Economics Alert

KPMG's Property Lending Barometer 2015: Banks in Better Mood

There has been trepidation in the wake of the economic crisis, but now banks in Europe are becoming more confident in their strides as they show an increased willingness to finance real estate projects, according to KPMG's ***Property Lending Barometer 2015***, a 50-page study that assesses banks' sentiment towards property financing and reveals their key financing parameters.

As part of its survey, KPMG practices in Europe surveyed numerous financial institutions throughout Europe with the aim of showing the prospects for bank financing in the real estate sector.

The sentiments of banks in Europe are improving, according to KPMG's survey. Meanwhile, Europe is seeing record low interest rates, and banks are experiencing increased competition from alternative lenders. This all adds up to increased activity on European property markets from investors.

One other interesting finding from ***Property Lending Barometer 2015*** is that financial institutions still prefer income-generating projects compared to new developments, especially in the dominant and established economies.

Among other interesting findings from KPMG is that the residential segment is the preferred asset class for banks' in the case of development financing in dominant/established economies categorized in the survey, followed by retail, office, and industrial space. In other less established economies, however, office space ranked 1st, followed by retail, residential and industrial. The ***Property Lending Barometer*** finds that lenders are the more interested to finance hotel projects in countries heavily reliant on tourism, like Greece or Cyprus.

Cyprus

Despite stabilisation and a slow recovery, investment activity in Cyprus remains at a low level with no significant interest either from local or foreign investors in the short term. Furthermore, the de-leveraging process is holding back lending activity. The majority of investors are trying to access bank financing, but the banks' non-performing loan levels exceed 50% of total loans, therefore they are reluctant to finance real estate projects. Currently, residential properties dominate the market, but during the first quarter of 2015 the office sector performed relatively well too, compared to the previous quarter. Income-generating commercial projects are mainly attractive to foreign investors, while residential projects are of interest to local investors too. The average yields are stable at 4.4% for offices, 5.3% for retail and 4.3% for logistics.

Lending market

Banks in Cyprus are moderately active in terms of project financing, and currently most of the banks do not consider new real estate financing to be strategically important as they are overexposed and not looking to further expand their real estate portfolios.

Banks' answers suggest that the preferred loan/deal size is lower than the current average loan deal size. Banks' average loan sizes are in the range of EUR 1.7 to 2.7 million, while the preferred size would be between EUR 0.7 to 1.4 million. Banks are more open to financing income-generating projects than new developments, even though 67% of the total loan volume was provided for new developments and only 33% for income-generating projects. According to banks, their biggest competitors among

alternative lenders are potentially private equity/ debt funds and investment banks. The majority of respondents indicated that the level of provisions was adequate in Cyprus.

Future of real estate loan portfolios

Both in terms of the prospects of the whole banking sector and banks' own portfolio size, the banks seem to be more conservative. Two-thirds of the banks surveyed expected that both their own and the whole sector's portfolio sizes would decrease and only one third of the respondents considered that they would remain unchanged in the next 12-18 months. Among those who considered that overall portfolio sizes would decrease, the majority indicated that additional funds may come from private equity and bonds.

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