Property Lending Barometer 2020

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

In an effort to show our appreciation of healthcare professionals fighting for people's lives against the COVID-19 virus, the illustrations in our report are primarily healthcare institutions.

kpmg.com

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Dear Reader,

It is my pleasure to present the Property Lending Barometer 2020, which is the 11th edition of our annual survey of banks' real estate financing. This report provides an overview of lending market conditions in a range of countries in Europe and gives a separate snapshot of the participating countries to highlight their unique characteristics.

Our objective with this report is to assess the prospects and sentiment for bank financing in the real estate sector in Europe, based on interviews conducted with bank representatives from 11 European countries, with a majority of participating banks from jurisdictions in Central and Eastern Europe (CEE).

Recovery from the global financial crisis of 2008-09 led to reasonable growth in recent years, which was disrupted by fallout from the coronavirus pandemic in the first half of 2020. OECD analysts predict the overall impact of this health crisis is likely to lead to the worst recession in the last 100 years, excluding the World War periods. The lockdowns and travel restrictions across the globe have resulted in an abrupt drop in business activity.

In the context of the global pandemic, a surge in demand for loans has been mainly driven by corporate needs for emergency liquidity, partially allayed by a drop in financing needs for fixed investment. According to the European Central Bank (ECB), credit standards on loans to firms have not changed significantly, as the deterioration of the creditworthiness of companies balanced off the easing effects of policy measures, including the ECB's support. Nevertheless, a net tightening of credit standards on loans to corporates is expected in the foreseeable period, and state guarantee schemes will run out. Overall, the novel macroeconomic conditions may support non-performing loan portfolio transactions in the long-term, especially in mature markets.

This report is an analysis of the findings of our survey of the leading banks active in the participating countries. The 2020 Barometer includes input from over 60 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.

The first part of this report provides an overview of the European market as a whole, by focusing on key issues such as the strategic importance of real estate financing for banks, and the proportion of impaired loans. We also consider areas such as various banks' average and preferred loan/deal size, as well as the length of their loan contract terms. 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 address the prospects and terms available for developers and investors to finance new real estate developments and income-generating properties, and survey participants' expectations for the next 12-18 months.

Let me 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

11th
11th annual edition of the survey

11
Interviews conducted with banks in 11 European countries

60
Over 60 banks surveyed

Czech Republic - IKEM

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Methodology

Methodology and sample profile

Our survey provides an analytical overview of the current approach of banks to real estate financing in Europe. The following countries are represented in the 2020 survey: Bulgaria, Croatia, the Czech Republic, Cyprus, Finland, Hungary, the Netherlands, Poland, Romania, Serbia, and Slovakia.

Survey data 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 over 60 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-June 2020.

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

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 comparable stage of economic development, these countries are assumed to have similar advantages and challenges. The grouping includes Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Serbia, and Slovakia.

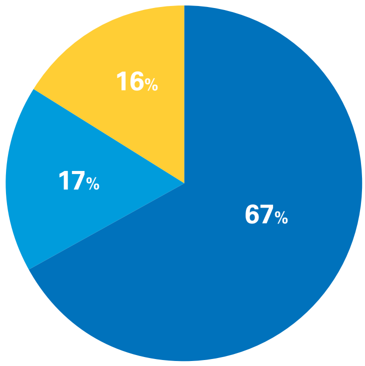
Other European economies: In contrast to the Central and Eastern European markets, the category "Other European economies" consists of countries from across Europe, most of them representing more mature real estate markets. Due to their varying economic capabilities, they provide a benchmark for assessing data from Central and Eastern Europe. This category includes Cyprus, Finland, 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 that 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, 2020

Geographic abbreviations

BUL – Bulgaria; **CEE** – Central and Eastern Europe; **CRO** – Croatia; **CZE** – Czech Republic; **CYP** – Cyprus; **FIN** – Finland; **HUN** – Hungary; **NED** – Netherlands; **POL** – Poland; **ROM** – Romania; **SRB** – Serbia; **SVK** – Slovakia; UK – United Kingdom

[1] The survey also uses information obtained from public sources, which KPMG considers to be reliable. These market reports were published in 2019 and 2020 by Colliers, Cushman & Wakefield, Economist Intelligence Unit, European Central Bank, OECD, Real Capital Analytics, and Savills Research.

Overview of the European real estate market

Czech Republic - University Hospital Olomouc

Average GDP growth forecast (2020 - 2022) (%)

Central and Eastern European economies
Other European economies

Source: Economist Intelligence Unit

Overview of the European real estate market

Macroeconomic outlook of the region

Recovery from the global financial crisis of 2008-09 led to respectable growth in recent years, something which was disrupted by the coronavirus pandemic in the first half of 2020. OECD analysts predict the overall impact of the crisis will lead to the worst recession in the last 100 years, excluding the World War periods. The lockdowns and travel restrictions across the globe have resulted in an abrupt drop in business activity.

Following a 3.6% quarter-on-quarter decrease in the real GDP of the euro area in the first quarter of 2020, a further drop is expected, reaching approximately an average annual 10% decrease by the end of 2020, according to the OECD. Major economies, including France, Italy, Spain, and the United Kingdom are likely to be the worst hit by the direct impact of the pandemic, with annual real GDP contraction of over 10%. Meanwhile, other European economies are also expected to suffer as they greatly depend on demand from those countries. Within Central and Eastern Europe, the impact of the crisis is likely to vary country by country. Within the countries included in our survey, the economies of Croatia and the Czech Republic are forecast to contract the most, according to the Economist Intelligence Unit, by 8.6% and 7.5%, respectively, in 2020. Serbia, Poland and Bulgaria, on the other hand, expect a milder decrease in their economies, between 3.0-4.0% year-on-year. Positive growth is expected across the region for 2021, although pre-pandemic growth patterns are unlikely to return sustainably in the next 5 years.

Consumer price inflation is being kept under control by the drop in economic activity resulting in a lower price for oil and related products. The average rate for the European Union is gradually decreasing to a level below 1%, with Central and Eastern European economies exhibiting an array of figures. The inflation rate in the Czech Republic and Poland for example, is expected to remain at over 3%, while Slovenia could experience its rate to drop well below 1%. In terms of unemployment perspectives, the OECD expects the global median rate to rise to its highest level in 25 years. Job losses will particularly hit the younger members of the workforce, due to their involvement in tourism and other sectors greatly affected by the pandemic. In the CEE region, the Czech Republic is expected to suffer the least, with the unemployment rate rising to only 4.1%, while Serbia, for example, is set to see unemployment soar to over 13% in 2020, according to the EIU.

Overall, uncertainty in the business environment is very high. Analysts envisage a potential V-shaped or W-shaped recovery, depending on whether and how a second wave of the virus will hit the global economy. As part of this survey we have queried bank representatives about their expectations regarding potential scenarios for future recovery. The U-shaped and Nike-swoosh type of curves proved to be the most popular among the participants' responses. What the latter two have in common is that they plot out any potential recovery as slower in the beginning and taking a longer time before economic performance improves significantly. In general, how much and how long the recession period will prevail is largely contingent upon the duration and effectiveness of the containment measures in different countries, a potential treatment for the virus, as well as on government programmes set to mitigate the adverse impact on incomes and employment, before demand recovers on domestic and global markets.

Netherlands - University Medical Center Groningen

Bank lending

In the context of the global pandemic, a surge in demand for loans has been mainly driven by corporates' emergency liquidity needs, partially offset by a drop in financing needs for fixed investment. According to the European Central Bank, credit standards on loans to firms have not changed significantly, as the deterioration of the creditworthiness of companies balanced off the easing effects of policy measures, including the ECB's support. Nevertheless, a net tightening of credit standards on loans to firms is expected in the foreseeable period, and state guarantee schemes look to run out.

The ECB is providing support under the Pandemic Emergency Purchase Programme (PEPP) with EUR 1,350 billion until at least the end of June 2021. Furthermore, net purchases under the ECB's Asset Purchase Programme (APP) will be sustained at a monthly EUR 20 billion level, supplemented by purchases under temporary measures of an additional EUR 120 billion until the end of the year.

We asked bank representatives participating in our survey for their views on central banks' and governments' measures taken to try to reduce the impacts of the pandemic on real estate financing. Thirty-five per cent are of the opinion that the measures communicated by central banks and governments had helped decrease the negative impact of the pandemic on real estate financing. Meanwhile, 25% believe that they had not done so, and 40% believe that the actions taken were insufficient.

The trend of a gradually increasing level of activity in the market for loan portfolios in Europe reversed in 2019. The EUR 63 billion worth of European loan portfolios sold was spread across 86 deals, showing an over 40% drop year-on-year. In addition, the size of the portfolios transacted decreased, the average transaction amounting to EUR 733 million for 2019 compared to EUR 1,127 million in 2018. The slow-down in the European loan sales market seemed set to continue in 2020 before the global pandemic created new levels of uncertainty across markets. In Europe, before the market stalled, some deals managed to close in 2020, mainly in Spain, Italy and Cyprus. Overall, the novel macroeconomic conditions may support non-performing loan portfolio sales in the long-term, especially in mature markets.

Poland - Former Hospital in Puck

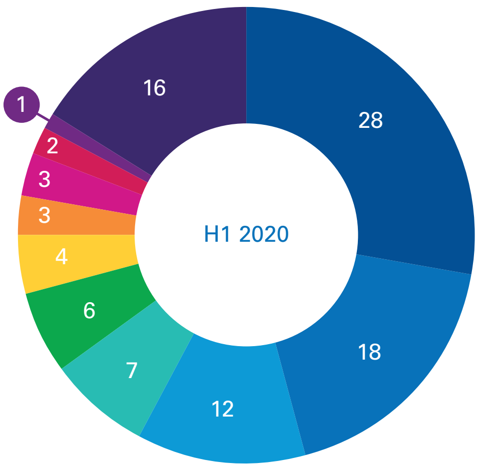
Real estate market in Europe

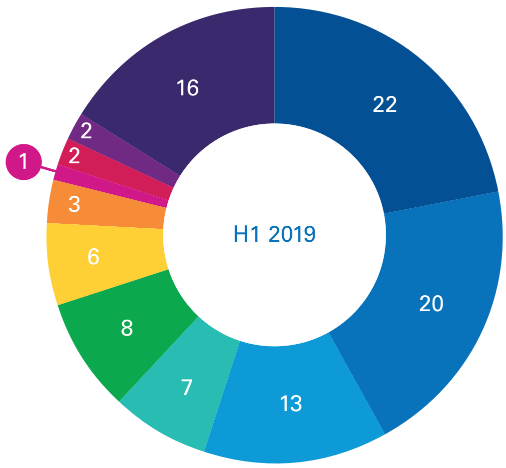
The first 6 months of 2020 brought no change in the declining trend of total investment volume in Europe, reaching only EUR 121.1 billion, which is 9% lower than the comparable figure for the previous year. The shock from the pandemic in the first half of the year hindered investment activity in European markets, as quarterly transaction activity dropped to a level not seen since 2014. Despite that, Europe still outperformed other regions. The relatively moderate year-on-year decline of the market in H1 2020 is due to a few major deals having been finalized.

The performance of different markets varied significantly across Europe. Germany and the UK continued to attract close to half of the total European transaction volume in the first 6 months of 2020, at 28% and 18%, respectively. The German market managed to show year-on-year growth of 16%, while the UK contracted by 15%. France came out third in the ranking, decreasing 10% year-on-year, with investments of over EUR 15.1 billion. Other major markets such as the Netherlands, Spain, and Italy dropped by over 30%.

Total investment in the six major CEE countries (the Czech Republic, Poland, Hungary, Romania, Slovakia, Bulgaria) continued its long-term growth trend in the first six months of 2020. However, this was mainly caused by transactions which were pre-agreed already in 2019, before the pandemic hit the region. Total investment volume for H1 was EUR 6.26 billion, reflecting a 12% increase compared to the same period of 2019. In H1 2020, investment in Poland took close to half of total regional transaction volumes (47%), followed by the Czech Republic (31%); hence these two countries represented close to 80% of total investment in CEE. In the Czech Republic the volume of the transaction was influenced by the completion of the sale of the largest privately held residential property portfolio. Bulgaria experienced the most significant growth compared to H1 2019, exhibiting a growth rate of 101%, followed by Slovakia whose growth totalled 42%. In contrast, Hungary was the only country experiencing a year-on-year decrease, with investment volumes decreasing by 29%.

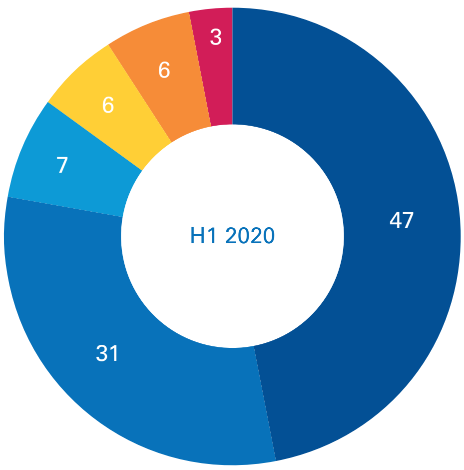
Breakdown of real estate transaction volume - Europe (%)

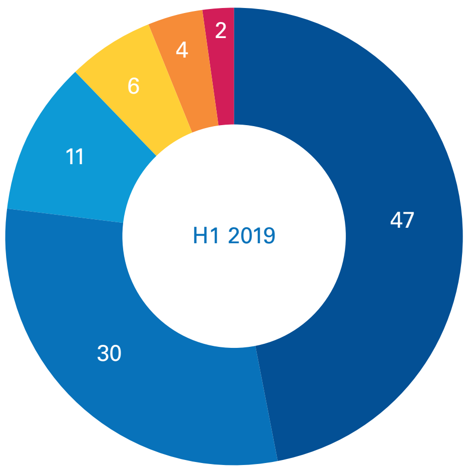




Source: Real Capital Analytics

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





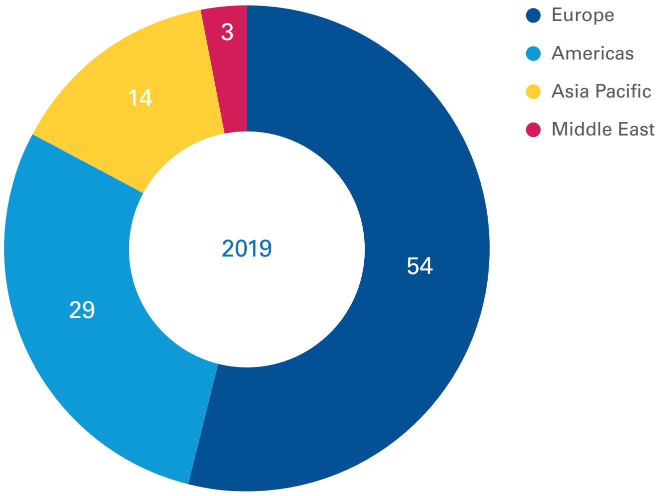
Source: Colliers

European investors took over half of total cross-border commercial property investment which totalled EUR 150 billion in Europe in 2019, continuing to dominate the market. American investors increased their share, commanding 29% of total cross-border investments of EUR 43 billion in 2019. Their activity was strong, particularly in Germany and the UK. Asian investor activity has largely maintained their share at 14%, including South Korean investors newfound interest in the Parisian office market. Middle-Eastern investors had a 3% share in 2019. Their primary target in Europe was the UK.

The breakdown of investment by asset type in Europe has changed slightly since last year. Office is most preferred (at 39%), reaching EUR 44.8 billion, followed by industrial and retail (13/13%), hotel (6%) and residential (29%), based on data from the first half of 2020. Contraction of the investment market was the greatest in the hotel sector (decreasing by 45% year-on-year), followed by office (at 18%). Meanwhile, investments in the residential and industrial sectors managed to increase by 25% and 2%, respectively.

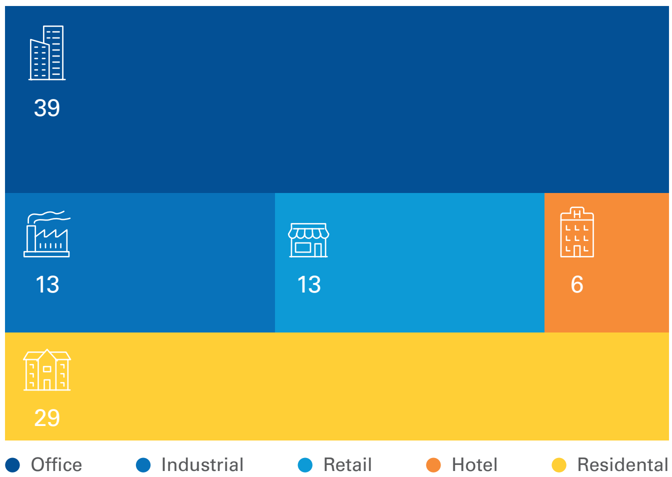
A general declining trend of prime yields continued in the first half of 2020 in the economies represented in our survey, though values in individual countries vary greatly. Notwithstanding the general trend of decline, Cyprus, Croatia and Romania experienced unchanging yields in 2020. The Czech Republic, the Netherlands and Poland saw a notable increase of high street retail prime yields in Q2 2020. In CEE countries, office sector yields in Q2 2020 decreased compared to a year earlier by an average of 0.11 percentage points, which is higher than the decrease of yields in high street retail that averaged 0.03 percentage points, but less intense than that seen in the logistics sector (0.18 percentage points). Current yields range 3.9-12% with significant differences apparent across regions and cities. By comparison, office yields remained relatively stable in Cyprus and the Netherlands, while high street retail yields increased by 0.25-0.75 basis points in Q2 2020, and logistic yields continued to decrease.

