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Ing. Andrej Lehocky
Real Estate Financing
current conditions
What do we finance

Main products:

(structured) finance:

- acquisition, construction or reconstruction of real estate projects
- income producing properties – investment financing
  - income from sale (residential projects prevail)
  - income from lease in accordance with signed mid to long-term lease contracts (reasonable rating of tenants)
Types of financing

- LTV
- LTC
- Asset backed
- Mezzanine
Key conditions I.

Location and segment:

• Bratislava & regional towns: offices, retail and residential projects
• other location: only well situated industrial logistic centres in the immediate vicinity of highways or production facilities and residential projects

Acceptable location:

• suitable location for the certain project
• clear legal title to the plots of land
• compliance with the „Zoning Plan“
• acceptable connection to the infrastructure & accessibility
• comply with environmental standards
• no legal issues, contamination, existing burdens etc.
Key conditions II.

- track record and experience of the potential investor
- the **realistic business plan** (positive CF balance)
- the **borrower has to have acceptable legal title to the land** and other real estate properties (usually SPV) (ownership, leasehold or easement agreement)
- the **borrower‘s equity in amount of** minimum 30 - 35 % prior loan‘s disbursement of total project costs (in relation to the presale/ prelease)
- **shareholder‘s loan** is considered as the „borrower‘s equity“ if it is classified as subordinated to the Senior Loan
- **adequate presale/ prelease requested** (corresponds with the equity, location, the rating of key tenants – the anchor tenant, the total risk of the project)
Key conditions III.

- acceptable security package for the bank

- the tenor of the senior investment loan:
  a) project for sale: 2 – 3 years
  b) project for lease: 2 – 15 (balloon payment)

- Financial covenants:
  „Loan to Cost“ max. 65% - 70 %
  „Loan to Value“ max. 65% - 70%
  „Debt service coverage ratio“ (DSCR) min. 1,15–1,25 (in special cases 1.30)
Security/Collaterals

**Main security:**
- mortgage over the land plot + assets under construction
- Notarial deed
- pledge over the shares (SPV)
- cost overrun guarantee
- pledge of the receivables:
  - under lease contract
  - future purchase contract
  - under insurance policy, etc.

**Additional security:**
- performance and warranty bonds
- DSRA (debt service reserve account covering 3 – 6 month debt service)
Main risks of the real estate projects:

- **conceptual**: project does not meet market expectation
- **construction**: cost overrun, time delay, environmental damage, archaeology, quality of the constructor
- **market**: real estate market is still not stabilized (sales prices, yields, investors/funds demand, etc.)
- **operation**: obsolete technology v. costs for renovation, operational costs v. fail to reach planned standard, experiences of the operator, energetic certificate
- **financial**: interest rate risk (possible hedging)
Risks mitigation

• feasible business plan, advisory done by professionals (Colliers International, CBRE, Lexxus, etc.)
• market valuation of the plots of land/ property („Fair Market Value“)
• experienced parties (developer/ group, constructor, operator, real estate agent) – asked min. 5 years
• proper risk mitigation in the contractual structure
• monitoring of the budget/ construction phase by the Independent Expert (Gleeds, EC Harris, etc.)
• fix price turn-key contract (acceptable performance/ warranty bonds)
• acceptable guarantees from the Sponsors: i.e. cost overrun, cash deficiency clause, guarantee till registration of the mortgage
• interest rate hedge instruments
Andrej Lehocky
Real Estate Finance Department
e-mail: alehocky@csob.sk