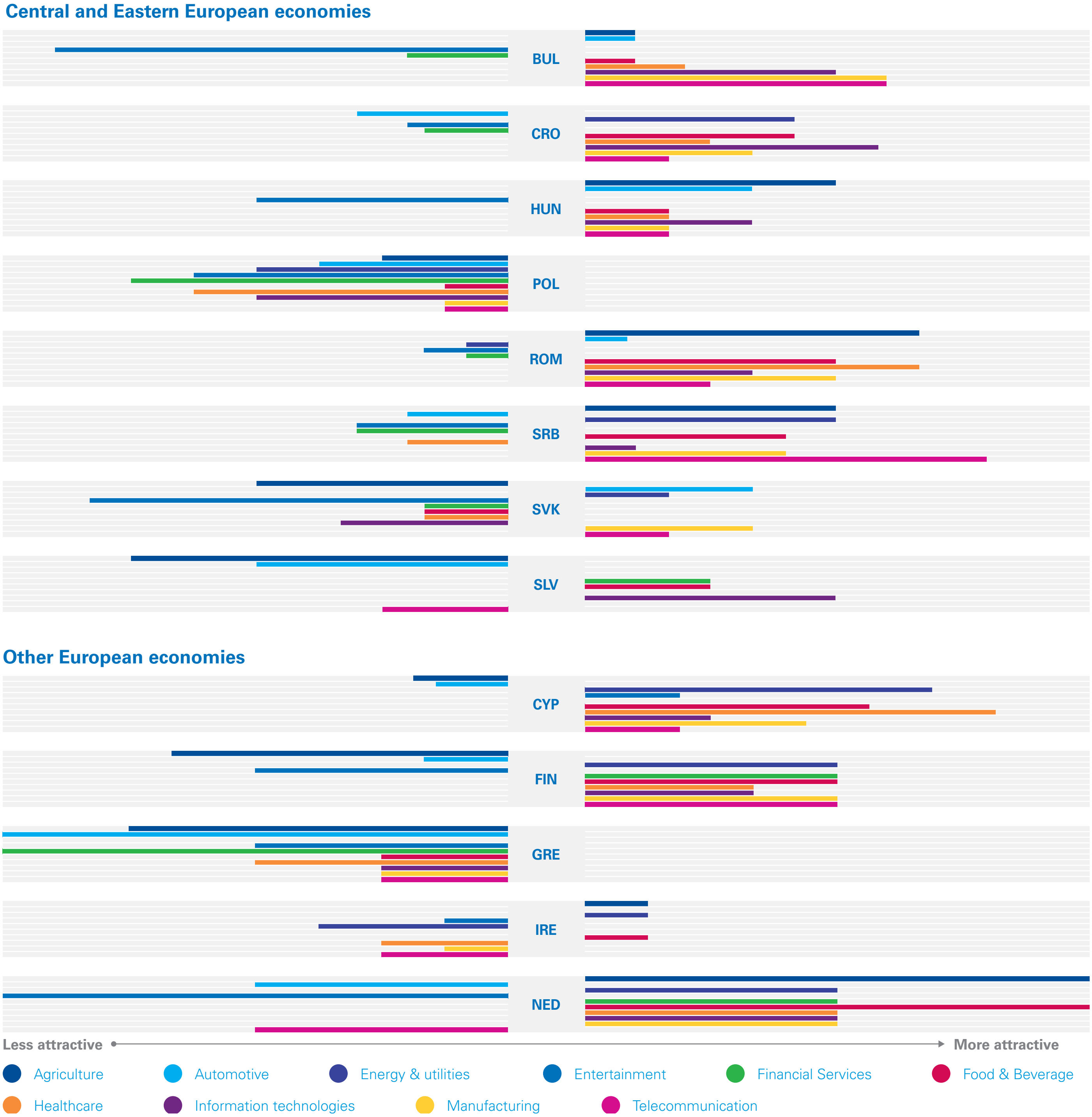
Source: KPMG Property Lending Barometer, 2019

The attractiveness of real estate financing compared to other industries

Banks were also asked how financing of other industries compared in attractiveness to real estate lending. Overall, food & beverage and manufacturing industries had the highest preference, followed by information technologies, healthcare, energy & utilities and telecommunication. Industries that were shown to be less attractive than real estate include entertainment, automotive, financial services and agriculture.

While results vary greatly country by country, potentially showing the relative strength of different industries in each market, the regional comparison of responses revealed only minor differences between Central Eastern European and other economies, with energy & utilities receiving slightly lower preference in CEE countries.

Attractiveness of other industries for bank financing compared to real estate



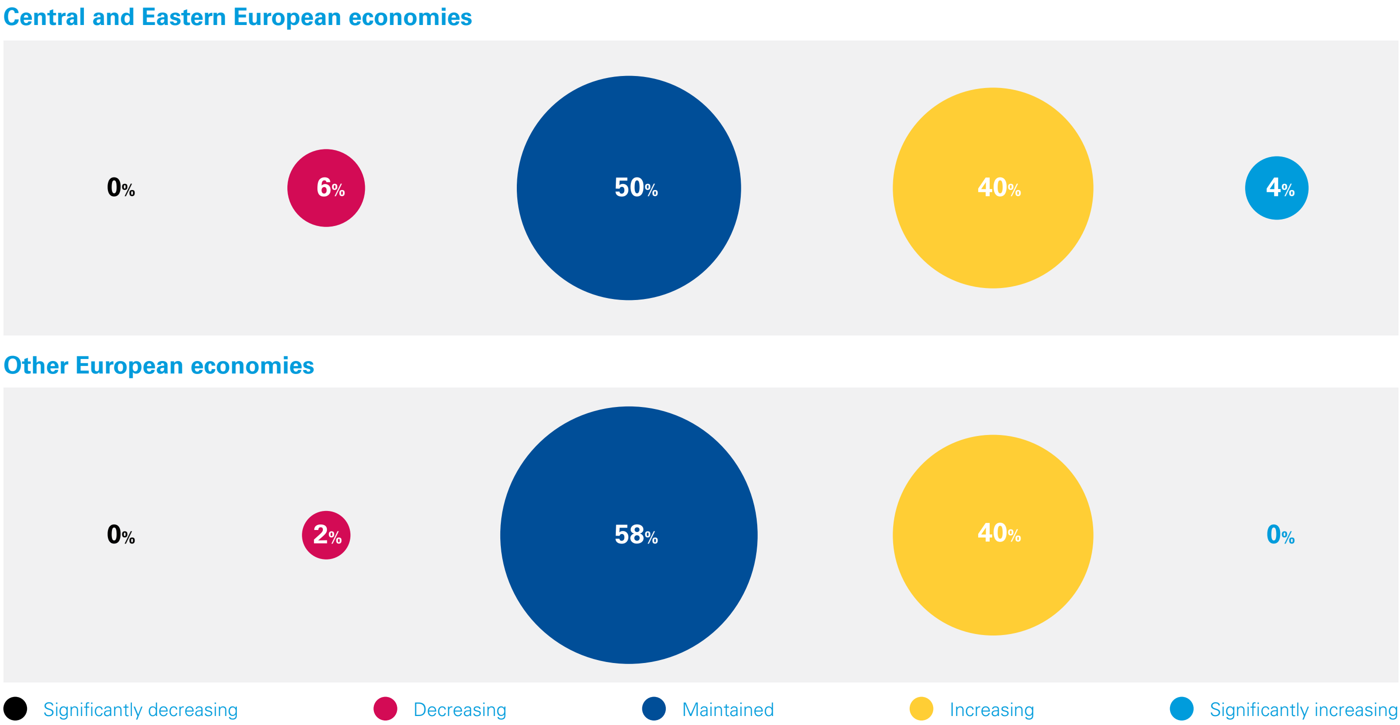
Source: KPMG Property Lending Barometer, 2019

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

Banks revealed how their focus has changed towards real estate financing compared to the previous year.

Banks from almost all countries indicated an increase in focus since last year, whereas the only exceptions were respondents from Romania, who reported that their focus on real estate financing decreased, while Slovakia, Ireland and the Netherlands confirmed that their focus was maintained. The most significant increases in focus were noted in Slovenia and Greece.

Focus on real estate financing within the banks' lending activity compared to one year ago



Source: KPMG Property Lending Barometer, 2019

Most important factors affecting real estate loan portfolios

Bank representatives in our survey identified the key drivers affecting their real estate portfolios.

The long-term trend prevailed, confirming the most significant factor for banks in Europe is still the macroeconomic conditions in the local market. The increased uncertainty in the global political and economic environment keeps this aspect highly relevant for banks' decision makers.

No other factor affects banks' real estate lending activity by a comparable overall measure, according to this year's survey results. However, some differences have been revealed in the regional breakdown. The lack of prime properties is a primary concern for banks in other European economies, especially in Greece. Furthermore, it has been confirmed that effects of Brexit are exerting a significant impact upon the real estate loan portfolios of banks in other European economies (most notably in Ireland and to a lesser extent in Germany), unlike in CEE countries where banks note little effect.

Most important factors affecting real estate loan portfolios

	Central and Eastern European economies	Other European economies
Macroeconomic conditions in the local market	★★★★★	★★★★★
Activities of European Central Bank/ National Banks	★★★★	★★★
Lack of prime properties	★★★★	★★★★★
Increased property values	★★★	★★★
Macroeconomic conditions in Europe	★★★	★★★★
Lack of equity	★★	★★
Lack of active investors	★★	★★
New strategy	★	★
Brexit effects	★	★★★

★ Central and Eastern European economies ★ Other European economies

Source: KPMG Property Lending Barometer, 2019

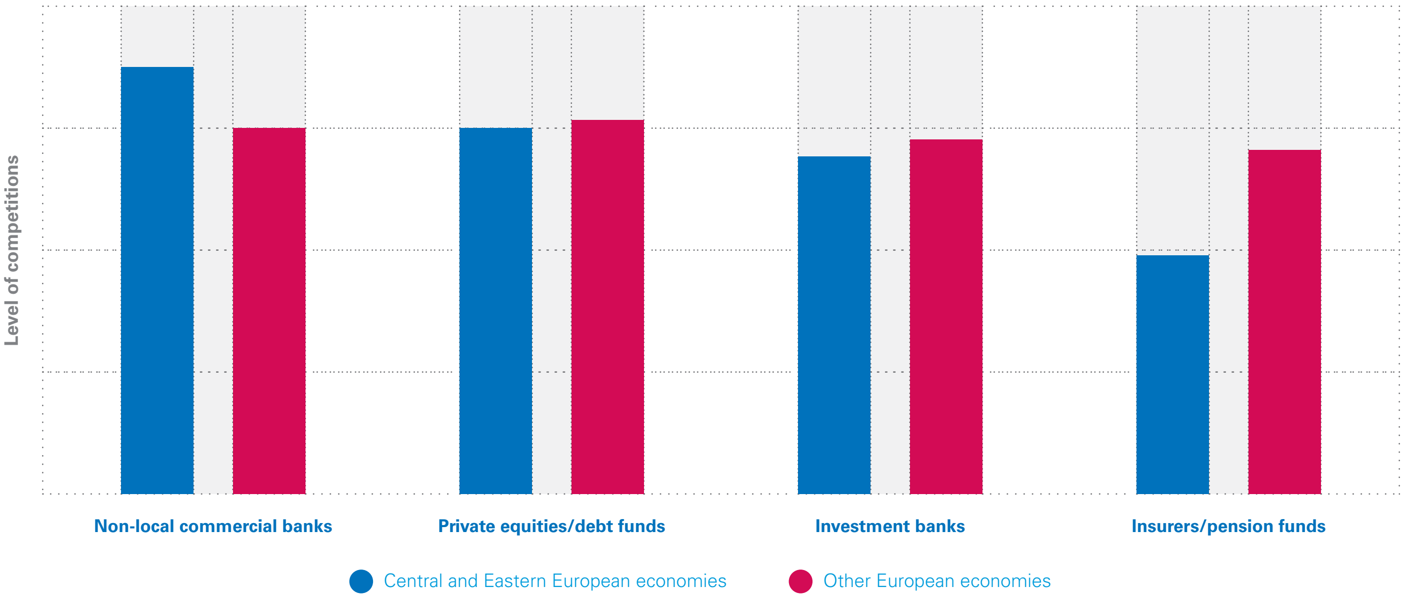
Disposing of loan portfolios

There is no change in the historical pattern, as banks in most countries have not indicated their willingness to dispose of part of their loan portfolios in the upcoming 12-18 months. In more than half of the countries surveyed, none of the banks showed any interest in this possibility. In the Czech Republic, Slovakia and Cyprus, less than one-third of the respondents indicated any interest. Only in three countries could we identify a notable inclination for disposal, namely in the Netherlands, Ireland, and Greece, where more than half of the banks surveyed are willing to dispose of part of their loan portfolios, mostly due to a strategic exit by their banks. Capital adequacy was also mentioned as another (though less influential) factor for disposal by banks.

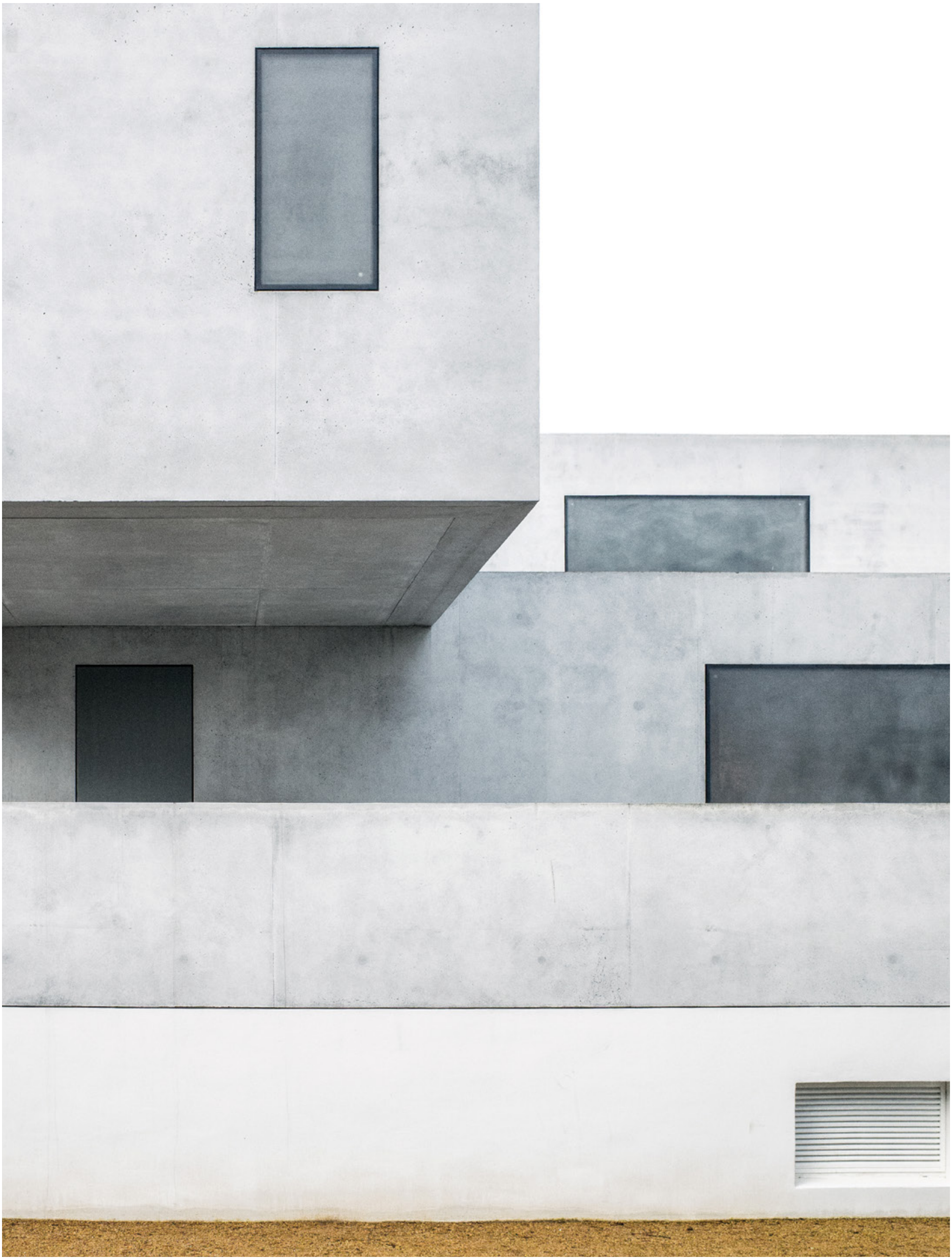
Alternative lenders

Banks were also asked which alternative lenders they consider as their strongest competitors in terms of banks' traditional real estate lending. As in previous years their responses revealed that overall banks view non-local commercial banks as their key competitors in most of these markets, especially in Central and Eastern Europe. In other European countries, private equity/debt funds are considered as similarly strong competitors. Insurer/pension funds are considered as a threat more in the other European economies, and less in the CEE markets.

Competition with alternative lenders



Source: KPMG Property Lending Barometer, 2019



Opportunities for financing new real estate projects

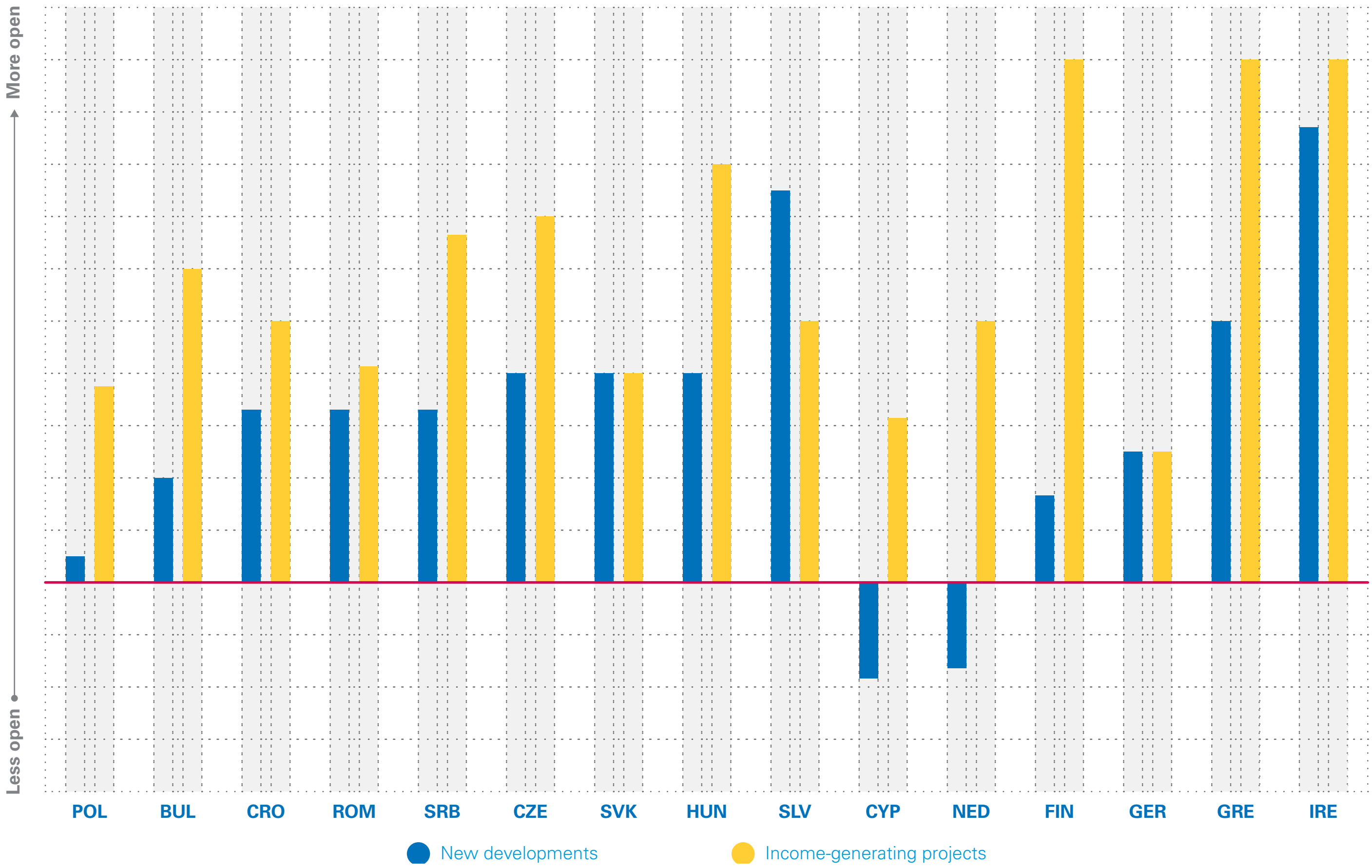
This section assesses the opportunities for developers in obtaining bank financing for real estate projects.