Cross-border investment in Europe, 2019



Source: Savills Research

Investment by asset type in Europe, H1 2020*



* Excluding development site sales

Source: Real Capital Analytics

Hungary - Korányi Institute of Pulmonology

Managing impaired loans

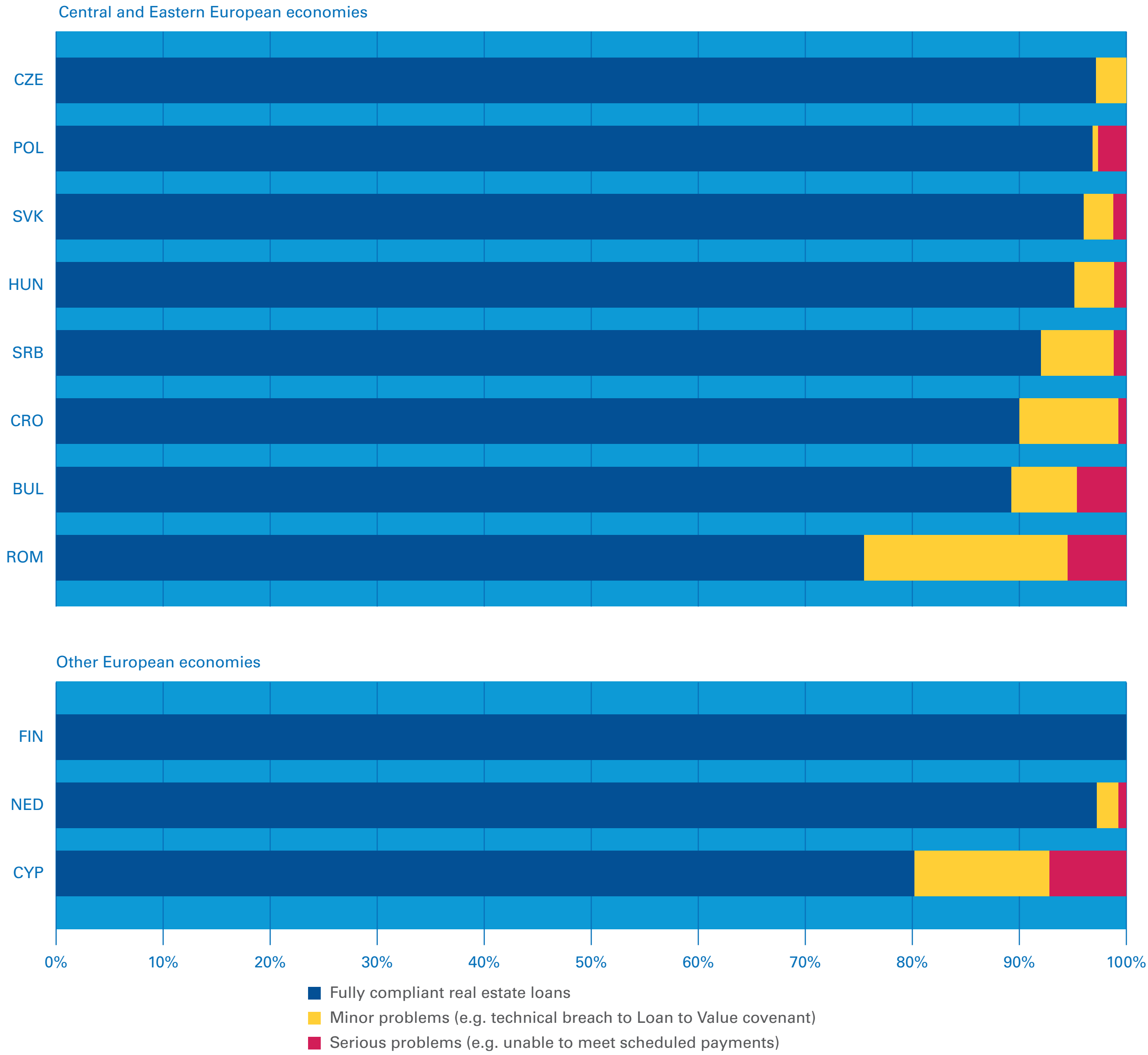
Finland - Naistenklinikka

Managing impaired loans

After the global financial crisis of the last decade Western European markets have seen a quicker and more extensive recovery, but most other European countries have also managed to deal gradually with impaired loans.

This year's survey shows that in most countries the level of impaired loans is relatively low. The proportion of fully compliant loans is particularly high in Finland and the Netherlands (with the current rate of fully compliant loans exceeding 97%), while there are three countries with a ratio below 90%: Bulgaria (89%), Cyprus (80%), and Romania (76%).

Proportion of impaired real estate loans per country



Source: KPMG Property Lending Barometer, 2020

Prospects for real estate loan portfolios

Czech Republic - Hořovice Hospital

Prospects for real estate loan portfolios

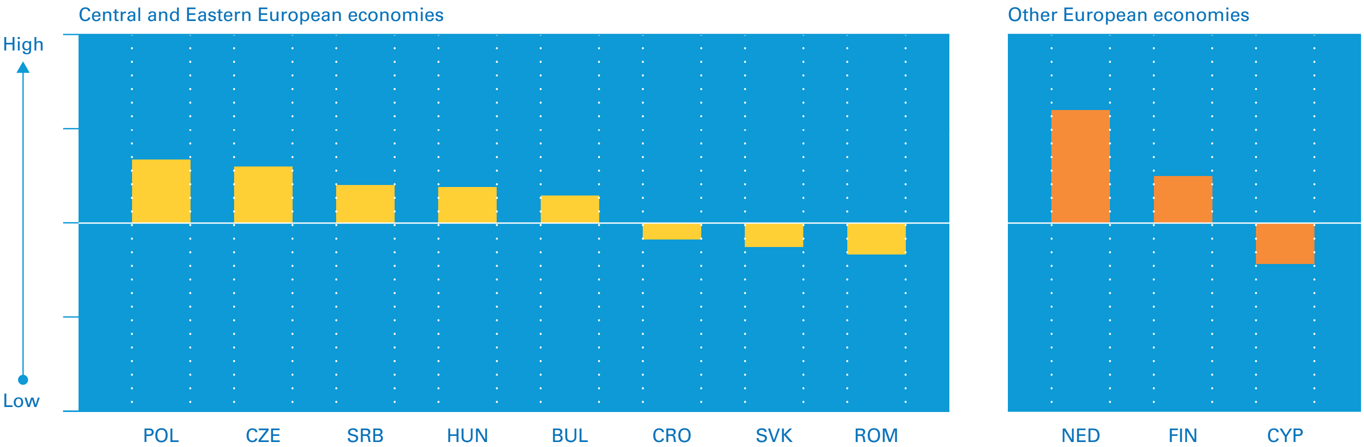
In the following section of our report we explore banks' expectations for the future of their real estate loan portfolios in light of recent developments and their strategic approach to real estate financing in consideration of other opportunities.

Strategic importance of real estate financing

Banks from the Netherlands, Poland, the Czech Republic, and Finland responded most positively, whereas over half of the surveyed countries also confirmed that they see real estate financing having more significant strategic importance.

However, compared to last year, an increased number of countries afforded it below average importance, including Cyprus, Romania, Slovakia, and Croatia.

Strategic importance of real estate financing for banks



Source: KPMG Property Lending Barometer, 2020

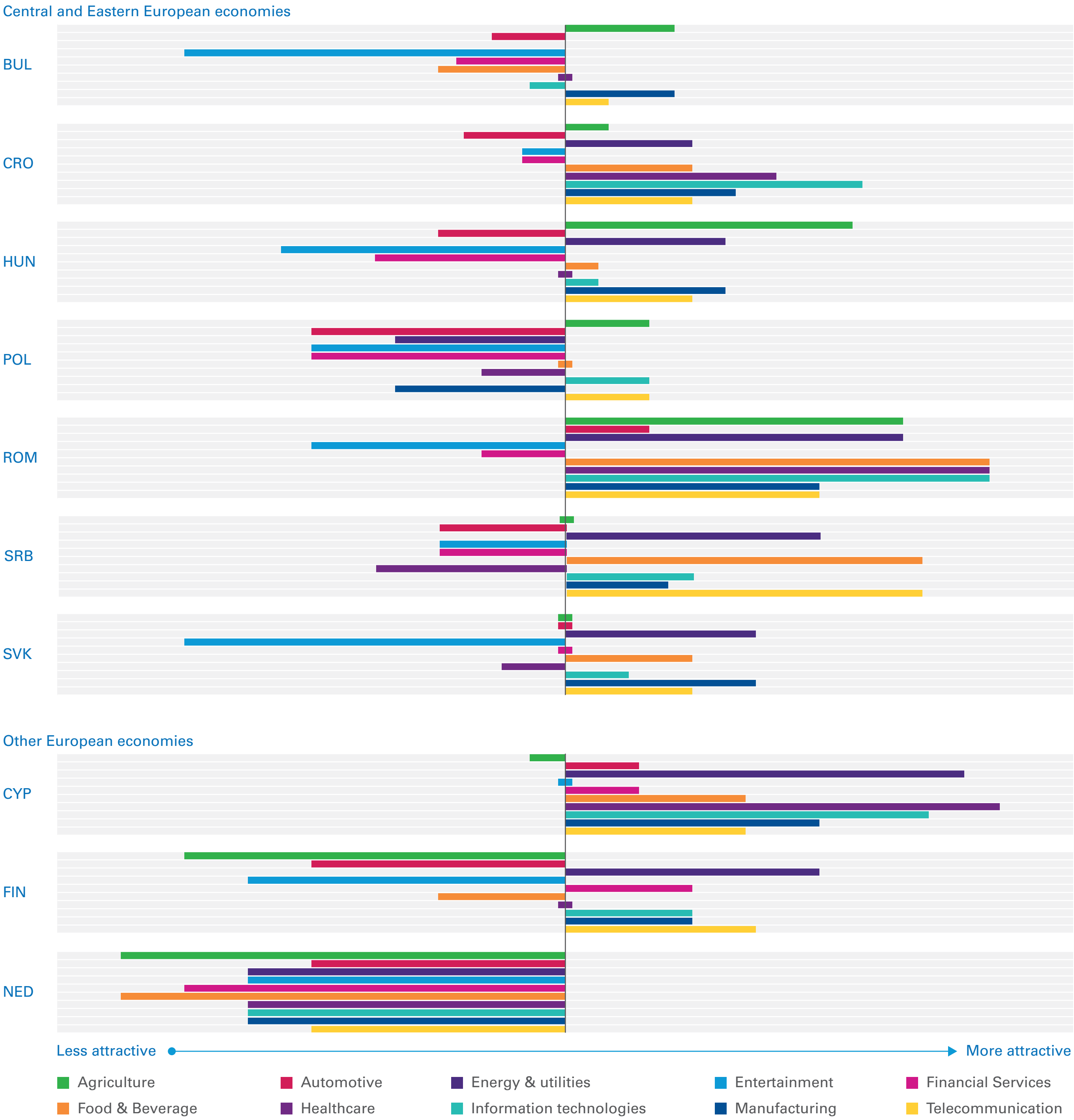
Slovakia - Faculty of Medicine, Comenius University in Bratislava

The attractiveness of real estate financing compared to other industries

Banks were queried on the attractiveness of other industries in terms of their potential for receiving financing compared to that of real estate. Overall, energy & utilities, information technologies, and telecommunication were the preferred sectors, followed by the manufacturing and healthcare industries. Industries that were less preferred than real estate include entertainment, financial services, automotive and agriculture.

While results vary greatly country by country, potentially showing the relative strength of different industries in each market, a regional comparison of responses revealed only minor differences between Central and Eastern European and Other European economies, with food & beverage, and agriculture less preferred in non-CEE countries.

Attractiveness of other industries compared to real estate



Source: KPMG Property Lending Barometer, 2020

Serbia - Clinical Center of Vojvodina

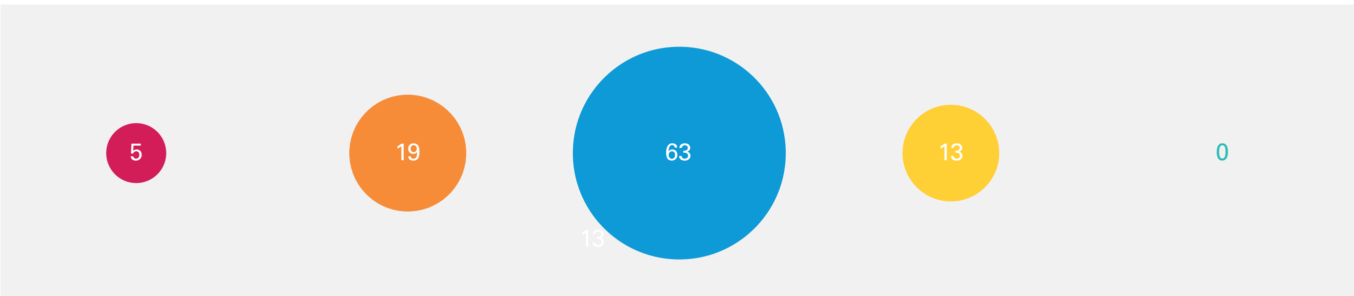
Change in focus on real estate financing within the banks' lending activities

The trend of banks' gradually increasing their focus to real estate financing has been reversed, on average, compared to in previous years, as revealed by our survey results.

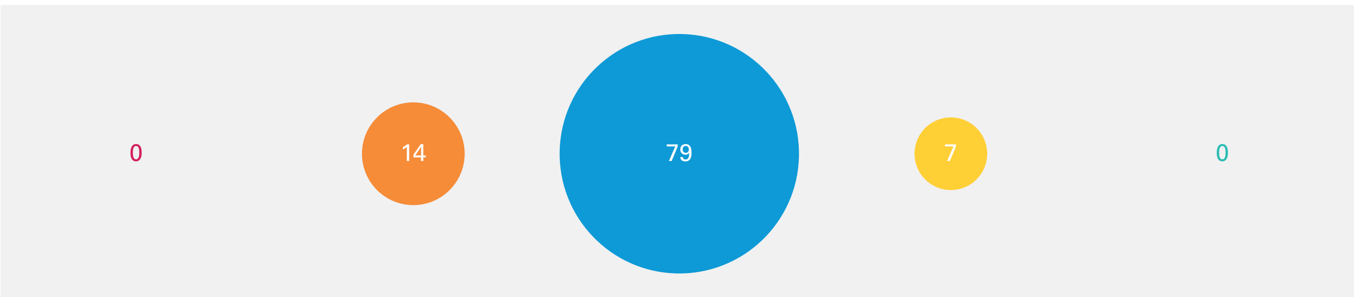
Banks from almost all countries indicated a decrease or no change since the previous year, whereas the only exceptions were respondents from the Netherlands and the Czech Republic, who reported that their focus on real estate financing had increased somewhat. The most significant decreases in focus were indicated in Romania and Cyprus.

Focus on real estate financing within the banks' lending activity

Central and Eastern European economies



Other European economies



● Significantly decreasing ● Decreasing ● Maintained ● Increasing ● Significantly increasing

Source: KPMG Property Lending Barometer, 2020

Most important factors affecting real estate loan portfolios

The key drivers affecting real estate portfolios have been identified by bank representatives who participated in our survey.

Similar to previous years, macroeconomic conditions in the local market are seen as the most significant factor for banks in Europe, followed by general European macroeconomic conditions in the CEE countries. The prevailing uncertainty in the global political and economic environment affecting local economies since 2016 appears to have been exacerbated by the shock of the global pandemic in 2020.

In a regional breakdown, some differences are apparent. For one, a lack of active investors is a primary concern for banks in Central and Eastern European economies, especially in Croatia, while this is not an issue in more developed economies like the Netherlands and Finland.

Most important factors affecting real estate loan portfolios

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

Source: KPMG Property Lending Barometer, 2020

Romania - Coltea Hospital

Disposing of loan portfolios

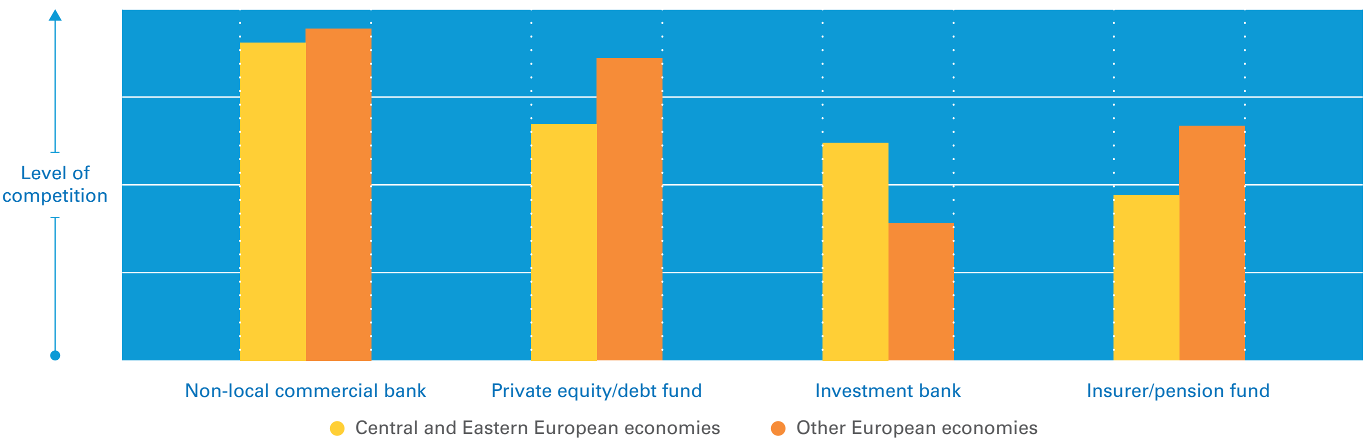
The long-term pattern prevails that banks in most countries are unwilling to dispose of a portion of their loan portfolios. In half of the countries surveyed, none of the banks showed any interest in disposal in the upcoming 12-18 months. In three additional countries, including the Czech Republic, the Netherlands and Bulgaria, less than a third of respondents indicated any interest. Only in two countries did banks indicate an inclination towards disposal, namely in Poland and Cyprus, mostly due to strategic exits by their banks. Capital adequacy was also indicated as another, though less influential factor for banks to pursue disposal.

Alternative lenders

Survey respondents revealed which alternative lender they consider as their most potent competitor in terms of banks' traditional real estate lending. Their responses showed that a long-term trend prevails of non-local commercial banks as the key competitor for banks in most markets.

In Other European economies, private equity/debt funds are considered similarly strong competitors. Insurer/pension funds are seen as a bigger threat in the Other European economies, and less in the CEE markets.

Competition with alternative lenders



Source: KPMG Property Lending Barometer, 2020

Opportunities for financing new real estate projects

Netherlands - University Medical Center Groningen

Opportunities for financing new real estate projects

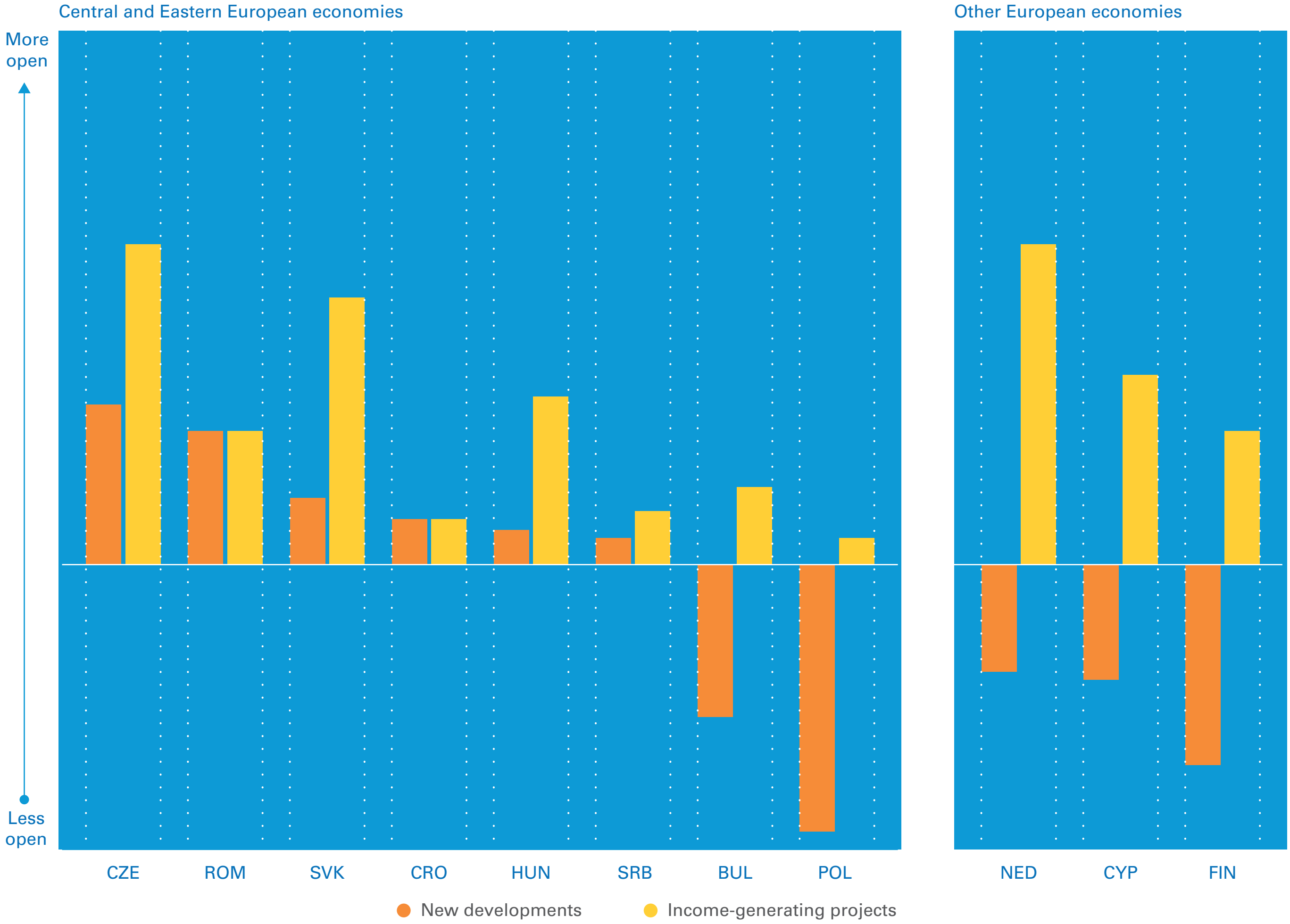
Our survey also set out to assess opportunities for developers in terms of obtaining bank financing for real estate projects.

