

Commercial property: banks´ “cautious restraint“ + investors´ optimism



Author: SF / Petr Bým | Published: 30.11.2010

KPMG survey summarizes information from more than 50 banks which operate in Central and Eastern Europe and are active in the real estate sector. The survey includes the Baltic countries, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania and Slovakia and it is thus sufficiently representative.

One of the main conclusions of the “CEE Property Lending Barometer 2010“ survey is the fact that investors, or banks finally started to differentiate the countries whereas they used to regard individual Central and Eastern European countries as parts on one economically homogenous region. In reaction to the crisis, they increasingly see each country and its economy separately. This change in thinking has led to a clearly structured regional differentiation. And also thanks to this fact, property markets in Poland and the Czech Republic have recovered more than elsewhere in 2010.

One problem is common for the entire region though - the difficulties with foreclosures of “property“ loans although they are not too fatal so far. “Though financing loans still represents a serious problem for many property developers, there hasn´t been liquation of a large number of property portfolios yet,“ Pavel Kliment from KPMG Česká republika comments on the survey results. The banks obviously don´t long for insolvency proceedings.

Rate of banking optimism

(*Property Financing Sentiment* index calculated on the basis of answers in ten areas of CEE Property Lending Barometer 2010 survey)

Ranking	Country	Index
1	Poland	1,83
2	Czech Republic	2,00
3	Slovakia	3,67
4	Hungary	4,33
5	Bulgaria	4,94
6	Baltic countries	5,43
7	Croatia	5,64
8	Romania	7,50

Problems? Restructuring!

The management of banks operating in the region clearly believe that in many cases bad-quality loans may be managed successfully by an active approach to the problem, mainly by loan restructuring. The survey results confirm that for now, banks prefer such steps to confiscation of assets. The general approach is that change in payment calendar or loan restructuring is the right way to go at least in the short-term horizon. The question is whether it is the most effective also in the long-term, however, if assistance is provided by the borrower, an effective business model is created. And if there is sufficient collateral restructuring is still the best solution.

Real estate projects are strategically important for banks - none of the survey participants indicated that they had very low priority for them. This may show that banks assess the long-term prospects of the real estate market cautiously optimistically, however, it can also be interpreted that many banks have a significant portfolio of bad real estate loans which will only be addressed in the long term.

Overall, the prospects for financing real estate investment banks are assessed in accordance with the general macroeconomic prospects of individual countries. And as already mentioned, the largest optimism was expressed by banks' management in Poland and subsequently in the Czech Republic while elsewhere lower enthusiasm is visible, in this regard, the situation seems the worst in Romania. Everywhere without distinction, the banks insist on providing loans in compliance with rather stringent conditions. These include for example the pre-lease ratio or loan-to-value ratio,“ Pavel Klimet comments on the survey results.

Banks' preferences: no hotels

Banks' preferences are diverse and vary depending on the country. The management of banks in Hungary, the Czech Republic and Bulgaria prefer retail projects (shopping centres and zones) whereas in Poland and Romania the most popular with bankers are offices, or administration buildings. In Slovakia, Croatia and the Baltic States, first in the list of priorities for construction are logistics and manufacturing centers. The hotel/resort sector is, on the contrary, generally the least desired sector (with no surprising exception of Croatia).

“Bank financing may play an important role in the recovery and development of the real estate sector in the entire region,“ thinks Pavel Klimt and he adds. The survey results show in general view that there is willingness to provide financing for high-quality development projects. More optimistic approach to funding is in those countries that have shown greater resilience to the global financial crisis and a more stable economic environment. On the other hand, it should be noted that the conditions for providing financing remain strict and banks very cautiously consider the possibility of their release.“

Investors are more optimistic

The KPMG survey results largely correspond with the conclusions of another survey. The firm Colliers International addressed 200 institutional and private real estate investors, who control a portfolio with a value exceeding 710 billion dollars. Full 90 % of respondents plan to expand in the next year or maintain their real estate portfolios of office, industrial and retail property. Optimism about the vast majority of global investors is related to their belief that the level of rents in most markets already reached its bottom. They expect the rent to rise again next year. The best time for acquisition is for them now and next year,“ said James W. Horne from Colliers International. According to almost three quarters of surveyed investors (72%), the “double-dip“ recession cannot be expected either. For the Czech, and in extension, for the Central European commercial real estate market are the most attractive acquisition targets of these investors. “Besides the traditional and sought after markets, the rapidly growing capitals

of Central and Eastern Europe were often in the investors' viewfinders. Apart from the clearly most attractive office market - Warsaw - the most popular destinations include Prague, Moscow, Bucharest and Kiev," Damian Harrington from Colliers International enumerates.

Stavební fórum discussion meeting on the subject of "Commercial leases: solving problematic situations from a lessor's perspective" will be held on Tuesday 30th November 2010 from 11 am to 1 pm at angelo Prague hotel, Radlická 1g/3216, Prague 5. More information about its programme and registration form can be found on our "discussions webpage": <http://www.stavebni-forum.cz/diskuse2010>.

30.11.2010 10:04, SF / Petr Bým