New financing

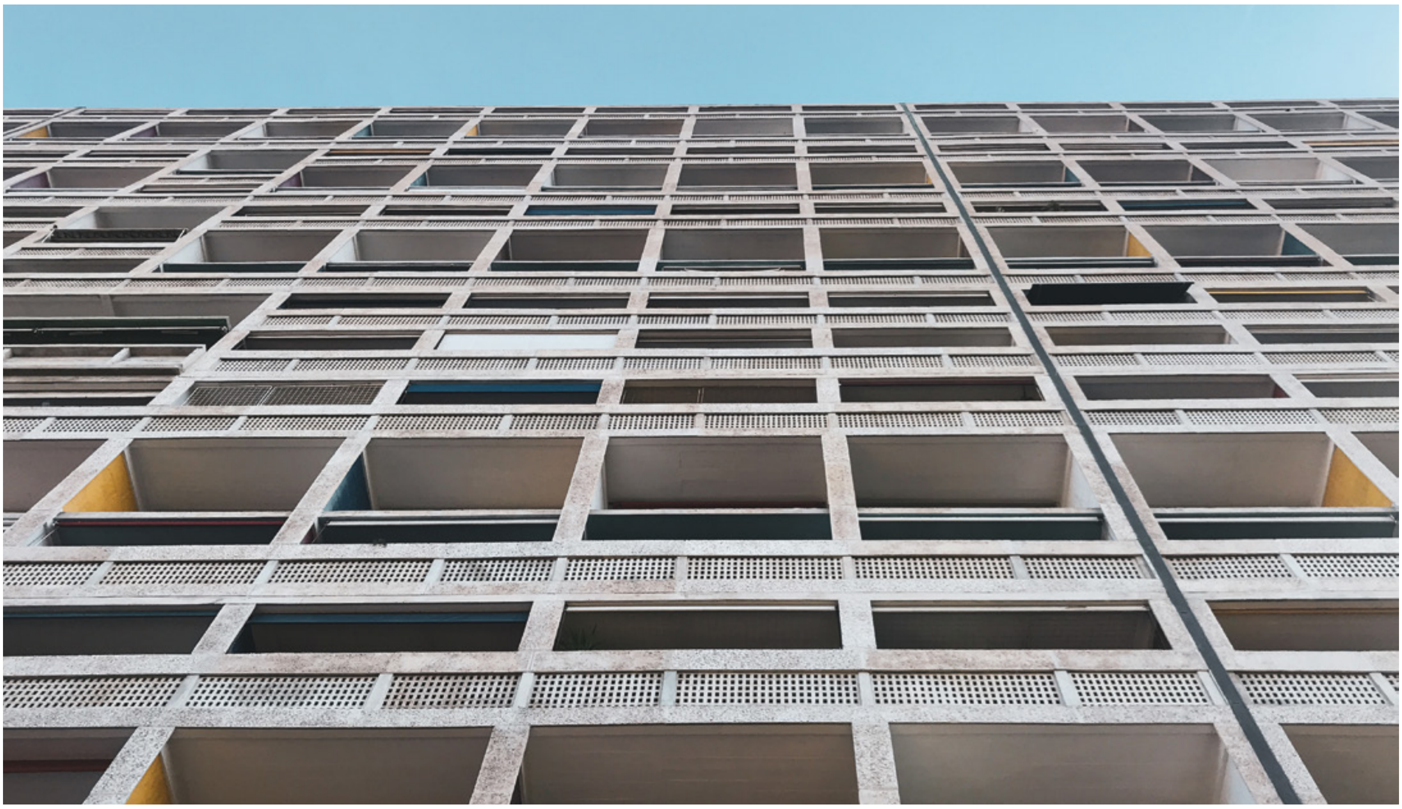
In all markets surveyed, bank representatives reported their bank's openness to finance income-generating projects, with the most positive responses received in Ireland, Finland and Greece. The openness of banks in other surveyed countries is more moderate, but positive in this respect.

When asked about their willingness to finance new developments, bank representatives were less open. Most of the surveyed countries were positive, with the only exceptions being the Netherlands and Cyprus, where banks, overall, are less open in this respect. Banks in Ireland, Slovenia and Greece expressed the greatest openness towards financing new development projects.

Openness of banks to finance new development/income generating projects



Source: KPMG Property Lending Barometer, 2019



Asset class preferences

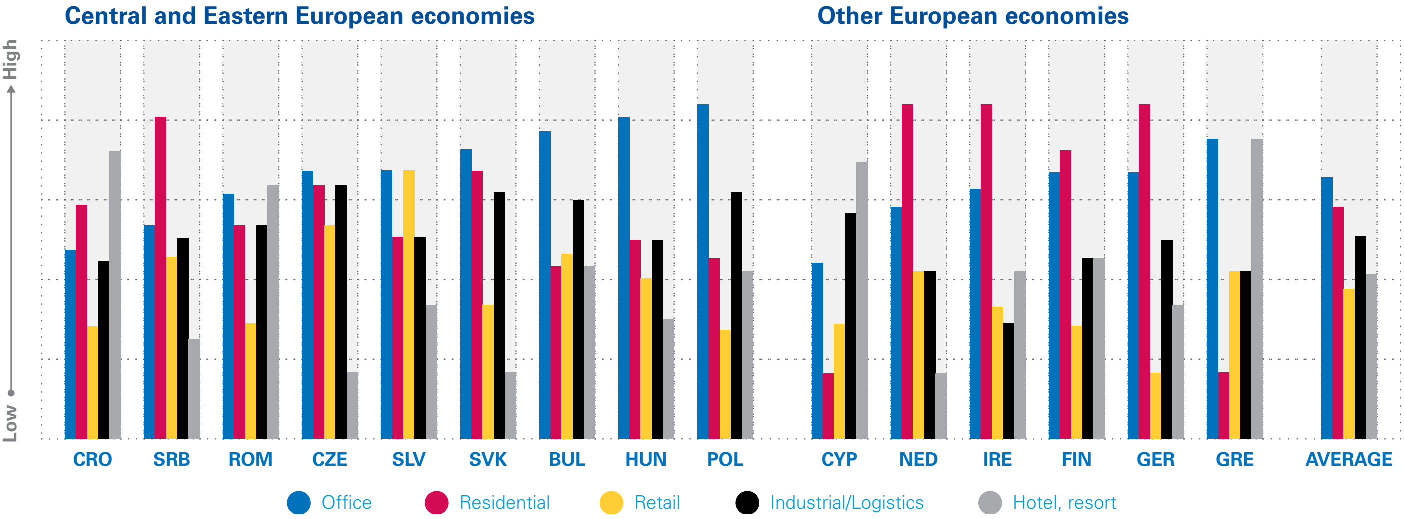
Banks were also queried regarding their preferred asset class for development financing in each country.

Residential remains the most preferred asset class among the surveyed banks in the other European economies country group, especially in more established markets, in particular in Germany, Ireland, and the Netherlands. In the other European economies group however, Cyprus and Greece scored quite low for residential. In Central and Eastern Europe, on average, office is the most preferred, especially in Poland and Hungary.

The industrial/logistics asset class is also relatively popular among CEE countries, particularly so in the Czech Republic, Poland and Slovakia.

The least preferred asset class on average was the retail sector, especially in Germany, Finland and Poland. Hotel, resort was also less preferred, with the exception of the popular tourist destinations Greece, Croatia, and Cyprus.

Bank's sector preferences in providing development financing by asset class



Source: KPMG Property Lending Barometer, 2019

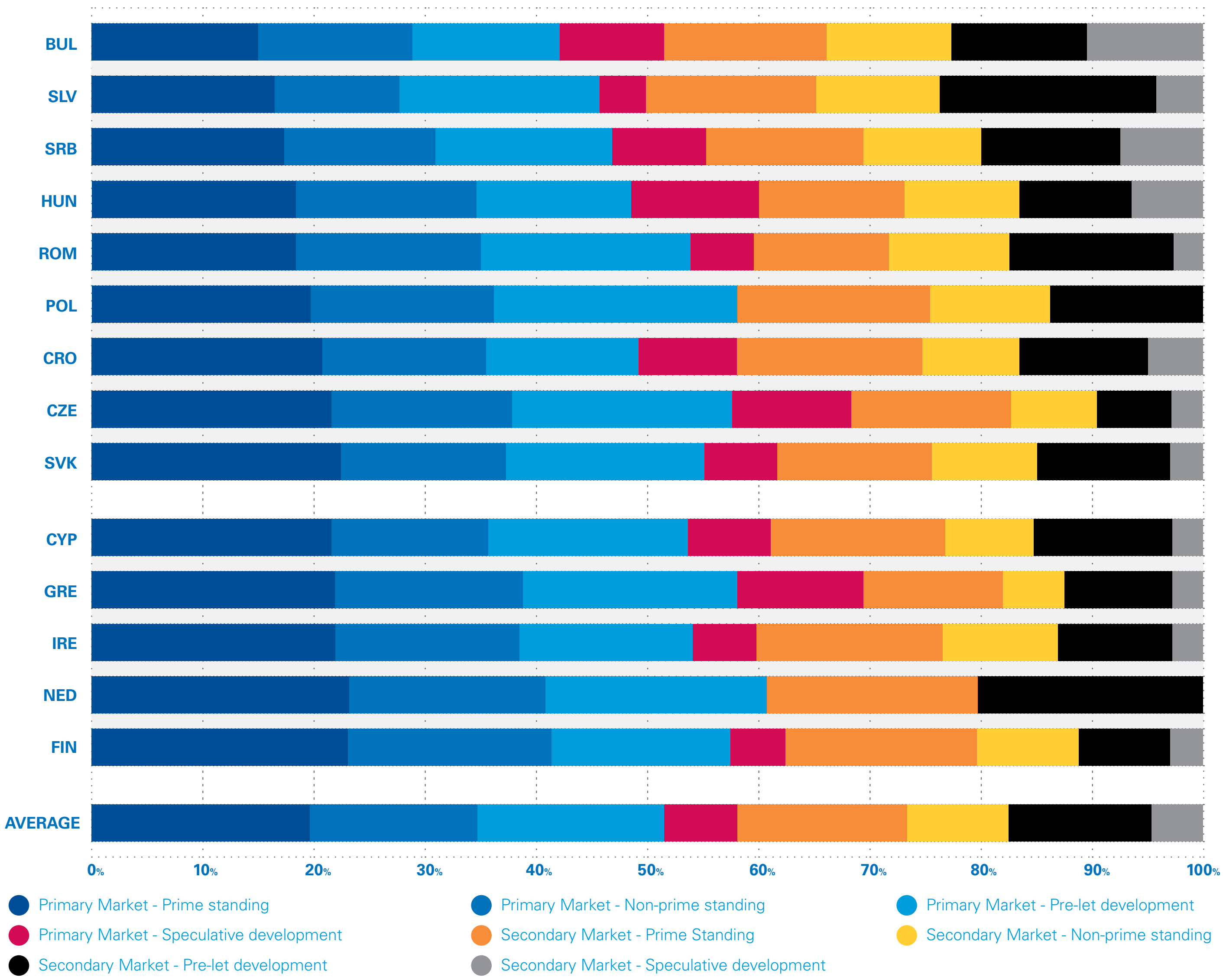
Financing in primary and secondary markets

Banks also provided their responses regarding priorities for providing financing in the respective primary and secondary markets of different real estate asset classes in the next 12-18 months.

Respondents in both country groups, on average, confirmed their clear preference for financing projects in primary markets, especially prime standing investments. Representatives from Finland, the Netherlands and Slovakia signalled their enthusiasm for those opportunities.

Pre-let developments and non-prime standing investments in primary markets were also very popular across all markets, closely followed by prime standing projects in secondary markets. Speculative investments were generally the least preferred.

Banks' 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, 2019

Alternative financing

In this year's survey banks also revealed their openness to providing financing other than senior loans (i.e. mezzanine, whole loans, stretch senior) for the financing of real estate projects. Banks in just over half of the markets surveyed are not open to providing alternative financing at all. Those in most of the remaining countries in the sample expressed moderate interest, including banks in Greece, the Czech Republic, Serbia, Bulgaria and Cyprus. There are only two surveyed countries, Ireland and the Netherlands, where the majority of respondents confirmed their openness to providing financing other than senior loans for real estate projects.

Criteria for financing

The following section shows the criteria of importance when banks select real estate projects to finance.

There is no change in the historical consensus among banks participating in our survey. In the majority of the countries the most important criteria for obtaining financing for real estate projects are a strong business model and the quality of the asset. The only exception this year was Cyprus, where the reputation and references of the developer/operator was selected as the primary decision criterion.

Other important criteria for all countries are the reputation and references of the developer/operator as well as the level of owner's equity in a proposed project.

The financial background of the developer/investor is also of primary concern for banks in some markets, especially in the other European economies country group. The pre-letting/pre-sale level of a project, on average, was valued quite highly in Central and Eastern European countries, unlike in other European economies.

The lowest ranked criteria in CEE countries are the existence of an independent feasibility study/valuation and the size of the requested loan, the latter also being the lowest ranked in other European economies.

Banks' most important criteria when considering real estate financing

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

★ Central and Eastern European economies ★ Other European economies

Source: KPMG Property Lending Barometer, 2019

Loan-to-cost ratios (LTC)

Banks were queried regarding their technical criteria for financing. The responses on their loan-to-cost ratios varied according to country and asset type.

Overall, the difference between the average ratios in Central and Eastern Europe and other European countries in terms of how much equity banks require from developers is not significant (average LTC ratios are 0.67 and 0.65, respectively). However, within the country groups there are significant differences across countries. Banks in Ireland and Croatia require the highest level of equity, with average LTC ratios of 0.62, while banks in the Netherlands and the Czech Republic are stricter, with average LTC ratios of 0.73-0.77.

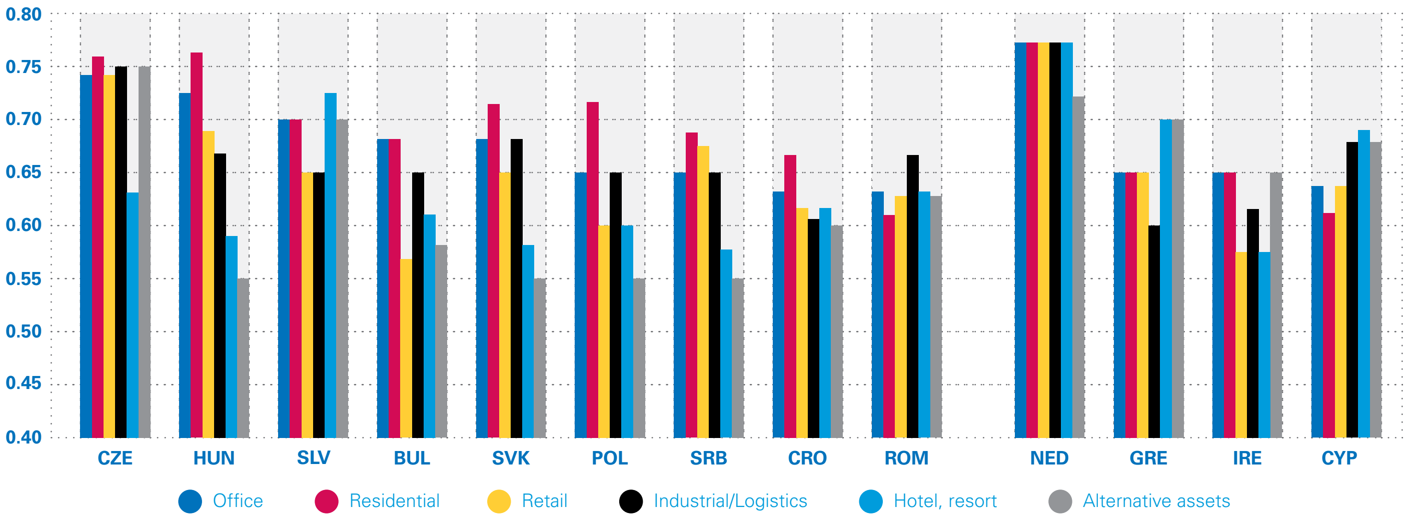
The loan-to-cost ratios in CEE economies for the office, residential, retail, industrial/logistics and hotel sectors are in the range of 0.55 and 0.76 (i.e. reflecting a capital structure of 55-76% debt and 45-24% equity).

On average, the residential sector has the highest LTC ratio, at 0.70, followed by office at 0.68.

For the other European economies, loan-to-cost ratios are between 0.58 and 0.78 (i.e. reflecting a capital structure of 58-78% debt and 42-22% equity). In these markets alternative assets (i.e. student housing, senior home) have the highest LTC ratio on average, at 0.69, followed by office and hotel, resorts at 0.68.

In Central and Eastern Europe, alternative assets require the highest equity ratio in most of the countries surveyed, in the range of 0.35-0.45, with the notable exceptions being the Czech Republic and Slovenia (with equity ratios of 0.25 and 0.3, respectively). In other European economies, the retail sector mandates the highest equity ratio in most countries surveyed, with an average equity ratio of 0.34.

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, 2019

Loan-to-value ratios (LTV)

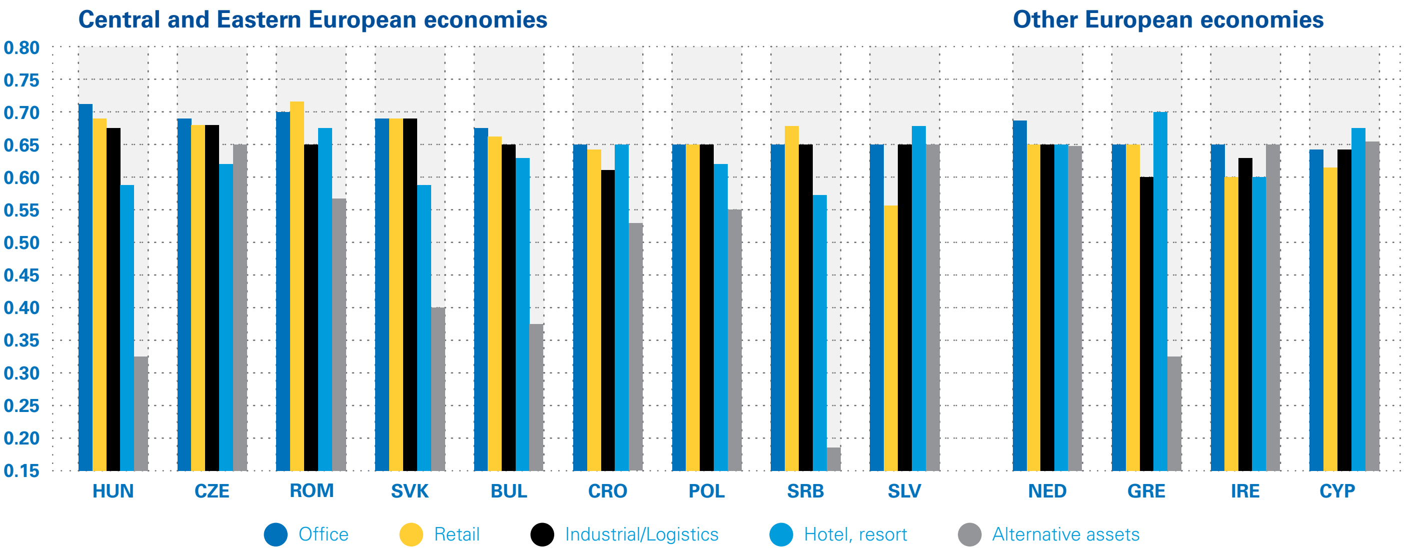
In parallel to responses for LTC ratios, there is no significant difference between the average LTV ratio of the asset classes per country group, with the average for Central and Eastern European countries at 0.61, and for other European countries 0.63. This indicates that banks are willing to provide similar amounts of credit in proportion to the total appraised real estate value in both country groups.

For CEE economies, the loan-to-value ratios for the office, retail, industrial/logistics, and alternative assets (i.e. student housing, senior home) range from 0.18 to 0.71 (i.e. reflecting a capital structure of 18-71% debt and 82-29% equity). The office sector, on average, has the highest LTV ratio, 0.67, followed closely by retail, and industrial, both at 0.66.

Alternative assets, on average, require the highest ratio of equity, with the LTV ratio for the country group being 0.41. While banks in most countries in this group are quite restrictive, banks in Slovenia are willing to provide 65% credit in proportion to the total appraised real estate value.

In the case of other European economies, the range is narrower, with a ratio of between 0.33 and 0.70 (reflecting a capital structure of 33-70% debt and 67-30% equity). The lowest average proportions of equity are required for the office and hotel, resorts sector (34%), while the most equity is needed for alternative assets (43%). The favourable terms offered to projects in the hotel, resorts sector in Greece and Cyprus is likely due to the relatively strong tourism sectors.

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



Source: KPMG Property Lending Barometer, 2019

Pre-let ratios

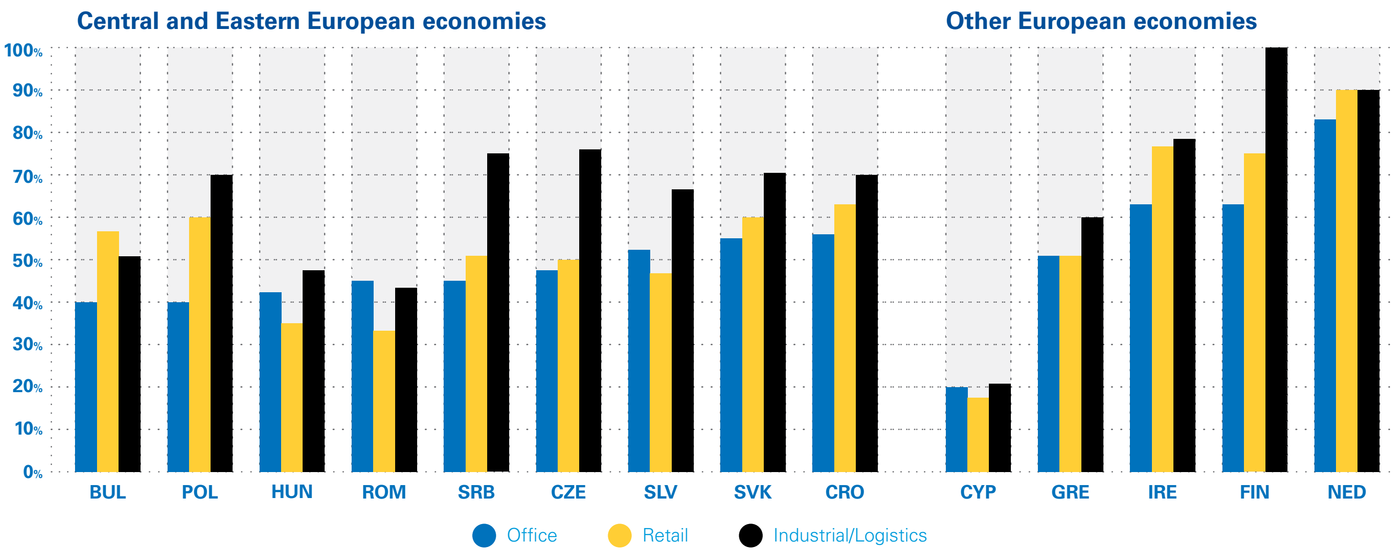
Answers also vary significantly across countries and sectors regarding banks' pre-let expectations. On average, pre-let ratios for the office sector are lower in most of the markets compared to the retail and industrial sectors.

A long-term trend prevails in that banks in more established economies indicate that they 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, as reflected by our survey results for Ireland, Finland and the Netherlands.

In CEE economies, pre-let ratios for office and retail projects are on average 47% and 45%, respectively, while industrial is at 57%. Banks' average pre-let requirement in other European markets for office developments registered 56%, 62% for retail developments and 70% for industrial developments.

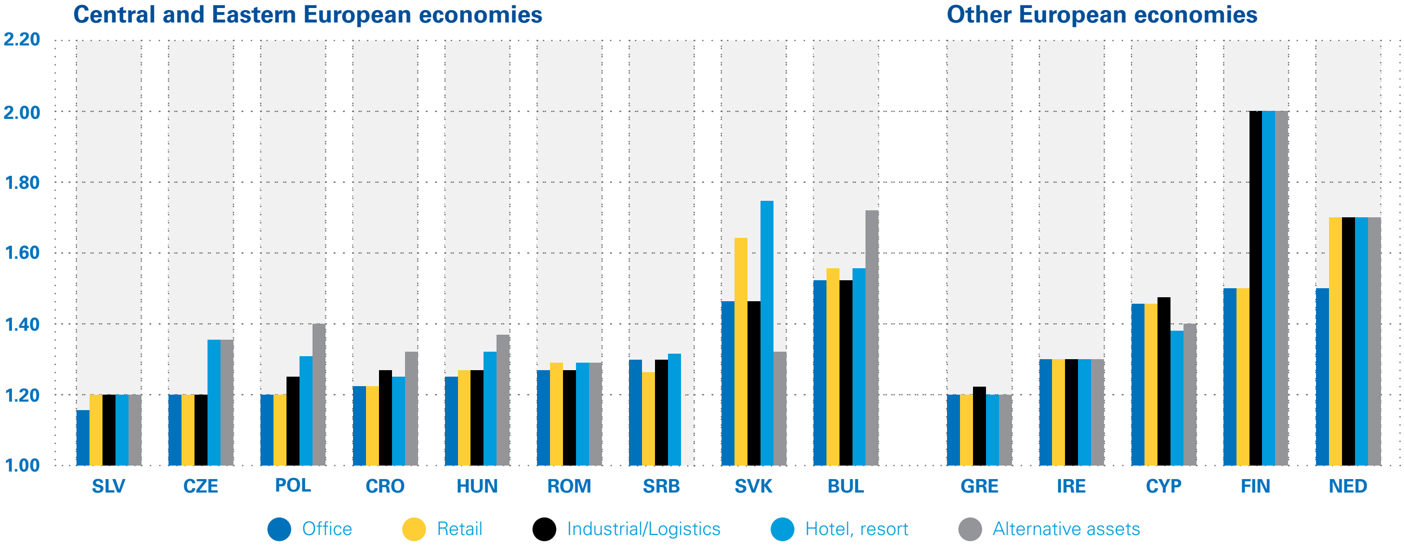
There is no change this year in the long-term pattern that industrial projects are required to have higher pre-let ratios to obtain financing, reflecting the phenomenon that banks are less open to speculative industrial property developments. This is mainly related to the fact that in the industrial segment it is more common to develop properties according to a "build to suit" concept, which means that the property is developed based on the (dominant) tenant's specific needs and requirements.

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, 2019

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, 2019

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.

Income-generating projects in the office sector offer the lowest DSCR ratios (1.31), considering all responses across country groups, followed by retail (1.34).

Banks operating in Central and Eastern European economies require the lowest DSCR ratio for the office asset class, at an average of 1.28, followed closely by industrial/logistics, and retail at 1.30 and 1.31, respectively. Hotel and alternative (i.e. student housing, senior home) assets require higher DSCR ratios of 1.36 and 1.37, respectively.

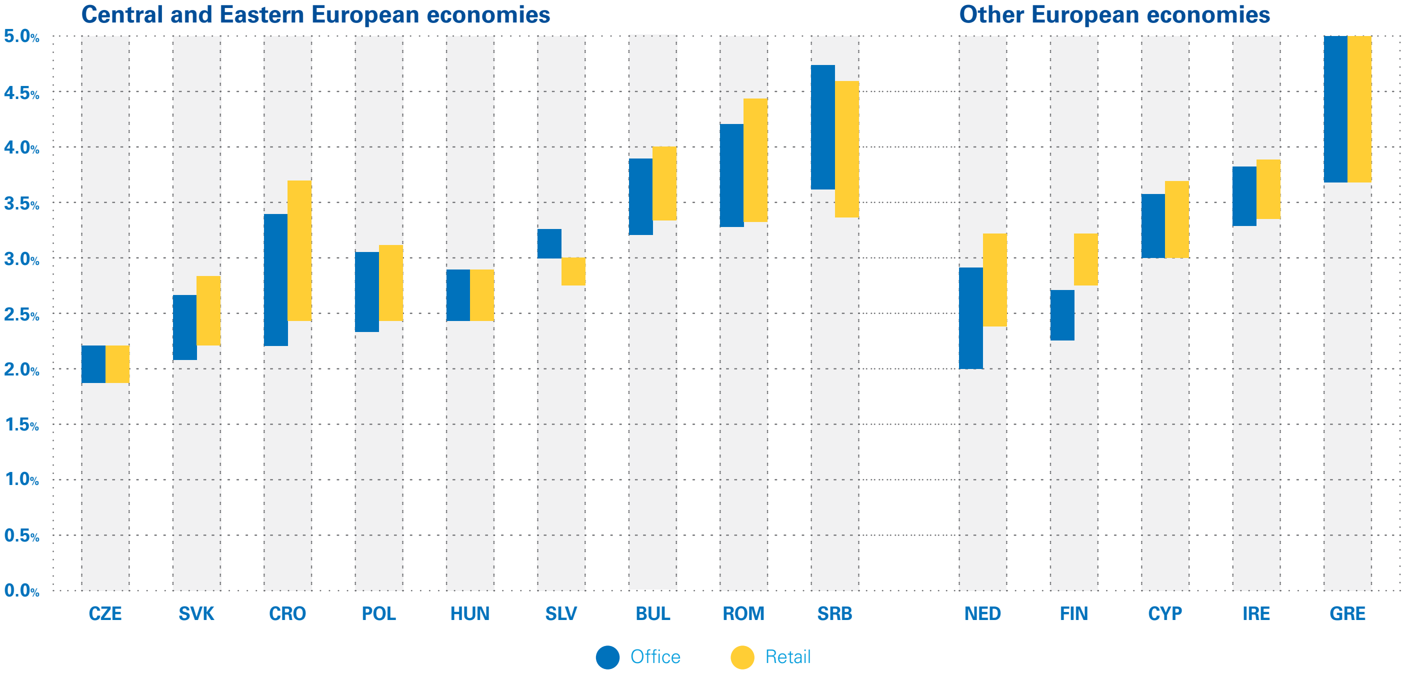
Other European economies' banks expect the lowest average ratio for office (1.36), followed by retail (1.39). Hotel, resorts and alternative assets require, on average, somewhat higher ratios (1.46, equally), while industrial/logistics opportunities tallied the highest ratio of 1.48. The relatively favourable terms expected of hotel, resorts, and alternative assets is mainly due to lower expectations reported by banks in Greece and Cyprus.

Interest premiums

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

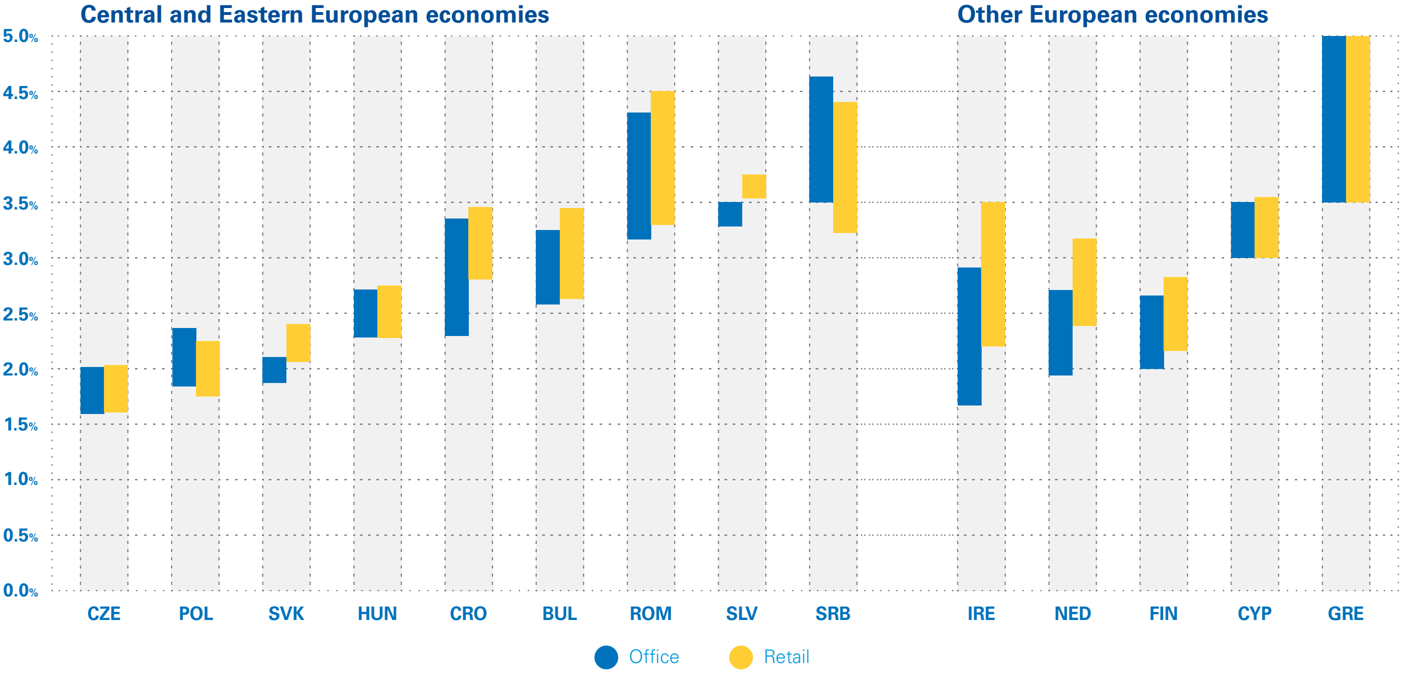
This section of our report only includes two asset classes, office and retail, i.e. those which were typically key focus sectors from a real estate investment perspective in Europe in 2019. Premiums for most asset classes in each country are presented in the country profile section of this report. A general pattern 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 contributed to more favourable conditions available to borrowers. However, there are exceptions, as reflected by the relatively higher loan interest premiums in the Irish real estate market.

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



Source: KPMG Property Lending Barometer, 2019

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



Source: KPMG Property Lending Barometer, 2019

We observed a loss of momentum, in a tendency noted in previous years' surveys, that an improved economic environment across Europe resulted in the easing of financing conditions among banks, hence they required relatively low interest premiums in most markets. In general, interest premiums have not improved since last year.

The premium applied on new office and retail developments in CEE economies currently ranges from 2.08-4.2%. On average, Czech banks require the lowest premiums, while Serbian banks require the highest. The respective premiums for other European economies range between 2-5%, with Irish banks providing the most favourable terms for comparable projects, and banks in Greece requiring the least favourable premiums.

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

The required risk premiums vary according to market, but are generally lower for income-generating projects, than for new developments. For example, Hungarian banks require premiums that are lower by 14-16 basis points for income-generating office and retail asset classes compared to that for new developments. Banks in Ireland mandate lower premiums (by 81-126 basis points) for office and retail income-generating projects than for new developments.

Among the Central and Eastern European economies, banks in Poland and Slovakia apply the lowest premiums, while the highest are applied in Serbia and Slovenia. For the other European economies, banks in Germany require the lowest, while those in Greece mandate the highest premiums for income-generating projects.

Length of loan

Bank representatives in our survey provided data regarding the minimum required average annual loan amortization rate that would be 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 project.

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 markets banks in various economies operate in.

A general pattern prevails, that banks in more mature markets operate in more competitive environments that drive them to apply low amortization rates; however, their internal policies limit the longest term of the loan they contract for. Consequently, the average difference between the implied maximum amortization period and the available maximum contracted length of the loans is much greater in the other European economies country group (31 years) than the average in CEE countries (8 years).

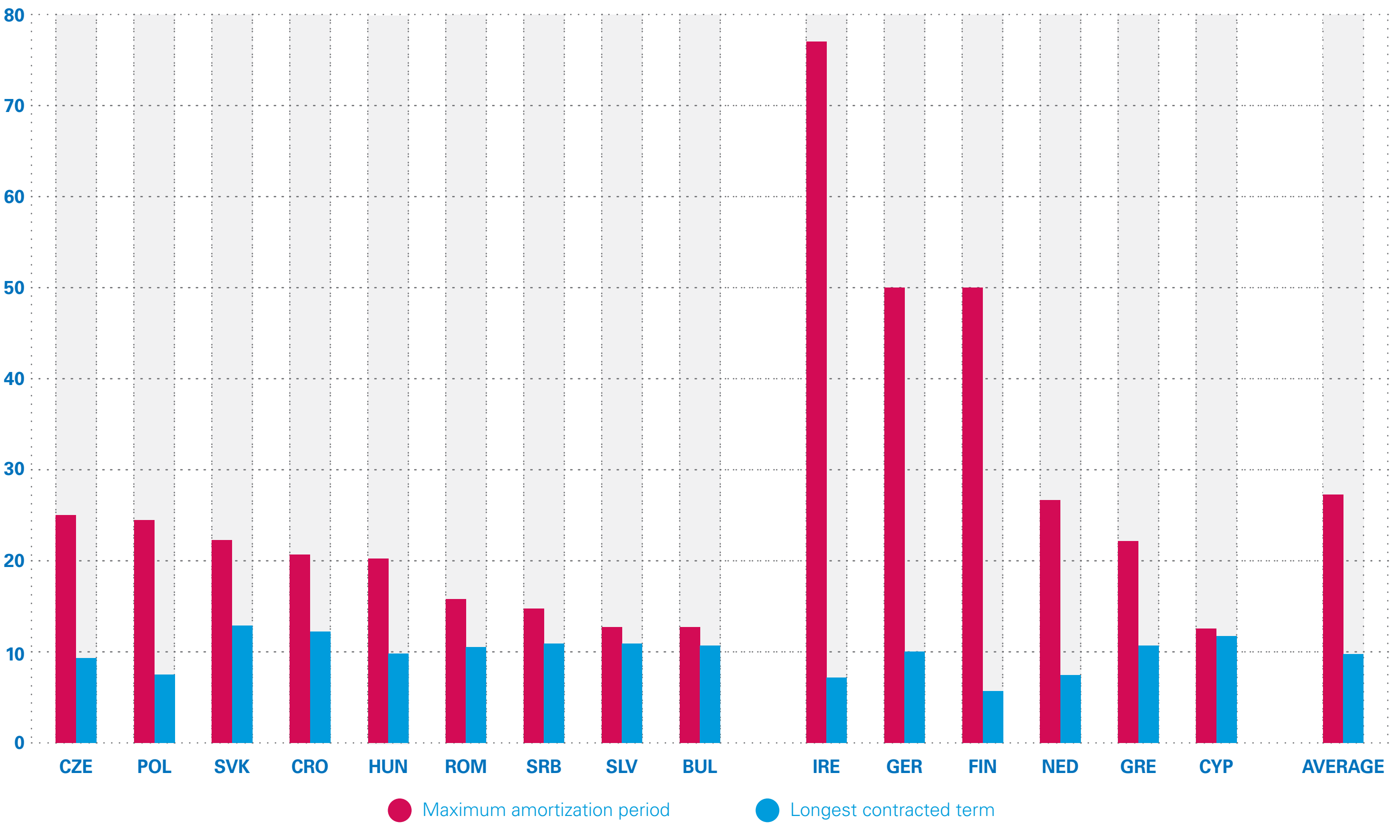
In the economies represented in the CEE country group, the implied maximum amortization period of the loan and the available maximum contracted length of the loan is in the range of 12-31 years and 8-13 years, respectively. Polish banks, when certain conditions are met, are ready to apply the lowest rate of amortization (3.3%).

In the other European countries group, the implied maximum amortization period of loans ranges 12-77 years, while the available maximum length of loans is in a range of 6-12 years. When certain conditions are met, Irish banks are ready to apply a very low amortization rate (1.3%), yet their maximum length of contract is relatively short (6.7 years).

In comparison with banks' responses last year, the average implied maximum amortization period increased (27 years, compared with 24 years for last year), while there is no significant change in the average available maximum contracted length of the loans (9.8 years).

In terms of asset classes, taking the average of all surveyed countries, there are no significant differences between the amortization rates. The rates range between 4.28-5.12%, with the office projects receiving the most favourable, and alternative assets the least favourable terms. Similarly, on average, the available maximum contract length applied by banks for different asset classes ranges from 9.4-10.3 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, 2019

Conclusions

The economic outlook for each country's real estate market is profoundly contingent upon the macroeconomic prospects and the perceived risk profiles of their respective economies.

General financing conditions are expected to remain relatively favourable across Europe, mainly due to competitive pressure contributing to more lenient credit terms and conditions. However, trade tensions, declining investments as well as policy concerns on a global scale may curb such optimism for the next few years.

A trend of declining total investment volume in Europe continued in the first 6 months of 2019. Germany and the UK attracted almost half of the total European transaction volume, both being in decline, while a few markets managed to grow significantly in that period, including Sweden and Spain. Meanwhile, prime yields are expected to continue their decline in 2019.

Non-performing loans do not make up a significant proportion of banks' real estate loan portfolios in any of the surveyed markets yet; meanwhile, banks confirmed their openness to offering real estate financing, especially for income-generating projects.

The focus on real estate financing has maintained or increased in all countries except Romania, where it has somewhat decreased since last year. Slovenia and Greece have experienced the most notable increase.

Bank representatives were also asked what other industries they find attractive in terms of financing compared to real estate. Overall, food & beverage and manufacturing industries were selected the most frequently, reflecting banks' preference for these over financing real estate projects.

Banks in general continue to offer more favourable terms when financing income-generating projects than for new developments.

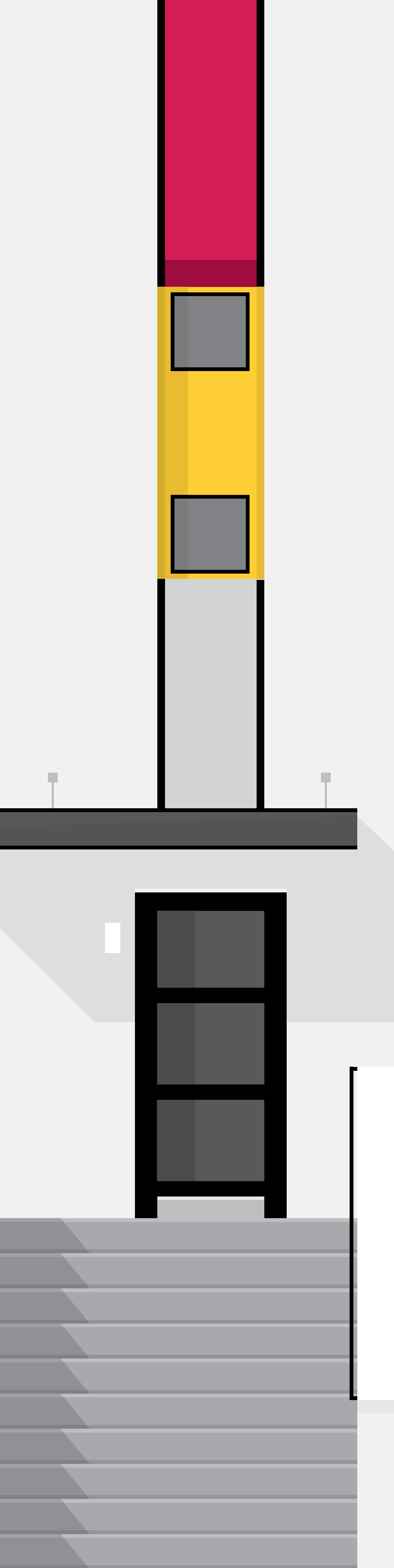
While in more established markets the preferred asset class is residental, in Central and Eastern Europe office is the most preferred, similar to last year. The hotel sector appears to have gained popularity among banks in terms of financing, especially in countries with strong tourism sectors like Greece, Croatia and Cyprus.