New financing

Those surveyed in every market were in unanimous agreement regarding their bank's openness to finance income-generating projects, with the most enthusiastic responses received from the Netherlands, the Czech Republic and Slovakia. The openness of banks in other surveyed countries is more moderate, but still positive in this respect.

When asked about their willingness to finance new developments, bank representatives expressed a variety of views. Half of those surveyed were negative, with banks from Poland, Finland, and Bulgaria being the least open. Banks in the Czech Republic and Romania indicated the most, though still restrained, openness towards financing new development projects.

Openness of banks to finance new development/income generating projects



Source: KPMG Property Lending Barometer, 2020

Asset class preferences

Bank representatives were also queried about their preferred asset class for development financing in each country.

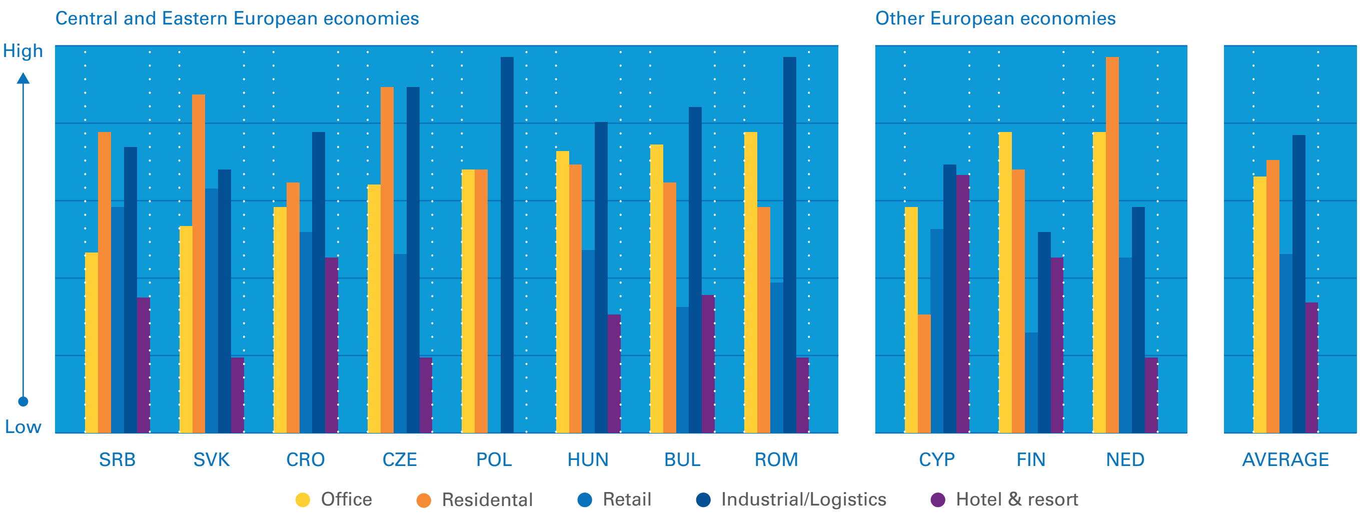
Compared to previous years' responses, the industrial/logistics asset class gained much popularity among those surveyed, and became the most popular category, on average, in Central and Eastern European economies.

In other economies, on average, office was the most preferred asset class, followed by residential.

The least preferred asset class on average was hotel & resort, especially in the Netherlands, Romania, the Czech Republic, and Slovakia. Retail was also less preferred, with exceptions being expressed in Slovakia and Serbia.

In relation to the effects of COVID-19, those surveyed were asked about their expectations regarding how it might affect demand for office space. A relative majority of the respondents (39%) are of the opinion that the overall effects of the pandemic (like distancing rules and home office policies) will not change (or might even increase) the demand for office space, while 31% see a decreasing demand, and 30% are unsure.

Banks' sector preferences in providing development financing by asset class



Source: KPMG Property Lending Barometer, 2020

Czech Republic - IKEM

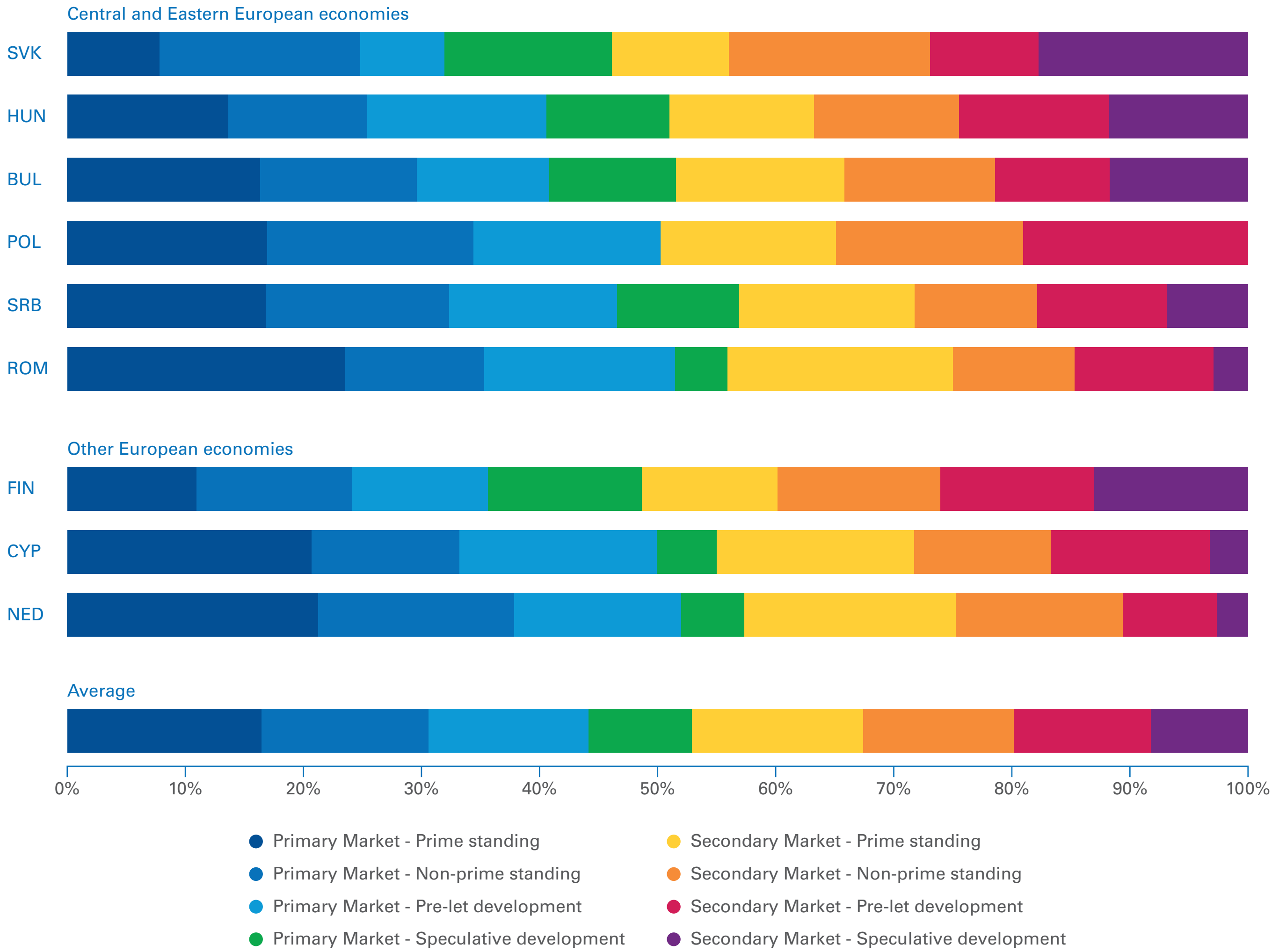
Financing in primary and secondary markets

Banks surveyed also gave an indication of their priorities for providing financing in primary and secondary markets for real estate projects in the next 12-18 months.

As in the previous year, respondents in both country groups, on average, signalled their clear preference for financing projects in primary markets, especially prime standing investments. Representatives from Romania, the Netherlands, and Cyprus were particularly in favour of such opportunities.

Non-prime standing investments and pre-let developments in the primary markets were also popular across the markets included in our survey, but not to the same extent as prime standing projects in secondary markets. Speculative investments were generally least preferred, with only those surveyed in Finland and Slovakia showing considerable openness to such opportunities.

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



Note: The longer the coloured bar, the more preferred the asset class is for the banks.
Source: KPMG Property Lending Barometer, 2020

Alternative financing

Compared to last year, those surveyed signalled even less openness to providing financing other than senior loans (i.e. mezzanine, whole loans, stretch senior) when considering the financing of real estate projects. Banks in almost half of those markets surveyed are not open to providing alternative financing at all. Respondents in most of the remaining countries in the sample showed very limited interest, including banks in Croatia, the Czech Republic, Serbia, and Bulgaria. There was only one country, the Netherlands, where over one-third of those surveyed confirmed their openness to providing financing other than senior loans for real estate projects.

Czech Republic - Former Hospital Kuks

Criteria for financing

Survey participants also revealed their criteria for selecting which real estate projects to finance.

In a majority of the markets covered in our survey, participants indicated that the most important criteria for obtaining financing for a real estate project are a strong business model and the quality of the asset. Other important criteria in all countries were the reputation and references of the developer/operator.

In Central and Eastern European economies, the pre-letting/pre-sale level in a proposed project also appeared quite important. By contrast, in other economies, the level of owner's equity was seen as more significant.

Less important criteria across all countries included in our research are the size of the requested loan, followed by the existence of an independent feasibility study/valuation.

Seventy-seven per cent of the bank representatives surveyed expressed their belief that the way a potential borrower's business model handles a pandemic situation will play a major role in financing decisions in the future.

Bank's most important criteria when considering real estate financing

	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	★★★	★★★★★
Financial background of the developer/investor	★★★	★★★
How well the project is planned, status of permitting process	★★	★★★
Existence of an independent feasibility study/valuation	★	★★
Size of the requested loan	★	★

Source: KPMG Property Lending Barometer, 2020

Loan-to-cost ratios (LTC)

Banks also responded to a query regarding their technical criteria for financing. The indicated loan-to-cost ratios they selected varied by country and asset type.

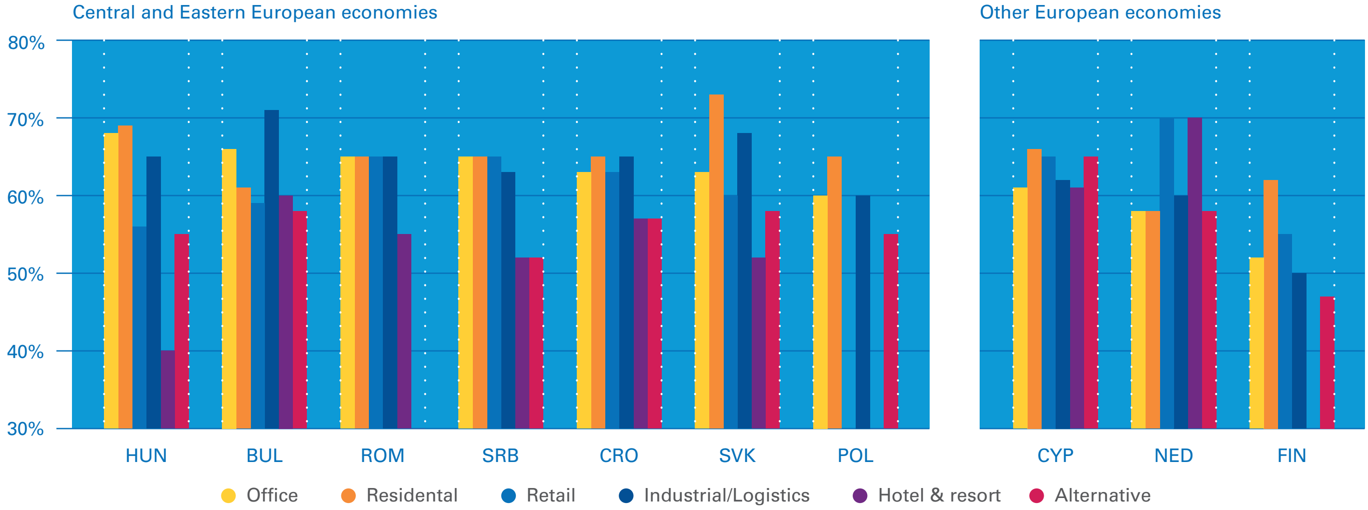
According to the responses, there is no major difference between the average ratios in Central and Eastern Europe and Other European economies in terms of how much equity banks require from developers (average LTC ratios are 0.62 and 0.60, respectively). However, within the country groups there are significant differences among countries. Banks in Finland and Hungary require the highest level of equity, with average LTC ratios of 0.53, and 0.59, respectively. Meanwhile banks in the Czech Republic are the least conservative, with average LTC ratios of 0.72.

Respondents in Central and Eastern European economies indicated loan-to-cost ratios for the office, residential, retail, industrial/logistics and hotel sectors in a range of 0.40 and 0.75 (i.e. reflecting a capital structure of 40-75% debt and 60-25% equity). On average, the residential sector has the highest LTC ratio, 0.67, followed by industrial/logistics and office at 0.66 and 0.65, respectively.

For Other European economies, the loan-to-cost ratios are between 0.47 and 0.70 (i.e. reflecting a capital structure of 47-70% debt and 53-30% equity). In these markets hotel/resort assets have the highest LTC ratio on average, at 0.65, followed by retail at 0.63.

In Central and Eastern Europe, hotels/resorts require the highest equity ratio in most of the countries surveyed, in a range of 0.40-0.60. In Other European economies, office, retail, as well as alternative assets (i.e. student housing, senior home) require the highest equity ratios in most countries surveyed, with an average equity ratio of 0.43.

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, 2020

Netherlands - Erasmus University Medical Center

Loan-to-value ratios (LTV)

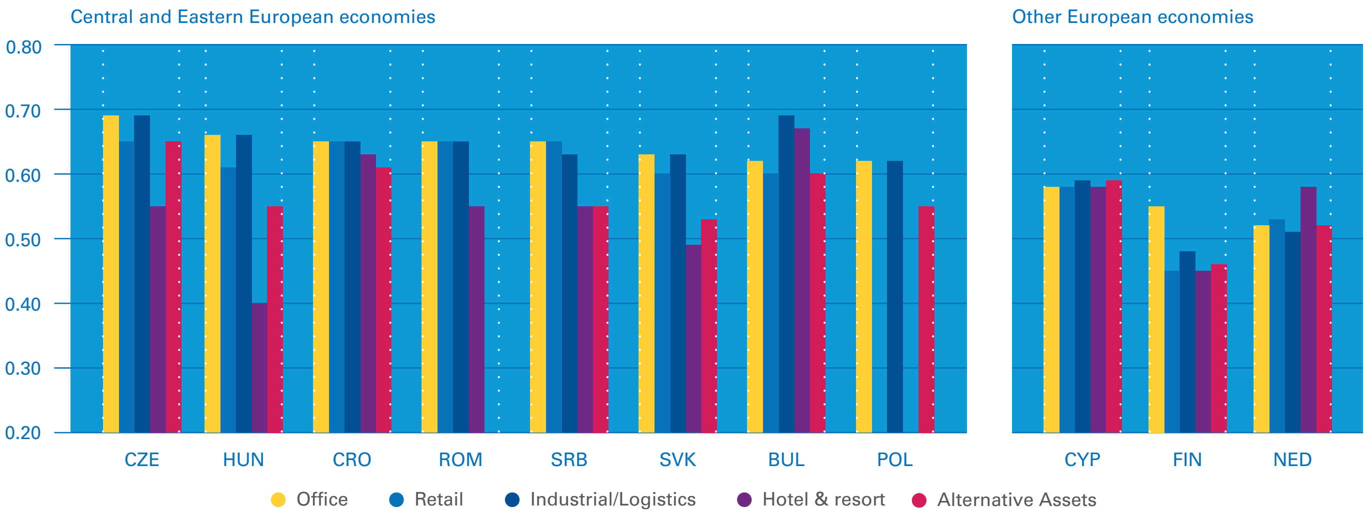
There is a notable difference between the average LTV ratio of the asset classes per country group, with the average of Central and Eastern European countries at 0.61, and for Other European countries at 0.53. This indicates that banks are willing to provide higher amounts of credit in proportion to the total appraised real estate value in Central and Eastern Europe.

For Central and Eastern European economies, the loan-to-value ratios for the office, retail, industrial/logistics, and alternative assets (i.e. student housing, senior home) range from 0.40 to 0.69 (i.e. reflecting a capital structure of 40-69% debt and 60-31% equity). The office and the industrial/logistics sectors, on average, have the highest LTV ratio, 0.65, followed closely by retail, at 0.63.

Hotel/resorts, on average, require the highest ratio of equity, with the LTV ratio for the country group equal to 0.56. While banks in most countries in this group are quite restrictive, banks in Bulgaria are willing to provide 67% credit in proportion to the appraised real estate value.

As for Other European economies, the range is narrower, at a ratio of between 0.45 and 0.59 (reflecting a capital structure of 45-59% debt and 55-41% equity). Responses show the lowest average proportions of equity are required for the office sector (45%), while the most equity is needed for retail, and alternative assets (48%).

