Property Lending Barometer: Signs of Improvement

Broadly speaking, real estate sector lending in Europe is showing clear signs of improvement, according to the 2014 edition of KPMG's *Property Lending Barometer*.

The 5th edition of the KPMG's publication weighs the sentiments of bank representatives throughout Central & Eastern Europe (CEE) as well as in Russia, and in the Western European markets of Austria, Germany, Sweden and UK.

The numbers look encouraging: transaction volumes in some of those countries' property markets are the highest seen since 2007 before the economic crisis; furthermore, deals in the first half of 2014 surpassed EUR 80 billion in Europe – an increase of 25% on the same period last year.

That said, close to 70% of transaction volume took place in Germany, France and the UK.

The survey's coordinator, Andrea Sartori, Partner and Head of Real Estate in CEE, says that some of the increased activity may be due to the more positive macroeconomic environment in the wake of the global economic crisis.

He comments, "Most of the countries within Europe have experienced GDP growth since last year and as a consequence there is more optimism amongst banks in most of the countries. This brighter outlook and increased confidence is also reflected in the greater availability of financing with less strict lending conditions."

But, he says, the market fundamentals of the surveyed countries vary greatly.

"So current financing conditions and their outlook are also a mixed bag," says Mr. Sartori, who adds that because of this KPMG's survey provides a separate analysis for each country to be able to emphasise each market's unique characteristics.

[*Insert section for the given country/quote made by relevant real estate practice leaders*]

While financial institutions are clearly regaining their footing, they are becoming more open to financing, according to Mr. Sartori. Alternative lenders, he says, have led to increased competition and lower margins.

Meanwhile, most loans in Western Europe were compliant, while some of the countries in the CEE had a significantly higher rate of impaired loans.

He says it's not surprising that according to survey participants most banks are more open to financing income-generating projects than they are towards developments, commenting, "In Russia and Croatia, banks are equally open for development and income generating projects, albeit at a moderate level. Polish and Romanian banks were most enthusiastic about financing new developments followed by Germany. The least open were the Slovenian, British and Bulgarian banks."

Meanwhile, Germany and the UK followed by Austrian and Slovakian banks were the most open to financing income generating projects.

As for Central & Eastern Europe, Mr. Sartori says that the pick-up in pace in the West may be a wake-up call. "It is time for CEE (excluding Russia) to shift into a higher gear as the region only accounted for 3.4% of the increased transaction volume. The Czech Republic showed strong increases in volume, the strongest within the region."

An improved mood in CEE may be bolstered by economic figures for 2014-18. According to GDP forecasts, growth in Eastern Europe is set to exceed and remain higher than that of the EU 28 overall.

KPMG's report notes, however, that there are still a large number of impaired loans in CEE: the highest in Romania, but also numerous in Bulgaria, Slovenia, where there are serious impairments. Some of the region's banks, specifically in Bulgaria, Romania and Slovakia, are the least optimistic that it is possible to restructure those loans, even though that is the more desirable outcome than foreclosure.

Overall, despite the positive notes heard from the *Property Lending Barometer*, according to Andrea Sartori, the further improvement of investment sentiment could be jeopardised by geopolitical crises in various regions and their possible negative effects on the European and global economy.

“In the big picture growth looks to be on track,” he says, “but the geopolitical situation in connection with the Ukrainian conflict could hamper that progress.”

To receive your free copy of the 2014 edition of KPMG's Property Lending Barometer, or to speak with a KPMG specialist about the survey results, contact: