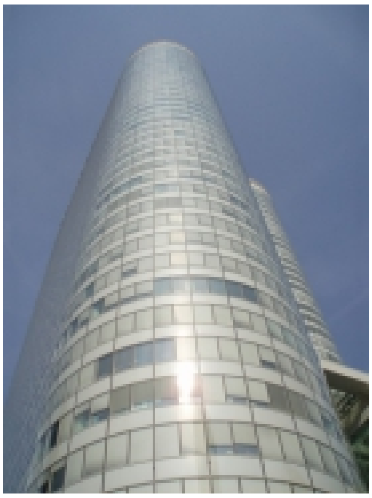
Banks´ trust in real estate investment returns



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Value of real estate investment in the region reached EUR 5.2 billion in the first half of 2011, which is almost the same as entire 2010, and it is thought that for the whole year it will be 10 billion, an amount comparable to 2006. However, it is still significantly lower than it was before the crisis in 2007 (EUR 15 billion). Yet this is a positive signal, especially in comparison with crisis years 2009 and 2010, when investment in real estate market fell dramatically.

Bad loans? Restructure!

As shown in the survey, most banks have a number of bad loans in their portfolios due to the crisis. The highest proportion of such loans in total loan portfolio of real estate projects is estimated the highest for banks in Romania and the Baltic states, the lowest in Austria, Czech Republic, Poland and Bulgaria. “Banks across the region, as well as in the Czech Republic, are trying to find a way to restructure these loans and to negotiate with creditors rather than taking a strong step towards taking over and realization of the collateral,” says Pavel Kliment of KPMG Czech Republic.

*Graph 1: Structure of loan portfolio in real estate projects *

Banks´ management in all surveyed countries believe that restructuring of real estate bad loans projects will be successful. The biggest optimists in this regard are the representatives of financial institutions in the Czech and Slovak Republics and Bulgaria, who believe that up to 80% of the restructuring will lead to a good end.

*Graph 2: Estimated effectiveness of restructuring of bad loans for real estate projects *

Rather investment than property development

Compared to 2010, banks are now more open to financing new real estate projects. However, they prefer completed projects generating stable cash income, ie. investment and not new development. The approach in different countries varies depending on the project type. Offices and retail space are most preferred in the Czech Republic. On the contrary, hotels are the least attractive for the bank sector.

Graph 3: Banking sector preferences regarding financing of different types of real estate projects

Czech Republic, however, along with Poland, Austria and Romania is the most open to financing real estate projects. A relatively stable economy and favourable conditions for investors can probably influence this Czech moderate optimism. Greater confidence in the return on investment is also associated with this fact.

“Banks are cautiously exploring the possibility of easing conditions for financing new real estate projects. This is only a slight shift, but in comparison with previous year there is apparent willingness to fund new, good-quality projects,” Pavel Kliment believes. However, the survey clearly showed that despite a slight recovery, impact of global economic crisis is still noticeable and confidence of banks in financing real estate projects will be restored very slowly.

CEE Property Lending Barometer 2011 surveyed 50 major banks and financial institutions in the CEE region. Besides the Czech Republic, there were Austria, Bulgaria, the Baltic States, Hungary, Poland, Romania, Serbia, Slovakia and Slovenia. Data collection was performed by means of depth interviews with representatives of banks – senior management of real estate, project financing and risk management departments.

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