Respondents in both country groups, on average, confirmed their clear preference for financing projects in primary markets, especially prime standing investments. Representatives from Ireland, Greece, Cyprus, and the Netherlands were particularly in favour of these opportunities.

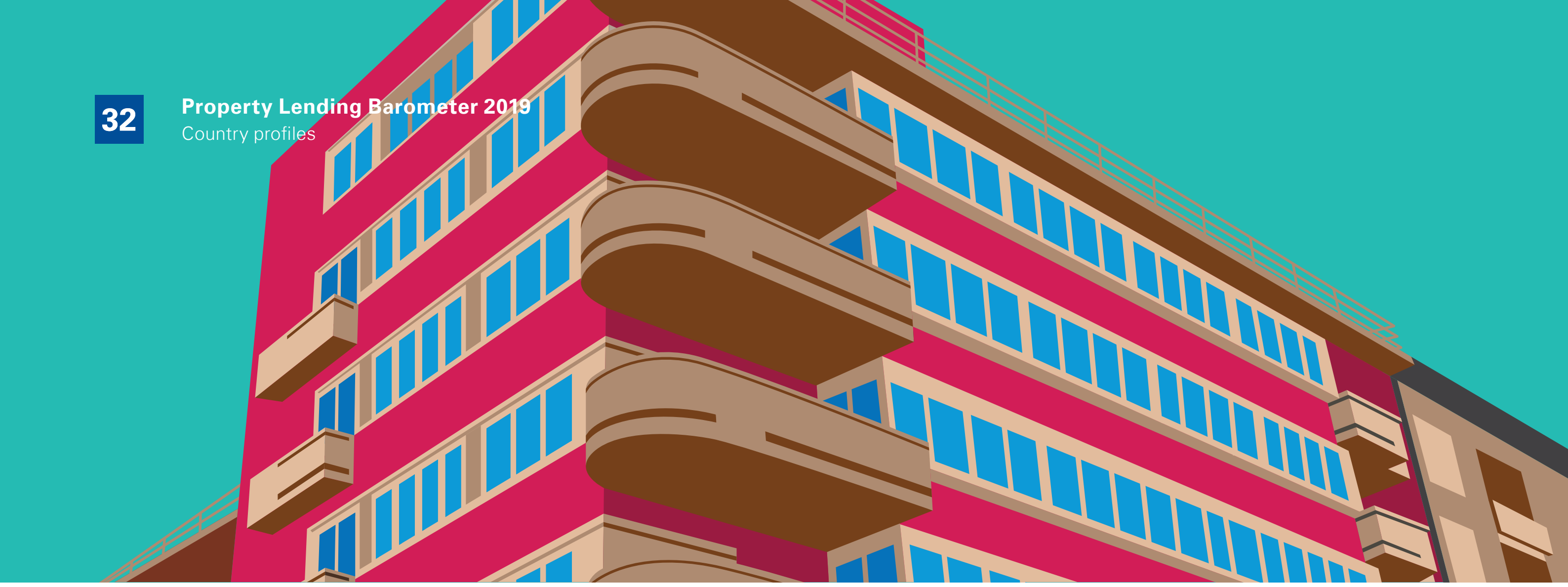
A long-term pattern prevails in that the difference between the implied maximum amortization period of the loan and the available maximum contracted length of the loans offered by banks is much greater in the other European economies country group (31 years) than in the CEE economies (8 years).

Among alternative lenders, respondents say that non-local commercial banks are banks' strongest competitors in most European countries, while private equity/debt funds provide an equally significant competitive threat in the other European economies country group.

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



Country profiles



Radoslav Radoslavov, Konstantin Djangozov: **48 Vitosha Boulevard**, Sofia

Bulgaria

"With a growing demand for modern office facilities in attractive locations, banks in Bulgaria are competing to finance good quality, well-structured projects on the Sofia market. While the concentration of real estate developments and transactions is in the capital, the trend of business process outsourcing and IT businesses establishing hubs in other big cities is expected to drive the demand outside of the Bulgarian capital."

Juliana Mateeva

Economy

GDP growth 2019 F 3.1%

Inflation 2019 F 3.3%

Unemployment rate 2019 F 5.9%

Source: Economist Intelligence Unit

Prime yields, Q2 2019

High Street Retail 7.50%

Office 7.50%

Industrial 8.50%

Source: Cushman & Wakefield

Key investment transactions H1 2019

City	Property	Seller	Buyer
Sofia	Office A	Two private investors	Bravo Property Fund REIT
Sofia	Han Krum 21	Gushterov & Son AD	Nordic Properties
Sofia	Telus Tower	GEK Terna	NBG Pangea Real Estate Investment Company
Plovdiv	Grand Hotel Plovdiv	Synergon Holding	SVS
Elin Pelin	Saint Sofia Golf and SPA	Bulgaria Development Holdings Limited	MTP Finance EOOD, Bulgaria

Source: KPMG Property Lending Barometer, 2019

Transaction volume and YoY change H1 2019

97 EUR m

-70%

Source: Colliers

Lending market

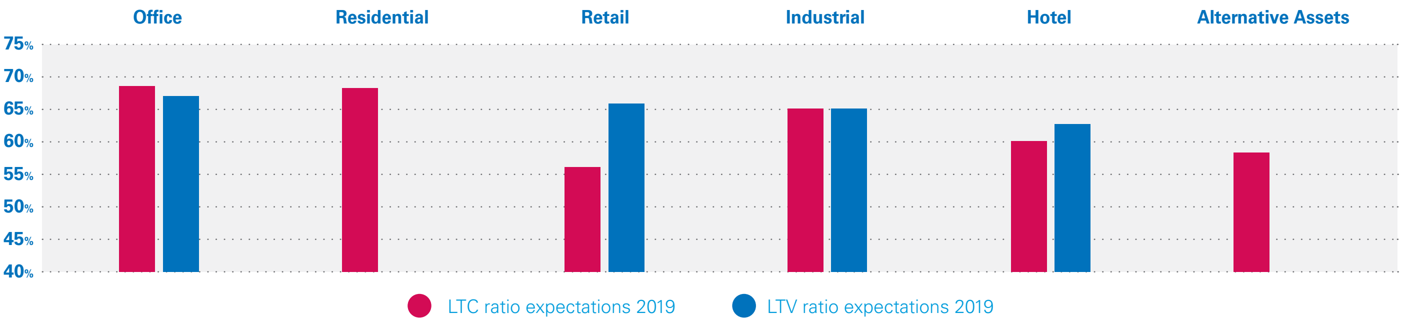
Real estate financing was stated as having high strategic importance by more than half of the banks in Bulgaria included in the survey. Only one-fifth of the banks decreased their focus on the sector moderately, while the same portion maintained their focus, and the majority increased their interest either moderately or significantly. Bulgarian banks are strongly open to finance both income-generating projects and new developments with a slight preference for the former.

Among the most significant alternative lenders are non-local commercial banks and private equity/debt funds. Investment banks, as well as insurers/pension funds are of lesser importance. The provision level in real estate financing is considered adequate by all respondents in Bulgaria. Average loan size varies from EUR 10 to EUR 21 million, while the preferred amount is between EUR 10 and EUR 17 million. This shows a notable increase since the previous year.

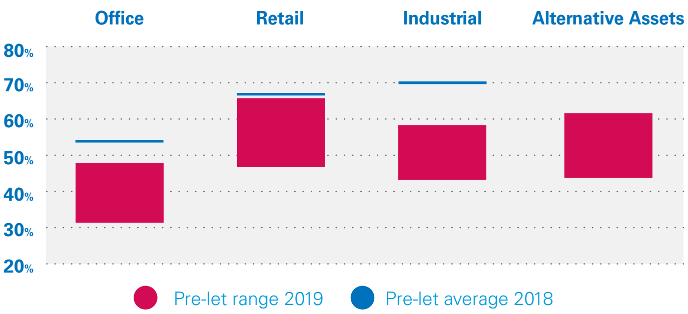
Future of real estate portfolios

As for the real estate loan portfolio size of the total banking sector, 40% of respondents expect no change in the next 12-18 months, while all other banks foresee an increase. Expectations are similar for their own banks, although the increase is forecast to be more moderate. This represents slightly improved prospects compared to last year.

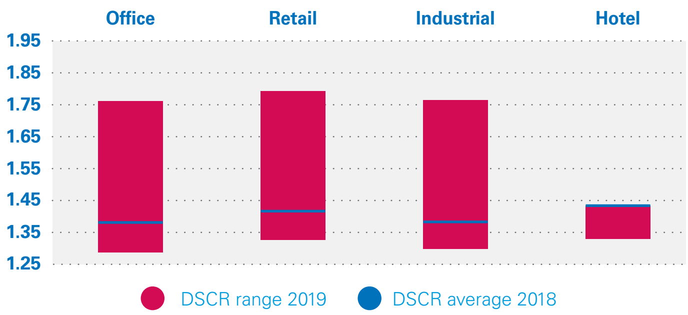
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



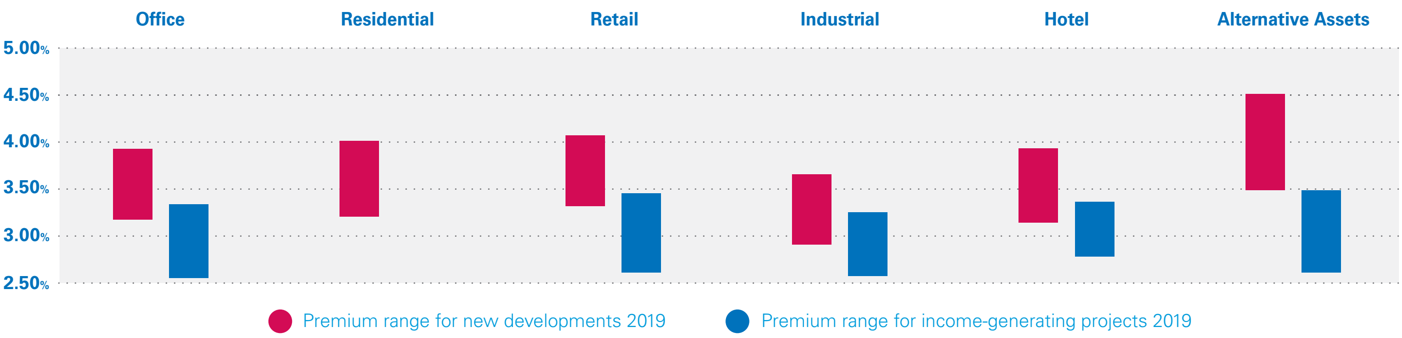
Pre-let ratio expectations for projects



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, 2019

Bogdan Petrović: **Petrović house**, Zagreb

Croatia

"Banks in Croatia have largely cleared their non-performing loans and are open for business, albeit cautiously."

Paul Suchar

Economy

GDP growth 2019 F	2.7%
Inflation 2019 F	2.0%
Unemployment rate 2019 F	9.5%

Source: Economist Intelligence Unit

Prime yields, Q2 2019

High Street Retail	6.50%
Office	8.00%
Industrial	9.00%

Source: Cushman & Wakefield

Key investment transactions H1 2019

City	Property	Seller	Buyer
Dubrovnik	Hoteli Maestral	State	Pnd Strategija d.o.o.
Baška Voda	Hotel Hrvatska	State	Marea Alta d.o.o.

Source: KPMG Property Lending Barometer, 2019

Lending market

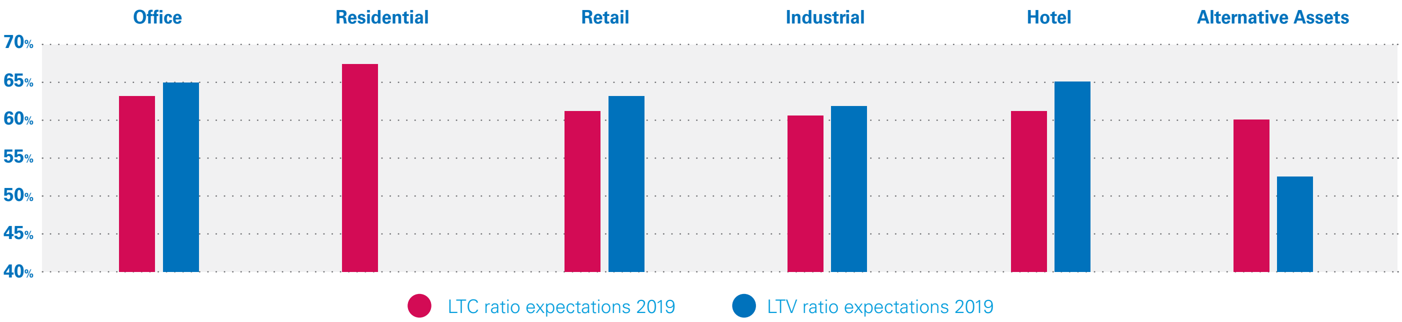
Over 80% of banks in Croatia included in the survey consider real estate financing of average strategic importance. The rest declared it unimportant. However, half of them increased their focus on real estate financing moderately or significantly compared to last year. Participants in Croatia are open to financing income-generating projects, and slightly less interested in new developments.

Private equity and debt funds are seen as the most notable rivals in real estate financing, closely followed by non-local commercial banks. Two thirds of Croatian banks recognized the level of provisions in the banking sector as adequate, while the remaining banks were divided if the level was too low or high. The average loan size experienced a significant change compared to the previous year and is between EUR 16 to 19 million, with preferred sizes falling in a similar range, between EUR 16 to EUR 20 million.

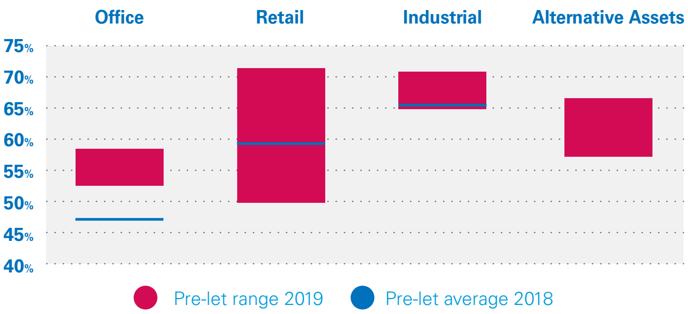
Future of real estate portfolios

When estimating the total banking sector's real estate portfolio size, over 80% of Croatian participants expect an increase, while the rest expect a decrease. Regarding their own bank, the same share of respondents expect an increase, while the remaining banks expect no change in the size of their banks' own real estate loan portfolio in the next 12-18 months.

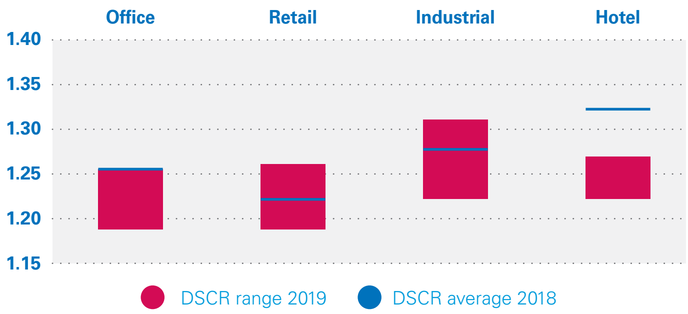
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



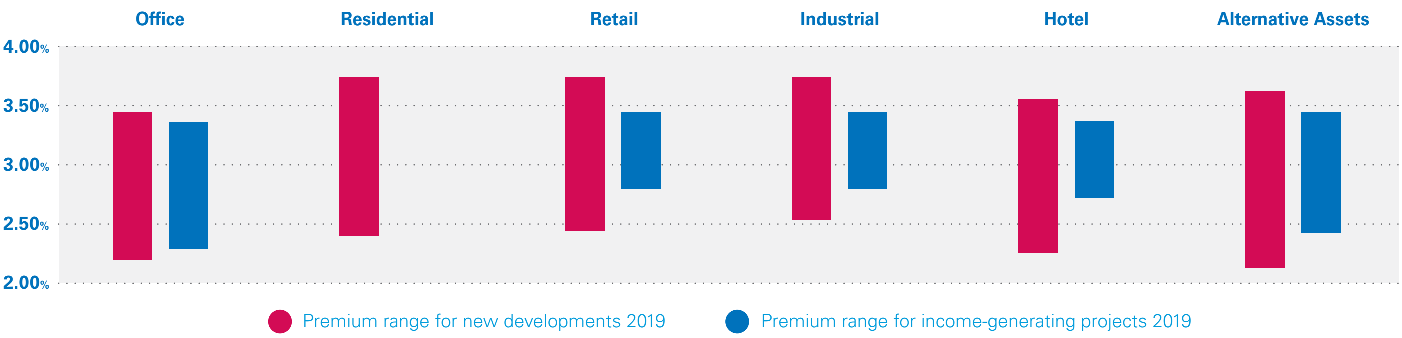
Pre-let ratio expectations for projects



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, 2019

Polys Michailides: **Orphanage building**, Nicosia

Cyprus

"The real estate market in Cyprus has rebounded in recent years. Construction of residential and commercial real estate is on the rise. Real estate has always been a mainstay of the local economy and, as such, banks have maintained their interest, albeit employing a more careful approach from that of the past."

Christophoros Anayiotos

Economy

GDP growth 2019 F 2.8%

Inflation 2019 F 4.3%

Unemployment rate 2019 F 6.5%

Source: Economist Intelligence Unit

Prime yields, Q2 2019

High Street Retail 5.00%

Office 5.00%

Source: Cushman & Wakefield

Key investment transactions H1 2019

City	Property	Seller	Buyer
Limassol	E&S Mall (Anexartisias)	Hellenic Bank	Prosperity Group & Brown Hotels
Nicosia	Landmark (ex. The Hilton)	MIG & Louis Group	NBG PANGEA
All over Cyprus	CYREIT Variable Investment Company	Bank of Cyprus	NBG PANGEA

Source: KPMG Property Lending Barometer, 2019

Transaction volume and YoY change H1 2019

1,674 EUR m

-1.5%

Source: Department of Lands and Surveys (Transfer of Sales)

Lending market

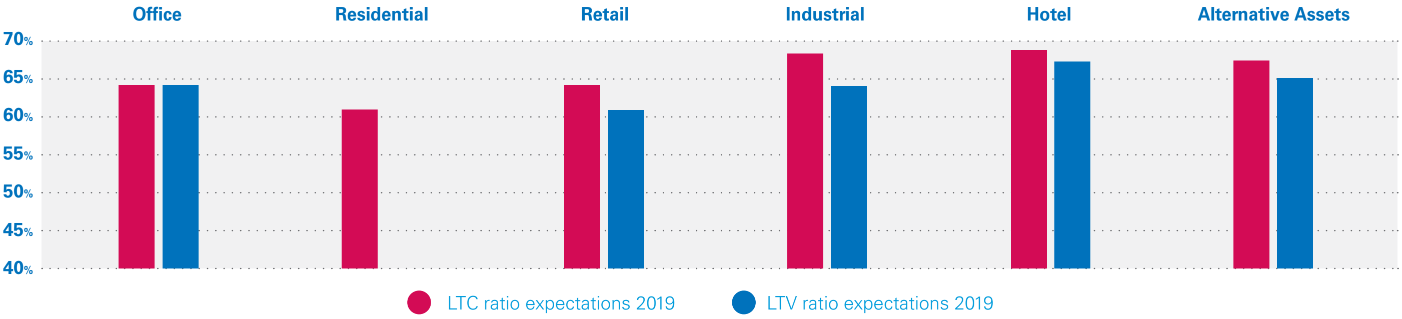
Participants in Cyprus are mainly divided on the matter of the strategic importance of real estate financing: just over 10% do not consider it important, while the remaining participant banks are equally divided between viewing it as of moderately low or high significance. Two-thirds of those surveyed maintained their focus on the sector since last year, while one quarter increased their focus moderately, and the rest indicated a loss in focus. Cypriot banks are open to financing income-generating projects but are only moderately interested in new developments.

Private equity and debt funds are considered as the strongest competitors in the lending market, followed by non-local commercial banks and investment banks. Over half of those participating perceived the level of provisions in the sector as adequate, while the remainder see it as either moderately high or too high. Average loan size ranges from EUR 5 to EUR 10 million. The preferred size is slightly lower, in a range of EUR 3 to EUR 10 million. Compared to the previous year, these amounts increased significantly.