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



Source: KPMG Property Lending Barometer, 2020

Serbia - Specialized Rehabilitation Hospital Banja Koviljaca

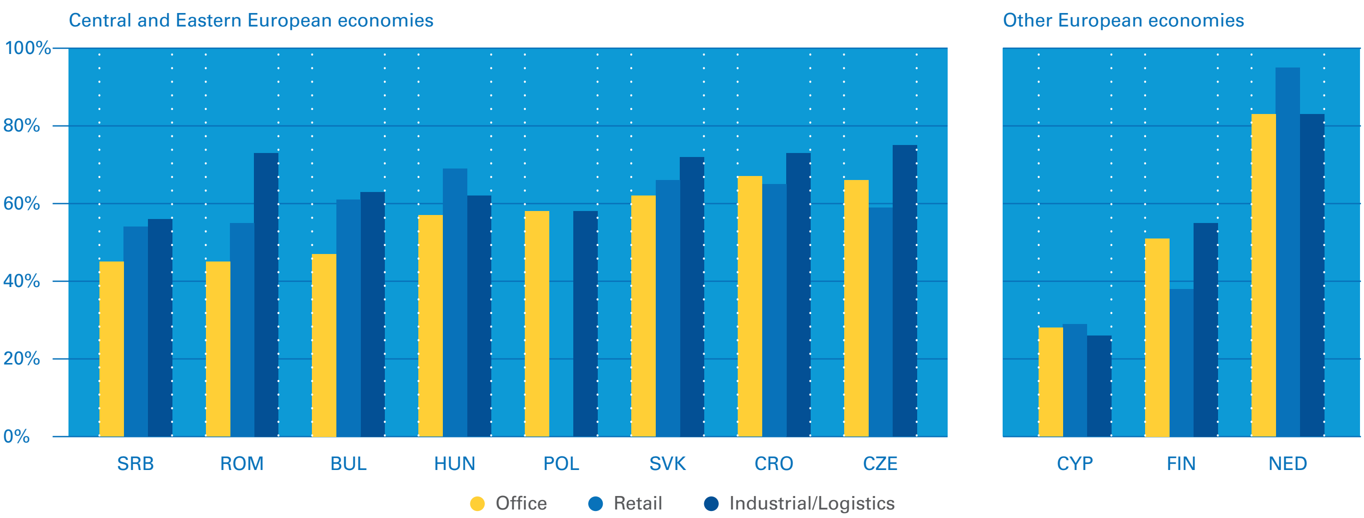
Pre-let ratios

Survey participants provided a wide variety of responses across countries and sectors in terms of 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.

In Central and Eastern European economies, pre-let ratios for office and retail projects are on average 56% and 61%, respectively, while industrial is at 66%. By comparison, banks' average pre-let requirement in the Netherlands for office and industrial developments is 83%, and 95% for retail developments.

Industrial projects mandate higher pre-let ratios to obtain financing, reflecting the phenomenon that banks are less open to speculative industrial property developments. This is largely due 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 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, 2020

Debt service coverage ratios

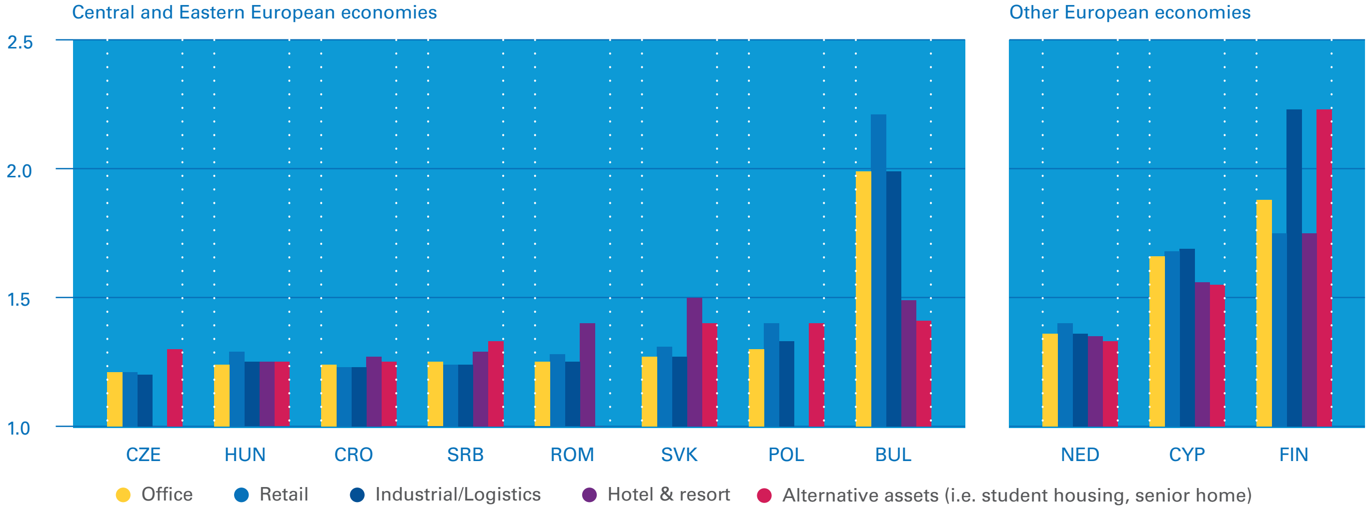
Survey participants also expressed their expectations in regards to debt service coverage ratios ("DSCR") for income-generating projects initiated by investors with excellent reputations and sound business plans.

According to respondents, income-generating projects in the office and hotel/resorts sector offer the lowest DSCR ratios (1.42), considering all responses across our country groups, followed by retail and alternative assets (1.45).

Banks operating in Central and Eastern European economies require the lowest DSCR ratio for alternative assets, at an average of 1.33, followed closely by the office and industrial/logistics asset classes, averaging 1.34, and hotel/resorts at 1.37. Retail projects require the highest DSCR ratios, of 1.39.

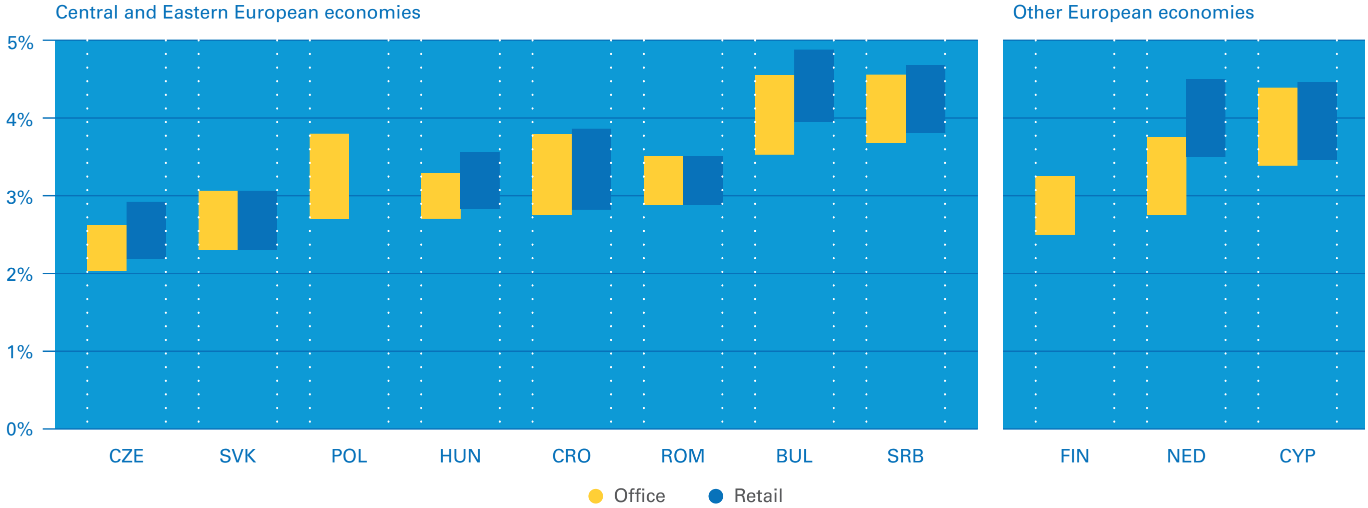
By comparison, Finnish banks expect the lowest average ratio for retail and hotel/resorts (1.75), followed by office (1.88). Alternative assets and industrial/logistics opportunities have significantly higher ratios, at 2.23.

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, 2020

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



Source: KPMG Property Lending Barometer, 2020

Interest premiums

Bank representatives were queried on the range of 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.

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

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 Dutch real estate market.

This year we have observed a reversal 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. Clearly, the chaotic economic fallout from the COVID-19 pandemic this year has had an adverse impact on financing conditions, and interest premiums have deteriorated since last year.

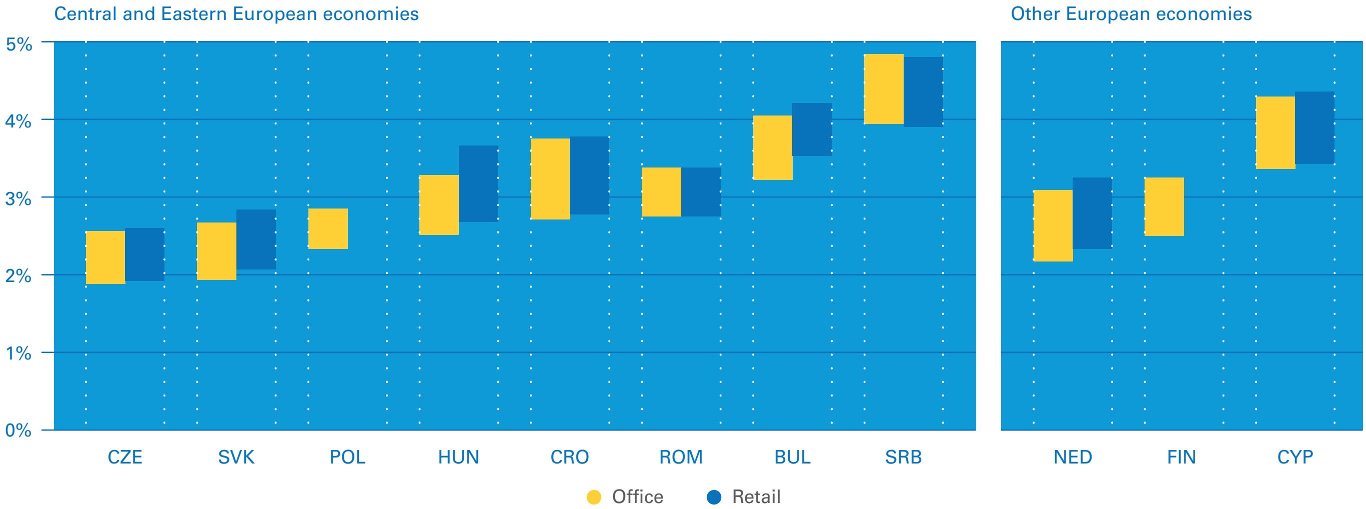
The premium applied on new office and retail developments in Central and Eastern European economies currently ranges 2.04-4.88%. On average, Czech banks require the lowest premiums, while Serbian banks require the highest, according to respondents. The respective premiums for Other European economies range between 2.5 and 4.5, with Finnish banks providing the lowest premiums for comparable projects, and banks in Cyprus expecting the highest premiums.

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

According to the responses received, required risk premiums vary across these markets. For example, Hungarian banks require premiums that are relatively similar for income-generating office and retail asset classes compared to that for new developments. Meanwhile, banks in the Netherlands mandate lower premiums (by 63-121 basis points) for office and retail income-generating projects than for new developments.

Among the Central and Eastern European economies, Czech and Slovakian banks apply the lowest premiums, while the highest are applied by Serbian and Bulgarian banks. In the case of the Other European economies, banks in the Netherlands require the lowest premiums, while Cypriot banks mandate the highest for income-generating projects.

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



Source: KPMG Property Lending Barometer, 2020

Length of loan

Banks were also queried on the minimum required average annual loan amortization rate that would be applied at the loan-to-value level for highly rated real estate projects, as well as what the longest contracted term of the loan would be for financing a prime development/income generating property.

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

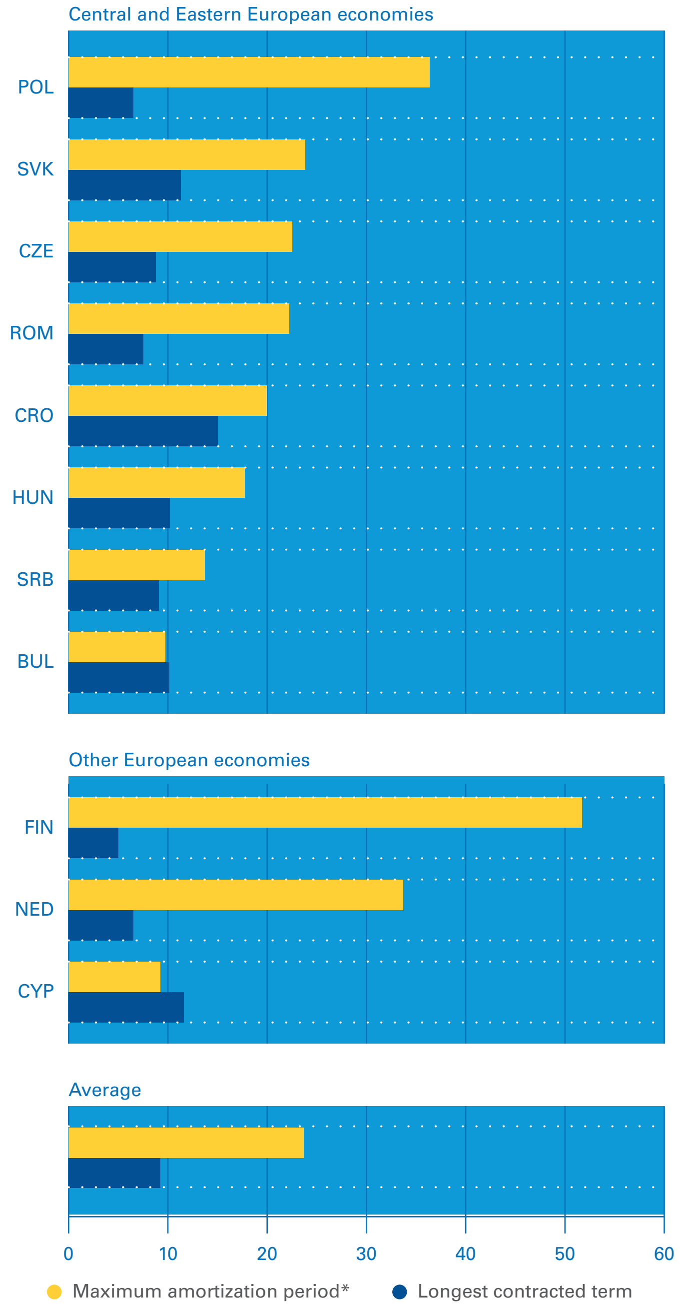
There is no change this year in the general pattern witnessed that banks in more mature markets operating in competitive environments are driven to apply low amortization rates; however, their internal policies limit the longest term of the loan they contract for. Consequently, the difference between the implied maximum amortization period and the available maximum contracted length of loans is much greater in more established economies in Other European countries (24 years) than the average in Central and Eastern European countries (11 years).

In the Central and Eastern European economies surveyed, the implied maximum amortization period of the loan and the available maximum contracted length of the loan range between 10 and 36 years and 7-15 years, respectively. Polish banks, when certain conditions are met, are ready to apply the lowest amortization rate (of 2.0%).

In Other European countries, the implied maximum amortization period of loans ranges from 9 to 52 years, while the available maximum length of contracts is in a range of 5-12 years. When certain conditions are met, Finnish banks are ready to apply a very low amortization rate (1.63%), yet their maximum length of contract is low (5 years).

Differences between the amortization rates applied for different asset classes were also examined. Taking the average of all surveyed countries, there are no significant differences across asset classes. The rates range between 5.1 and 6.3%, with office projects receiving the most favourable terms, and hotel/resort projects the least favourable terms. Similarly, on average, the maximum available contract length applied by banks for different asset classes ranges from 9.1 to 9.5 years.

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



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

Source: KPMG Property Lending Barometer, 2020

Conclusions

Serbia - Pancevo Hospital

Conclusions

The economic outlook for those countries' real estate markets included in our survey is profoundly contingent upon the macroeconomic outlook and the perceived risk profiles of their respective economies.

In the context of the global pandemic, the general financing conditions to corporates have not changed significantly, according to the European Central Bank. The deterioration of the creditworthiness of companies balanced off the easing effects of policy measures. Nevertheless, a net tightening of credit standards on loans to corporates is expected in the foreseeable period, and state guarantee schemes are set to run out.

Total investment volume continued to decline in Europe in H1 2020. Due to the economic fallout from the COVID-19 pandemic, quarterly transaction activity dropped to a level not seen since 2014 in Q2 2020. Together, Germany and the UK continued to attract close to half of the total European transaction volume in the first 6 months of the year.

The proportion of non-performing loans in banks' real estate loan portfolios had already been successfully reduced in most of the surveyed markets before the current economic turmoil from the pandemic.

Bank representatives expressed their institutions' continued openness to offering real estate financing for income-generating projects; however, they are less open to financing new developments, except in the Czech Republic and Romania, where they indicated moderate openness.

A focus on real estate financing has decreased or been maintained in all countries, except the Netherlands and the Czech Republic, where it has somewhat increased since last year. Respondents in Romania and Cyprus indicated their markets have experienced the most measurable decrease.

Banks were queried on what other industries they find attractive in terms of financing compared to real estate. Overall, energy & utilities, information technologies, and telecommunication were selected most often, reflecting banks' preference of these over financing real estate projects.

There is no change in a long-term pattern of banks generally continuing to offer more favourable terms when financing income-generating projects compared to new developments.

Compared to previous years, the industrial/logistics asset class gained much popularity among those surveyed, and became the most popular, on average, in the CEE economies. In Other European economies however, office remained the most preferred asset class, followed by residential.