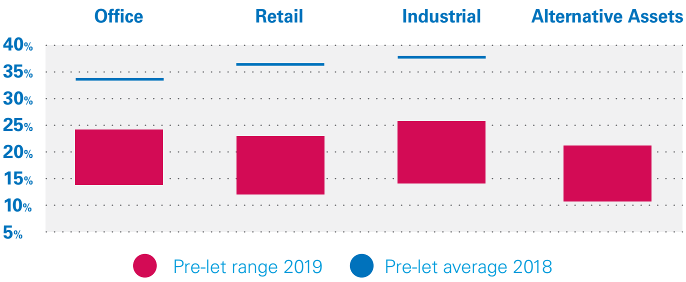
Future of real estate portfolios

Cypriot banks are quite divided in terms of their anticipation of a change in the total banking sector's real estate loan portfolio size. One-third of them expect no change, another third expect a decrease, while the rest expect an increase in the next 12-18 months. In terms of their own banks' portfolio size, half of them expect an increase, a quarter of them expect no change, and the remaining quarter expect a decrease.

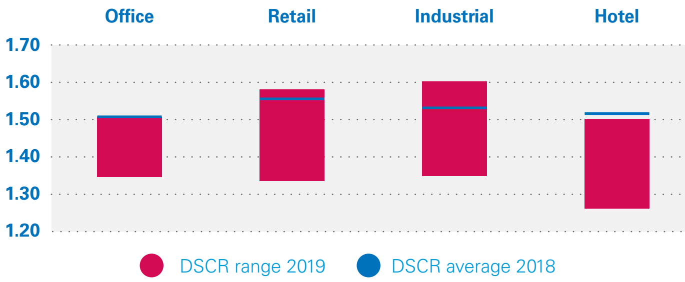
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



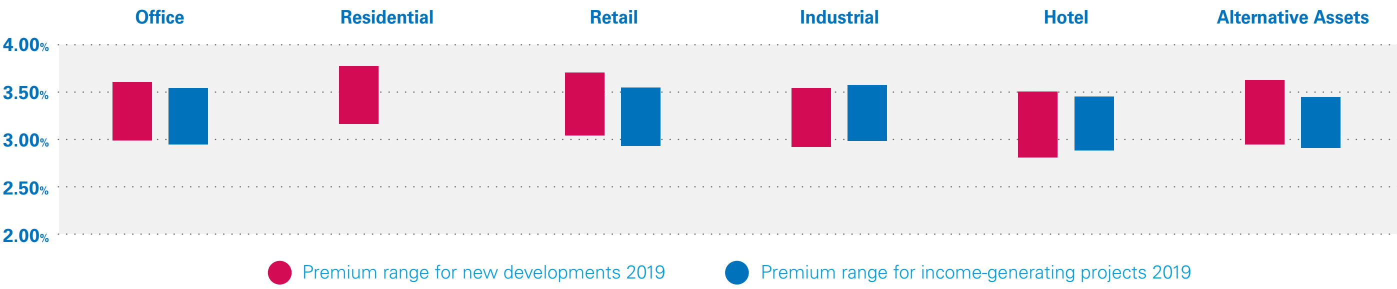
Pre-let ratio expectations for projects



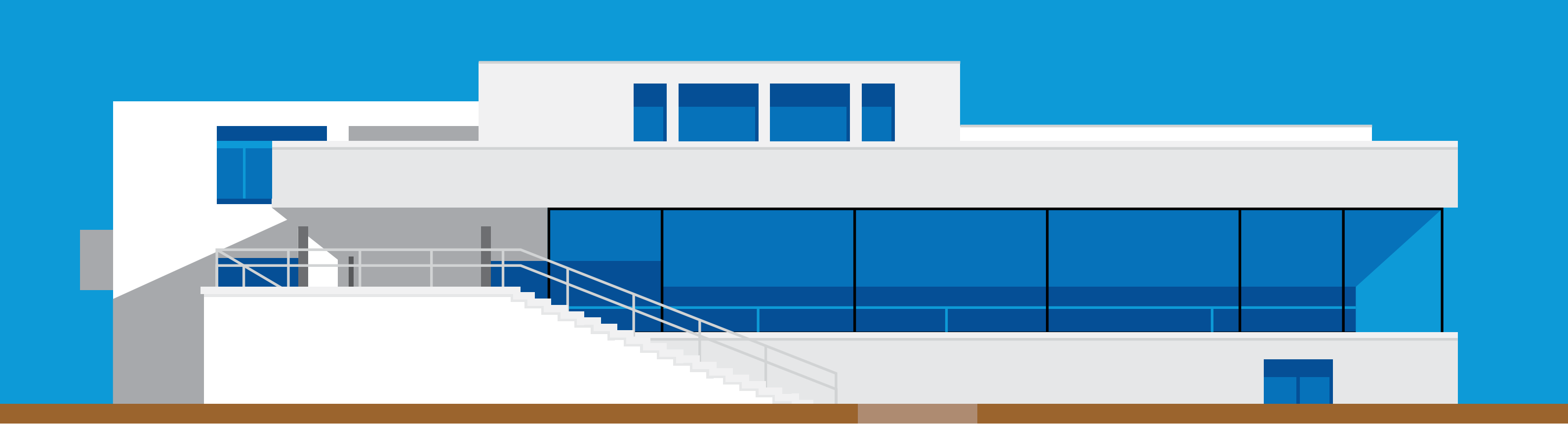
Debt service coverage ratio expectations for financing income-generating real estate projects



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



Source: KPMG Property Lending Barometer, 2019



Ludwig Mies van der Rohe: **Villa Tugendhat**, Brno

Czech Republic

"Stability and competition are the key characteristics of real estate bank financing in the Czech Republic. Despite an increase in alternative financing (e.g. bond financing), bank financing is and will continue to be crucial to the Czech property market. The Czech Republic's highly competitive environment has resulted in low interest rate margins, with local investors benefitting from negative Euribor rates."

Pavel Kliment

Economy

- **GDP growth** 2019 F 2.6%
- **Inflation** 2019 F 3.3%
- **Unemployment rate** 2019 F 2.2%

Source: Economist Intelligence Unit

Prime yields, Q2 2019

- **High Street Retail** 3.75%
- **Office** 4.20%
- **Industrial** 5.00%

Source: Cushman & Wakefield

Key investment transactions H1 2019

City	Property	Seller	Buyer
Prague	Palace Diamant	GLL	BMO Financial Group
Prague	Waltrovka	Penta Real Estate	Hanwha Investment & Securities
Prague	Rustonka	J&T	Hana Financial Group
Prague	InterContinental	J&T	R2G
Prague Ostrava Teplice	Property portfolio	Contera	TPG Capital

Source: KPMG Property Lending Barometer, 2019

Transaction volume and YoY change H1 2019

1,736 EUR m

83%

Source: Colliers

Lending market

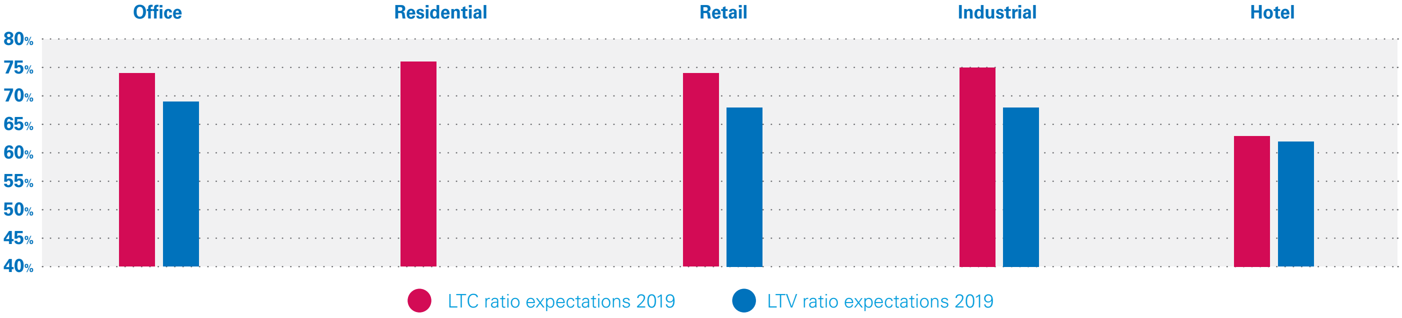
Eighty per cent of survey participants acknowledged real estate financing as having a high level of importance for their bank strategically, while the others deemed it of average importance. Almost two-thirds of these banks maintained their focus on the sector relative to last year, whereas the remainder had a moderate increase in their interest. Czech respondents showed strong openness to financing income-generating projects and were also highly interested in new developments.

Among the most notable rivals in real estate financing, those surveyed emphasized the role of investment banks, but they consider non-local commercial banks and insurer/pension funds as notable competitors too. Eighty per cent of respondents indicated the level of provisions in the bank sector as adequate, while the remaining participants signalled the level is slightly high. The average loan size varies from EUR 18 to EUR 33 million, while the preferred range is higher, between EUR 30 and EUR 46 million.

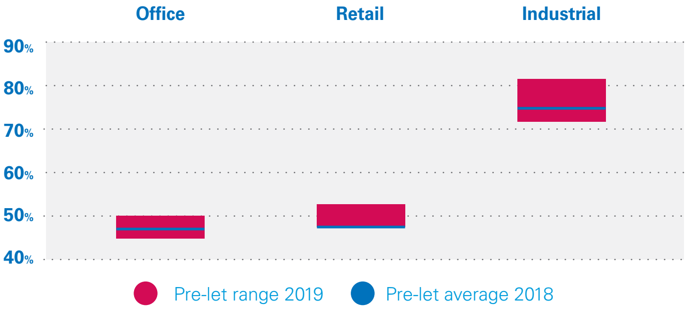
Future of real estate portfolios

As for the total banking sector's real estate portfolio, 60% of Czech participants are preparing for an increase in the next 12-18 months, while the remainder are divided equally among those expecting no change and those who see a decrease. Expectations for their own banks' portfolio size are similar, with the exception that no respondent expects a decrease.

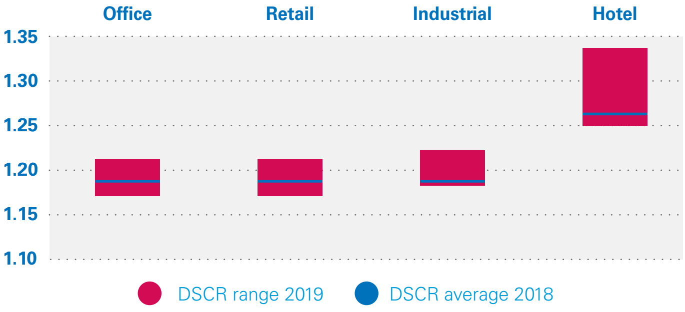
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



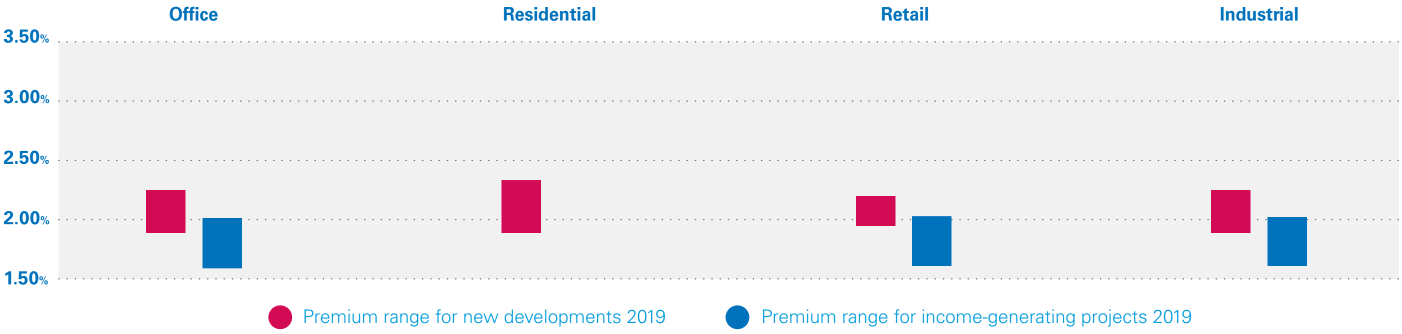
Pre-let ratio expectations for projects



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, 2019

Alvar Aalto: **Paimio Sanatorium**, Paimio

Finland

"Finland is a stable eurozone real estate submarket that continues to offer competitive returns to many European peers. Despite declining transaction volumes, most core properties are still subject to extensive international investor demand. Transaction volumes are likely to remain at a healthy level in absolute terms."

Teemu Haataja

Economy

GDP growth 2019 F 1.4%

Inflation 2019 F 2.8%

Unemployment rate 2019 F 6.5%

Source: Economist Intelligence Unit

Prime yields, Q2 2019

High Street Retail 4.00%

Office 3.25%

Industrial 5.50%

Source: Cushman & Wakefield

Key investment transactions H1 2019

City	Property	Seller	Buyer
Vantaa	Jumbo shopping centre	Unibail-Rodamco-Westfield	Elo Mutual Pension Insurance
Helsinki Tampere	Shopping centres Arabia and Duo	Citycon	NREP
Helsinki	Office Property (ECHA)	Skanska	Hansainvest
Helsinki	Sweco HQ	Sponda	GLL Pan European Property Fund
Helsinki	Spektri Business Park	Spektri Real Estate Ky	Fund managed by Tristan Capital Partners

Source: KPMG Property Lending Barometer, 2019

Transaction volume and YoY change H1 2019

3,100 EUR m

-23%

Source: KTI Property Information Ltd

Lending market

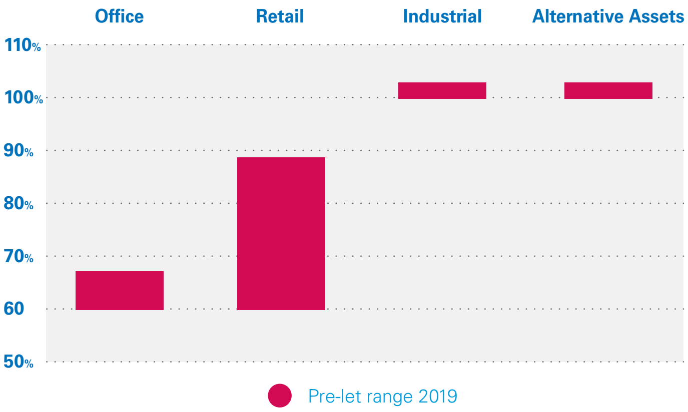
Two-thirds of survey participants in Finland view real estate financing as either important or extremely important strategically. The remaining third gives it relatively low importance. Compared to the previous year, two-thirds of the banks increased their focus on the sector moderately, while the rest maintained its interest. Income-generating projects are the most appealing to Finnish banks, while they are less open to new developments.

According to those surveyed, non-local commercial banks and insurer/pension funds are both major threats to banks active in the local real estate market. All participants consider the level of provisions in the bank sector adequate. Average deal sizes vary from EUR 36 to EUR 43 million, with a higher preferred range of between EUR 43 and EUR 60 million.

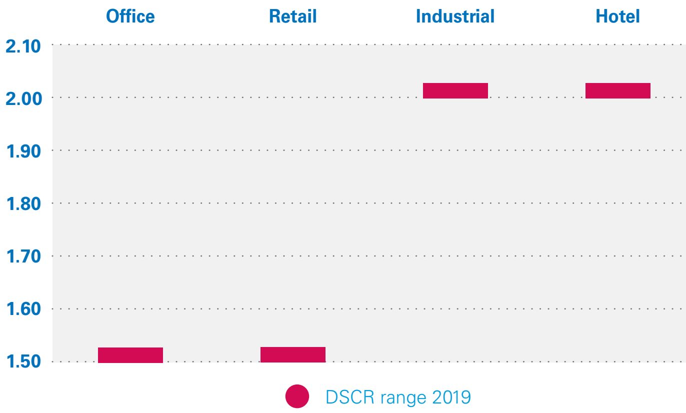
Future of real estate portfolios

For the total banking sector's real estate portfolio size, two-thirds of Finnish banks predict a decrease in the next 12-18 months. The remaining banks expect a slight increase. They are quite divided regarding their own banks' portfolio prospects, with an equal proportion of them expecting a decrease, no change or an increase.

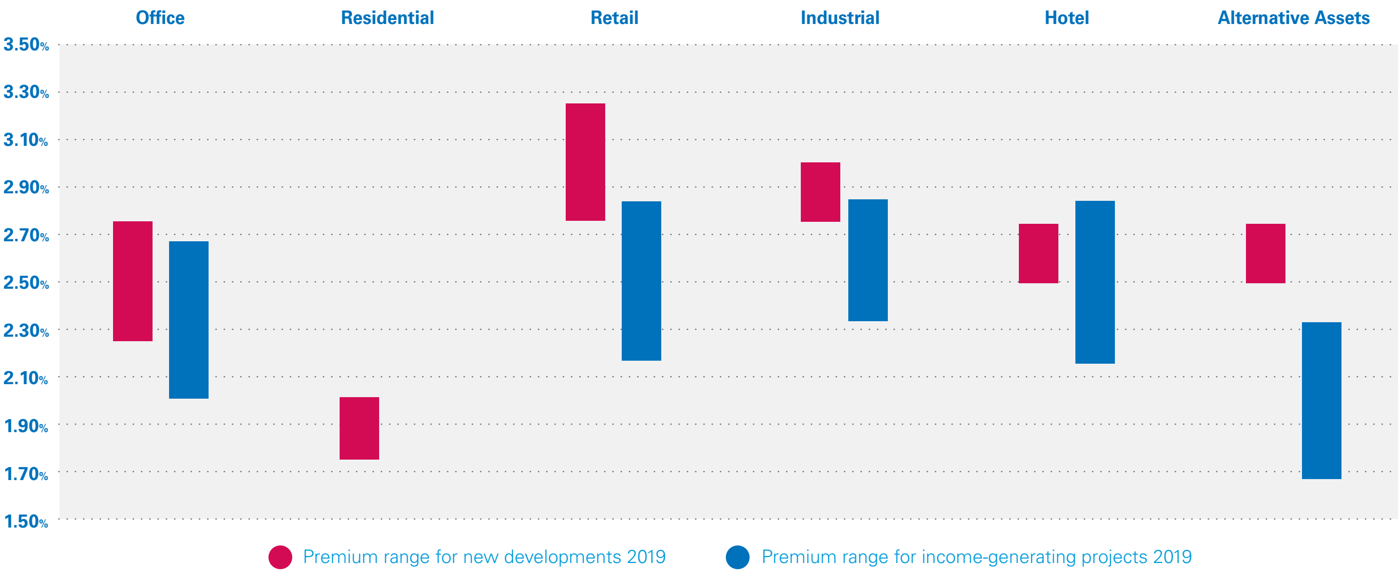
Pre-let ratio expectations for projects



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, 2019

Henry van de Velde: **The main building of the Bauhaus-Universität**, Weimar

Germany

"The German real estate market is in its 10th year of a 'supercycle': historically high real estate prices and historically low costs of debt build parameters in which investors face increasing difficulties in acquiring fairly priced real estate. Downturn of the German economy and increasing regulation may have negative impacts on investment in the office or residential segments. Banks have to account for increasing risks when lending over longer periods."

Dr. Hans Volkert Volckens

Economy

GDP growth 2019 F 0.8%

Inflation 2019 F 2.1%

Unemployment rate 2019 F 3.2%

Source: Economist Intelligence Unit

Prime yields, Q2 2019

High Street Retail 3.10%

Office 3.05%

Industrial 4.15%

Source: Cushman & Wakefield

Key investment transactions H1 2019

City	Property	Seller	Buyer
Stuttgart	Königsbaupassagen	Evans Randall	Antirion SGR
Berlin	Zoom	Hines	Bayerische Versorgungskammer BVk
Frankfurt	Die Welle	Axa Investment Asset Manager / Norges bank	Invesco Real Estate
Berlin	Oberbaum-City	UniCredit (HVB)	Blackstone
Frankfurt	Terra	Groß & Partner	Hausinvest

Source: KPMG Property Lending Barometer, 2019

Transaction volume and YoY change H1 2019

24,639 EUR m

-17%

Source: RCA

Lending market

All banks in Germany that participated in the survey assigned real estate financing a very important area strategically. Compared to the previous year, none of those surveyed banks decreased their level of focus on real estate. German banks are equally open to finance both new developments and income-generating projects.

For the participants, investment banks and non-local commercial banks pose the biggest threats as rivals in real estate financing, while insurer and pension funds are significant competitors as well. The level of provisions in the sector are seen as adequate by half of respondents and may be slightly low according to the remainder. The preferred deal size varies from EUR 5 to 100 million and the average deal size falls within this range.

Regarding debt service coverage ratio expectations and loan interest premiums applied, respondents in Germany indicated they provide financing with debt service coverage ratios starting at 1.2, loan interest premiums applied for new developments starting at 2% and loan interest premiums applied for income-generating real estate assets from as low as 1%.

Future of real estate portfolios

In terms of their estimate for the total banking sector's real estate loan portfolio size in the next 12-18 months, none of the respondents in Germany expect a decrease. As for their own banks' prospects, half of the representatives expect a decrease, while the others foresee an increase in the size of their real estate loan portfolio.

Walter Gropius (Pericles A. Sakellarios): **The Embassy of the United States of America in Greece**, Athens

Greece

"Real estate has always been a major indicator of the strength of the Greek economy. We have seen an increase in activity after a severe slump due to the financial crisis. We expect this trend to continue if not strengthen as the economy continues to grow."

Harry Sirounis

Economy

- **GDP growth** 2019 F 2.2%
- **Inflation** 2019 F 0.8%
- **Unemployment rate** 2019 F 18.2%

Source: European Commission Spring Forecast 2019

Prime yields, Q2 2019

- **High Street Retail** 6.20%
- **Office** 7.30%
- **Industrial** 9.80%

Source: Colliers

Key investment transactions H1 2019

City	Property	Seller	Buyer
Athens	Supermarket buildings	Fund based in Qatar	Grivalia - Eurobank
Athens	Office buildings	Sabeco	Brook Lane Capital
Athens	Office buildings	New Metal	Pangea
Rhodes	Paradise Village and Amilia Mare Hotels	Tourist entreprise of South SA (TEN)	Harvard Investment Group (HIG)
Athens	Hilton Athens	Ionian Hotel Entreprises	Temes SA

Source: KPMG Property Lending Barometer, 2019

Transaction volume and YoY change H1 2019

500 EUR m

14.2%

Source: Redvis

Lending market

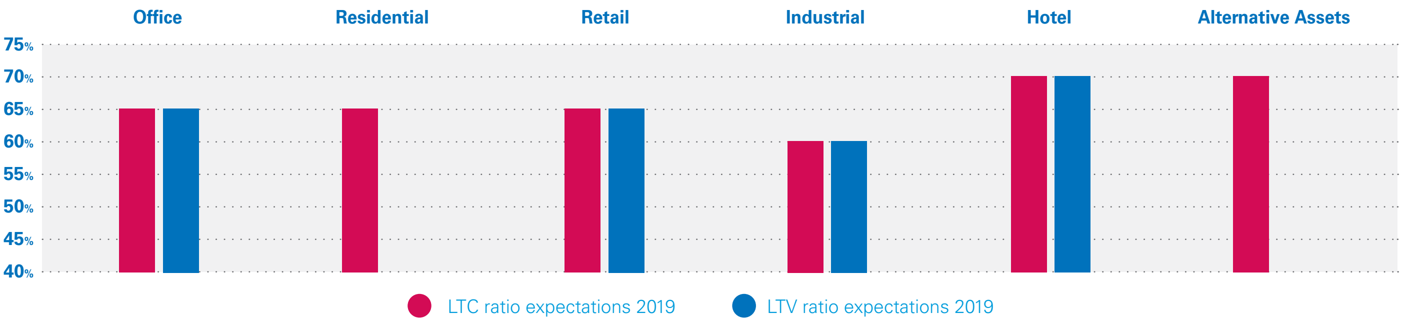
Participants in our survey in Greece consider real estate financing to be of moderate strategic importance. However, all banks there say they have increased their focus moderately compared to the previous year. They demonstrated a strong openness towards income-generating projects but were also interested in financing new developments.

The most notable rivals for banks in real estate financing in Greece are private equity and debt funds, followed by investment banks. None of the respondents see the provisions in the bank sector for real estate loans as too low. Average deal sizes are between EUR 12 and EUR 32 million, in line with banks' preferred sizes.

Future of real estate portfolios

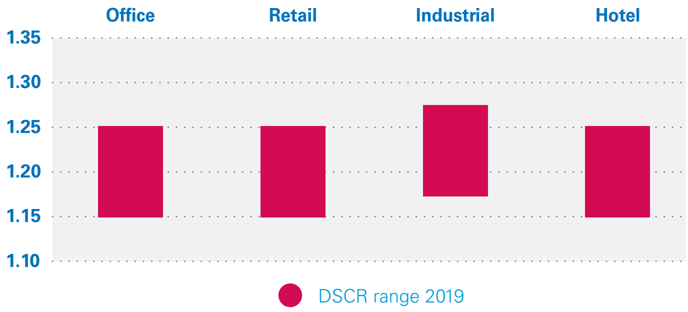
Respondents in Greece were in agreement regarding their estimate for the prospects of both the total banking sector's and their own banks' real estate loan portfolio size, that it would increase moderately in the next 12-18 months.

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

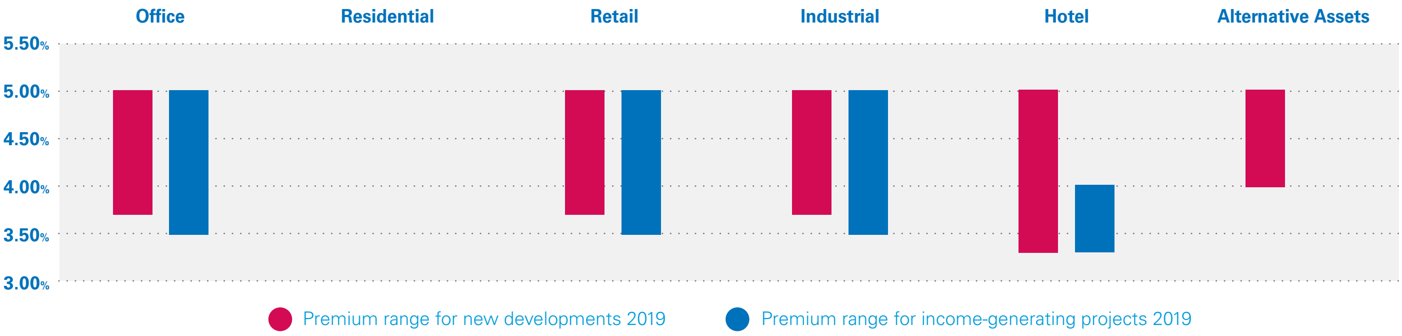


Pre-let ratio expectations for projects

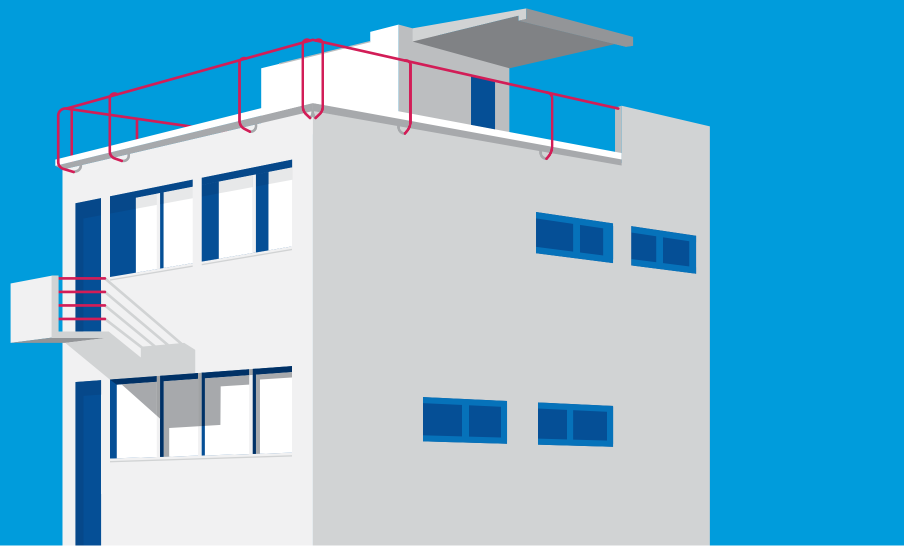
Debt service coverage ratio expectations for financing income-generating real estate projects



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



Source: KPMG Property Lending Barometer, 2019



Farkas Molnár, Pál Ligeti: **Villa**, Budapest, Napraforgó street

Hungary

"Banks in Hungary have a positive outlook on the financing of the Hungarian real estate market, in spite of increasing concern over a potential downturn in both the global and local economies."

Andrea Sartori

Economy

GDP growth 2019 F	4.1%
Inflation 2019 F	2.8%
Unemployment rate 2019 F	3.5%

Source: Economist Intelligence Unit

Prime yields, Q2 2018

High Street Retail	4.60%
Office	5.10%
Industrial	7.25%

Source: Cushman & Wakefield

Key investment transactions H1 2019

City	Property	Seller	Buyer
Budapest	Corvin Plaza	Klepiérre	Indotek
Budapest	Advanced Tower I-II.	Futureal	Erste Real Estate Fund
Budapest	Nordic Light Trio	Skanska	JR AMC
Budapest	Gellért Hotel	Danubius Hotels Group	Indotek
Vecsés	Aerozone	M7 Real Estate	JT Ross Group

Source: KPMG Property Lending Barometer, 2019

Transaction volume and YoY change H1 2019

527 EUR m

35%

Source: Colliers

Lending market

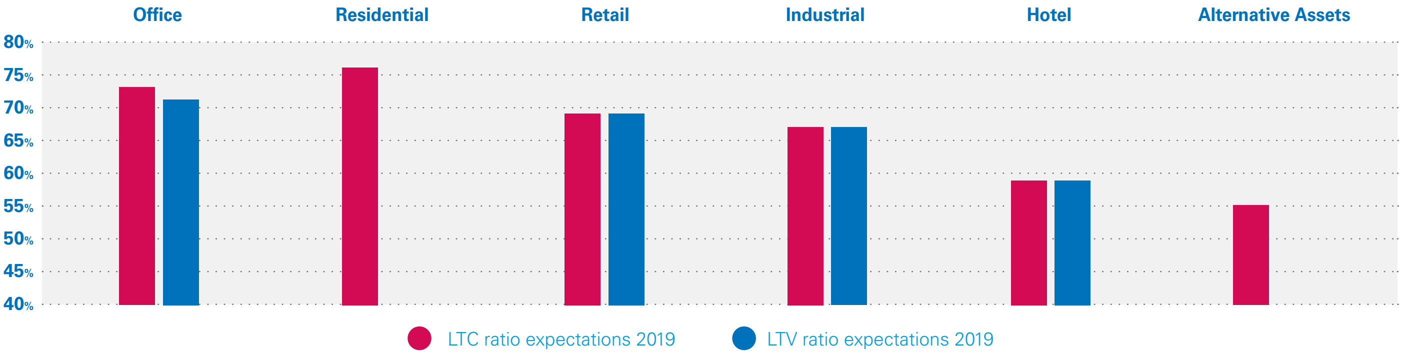
According to the survey, more than half of the participating banks in Hungary consider real estate financing to be of average strategic importance. The remaining respondents consider it somewhat more important. All survey respondents maintained their level of focus on the sector compared to last year. Participants are highly open to finance income-generating projects, while less interested in new developments.

Non-local commercial banks are viewed as the most notable alternative lenders in Hungarian real estate financing, while private equity and debt funds come in second as rivals. The level of provisions in the banking sector is considered adequate by all those surveyed. The average loan size falls into a range of EUR 23 to 29 million. The preferred size is relatively consistent, between EUR 20 and EUR 31 million.

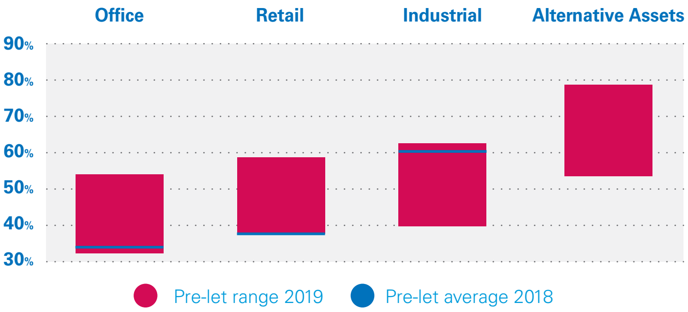
Future of real estate portfolios

All participating banks in Hungary are preparing for a moderate increase in the size of the total banking sector's real estate lending portfolio in the next 12-18 months. They are similarly positive regarding their own banks' prospects, with a quarter of them expecting even a significant increase in the size of their loan portfolio.

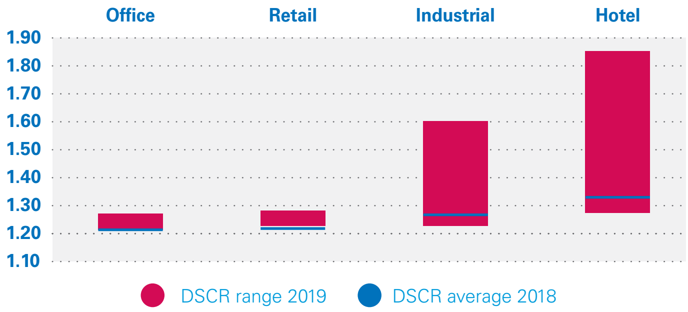
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



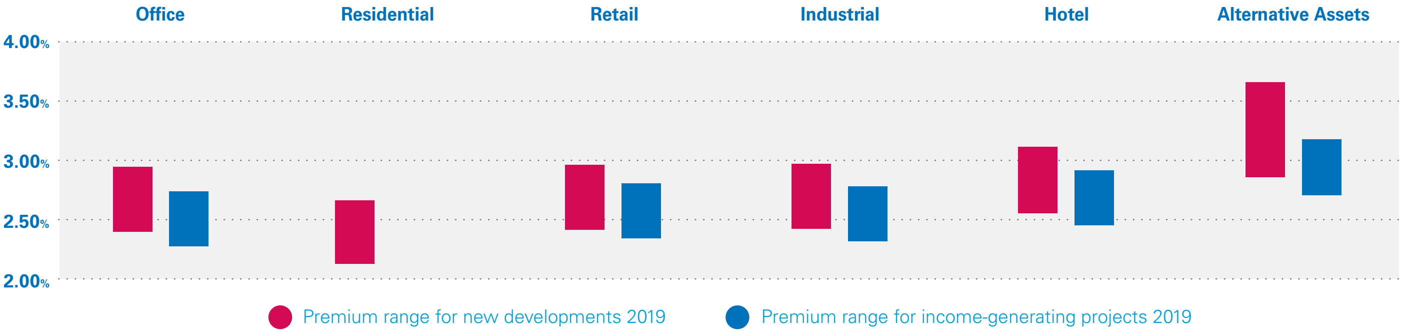
Pre-let ratio expectations for projects



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, 2019

William Clifford Smith: **Yoma**, Limerick

Ireland

"While noting the potential macro-economic headwinds, including the impact of Brexit, the Irish economy and real estate market continues to perform strongly. This year's survey indicates strong lending appetite amongst Irish banks as evidenced by tightening interest margins. However, not allsectors are in favour with property lenders demonstrating greater caution in relation to retail and hotel LTVs."

David O'Kelly

Economy

GDP growth 2019 F 3.5%

Inflation 2019 F 1.9%

Unemployment rate 2019 F 4.6%

Source: Economist Intelligence Unit

Prime yields, Q2 2019

High Street Retail 3.25%

Office 4.00%

Industrial 5.00%

Source: Cushman & Wakefield

Key investment transactions H1 2019

City	Property	Seller	Buyer
Dublin	The Sorting Office	Marlet	Mapletree Investments
Dublin	Charlemont Exchange	Marlet	Vestas Management
Dublin	25% Stake in The Pavilions Shopping Centre, Swords	IPUT	ILIM
Dublin and Cork	XVI Portfolio	Marathon Asset Management	IRES REIT
Wicklow	Powerscourt Hotel	Tetrarch Capital & Midwest Holding	MHL Hotel Collection

Source: KPMG Property Lending Barometer, 2019

Transaction volume and YoY change H1 2019

2,203 EUR m

-23%

Source: RCA

Lending market

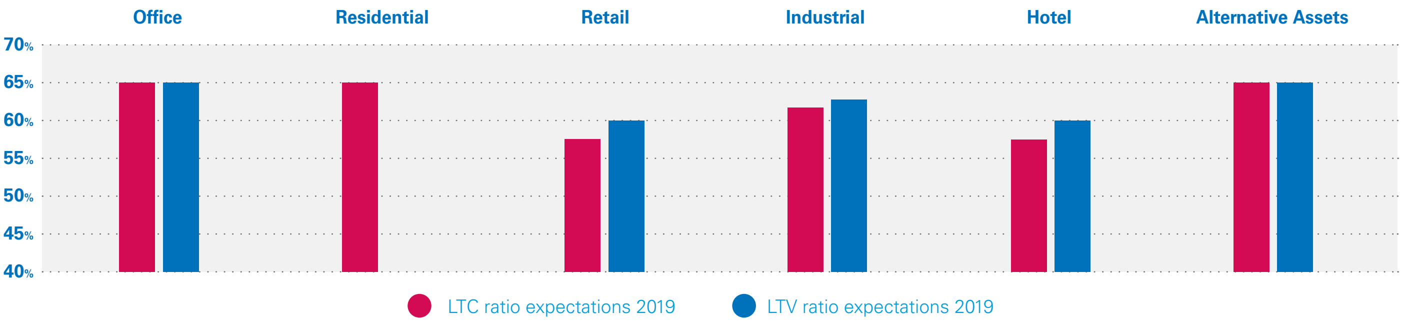
Two-thirds of the banks in Ireland that participated in the survey view real estate financing as either important or extremely important strategically, while the remainder consider it to bear moderate importance. All banks maintained their level of focus on the sector compared to last year. Respondents in Ireland are highly open to financing income-generating projects, and slightly less interested in new developments.

For Irish banks, private equity and debt funds are their biggest competitors for real estate financing, and investment or pension funds are considered as strong alternative lenders as well. The rate of provisions in the banking sector for real estate loans is deemed adequate by all surveyed banks. The average loan size varies from EUR 27 to EUR 36 million. The preferred amounts are higher, between EUR 32 and EUR 46 million. There is no significant change in this regard compared to the previous year's responses.

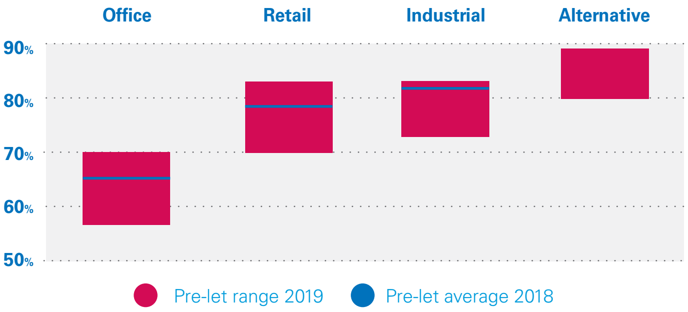
Future of real estate portfolios

Banks unanimously reported their optimism regarding an expected increase in the size of the total banking sector's real estate loan portfolio in the next 12-18 months. They were more divided in terms of the prospects for their own bank's portfolio, with half of them expecting an increase, and the remaining expecting no change or a moderate decrease.

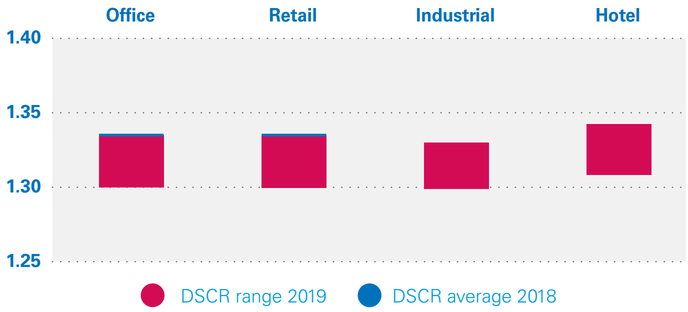
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



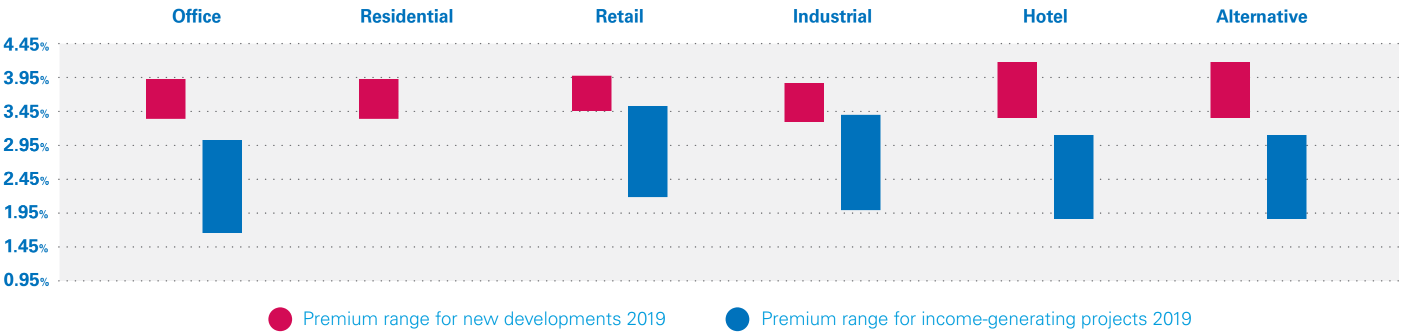
Pre-let ratio expectations for projects



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, 2019

J.J.P. Oud: **Woonblok van architect**, Rotterdam

Netherlands

"The combination of traditional Dutch banks that are reducing their exposure, and alternative lenders' appetite for relatively small and large tickets is resulting in a potential financing and liquidity gap for medium-size loans and properties."