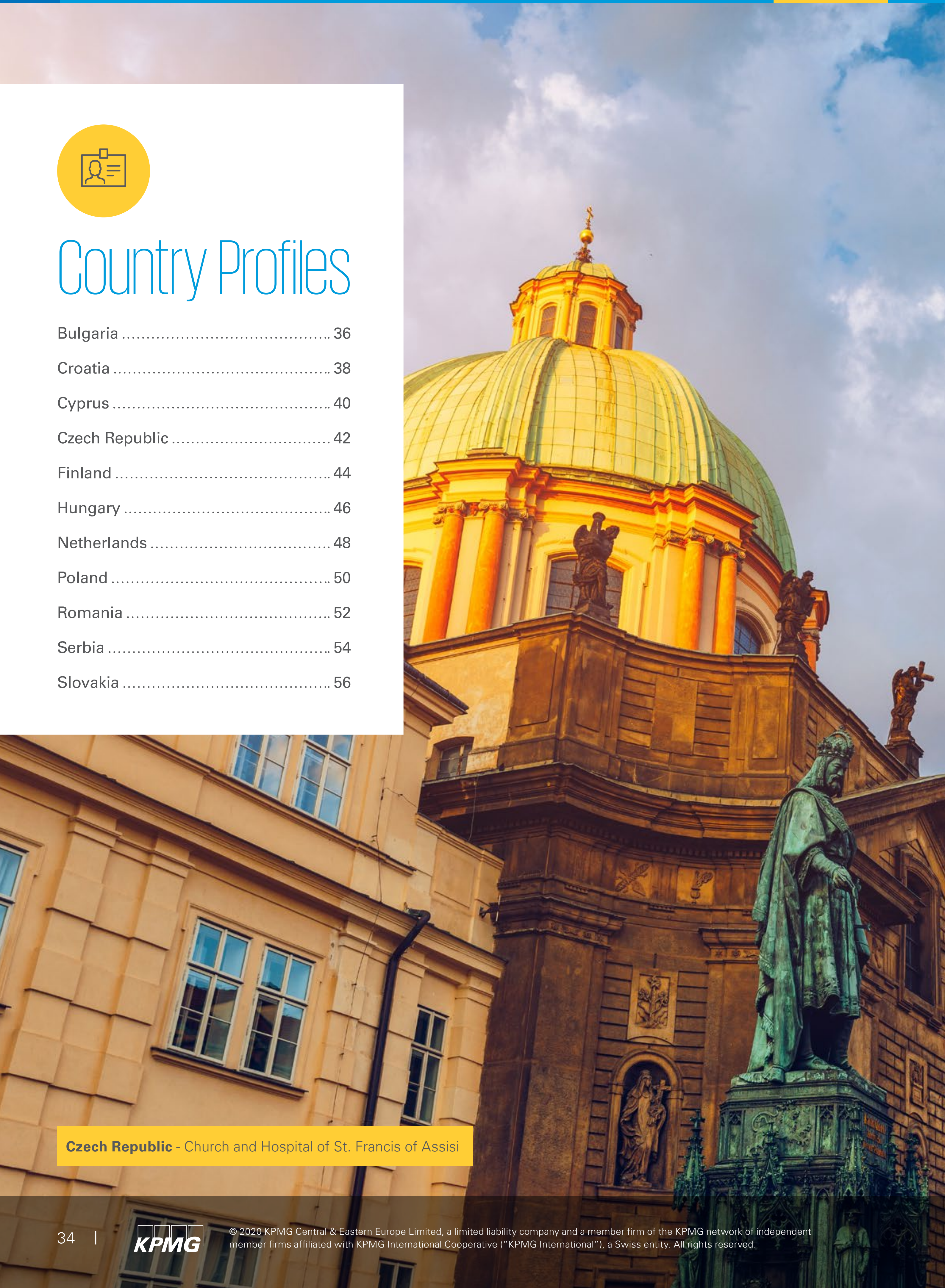
Respondents in both country groups, on average, reaffirmed their clear preference for financing projects in primary markets, especially prime standing investments. Representatives from Romania, the Netherlands and Cyprus were particularly fond of these opportunities.

The difference between the implied maximum amortization period of the loan and the available maximum contracted length of the loans offered by banks is greater in more established economies (24 years) than in CEE economies (11 years).

Among alternative lenders, non-local commercial banks are banks' most potent competitors in the majority of European countries, while private equity/debt funds are considered similarly strong competition in more established economies.

The next section of our report features market-specific analysis for each economy included in the survey. The country profiles that follow highlight the surveyed markets' unique characteristics as reflected by their varying market fundamentals, as well as the present conditions and prospects for financing.

Country Profiles



Czech Republic - Church and Hospital of St. Francis of Assisi

Bulgaria

Zdravko Moskov

"Despite the temporary halt, driven by the global COVID-19 pandemic, the Bulgarian real estate market is expected to revive in the second half of 2020. The year so far has been challenging for owners of commercial space, where tenants' business disruption has driven more pressure towards renegotiation of lease terms, while residential and office markets have been in better shape. It is also expected that the recent accession of Bulgaria in the ERM II mechanism, on its route to replace the Bulgarian lev with the euro, would drive foreign investors' confidence and an upswing in market activity in the mid- to long-term."

Saint Sofia Hospital - Sofia

Economic forecast

Source: Economist Intelligence Unit

GDP growth 2020 F **-4.0%**

Inflation 2020 F **-0.4%**

Unemployment rate 2020 F **8.2%**

Prime yields, Q2 2020

Source: Cushman & Wakefield

High Street Retail **6.75%**

Office **7.50%**

Industrial **8.00%**

Key investment transactions H1 2020

City	Property	Seller	Buyer
Veliko Tarnovo	Mall Veliko Tarnovo	AGI -BRE Participations 3 (AGI -BRE 3)	VT MALL EOOD
Sofia	Electronica Offices	BSR SOFIA AD	BERNARD INVESTMENTS OOD
Sofia	Markan TI EAD Office building	Markan Holding AD	2 Individual investors
Varna	Pfohe Mall	Hydrostroy AD	DZI Insurance
Sofia	Sofia Hotel Balkan	Bandola Properties	Potamiro Limited

Source: KPMG research

Transaction volume and YoY change H1 2020

195 EUR m

101%

Source: Colliers

Lending market

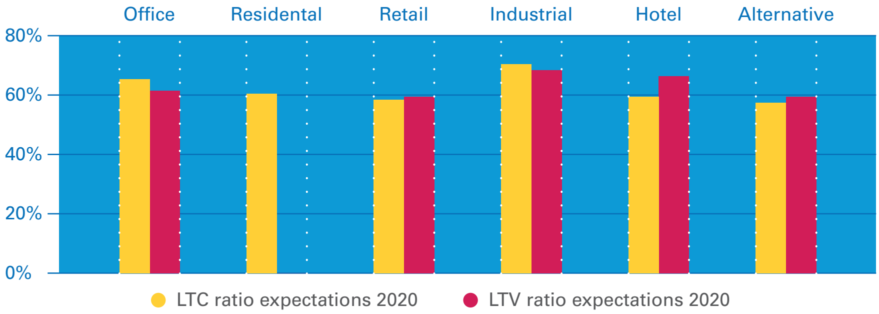
Just over half of the respondents in Bulgaria indicated real estate financing is of medium strategic importance, while over a quarter of them assigned it higher importance. Close to half of the banks decreased their focus on the industry slightly, while the same portion maintained it and a minority increased their interest slightly. Bulgarian banks are cautiously open to finance income generating properties and they are less open to new developments.

The most significant alternative lenders in Bulgaria are non-local commercial banks, followed by private equity/debt funds and investment banks. Insurers/pension funds hold less importance regarding this matter. The provision level in real estate financing is considered adequate by the overwhelming majority of survey participants. Average loan size varies from EUR 8 to EUR 11 million, which is lower than last year. Meanwhile, the preferred amount is between EUR 10 and EUR 16 million.

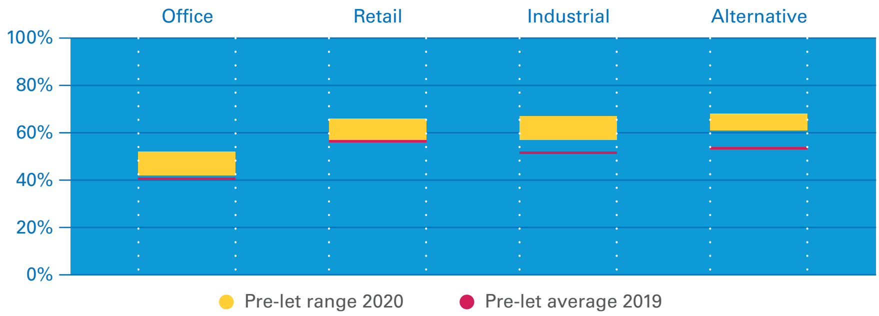
Future of real estate portfolios

Over half of the banks represented in our survey expect the real estate loan portfolio size of the entire banking sector to decrease or significantly decrease in the next 12-18 months, while a third of them foresee no change, and the rest expect a slight increase. Over two-thirds of the bank representatives expect their portfolio size to decrease. These are much less positive prospects, according to respondents, compared to their responses last year.

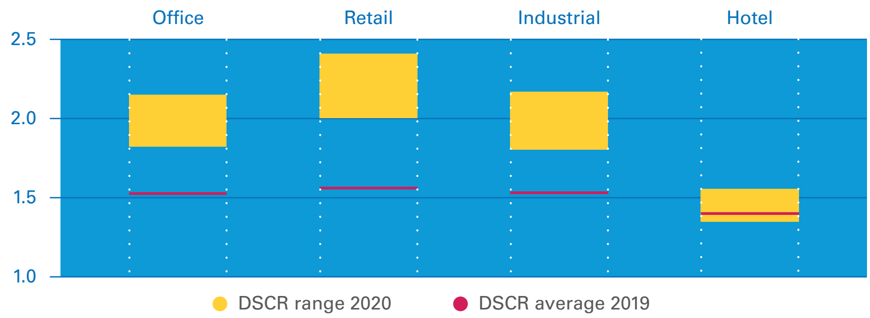
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



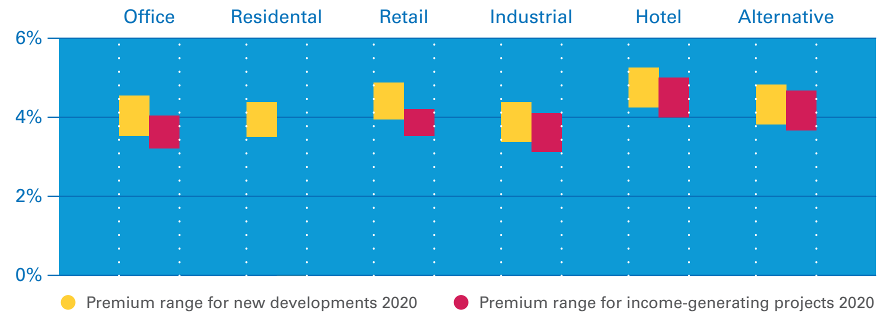
Pre-let ratio expectations for projects



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, 2020

Croatia

Paul Suchar

"The downturn of the economy during the COVID-19 pandemic has impacted investments and will likely further impact real estate prices. Banks are focusing on their existing exposures with new real estate financing being considered more selectively than ever."

Special Hospital Agram - Zagreb

Economic forecast

Source: Economist Intelligence Unit

GDP growth 2020 F **-8.6%**

Inflation 2020 F **-3.9%**

Unemployment rate 2020 F **10.9%**

Prime yields, Q2 2020

Source: Cushman & Wakefield

High Street Retail **6.50%**

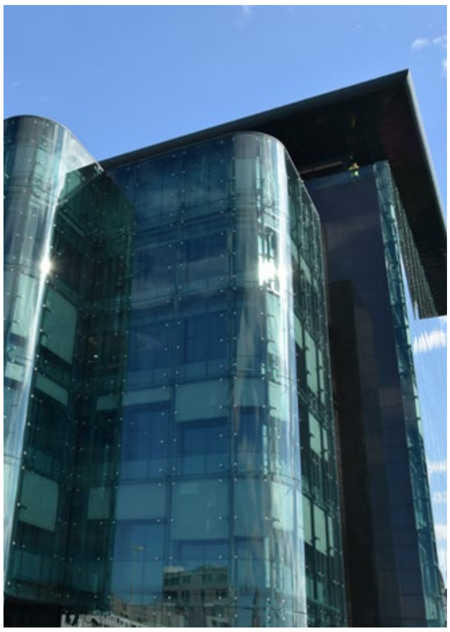
Office **8.00%**

Industrial **9.00%**

Key investment transactions H1 2020

City	Property	Seller	Buyer
Zagreb	Solidum	Pevex	Family city
Pula	Riviera hotel	State	Arena Hospitality Group

Source: KPMG research



Lending market

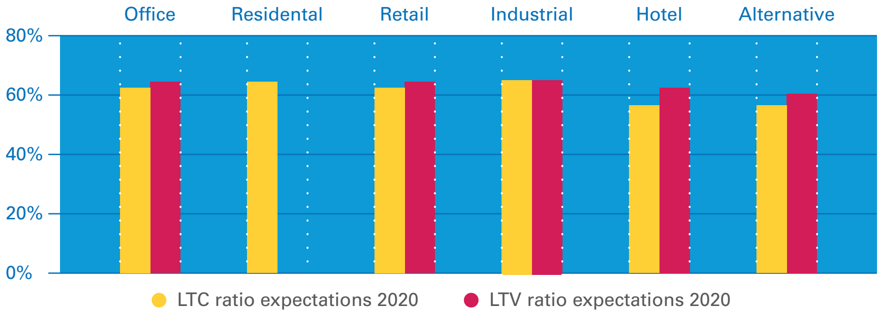
Two-thirds of participating banks in Croatia consider real estate financing of average strategic importance. The rest are equally divided between declaring it either important or unimportant. Half of the banks maintained their focus on real estate compared to last year, while a quarter of them decreased their focus. Respondents in Croatia are moderately open to financing both income generating properties, and also new developments.

Non-local commercial banks are seen as the most notable rivals in real estate financing, followed by private equity/debt funds. Close to two-thirds of those surveyed recognized the level of provisions in the banking sector as adequate, while the remaining banks considered it somewhat high. The average loan size saw a significant decrease compared to the previous year's and is between EUR 7 to 13 million, with a preferred size falling in a similar range, between EUR 6 to EUR 13 million.

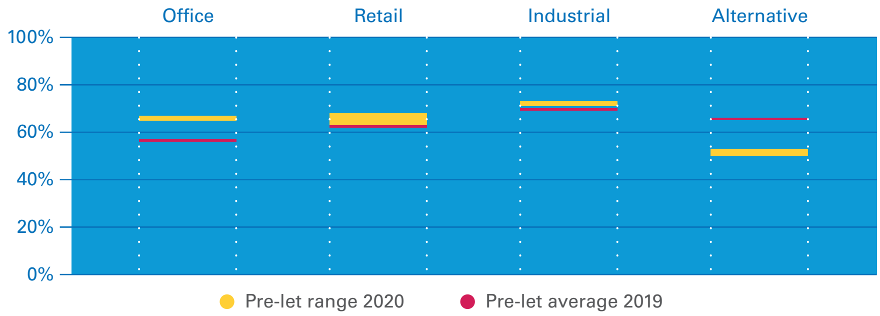
Future of real estate portfolios

Half of Croatian participants expect a decrease in the size of the whole banking sector's real estate portfolio, while less than one-fifth of them expect an increase. Regarding their own bank, over two-thirds of respondents expect a decrease, while the remaining banks expect no change in the size of their real estate loan portfolio in the next 12-18 months.

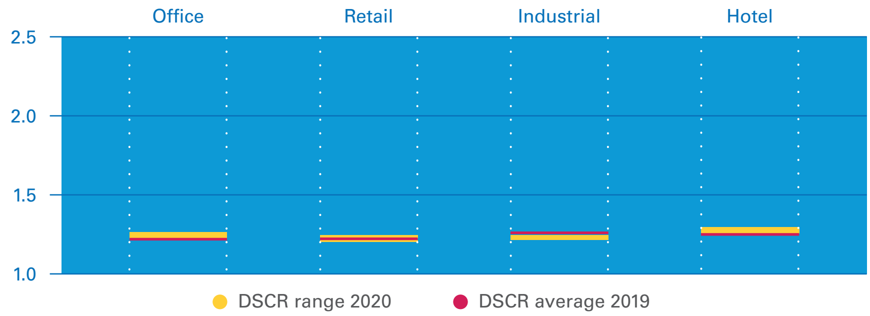
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



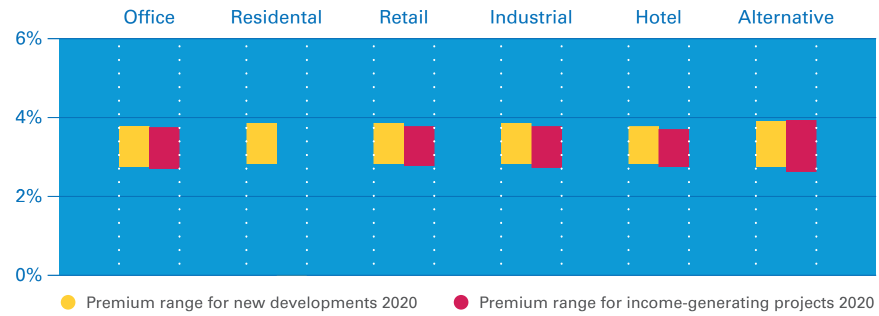
Pre-let ratio expectations for projects



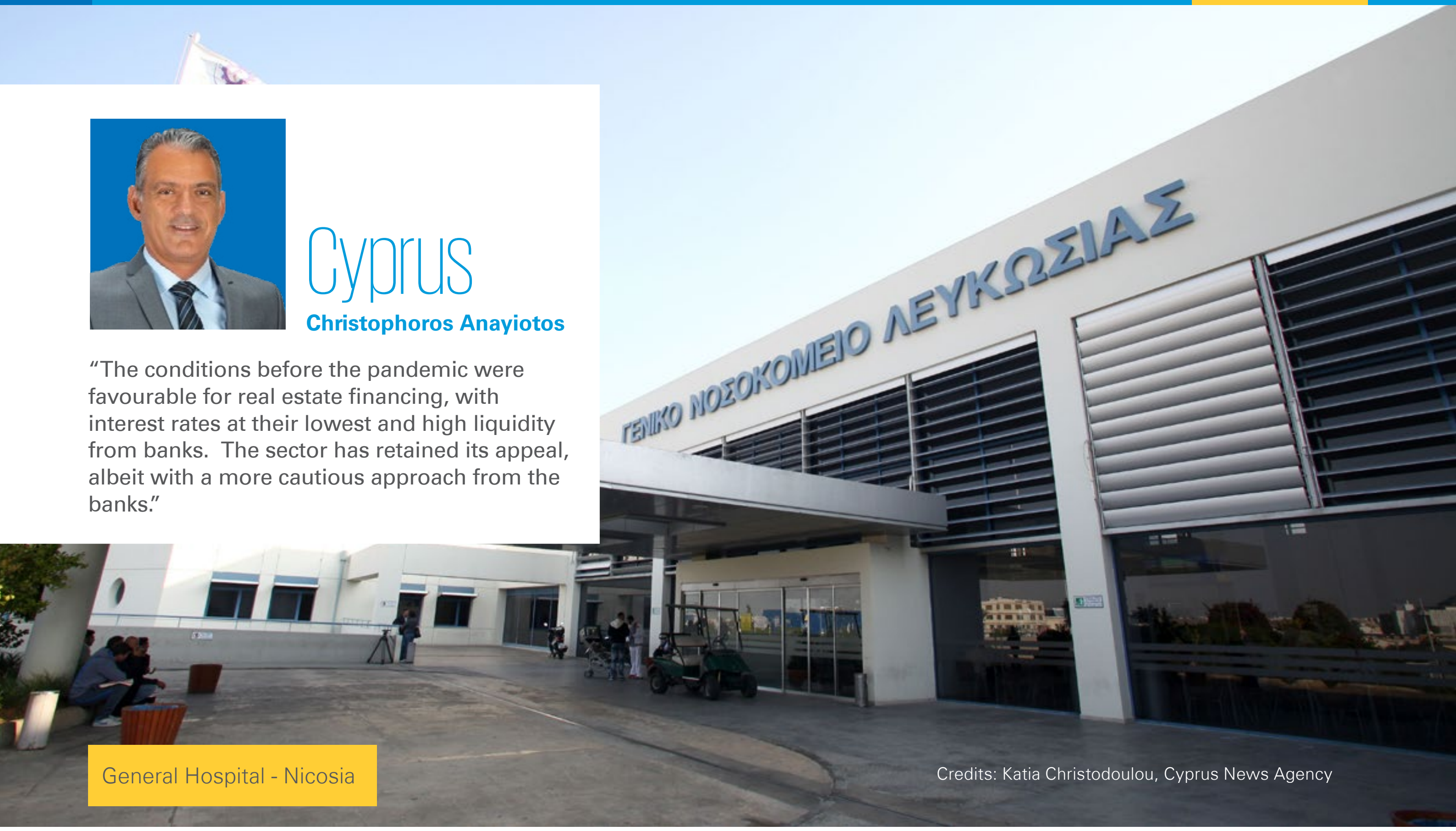
Debt service coverage ratio expectations for financing income-generating real estate projects



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



Source: KPMG Property Lending Barometer, 2020



Cyprus

Christophoros Anayiotos

"The conditions before the pandemic were favourable for real estate financing, with interest rates at their lowest and high liquidity from banks. The sector has retained its appeal, albeit with a more cautious approach from the banks."

General Hospital - Nicosia

Credits: Katia Christodoulou, Cyprus News Agency

Economic forecast

Source: Economist Intelligence Unit

GDP growth 2020 F **-8.0%**

Inflation 2020 F **1.4%**

Unemployment rate 2020 F **8.5%**

Prime yields, Q2 2020

Source: Cushman & Wakefield

High Street Retail **5.25%**

Office **5.00%**

Transaction volume and YoY change H1 2020

927 EUR m

-45%

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

Lending market

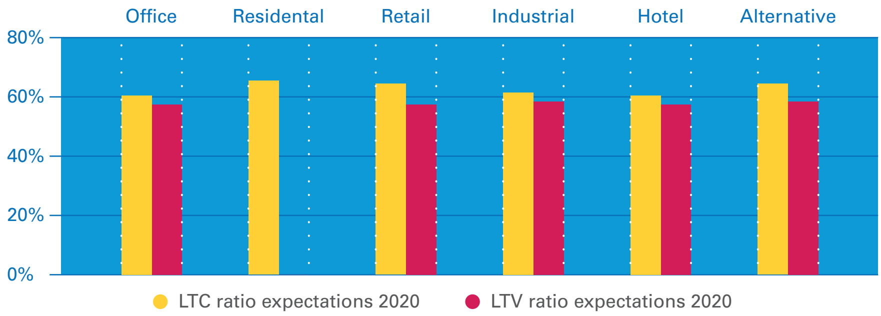
As for the strategic importance of real estate financing, over two-thirds of respondents consider it as having average importance, while the remaining ascribe to it low or very low importance. Over half of banks maintained their focus on the sector since last year, while the remainder slightly decreased their focus upon it. Cypriot banks are more or less open to financing income generating properties but are not as interested in new developments.

The greatest competitors in the lending market, according to survey participants, are private equity and debt funds, followed by non-local commercial banks. An overwhelming majority indicated that the level of provisions in the sector is adequate, while the remainder see it as fairly high. Their average loan size ranges from EUR 3 to EUR 7 million, while their preferred size is between EUR 3 to EUR 9 million. Compared to the figures for the previous year, the average loan size has decreased, while the preferred loan size is unchanged.

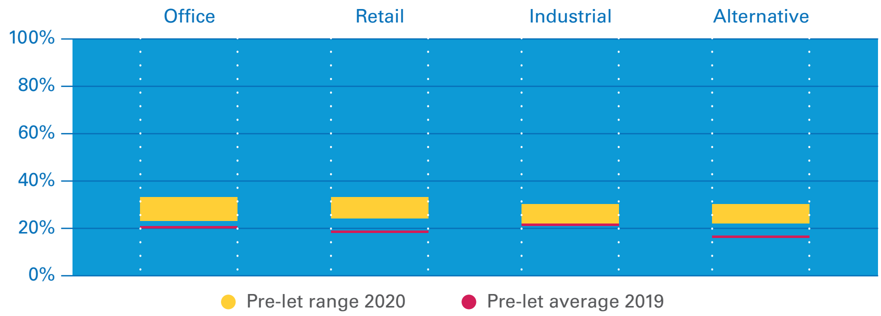
Future of real estate portfolios

Close to half of those surveyed in Cyprus anticipate no change in the size of the whole sector's real estate lending portfolio in the next 12-18 months, while the rest are equally divided between expecting a moderate decrease or a moderate increase. In terms of their own bank's portfolio size, just over half of them expect no change, close to a third of them expect a decrease, while the remainder expect an increase.

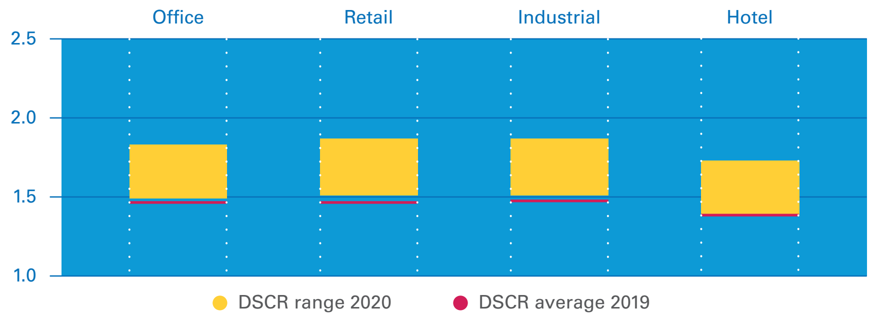
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



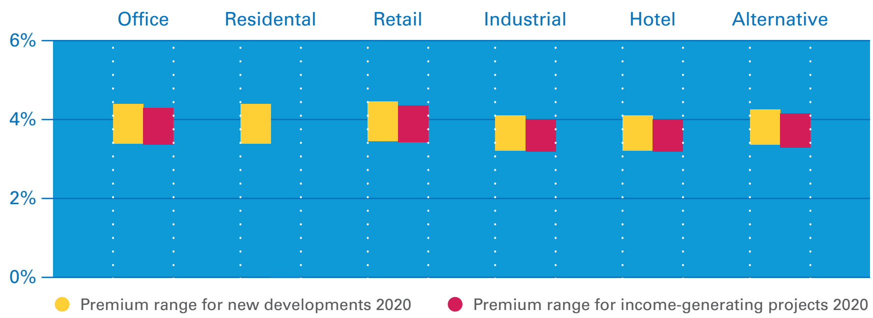
Pre-let ratio expectations for projects



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



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



Source: KPMG Property Lending Barometer, 2020

Czech Republic

Pavel Kliment

"One thing that did not change as a result of COVID-19 pandemic is overall interest of banks in real estate investments. This interest is however far more selective now than a year before. Governmental measures and debtors protection are delaying the real picture and the true impact of COVID-19 on real estate financing is to be discovered before year end."

IKEM - Prague

Economic forecast

Source: Economist Intelligence Unit

GDP growth 2020 F	-7.5%
Inflation 2020 F	-0.3%
Unemployment rate 2020 F	4.1%

Prime yields, Q2 2020

Source: Cushman & Wakefield

High Street Retail	4.50%
Office	3.90%
Industrial	4.75%

Key investment transactions H1 2020

City	Property	Seller	Buyer
Prague	Shopping Centre Čestlice	Albert	HSTN Holding
Prague	Kotva	PSN	Generali Real Estate
Prague	Albatros	PSN	FID Group
Prague	Spálená 51	PSN	FID Group
Prague	Argo Alpha	Peakside Capital Advisors	BPD Development
Moravian-Silesian region	Residomo (Residential Property Portfolio)	Blackstone / Round Hill Capital	Heimstaden Bostad

Source: KPMG research

Transaction volume and YoY change H1 2020

1 948 EUR m

12%

Source: Colliers

Lending market

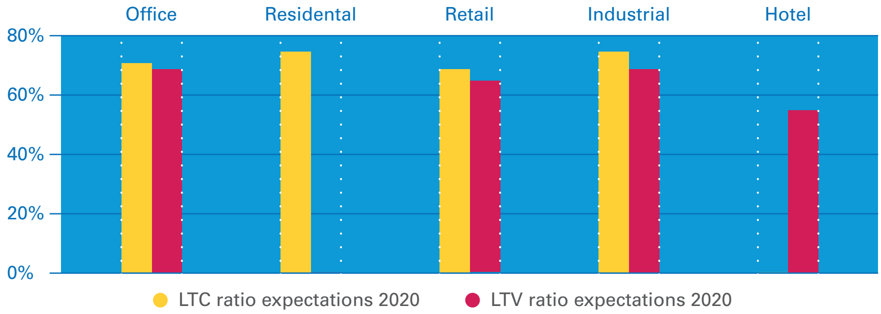
Close to two-thirds of survey participants acknowledged real estate financing as having average importance for their bank strategically, while the remaining banks assigned it high or very high importance. Over three-fourths of them maintained their focus on the sector relative to last year, whereas the others had a moderate increase in their interest. Respondents in the Czech Republic expressed strong openness to finance income generating properties and were also moderately interested in new developments.

Those surveyed emphasized the role of non-local commercial banks among the most notable rivals in real estate financing, considering investment banks and insurer/pension funds as worthy competitors too. There was unanimous agreement among respondents that they consider the level of provisions in the banking sector as adequate. According to their responses, average loan size varies from EUR 20 to EUR 27 million, while the preferred range is higher, between EUR 20 to EUR 40 million.

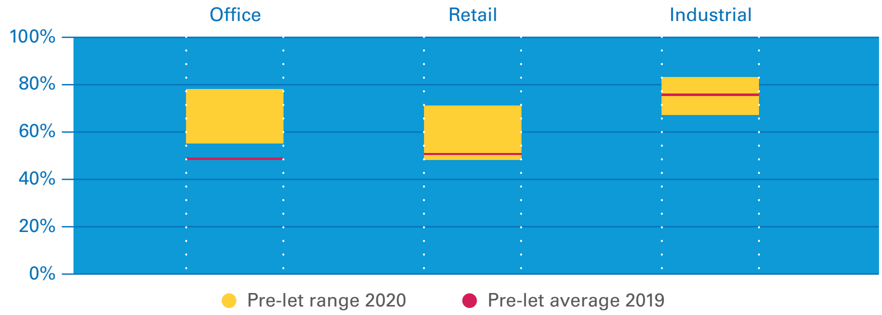
Future of real estate portfolios

Over three-fourths of Czech participants expect the size of the whole banking sector's real estate portfolio to remain unchanged in the next 12-18 months, while the remaining respondents foresee a decrease. Expectations for their own bank's portfolio size are similar.

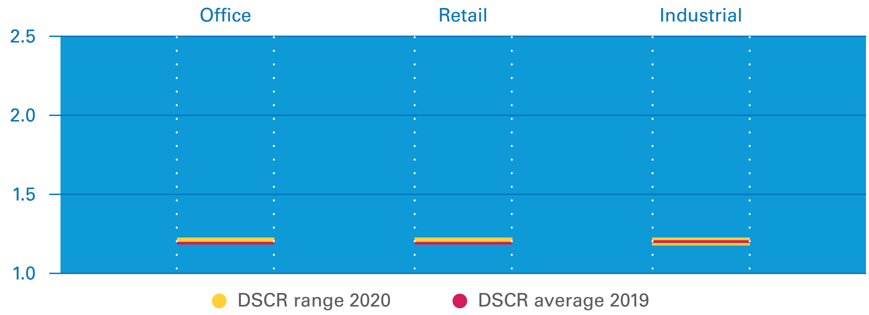
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



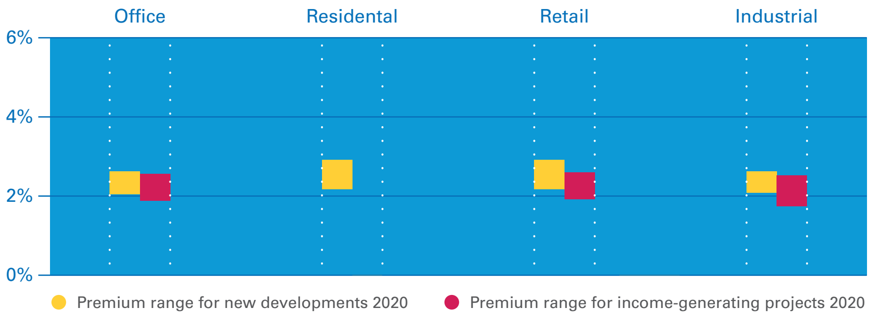
Pre-let ratio expectations for projects



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, 2020

Finland

Teemu Haataja

"Finland has weathered the COVID-19 crisis better than any other European country, measured both by the fall in GDP and the level of impaired loans. This may partly result from relatively conservative leverages used in the country. The levels of current COVID infections are very low in international comparison. Currently, real estate investor appetite is showing clear signs of improvement. Longer term effects in the economy remains to be seen, posing an increasing threat, for example to rising unemployment and the public economy."

New Children's Hospital - Helsinki

Credits: Matti Snellman, HUS Helsinki University Hospital

Economic forecast

Source: Ministry of Finance of Finland

GDP growth 2020 F **-6.0%**

Inflation 2020 F **0.3%**

Unemployment rate 2020 F **8.5%**

Prime yields, Q2 2020*

Source: Catella

High Street Retail **4.80%**

Office **3.50%**

Industrial **5.80%**

*Helsinki Metropolitan Area

Key investment transactions H1 2020

City	Property	Seller	Buyer
Across Finland	Portfolio of 18 retail properties	2 funds managed by Trevian	Cibus Nordic Real Estate AB
Helsinki	REDI Shopping centre (40%)	Construction company SRV	Other existing investors of the shopping centre, including Ilmarinen, Pohjola, OP, LocalTapiola
Helsinki	OP Group head office	OP Group	Varma and South Korean Investors
Across Finland	Acquisition of Hoivatilat Oyj	Shareholders of Hoivatilat Oyj	Aureit Holding Oy (Aedifica)
Helsinki, Turku, Tampere, Oulu, Lappeenranta regions	17 residential properties	Ilmarinen	AREIM's fund

Source: KTI Property Information, KPMG Research

Transaction volume and YoY change H1 2020

3 400 EUR m

13%

Source: Catella

KPMG

Lending market

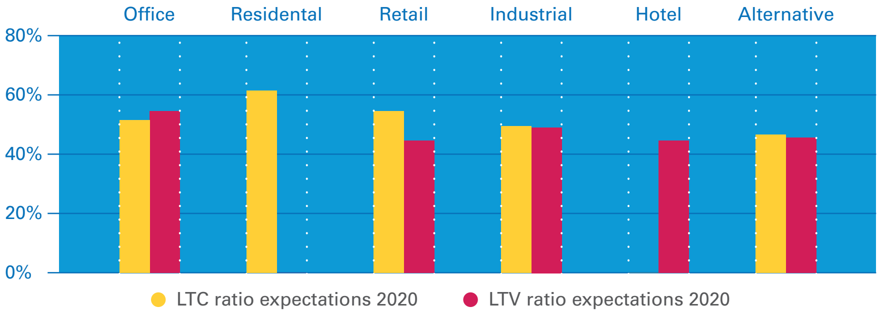
Compared to the previous year's responses, all participants maintained their focus on the sector. Over two-thirds of the participants in the survey from Finland view real estate financing as having average importance. The remainder consider real estate financing extremely important strategically. Income generating properties are moderately appealing to these banks, while they are not open to new developments.

Non-local commercial banks are seen as the most potent threat to banks active in the local real estate market, followed by private equity/debt funds. All participants in Finland consider the level of provisions in the banking sector adequate. Average loan sizes vary from EUR 25 to EUR 52 million, with a higher preferred range of between EUR 32 to EUR 78 million.

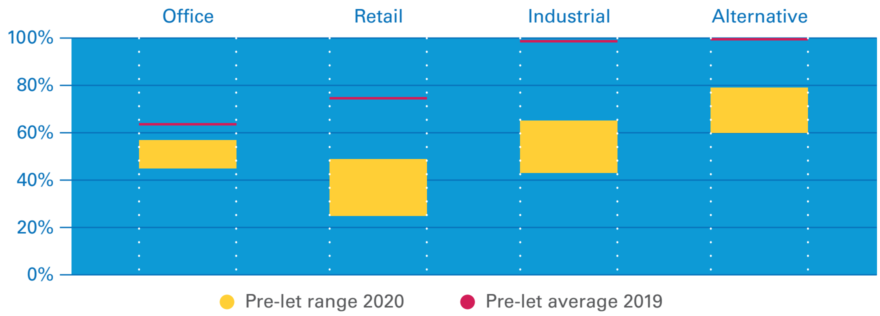
Future of real estate portfolios

Just over two-thirds of the participants do not predict change for the total size of the banking sector's real estate portfolio in the next 12-18 months, while the remainder are prepared for a slight decrease. Less than one-thirds of banks predict no change regarding their own bank's portfolio prospects, with the rest foreseeing an increase.

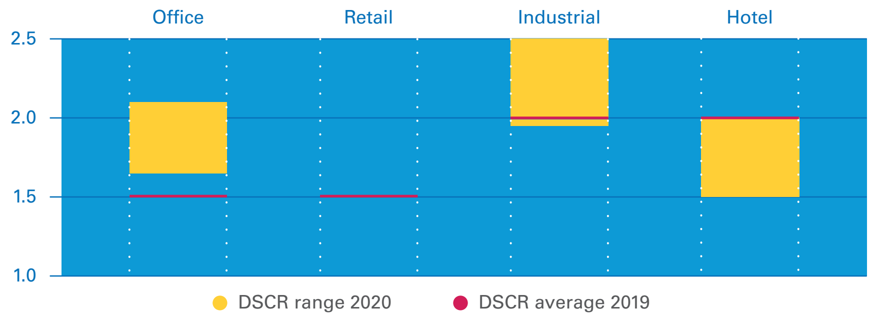
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



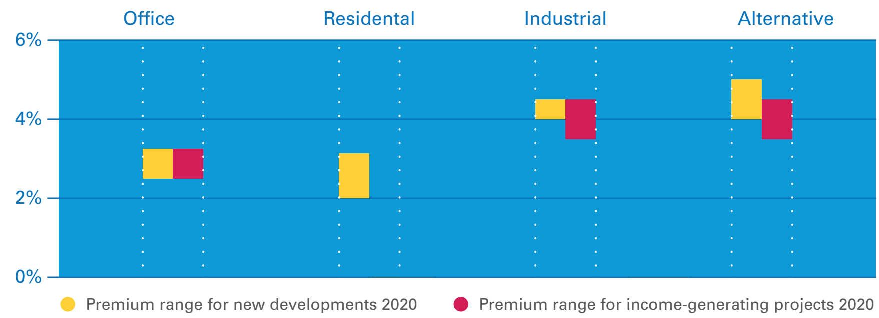
Pre-let ratio expectations for projects



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



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



Source: KPMG Property Lending Barometer, 2020

Hungary

Andrea Sartori

"As a result of the economic downturn, banks' openness to provide real estate financing has decreased in Hungary. Offices—whose new demand, in the short and mid-term, I believe will be the most impacted by the COVID-19 crisis—have been replaced by industrial/logistics assets as the most preferred asset class."