Frank Mulders

Economy

GDP growth 2019 F 1.6%

Inflation 2019 F 3.2%

Unemployment rate 2019 F 3.3%

Source: Economist Intelligence Unit

Prime yields, Q2 2019

High Street Retail 2.85%

Office 3.25%

Industrial 5.50%

Source: Cushman & Wakefield

Key investment transactions H1 2019

	City	Property	Seller	Buyer
	Various cities	42 retail/residential units	RJB Group of Companies	Primonial Reim
	Amsterdam	Baker McKenzie House	Nordcapital Immobilienfonds Niederlande 7	Cicerone Fund
	Amsterdam	5 Keizers	MCAP Global Finance	Union Investment
	Amsterdam	INK MGallery by Sofitel	Principal	Amundi Real Estate
	Bergen op Zoom Rotterdam Moerdijk	Logchain One	DHG	Patrizia Immobilien

Source: KPMG Property Lending Barometer, 2019

Transaction volume and YoY change H1 2019

8,836 EUR m

-22%

Source: RCA

Lending market

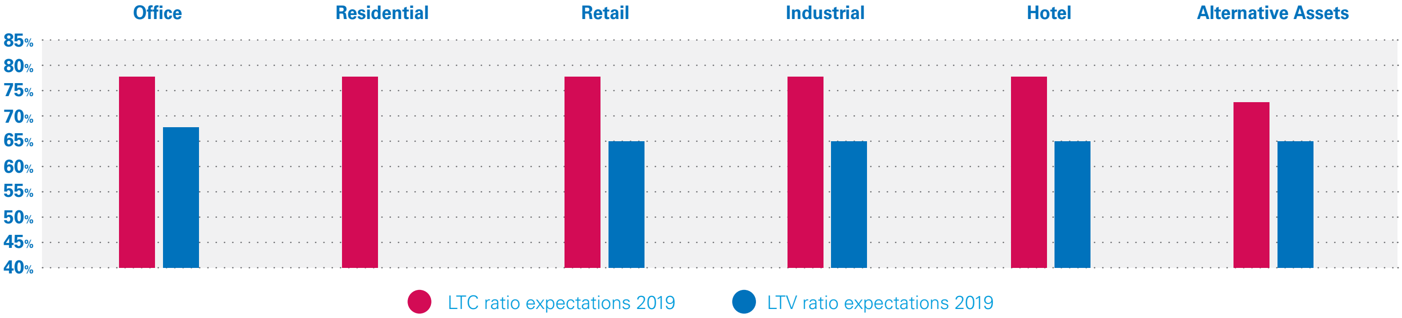
Over 60% of the banks in the Netherlands that participated in our survey do not view real estate financing as important strategically, while the remaining respondents signalled it as important for them. All participants maintained their level of focus on real estate financing compared to last year. Surveyed banks in the Netherlands are more open to financing income-generating projects, and less likely to support new developments.

According to respondents, the most serious rivals in real estate financing for banks are private equity and debt funds, followed by investment banks. The level of provisions in the banking sector for real estate loans is considered adequate by all participants. Average deal volumes range from EUR 20 to EUR 27 million and the preferred loan size falls between EUR 22 and EUR 25 million. These values show a significant increase when compared to last year's results.

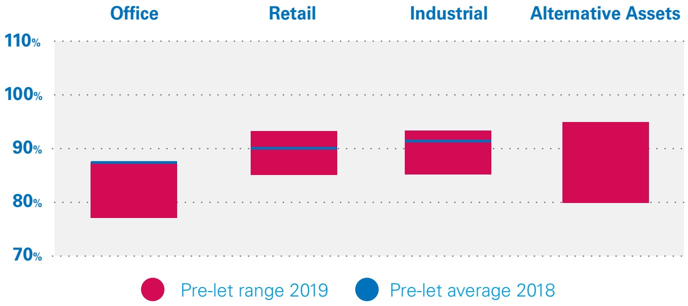
Future of real estate portfolios

Two-thirds of the participating Dutch institutions expect the total banking sector's real estate lending portfolio to maintain its size in the next 12-18 months, while the remaining third expect a decrease. They are more optimistic regarding their own banks' prospects, as two-thirds expect no change, while the remaining banks expect their real estate portfolio size to increase in this period.

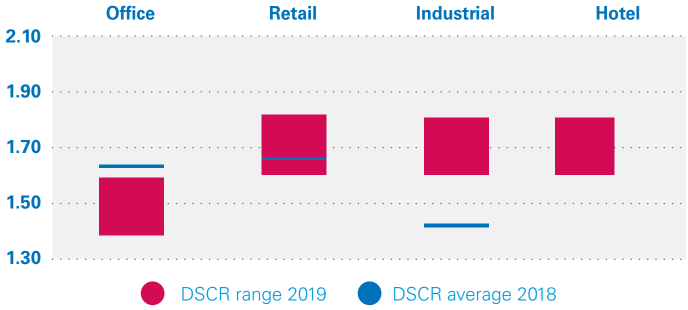
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



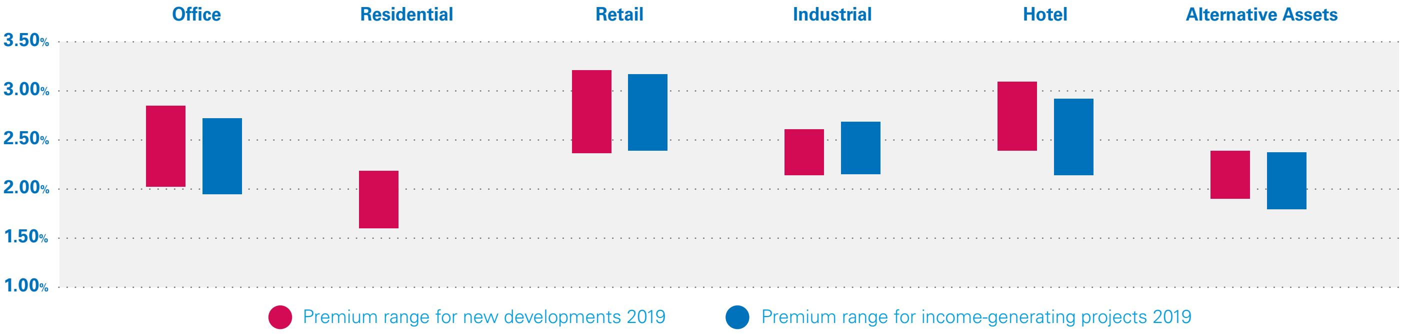
Pre-let ratio expectations for projects



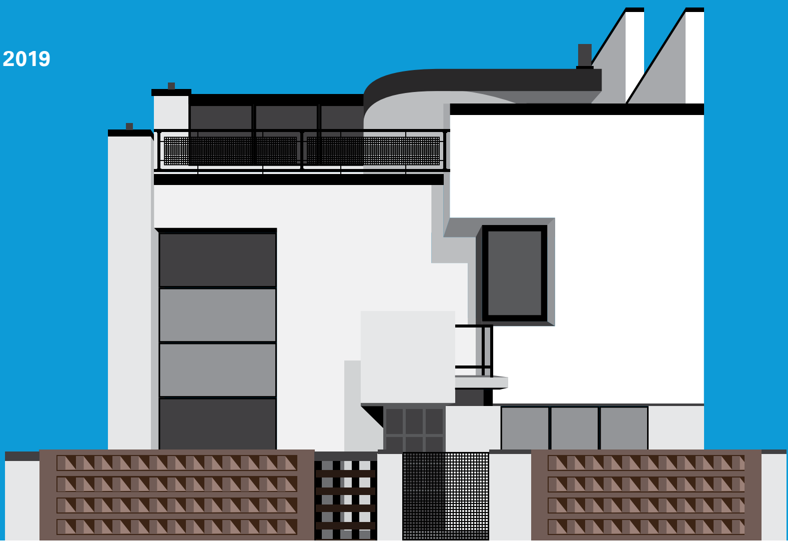
Debt service coverage ratio expectations for financing income-generating real estate projects



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



Source: KPMG Property Lending Barometer, 2019



Barbara and Stanisław Brukalski: **Willa Brukalski**, Warsaw

Poland

"While banks in Poland are open to real estate financing, retail property lending has fallen out of favour in recent years, with banks viewing this asset class as having increased risk."

Steven Baxted

Economy

GDP growth 2019 F 4.0%

Inflation 2019 F 2.3%

Unemployment rate 2019 F 5.7%

Source: Economist Intelligence Unit

Prime yields, Q2 2019

High Street Retail 5.00%

Office 4.75%

Industrial 6.25%

Source: Cushman & Wakefield

Key investment transactions H1 2019

City	Property	Seller	Buyer
Koszalin/ Lublin	Atrium Koszalin/ Felicity	Atrium European Real Estate	ECE
Bytom Czestochowa Radom and Poznań	M1 Shopping Centres	Chariot Group	EPP
Warsaw	Warsaw Trade Tower	Akron Group	Globalworth
Wroclaw	Bielany Wrocławskie	Blackstone	Mirae Asset Global Investments
Biskupice	7R Park Wrocław	7R	SEGRO (on behalf of SELP)

Source: KPMG Property Lending Barometer, 2019

Transaction volume and YoY change H1 2019

2,588 EUR m

-20%

Source: Colliers

Lending market

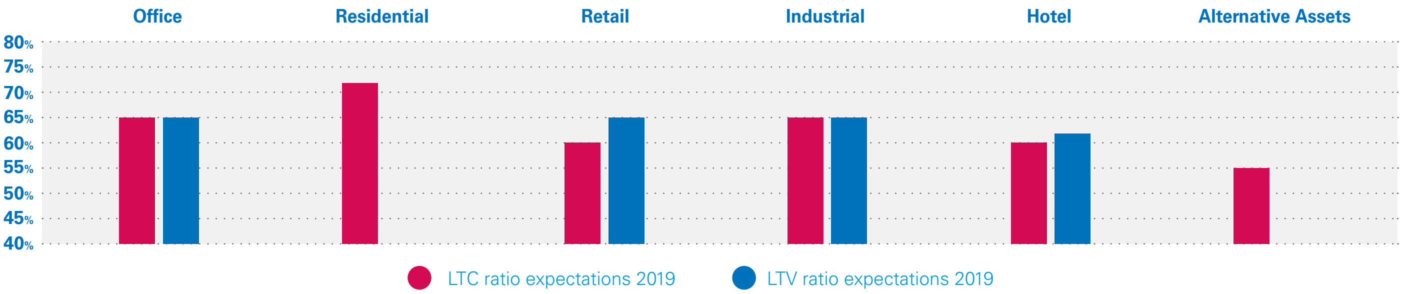
In Poland, half of the banks surveyed identified real estate financing as being important, with the remaining banks equally split, ranking it as either being of extremely high importance or neither being important, nor unimportant. Half of the participants in Poland maintained their level of focus on the real estate sector, while the other half increased their focus moderately compared to the previous year. The banks surveyed are more open to financing income-generating projects than new developments.

Respondents revealed that non-local commercial banks were their strongest rivals for real estate financing, followed by private equity and debt funds. All the banks agreed that the provision levels in the banking sector against real estate loans are adequate. The size of the average Polish loan falls into a range of between EUR 29 and EUR 53 million, with a preferred size lying somewhat higher between EUR 32 to EUR 56 million. This is a slight increase compared to last year.

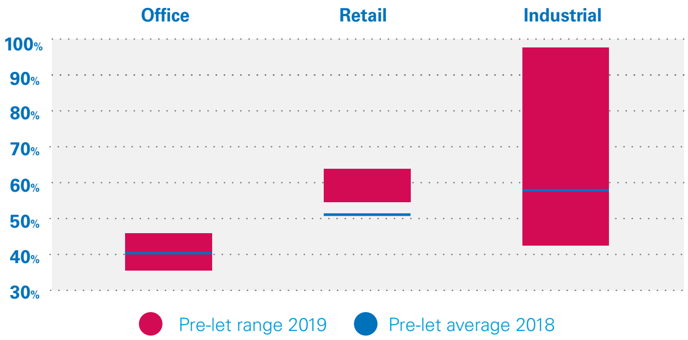
Future of real estate portfolios

Expectations for change in the size of the total banking sector's real estate loan portfolio vary among those surveyed. Three-quarters of them anticipate a moderate increase, while the remainder expect a decrease. As for their own banks' portfolio size, all respondents see an increase in the next 12-18 months.

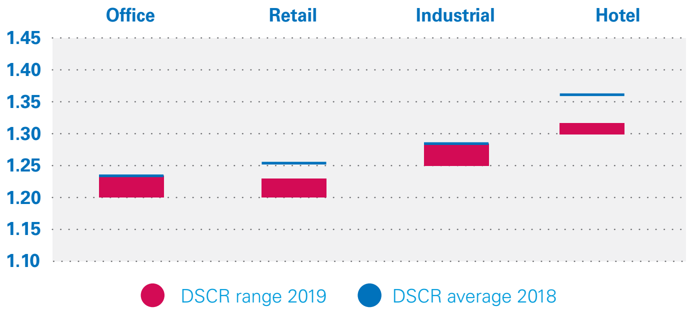
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



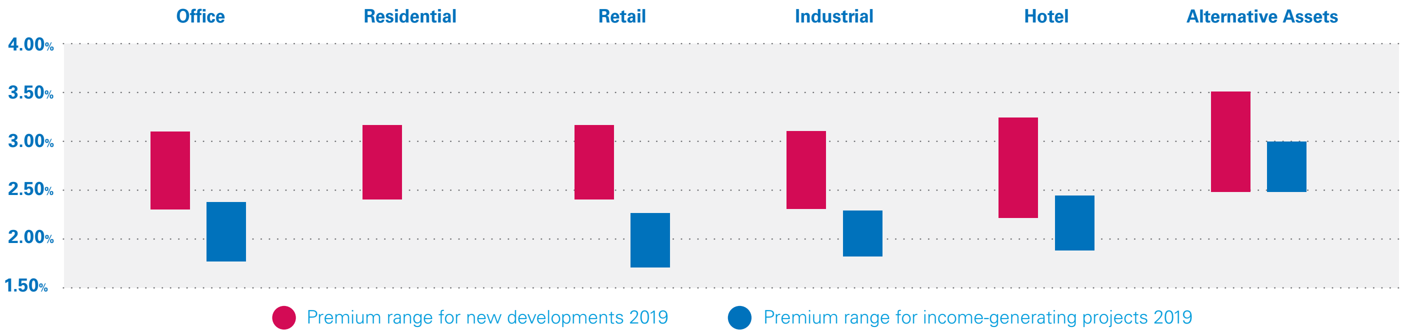
Pre-let ratio expectations for projects



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, 2019

Marcel Janco: **Imobulil Solly Gold**, Bucharest

Romania

"Romania has remained one of the most dynamic real estate markets in the CEE region, building on the tourism, retail and office space sectors. While the economic outlook in Europe could be shifting from growth to stagnation as the largest economies in the region are slowing down their pace, Romania's, like that of other emerging and developing markets, could continue to increase, fuelled by growing demand and the number of transactions."

Ori Efraim

Economy

GDP growth 2019 F 3.7%

Inflation 2019 F 4.6%

Unemployment rate 2019 F 4.0%

Source: Economist Intelligence Unit

Prime yields, Q2 2019

High Street Retail 7.50%

Office 7.00%

Industrial 8.50%

Source: Cushman & Wakefield

Key investment transactions H1 2019

City	Property	Seller	Buyer
Bucharest	Tourism division	EuroLines	DerTour
Cluj	The Office	NEPI-Rockcastle şi cu Ovidiu Şandor	Dedeman
Bucharest	The Bridge offices buildings	Upscale Development SRL (Bridge 1), The Bridge 2 Development SRL and The Bridge 3 Office Building SRL	Dedeman
Neptun	Prahova and Clabucet hotels	Micula brothers	Mohammad Murad
Bucharest	A1 Bucharest Park	Vabeld Group	CTPark

Source: KPMG Property Lending Barometer, 2019

Transaction volume and YoY change H1 2019

345 EUR m

-3%

Source: Colliers

Lending market

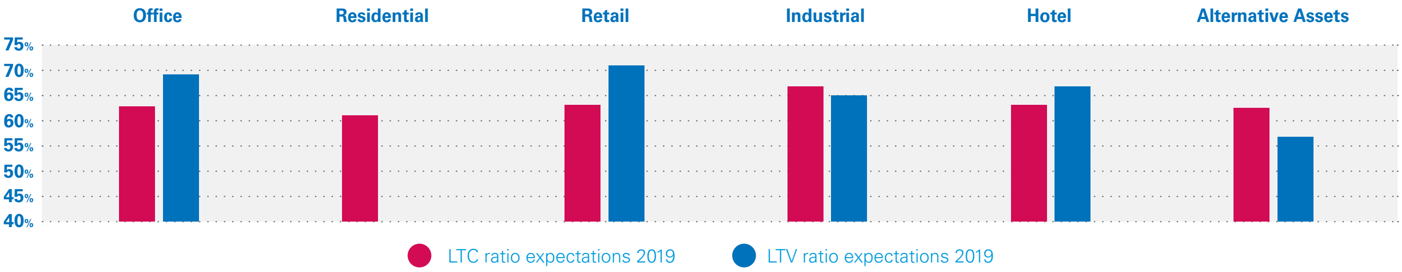
Romanian banks participating in our survey were divided regarding the strategic importance of real estate lending. A third of them consider it of average importance, a third see it of lesser importance, while the remaining banks rank it as having high importance. Meanwhile, half of the banks maintained their focus in real estate lending compared to last year, while a third of them decreased their focus, and the remaining banks increased their focus moderately. Romanian banks are open to financing both new developments and income-generating projects, with slightly more interest in the latter.

According to respondents, the most significant rivals for financial institutions in terms of real estate financing are private equity/debt funds, closely followed by non-local commercial banks. Over 70% of respondents described the level of provisions against real estate loans in the banking sector as adequate, while the remaining banks consider the level too low. The average size of loans ranges from EUR 11 to EUR 18 million, while the preferred size is somewhat lower, between EUR 9 and EUR 16 million.

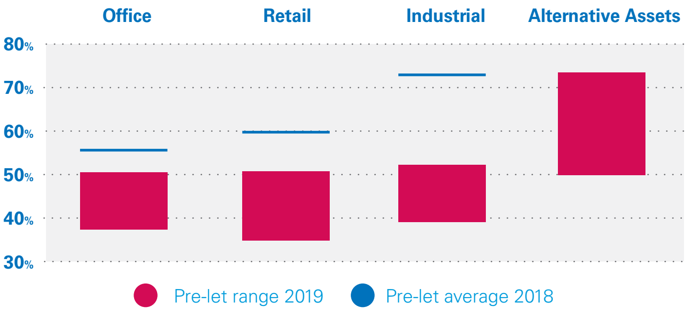
Future of real estate portfolios

Just over half of those surveyed estimate that the total banking sector's real estate loan portfolio will increase in the next 12-18 months, while one-third of bank representatives in Romania expect no change, with the remainder envisioning a decrease. Regarding their own bank's portfolios, half of the respondents expect no change, a third of them expect an increase, and the remaining banks foresee a drop in the size of their real estate financing portfolio.

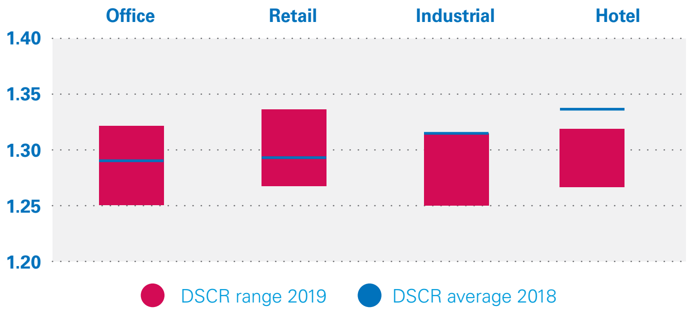
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



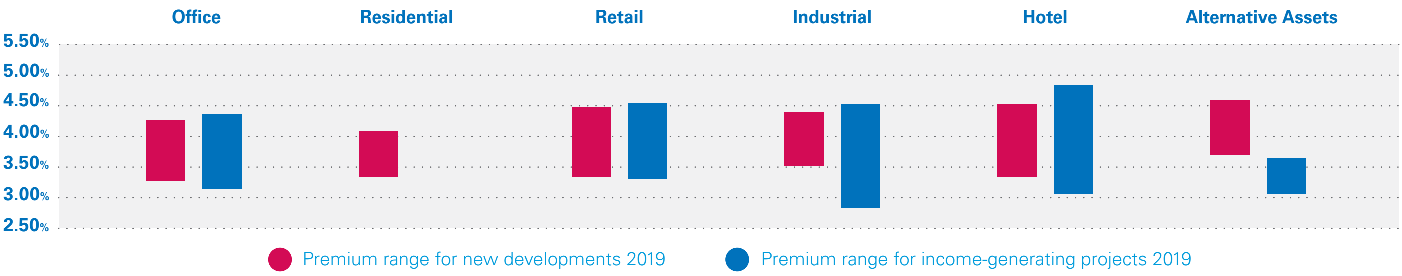
Pre-let ratio expectations for projects



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, 2019

Bogdan Nestorović: **Prizad Building**, Belgrade

Serbia

"There is a slight decrease in figures compared to last year, but the outlook for the development of the real estate market remains mostly positive from bankers' point of view in Serbia."

Sanja Kočović

Economy

GDP growth 2019 F	3.0%
Inflation 2019 F	1.5%
Unemployment rate 2019 F	11.8%

Source: Economist Intelligence Unit

Prime yields, Q2 2019

High Street Retail	7.00%
Office	8.00%
Industrial	10.00%

Source: Cushman & Wakefield

Key investment transactions H1 2019

City	Property	Seller	Buyer
Indjija	Fashion Park Outlet	Fashion Company	BIG CEE Serbia
Belgrade	Business building "Anex", Resavska street	Anex Group d.o.o.	Wiener Städtische Insurance
Arandjelovac	Hotel "Staro zdanje" and hotel "Sumadija"	Bukuljska nova slatina a.d.	Stublina d.o.o.
Banja Kovil-jaca	Hotel "Podrinje"	HTP Banja Koviljaca a.d.	Long glory trading LTD
Sabac	Purchase of entire property of Zorka non-ferrous metallurgy plant	Zorka obojena metalurgija	Eliksir d.o.o.

Source: KPMG Property Lending Barometer, 2019

Lending market

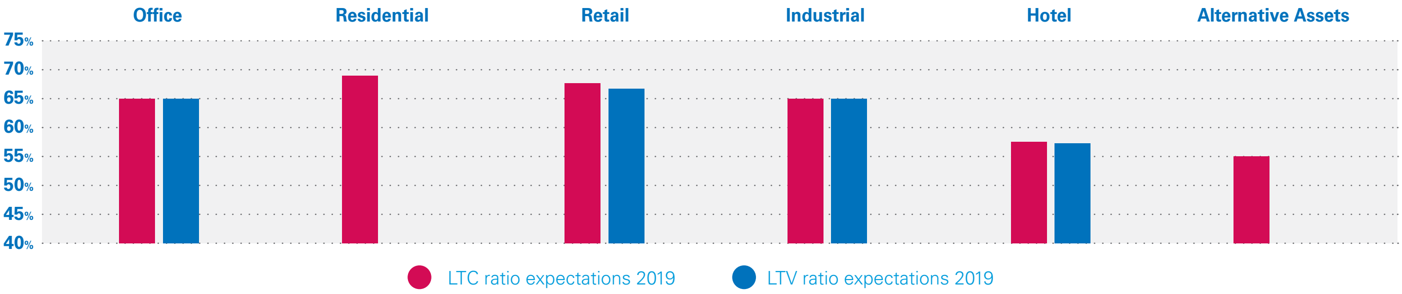
Financing the real estate sector is of average strategic importance for more than half of the banks queried in Serbia, while those remaining see it as more important strategically. Most of the survey participants increased their focus on the sector, whereas those remaining maintained their level of activity in real estate financing. Both new developments and income-generating projects are attracting the interest of respondents in equal measure, similar to last year's result.

Non-local commercial banks are in first place as alternative lenders in real estate in Serbia, followed by private equity and debt funds. The overwhelming majority of banks consider the level of provisions in the bank sector against real estate loans as adequate, whereas the remaining 20% claim the provisions should be increased. The average deal/loan size ranges from EUR 9 - EUR 18 million, while the preferred range is slightly broader, from EUR 8 to EUR 19 million. These amounts decreased significantly in comparison to figures for last year.

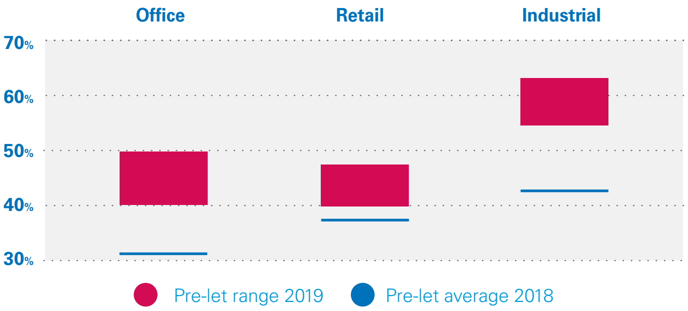
Future of real estate portfolios

80% of those who took part in our survey anticipate that the size of the country's total real estate lending portfolio will increase in the next 12-18 months, whereas the others expect no change. This is consistent with their expectations regarding the change in their own banks' real estate lending portfolio in this period.

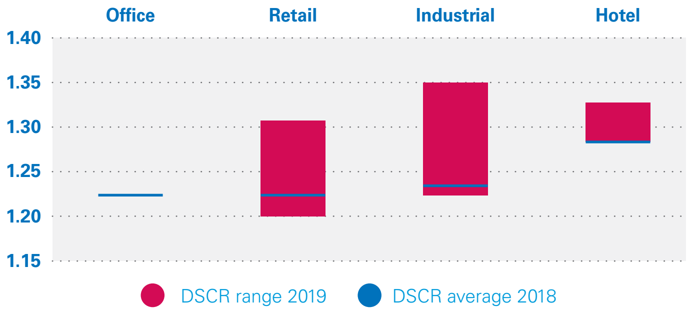
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



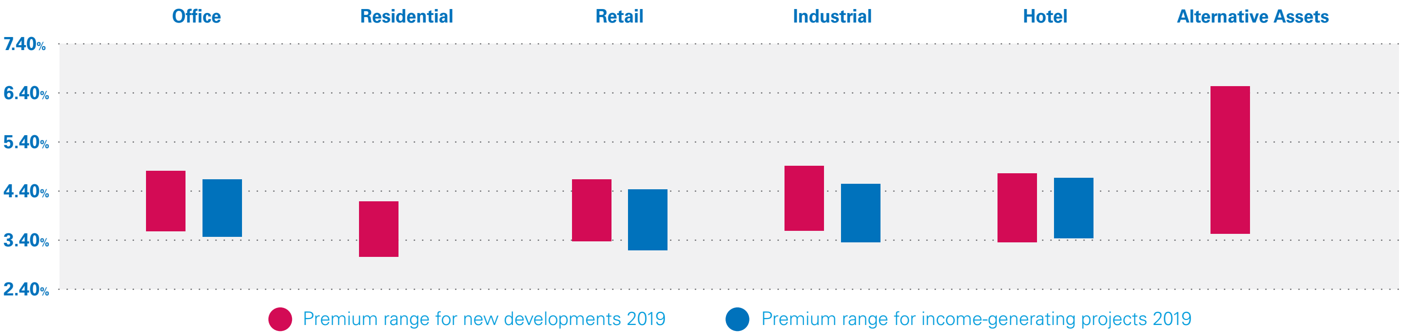
Pre-let ratio expectations for projects



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, 2019

Vladimír Karfík: **Baťa 'House of Shoes'**, Bratislava

Slovakia

"Real estate financing continues to be an important business and banks in Slovakia remain open to financing both new real estate development and income-generating projects."

Michal Maxim

Economy

GDP growth 2019 F	3.9%
Inflation 2019 F	2.5%
Unemployment rate 2019 F	5.2%

Source: Economist Intelligence Unit

Prime yields, Q2 2019

High Street Retail	7.50%
Office	5.75%
Industrial	6.20%

Source: Cushman & Wakefield

Key investment transactions H1 2019

City	Property	Seller	Buyer
Bratislava	Twin City Tower	HB Reavis	AIP Asset Management and Valesco Group
Košice	Business Centrum Tesla 2	Penta Real Estate	European City Estates, Austria
Bratislava	Lindner Hotel Gallery Central	Immocap Group	Rotana, United Arab Emirates
Košice	Industrial park	Penta Investments	Accolade, Czech Republic
Vráble	Industrial and commercial park Vráble	na	Proxenta Investment Group

Source: KPMG Property Lending Barometer, 2019

Transaction volume and YoY change H1 2019

237 EUR m

-44%

Source: Colliers

Lending market

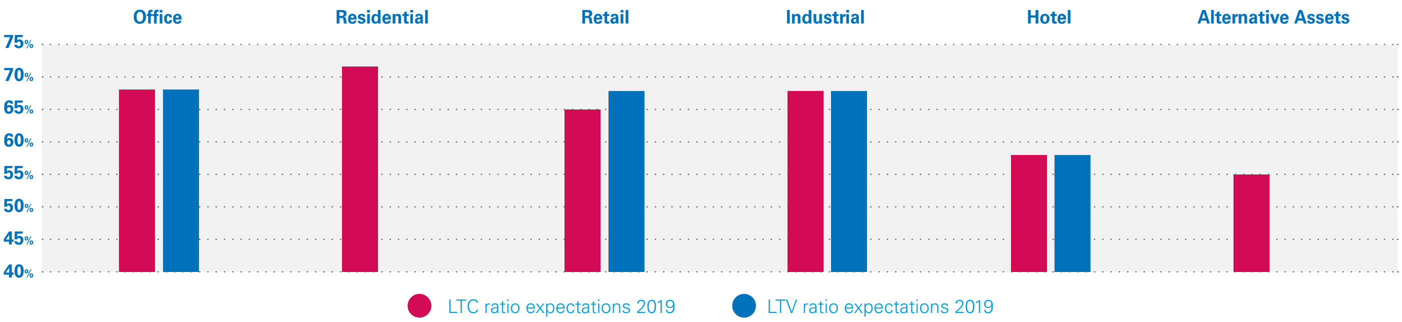
Banks in Slovakia that participated in the survey do not view real estate financing as strategically important. All the banks queried say they maintained their previous year's level of focus on the sector. Financing income-generating projects is more attractive to Slovakian banks, while they are less open to supporting new developments.

Non-local commercial banks are considered the most notable rivals in real estate financing in Slovakia, closely followed by insurer and pension funds. The rate of provisions for loans in the sector is judged to be adequate by all participants. The average loan sizes vary from EUR 6 to EUR 9 million, while the preferred range is higher, between EUR 11 and EUR 20 million.

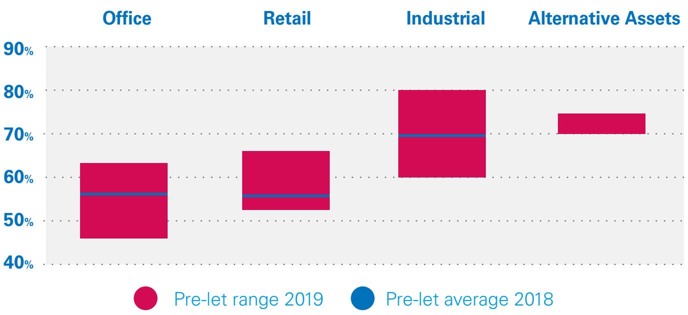
Future of real estate portfolios

As for the size of the total banking sector's real estate lending portfolio, two-thirds of bank representatives forecast an increase in the next 12-18 months, while all of them expect an increase in the size of their own banks' portfolio in the same period.

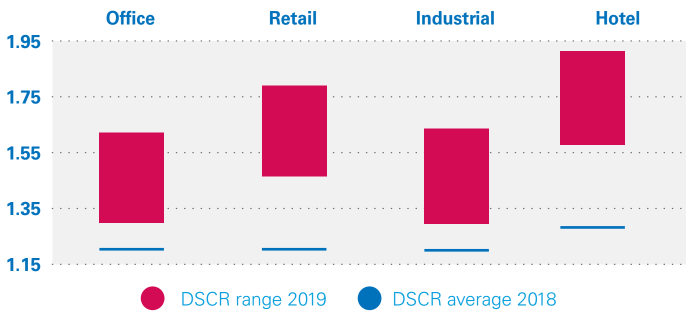
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



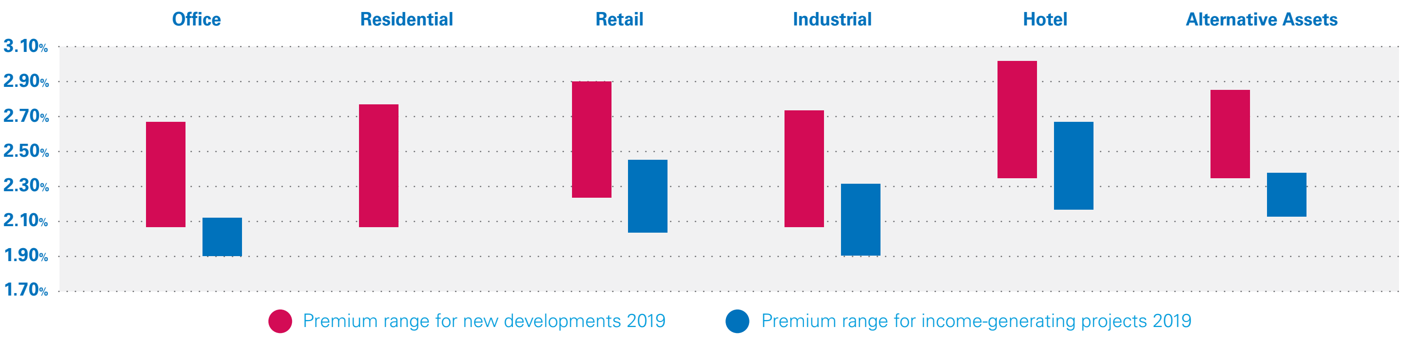
Pre-let ratio expectations for projects



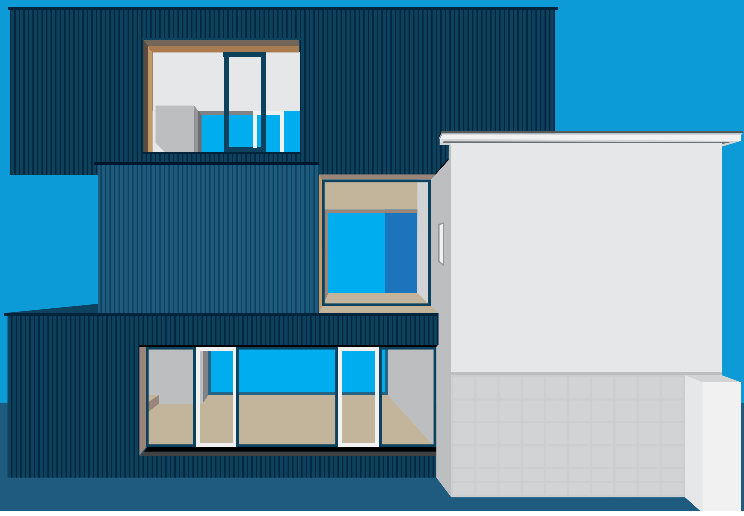
Debt service coverage ratio expectations for financing income-generating real estate projects



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



Source: KPMG Property Lending Barometer, 2019



Emil Navinsek: **Shoebox House**, Ljubljana

Slovenia

"Last year, real estate prices in Slovenia increased by 18%, which was one of the highest growth rates in the world. After a very high growth in 2018, the growth has gradually eased, mainly due to new projects that have come on the market. However, apartments' prices are still high for the wider population's purchasing power, which will impact the future real estate prices."

Boštjan Malus

Economy

GDP growth 2019 F	3.4%
Inflation 2019 F	1.4%
Unemployment rate 2019 F	8.2%

Source: Economist Intelligence Unit

Prime yields, Q2 2019

High Street Retail	7.00%
Office	7.75%
Industrial	10.00%

Source: Cushman & Wakefield

Lending market

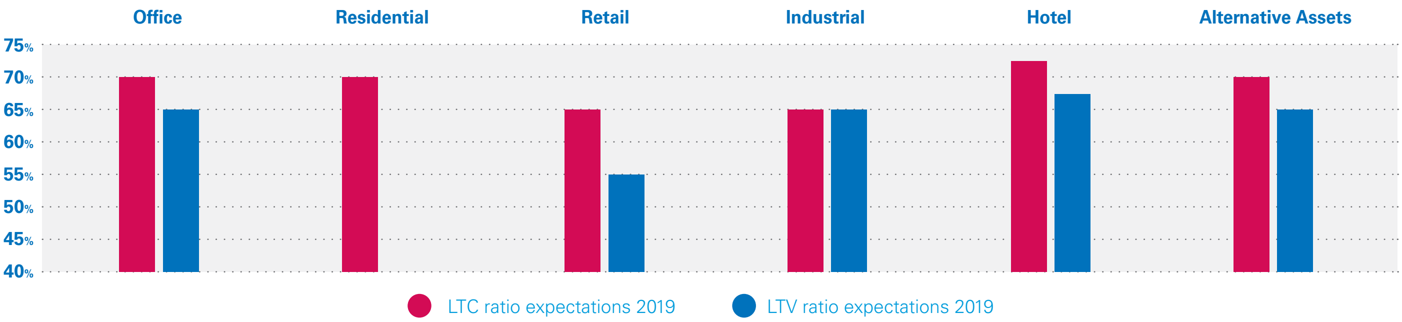
Surveyed Slovenian banks are divided in terms of their view towards real estate financing. Half of the banks consider it as extremely important strategically, while the other half do not consider it as strategically important. However, all participants increased their level of focus on the sector compared to last year. Slovenian banks are quite open to financing new developments but, contrary to other countries, they are slightly less interested in financing income-generating projects.

The strongest alternative lenders for Slovenian real estate are investment banks. Non-local commercial banks occupy the second place among banks' rivals, say respondents. They were unanimous in their view that provisions for real estate loans in the banking sector are at a lower than acceptable level. Average deal volume was approximately EUR 1 million and the preferred loan size in Slovenia is EUR 2 million.

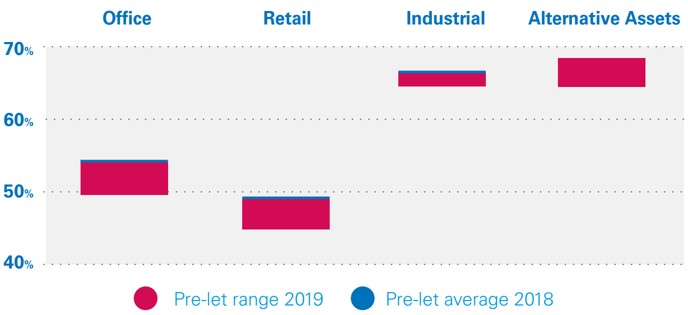
Future of real estate portfolios

All respondents agreed that the size of the total banking sector's real estate loan portfolio will increase in the next 12-18 months. Their responses also indicated that none of them expect the size of their own banks' real estate loan portfolio to decrease.

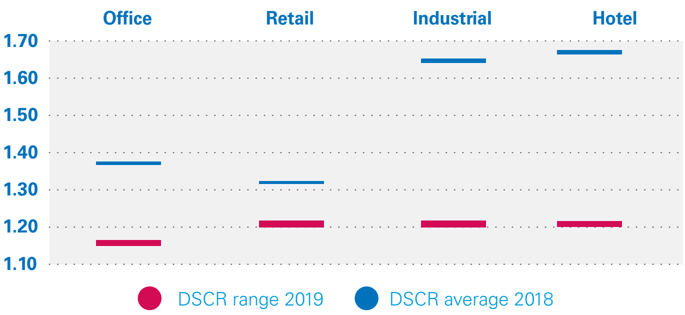
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



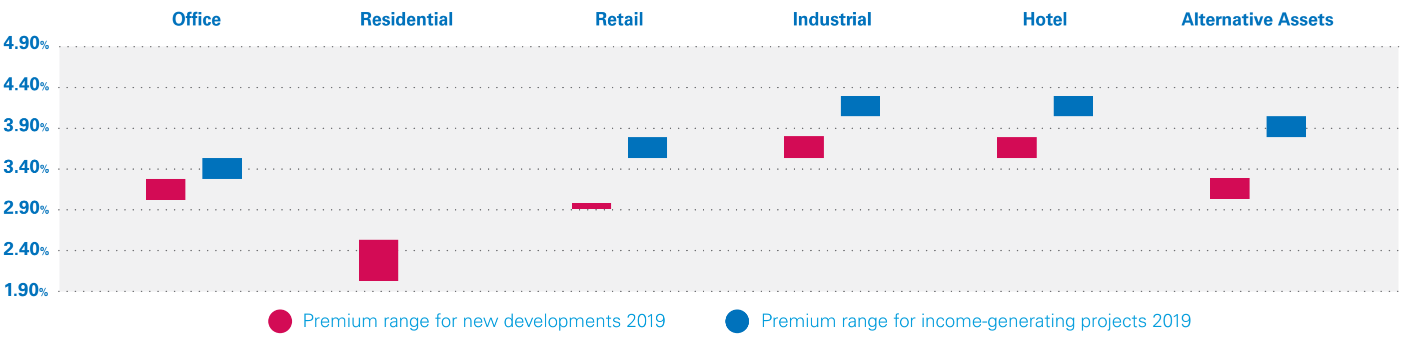
Pre-let ratio expectations for projects



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, 2019

It was 100 years ago that the Bauhaus in Weimar opened its doors in 1919 as an educational and training institution under the management of Walter Gropius.

From the beginning, Bauhaus – which literally means "construction house" – sought to unify art and craft by bringing these disciplines together under one roof. Application of this idea in architecture resulted in clean and geometrical forms, where priority was given to functionality. Bauhaus buildings never lie. Form and meaning are unified in a frank manner where the purpose and the intent of the architect are transparently expressed and realized.

Property lending has an impact on the built environment when providing the opportunity for "construction houses". In our study – dedicated to "Bauhaus 100" – we tried to be simple and straightforward in deriving conclusions. It was our aim to keep the right proportions among various aspects of this survey and to deliver a functional study that is useful and understandable for a broad spectrum of readers.

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