Children's Hospital - Pécs

Economic forecast

Source: Economist Intelligence Unit

GDP growth 2020 F **-5.7%**

Inflation 2020 F **2.5%**

Unemployment rate 2020 F **5.9%**

Prime yields, Q2 2020

Source: Cushman & Wakefield

High Street Retail **5.00%**

Office **5.10%**

Industrial **6.90%**

Key investment transactions H1 2020

City	Property	Seller	Buyer
Pécs	Pécs Plaza	Investum	Indotek Group
Budapest	Officium	OTP Real Estate Fund	Not disclosed Hungarian closed fund
Budapest	Eiffel Square	SkyGreen Buildings	Allianz Real Estate
Budapest	Rumbach Center	Al Habtoor	GalCap Europe
Budapest	M-Square Hotel	Dominarium	Fattal Hotels

Source: KPMG research

Transaction volume and YoY change H1 2020

440 EUR m

-17%

Source: Colliers

Lending market

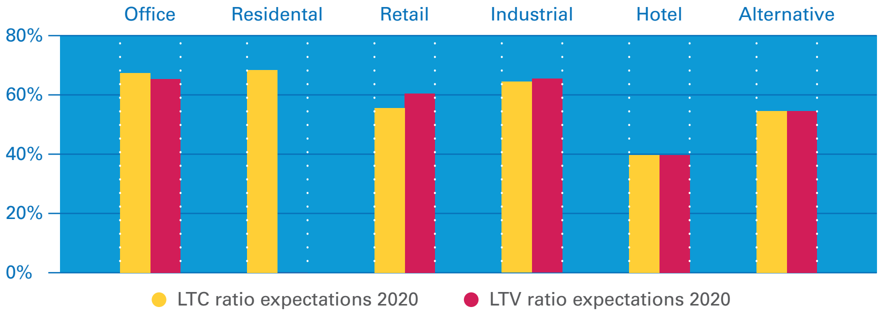
Half of the participating banks in Hungary consider real estate financing of moderately high strategic importance, while over a third of them consider it relatively important, and the rest view it as somewhat less important. Over two-thirds of survey respondents maintained their level of focus on the sector, compared to last year, while an equal proportion of those remaining decreased or increased their focus. The participants are moderately open to finance income generating properties, and somewhat less interested in new developments.

The most notable alternative lenders in Hungarian real estate financing are non-local commercial banks, followed closely by investment banks, as well as private equity/debt funds. The level of provisions in the banking sector is considered adequate by over two-thirds of those surveyed, while the rest consider it too low. Their average loan size falls into a range of EUR 14 – 24 million. The preferred size is somewhat higher, between EUR 15 - EUR 28 million.

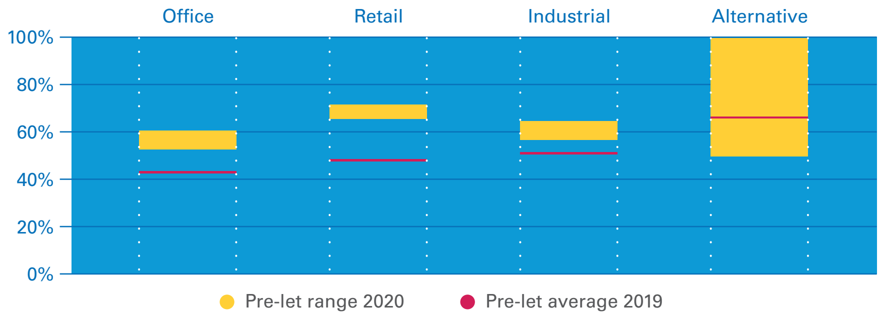
Future of real estate portfolios

Over half of survey participants in Hungary are preparing for a major or moderate decrease in the size of the whole banking sector's real estate lending portfolio in the next 12-18 months, while another third of them expect no change, and less than 20% expect a moderate increase. They are somewhat more positive regarding their own bank's prospects, with one-fourth of them expecting a moderate increase in the size of their loan portfolio.

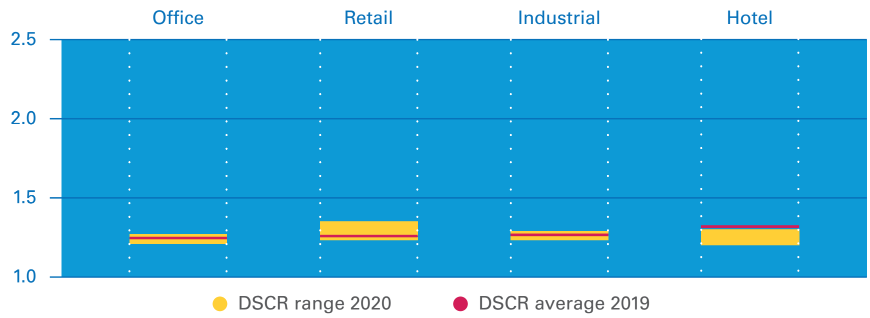
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



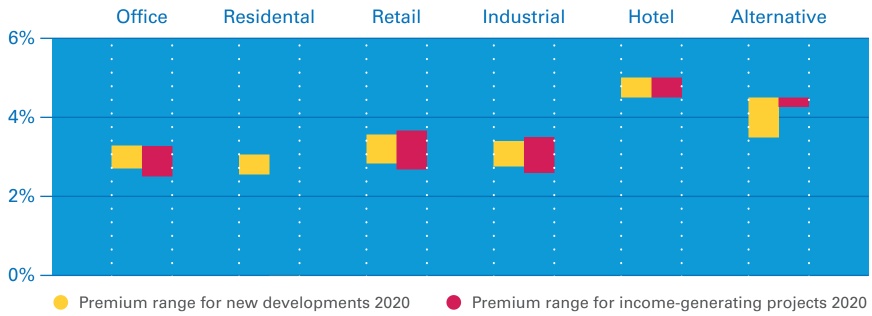
Pre-let ratio expectations for projects



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



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



Source: KPMG Property Lending Barometer, 2020

Netherlands

Frank Mulders

"Market outlook and worsening conditions, combined with the increased interest in financing income generating properties and larger tickets, have made the financing of (re)development projects more challenging in the Netherlands."

Erasmus Univerity Medical Center - Rotterdam

Economic forecast

Source: Economist Intelligence Unit

GDP growth 2020 F	-6.0%
Inflation 2020 F	-2.9%
Unemployment rate 2020 F	6.0%

Prime yields, Q2 2020

Source: Cushman & Wakefield

High Street Retail	3.20%
Office	3.25%
Industrial	5.00%

Key investment transactions H1 2020

City	Property	Seller	Buyer
Miscellaneous	Residential portfolio (2.023 units)	Patrizia	Heimstaden
Miscellaneous	Residential portfolio (916 units)	Pension fund	CBRE GI
Miscellaneous	Residential portfolio (821 units)	Private investor	Round Hill
Miscellaneous	Care residential portfolio (1.061 units)	Vestia	Estea
Rotterdam, Eindhoven and Zaltbommel	Logistic portfolio 3 assets, 210.000 m2	Not disclosed	Nuveen Real Estate

Source: KPMG research

Transaction volume and YoY change H1 2020

7 618 EUR m

-14%

Source: Real Capital Analytics

Lending market

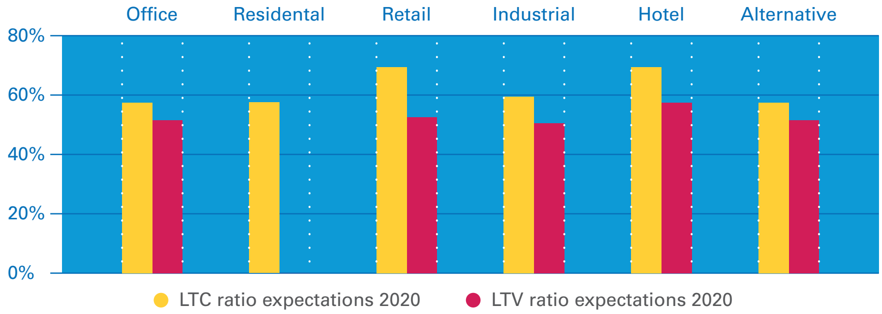
More than half of participants in the Netherlands view real estate financing as extremely important strategically, while the remainder see it as having average importance. Eighty per cent of survey participants there maintained their level of focus on real estate financing compared to responses tallied last year, while the remainder increased their focus. Those surveyed are more strongly interested in financing income generating properties, and signalled they are not open to dealing new developments.

Non-local commercial banks are the most serious rivals in real estate financing for the banks in the Netherlands, followed by private equity/debt funds, and insurer/pension funds. The level of provisions in the banking sector for real estate loans is considered adequate by half of the participants, while the others are equally divided between considering it too high or too low. Average loans, according to responses, range from EUR 17 to EUR 35 million and the preferred loan size falls between EUR 28 - EUR 49 million.

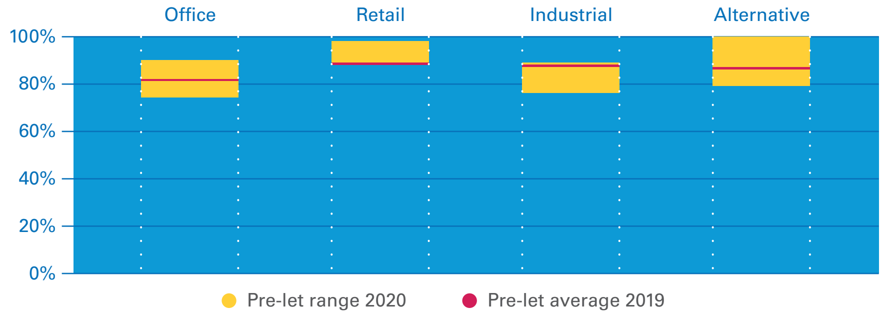
Future of real estate portfolios

Forty per cent of participating institutions expect the whole banking sector's real estate lending portfolio to maintain its size in the next 12-18 months, while another 40% are prepared for a decrease. Regarding their own bank's prospects, close to two-thirds of those surveyed expect no change, while equal proportions of the remainder expect their real estate portfolio size to somewhat decrease or increase in the same period.

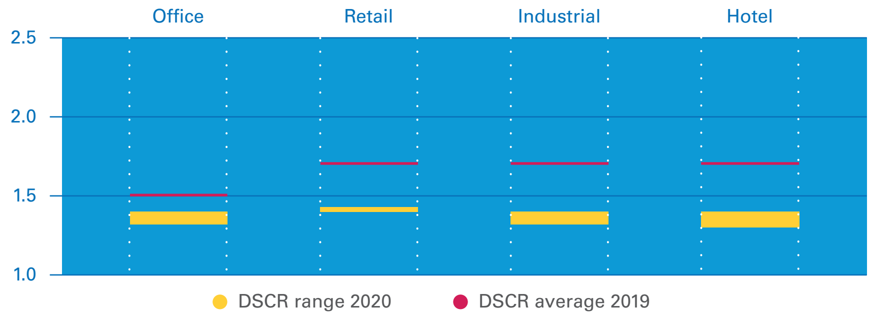
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



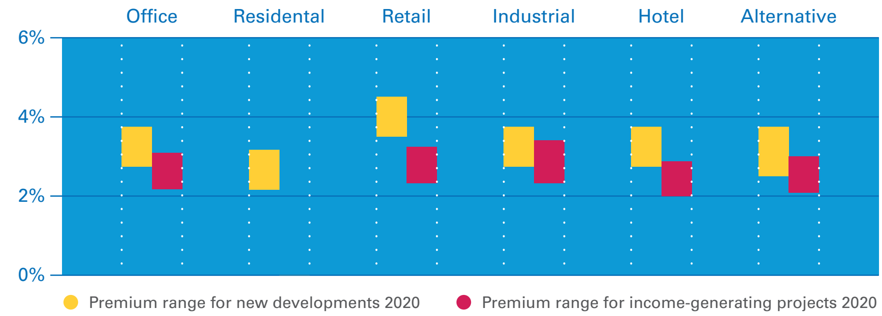
Pre-let ratio expectations for projects



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

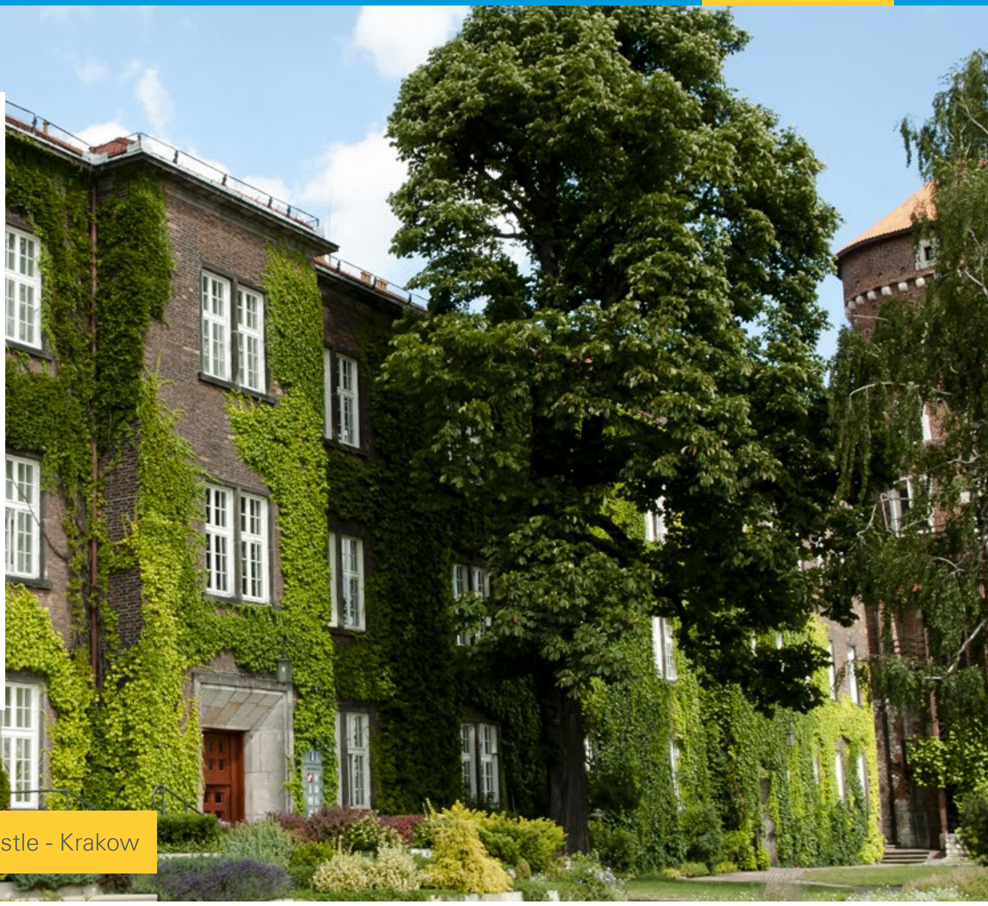


Source: KPMG Property Lending Barometer, 2020

Poland

Steven Baxted

"Willingness to provide financing for retail properties in Poland was on the decline in recent years. The pandemic has accelerated this decline, with banks currently indicating limited willingness to finance retail or hotel properties. On the other hand banks continue to be open to provide financing for office and industrial properties in Poland, although on stricter terms."



Old Hospital Conference Center of Wawel Castle - Krakow

Economic forecast

Source: Economist Intelligence Unit

GDP growth 2020 F **-4.0%**

Inflation 2020 F **0.0%**

Unemployment rate 2020 F **6.5%**

Prime yields, Q2 2020

Source: Cushman & Wakefield

High Street Retail **5.25%**

Office **4.50%**

Industrial **5.80%**

Key investment transactions H1 2020

City	Property	Seller	Buyer
Gdynia, Olkusz, Radom, Świętochłowice and Siemianowice	portfolio of 5 convenience shopping centres	Atrium Real Estate	Metropol Group
Krakow	High Five 4&5	Skanska	Credit Suisse
Warsaw	Sheraton	Patron Capital	Benson Elliot and Walton Street
Various	5 logistics parks	Panattoni	Savills Investment Management
Various	Acquisition of a majority stake in GTC	Lone Star	Hungarian Optimum Ventures Private Equity Fund

Source: KPMG research

Transaction volume and YoY change H1 2020

2 922 EUR m

13%

Source: Colliers

Lending market

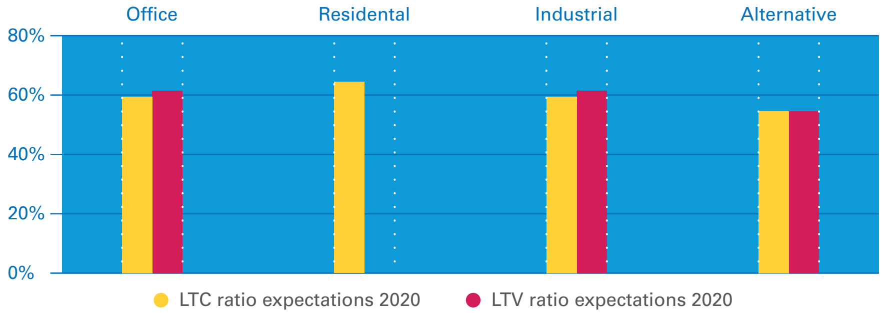
Two-thirds of the participating banks in Poland deem real estate financing as having average importance, while the remainder consider it extremely important. Two-thirds also maintained their level of focus on the real estate sector, while the remaining third decreased their focus slightly compared to what it was in the previous year. Local banks are moderately open to financing income generating properties and are not open to new developments in Poland.

Non-local commercial banks are the most potent rivals for respondents in financing real estate, followed by private equity and debt funds. The majority of bank representatives in Poland agreed that the provision level in the banking sector against real estate loans was adequate, while the remainder considered it too low. The size of the average Polish loan falls into the range of EUR 38 - EUR 48 million, with a preferred size somewhat lower, in a range of EUR 32 to EUR 42 million.

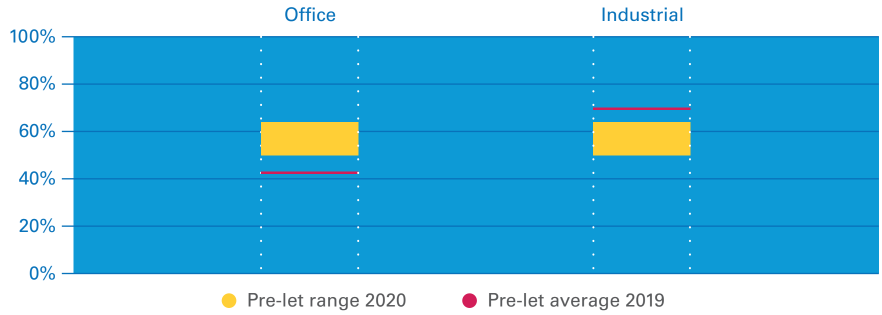
Future of real estate portfolios

Those surveyed in Poland expressed varying expectations about changes in the size of the whole banking sector's real estate loan portfolio. Two-thirds of them anticipate a decrease, while the remaining respondents expect no change in the sector's loan portfolio size. As for their own bank's portfolio size, an equal proportion of them foresee a decrease, no change or an increase in the next 12-18 months.

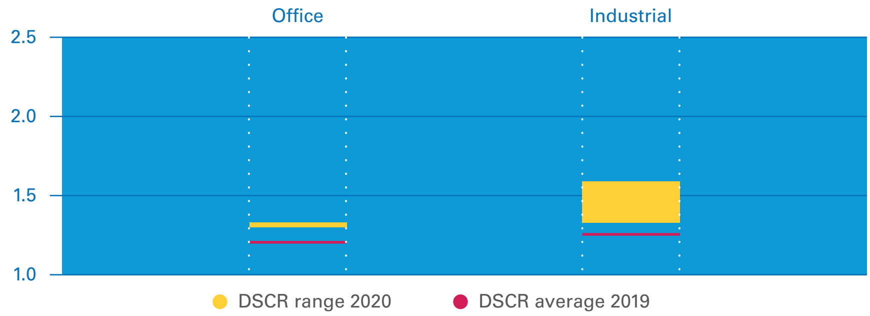
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



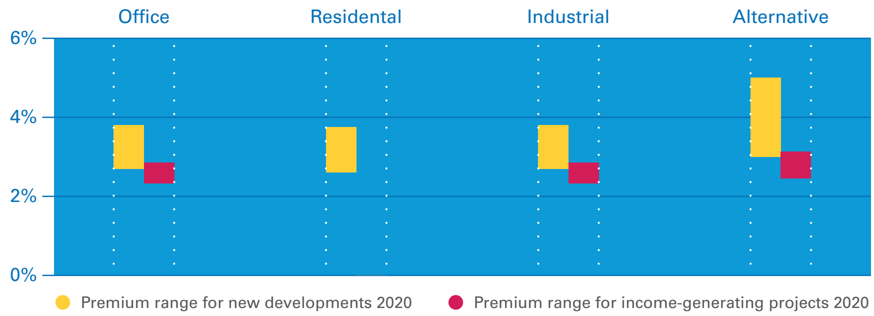
Pre-let ratio expectations for projects



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, 2020

Romania

Ori Efraim

"The Romanian real-estate market slowed down in the context of the COVID-19 pandemic, as investors showed prudence in their spending decisions. The effects have been felt across all sectors, particularly in tourism, leading to a significant increase in availability and flexibility in offers. However, as the pandemic situation settles, investors are regaining trust, transactions are beginning to increase and the market is showing signs of recovery."

Coltea Hospital - Bucharest

Economic forecast

Source: Economist Intelligence Unit

GDP growth 2020 F **-6.0%**

Inflation 2020 F **0.1%**

Unemployment rate 2020 F **7.1%**

Prime yields, Q2 2020

Source: Cushman & Wakefield

High Street Retail **7.50%**

Office **7.00%**

Industrial **8.25%**

Key investment transactions H1 2020

City	Property	Seller	Buyer
Bucharest	Labormed	Alvogen	Zentiva
Bucharest	Shareholding	Adeplast	Sika
Bucharest	Minority shareholding	Globalworth	CPI Property Group SA
Bucharest, Timisoara	Office buildings	NEPI-Rockcastle	AFI Europe
Bucharest	Cash operations	G4S	The Brink's Company

Source: KPMG research

Transaction volume and YoY change H1 2020

408 EUR m

18%

Source: Colliers

Lending market

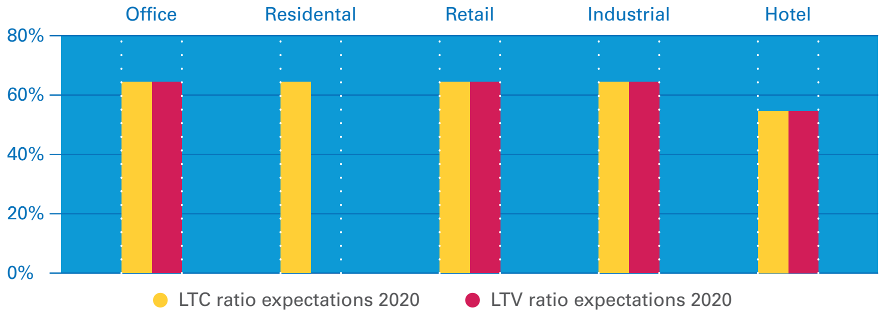
Regarding the level of strategic importance of real estate lending, banks in Romania participating in our survey were quite divided. One-third of them considered it of average importance, one-third assigned it very low importance, while the remaining respondents gave it moderately high importance. Meanwhile, half of participants maintained their focus in real estate lending compared to the previous year's, while the other half slightly decreased their focus. Banks in Romania are somewhat open to financing both new developments and income generating properties.

Private equity/debt funds are the most significant rivals for banks in Romania in terms of real estate financing, followed by non-local commercial banks. All respondents described the level of provisions against real estate loans in the bank sector as adequate. The average size of loans ranges from EUR 10 to EUR 20 million, which is similar to the preferred size of between EUR 10 and EUR 23 million.

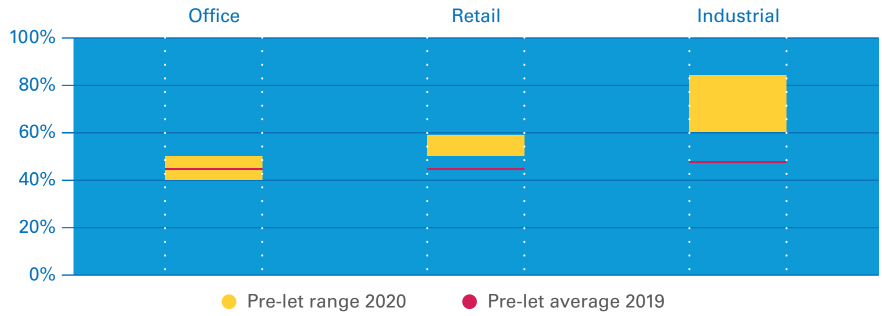
Future of real estate portfolios

All those surveyed estimate the whole banking sector's real estate loan portfolio will remain unchanged in the next 12-18 months. Regarding their own bank's portfolios, they also expect no change.

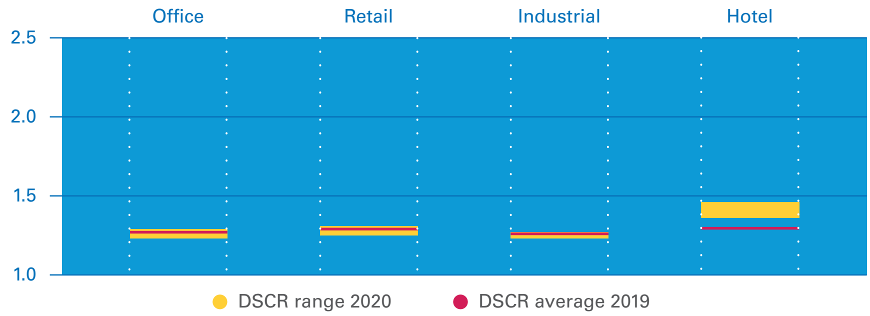
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



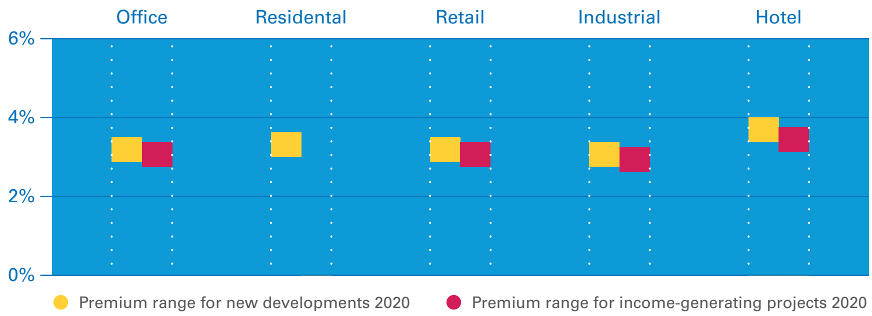
Pre-let ratio expectations for projects



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, 2020

Serbia

Sanja Kočović

"From the bankers' point of view the real-estate market outlook in Serbia remains stable. However, the market is not immune to the current situation, with the industrial and residential sectors exhibting decreased activity. The future pace will depend on the duration of the pandemic and long run impacts on retailers' expansion plans, new industrial and residential projects, tourism sector recovery, etc."

Military Medical Academy - Belgrade

Economic forecast

Source: Economist Intelligence Unit

GDP growth 2020 F: -3.0%

Inflation 2020 F: -1.1%

Unemployment rate 2020 F: 13.8%

Prime yields, Q2 2020

Source: Cushman & Wakefield

High Street Retail: 7.00%

Office: 8.00%

Industrial: 10.00%

Key investment transactions H1 2020

City	Property	Seller	Buyer
Belgrade	Capitol Park Rakovica	RCP Projekt	BIG CEE
Belgrade	Beta 23	Bankruptcy Supervision Agency	Institucija za izgradnju i upravljanje nekretninama
Headquartered in Belgrade, properties in several towns in Serbia	Several properties, among them Hotel Niš and Villa Sićevo	Ministry of Economy, Republic of Serbia	Individual
Ivanjica	Hotel Park	Deposit Insurance Agency	Individual
Šabac	Zorka-Energetika plant	Bankruptcy Supervision Agency	DPTU Veselinovići Šabac

Source: KPMG research

Lending market

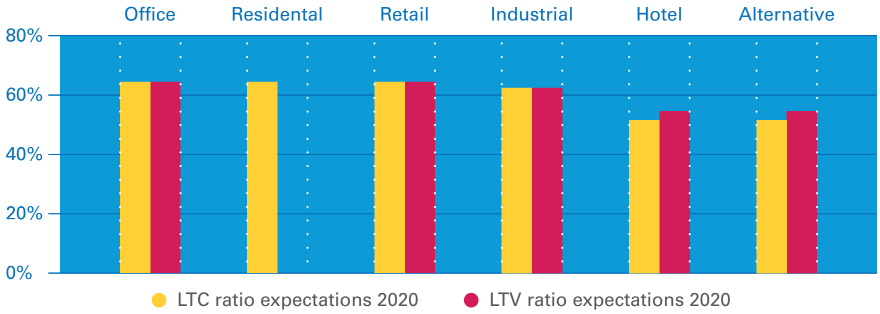
Close to two-thirds of those surveyed in Serbia consider financing the real estate sector as having above average strategic importance, while the remaining participants are equally divided between assigning it average or below average importance strategically. Over a third of banks maintained their focus on the sector, whereas 40% increased their level of activity in real estate financing, and the remainder decreased their focus. Both new developments and income generating properties are attracting the interest of respondents, with the latter prioritized slightly higher.

Similar to last year, non-local commercial banks are in first place as alternative lenders for real estate in Serbia, followed by private equity and debt funds. Eighty per cent of banks consider the level of provisions in the bank sector against real estate loans adequate, whereas the remaining 20% claim it is insufficient. The average deal/loan size ranges EUR 9 - EUR 17 million, while the preferred range is similar, between EUR 8 and EUR 16 million. These amounts are more or less in line with comparable ranges seen last year.

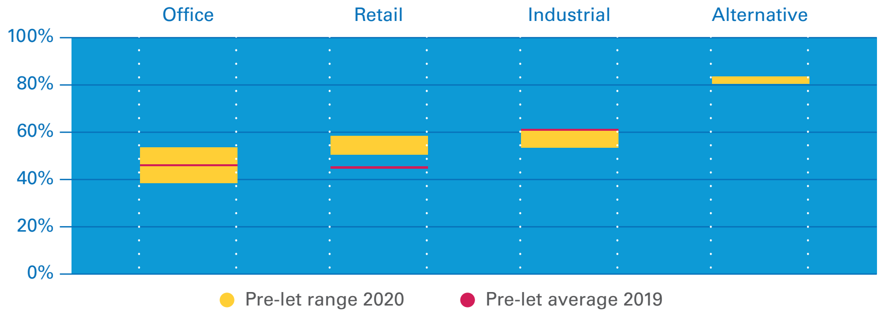
Future of real estate portfolios

Forty per cent of survey participants in Serbia are anticipating that the size of the country's total real estate lending portfolio will be unchanged, another 40% expect a decrease, and the remaining respondents expect an increase. Close to two-thirds of them reported their expectations regarding their own bank's real estate lending portfolio to remain unchanged in the next 12-18 months, while the rest are equally divided between expecting a moderate decrease or increase.

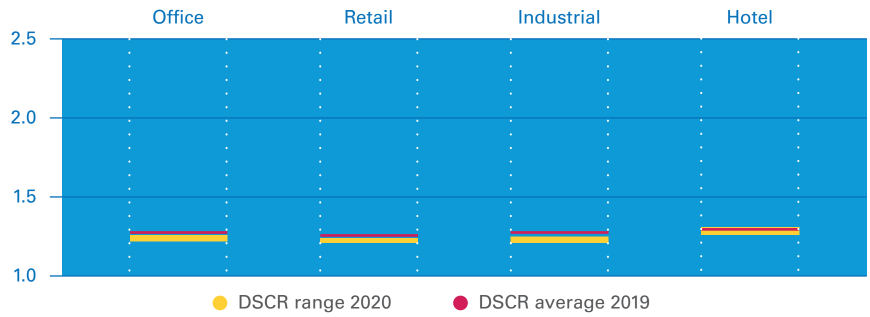
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



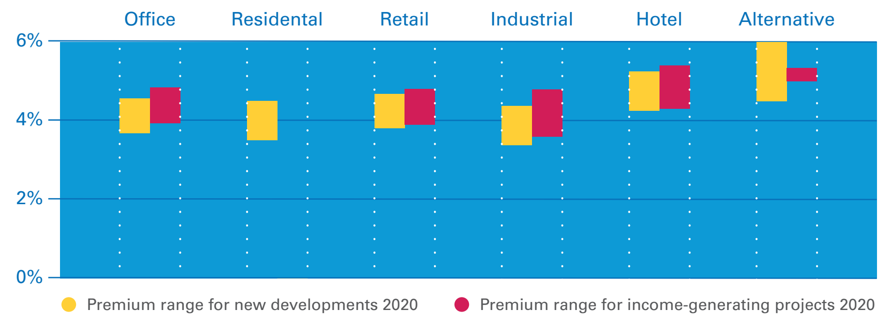
Pre-let ratio expectations for projects



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



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



Source: KPMG Property Lending Barometer, 2020

Slovakia

Michal Maxim

"Banks in Slovakia are among the most enthusiastic when it comes to financing income generating projects. However, as a consequence of COVID-19, we can see many large employers still preferring work from home, which puts the demand for office premises and their financing up for question."

Next Generation Hospital - Bratislava

Economic forecast

Source: Economist Intelligence Unit

GDP growth 2020 F **-6.8%**

Inflation 2020 F **0.8%**

Unemployment rate 2020 F **8.0%**

Prime yields, Q2 2020

Source: Cushman & Wakefield

High Street Retail **5.00%**

Office **5.75%**

Industrial **6.25%**

Key investment transactions H1 2020

City	Property	Seller	Buyer
Zilina	Assets in Zilina	Atrium	not disclosed
Bratislava	Rosum	Penta Real Estate	European City Estates
Sered	PNK Park Sered	PNK Group	REICO IS ČS ČS nemovitostní fond
Bratislava	Vector Parks	Macquarie (MIRA)	Contera
Voderady	27,000 m2 building	TPS EU	Inobat Auto

Source: KPMG research

Transaction volume and YoY change H1 2020

346 EUR m

46%

Source: Colliers

KPMG

Lending market

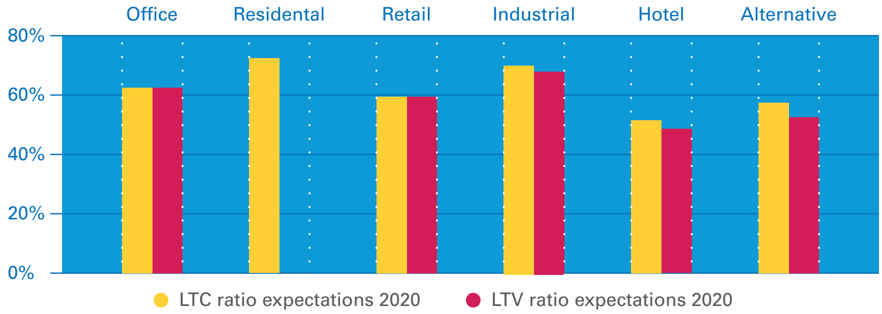
Three-quarters of banks in Slovakia that participated in the survey assign real estate financing average strategic importance, while the remaining banks consider it less important. All respondents maintained their previous year's level of focus on the sector. Financing income generating properties is interesting for these banks, while they are still somewhat open to supporting new developments.

The most notable rivals in real estate financing in Slovakia are non-local commercial banks, followed by investment banks. The rate of provisions against loans in the sector is judged to be adequate by over 70% of participants, while the rest consider it too high. Average loan sizes vary from EUR 9 to EUR 16 million, while the preferred range is higher, between EUR 11 - EUR 29 million. These values are moderately higher than last year's figures.

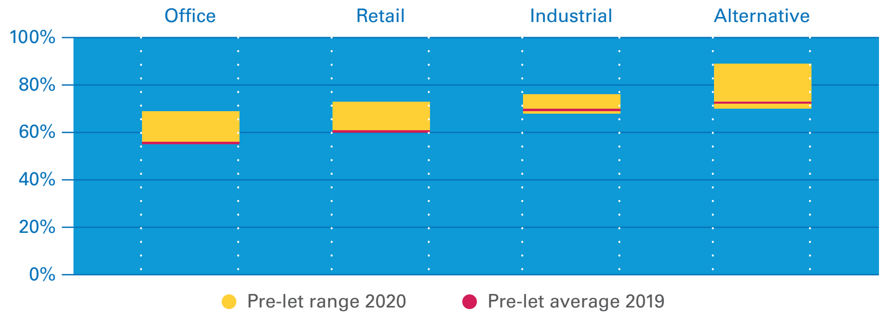
Future of real estate portfolios

Over 70% of respondents in Slovakia forecast no change for the size of the whole banking sector's real estate lending portfolio in the next 12-18 months, while the remainder expect a moderate increase. As for the size of their own bank's portfolio in the same period, a quarter of them expect no change, and the rest expect a slight increase.

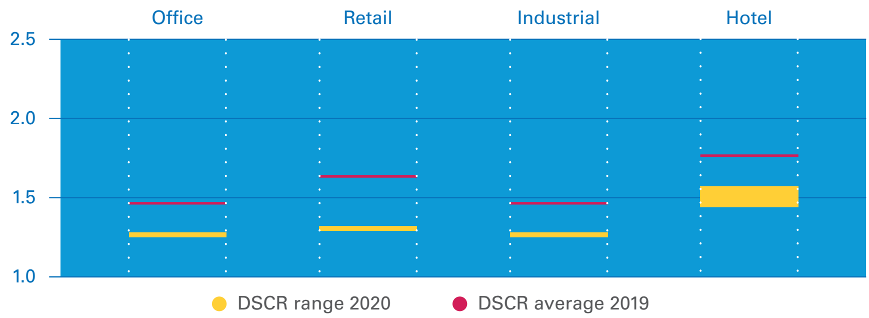
LTC ratio expectations for financing new developments and LTV ratio expectations for financing income generating projects



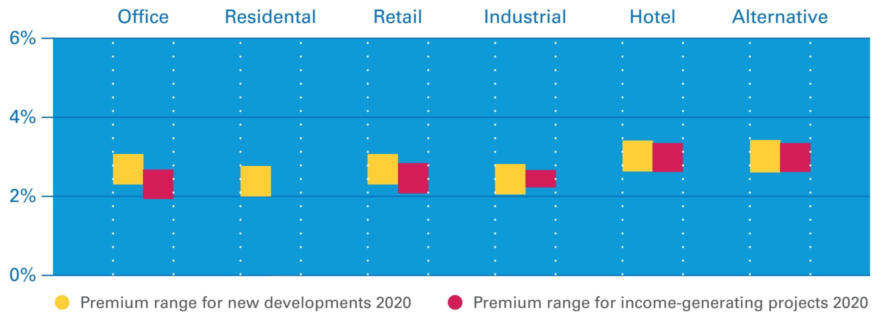
Pre-let ratio expectations for projects



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



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



Source: KPMG Property Lending Barometer, 2020

Netherlands - Martini Hospital

In an effort to show our appreciation of healthcare professionals fighting for people's lives against the COVID-19 virus, the photos in our report are primarily healthcare institutions. They are only intended for illustrative purposes.

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