ALTERNATIVE FINANCING OF REAL ESTATE

LEGAL ENTITY AND REAL ESTATE FINANCING

In 2017, the increase in investments in the Czech Republic was nearly the same as in 2016, which indicates a continuous investor interest in assets in the Czech Republic, as well as the appetite of banks to finance these purchases.

A new phenomenon is kicking in: corporate bond issues used to fund real estate in bigger scale comparing to previous years.

The market is furthermore characterized by high liquidity and low interest rates.

BANK FINANCING

Year 2017 in the Czech real estate market was characterized by maintaining the year-on-year increase of investment transactions in all market segments (retail, offices, and logistics)[1]. In comparison with 2016, the volume of investment transactions decreased only by 3% to approximately 3.3 billion EUR. A slight decrease in the volume of transactions is caused by the lack of projects for sale rather than by the low appetite of buyers.

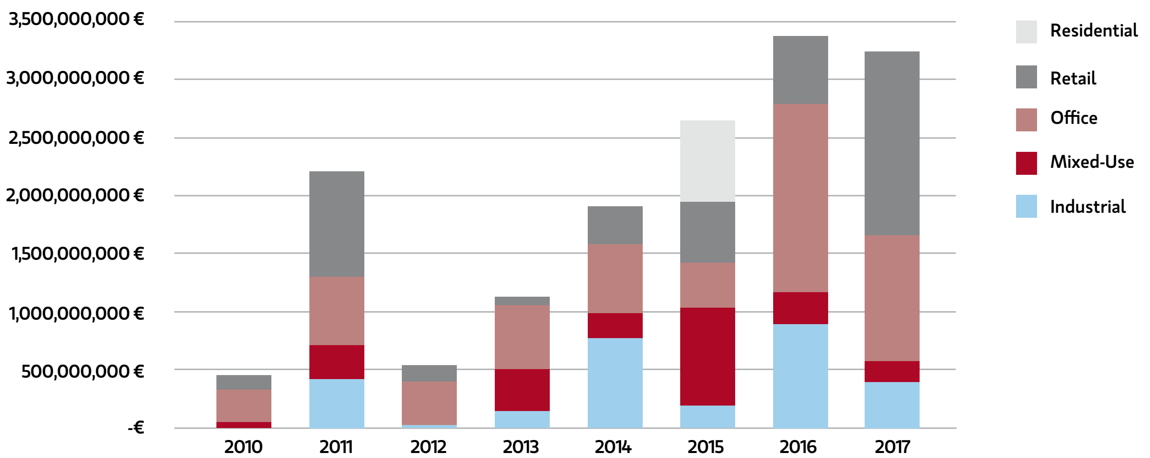
The average transaction size was about 40 million EUR, which corresponds to the long-term average. The stability of the Czech market is supported by a large percentage of domestic investors (ca. 30%) together with the interest of institutional investors from the USA and Germany. Czech commercial real estate remains in high demand because they are still generating more interesting income than in Western Europe. At the same time, the local environment provides the investors with economic stability and safety with regard to legal certainty.

The investment and developers' activity in the domestic market is supported by the appetite of financing banks. The stimulants are relatively low interest rates and excess liquidity, both of which lead to high competition among banks, which ultimately benefits the clients. Loan financing is relatively well available for quality projects and experienced players. Investment transactions supported by transparent cash flow are preferred by banks over development financing.

The banks have learned to work with the regulatory requirements, (i.e. Basel III Criterion), which requires banks to maintain the necessary level of risk-weighted assets (RWA) compared to the amount and quality of credit exposure. The more conservative the financing structure is (i.e. lower loan to cost – LTC or loan to value – LTV) and the higher the quality of the asset (strong and stable cash flow), the lower the consumption of regulatory capital (RWA), and of course, the lower the interests are for clients.

It can be stated that the loan conditions of banks operating in the Czech market are not very different from each other. The financing of speculative transactions continues to be very limited. Land for development is also mostly bought by developers from their own resources without the use of loan. One of the main reasons for this is the fact that both speculative development and the purchase of land on credit lead to a large consumption of regulatory capital, which banks operating in the real estate market are forced to save.

GRAPH The volume of investment transactions in the Czech Republic in the period of 2010–2017 in millions of EUR. Source: Knight Frank



[1] You can find more detailed information in the „Investment market" chapter on page 82.

RESPONSES TO REGULATIONS

The current real estate lending market in the Czech Republic can be characterized as highly concentrated from the viewpoint of financing banks: a relatively small group of very experienced players such as Penta, HB Reavis, CTP, CPI, etc., who are also active beyond the borders of the Czech and Slovak Republics, i.e. in Poland, Hungary, Germany or Great Britain, operate in this market. Regardless of the willingness of financing banks to fund the projects of these experienced players, the credit needs of the concerned entities may collide with credit limits of banks for regulatory reasons (the concentration). This is therefore the reason why in addition to credit funds many of them try to get resources for their growth in the form of bond issues – both corporate bonds (most bond issues) and project bonds.

An example of a successful corporate bond issue is CPI. On the basis of the investment rating Baa3 for CPI from Moody´s agency, Deutsche Bank, Societe Generale and Unicredit organized[2] the issue of 7-year unsecured bonds for the amount of 1.250 million CZK with a coupon of 2.125% p.a. By the deadline for Trend Report 2018, 1 tranche in the amount of 825 million EUR was issued.

Besides the group of developers and investors with international ambitions, there is a whole range of quality local companies on the market which are also currently looking for opportunities to get external resources in the form of a corporate bond issue. The reason for this is usually not the excessive concentration of credit limits of banks; it is rather about the type of activity, because banks have problems with financing it, again for the regulatory reasons –such activities include the already mentioned purchases of land for development, speculative transactions from the viewpoint of banks, etc.

An example of a successful corporate bond issue that falls within this category is Trigema. In 2017, UniCredit bank issued for Trigema 3-year unsecured corporate bonds in the amount of 450 million CZK with a coupon of 2.95 % p.a. In comparison with the volume of credit, however, it is a negligible percentage of external resources that companies use to finance their activities in the Czech Republic[3].

THE DEVELOPMENT OF CONDITIONS REQUIRED BY BANKS

Let's go back to the prevailing lending funding from banks. For the financing of development, banks require a 25–35% equity (i.e. 65–75 % LTC). The amount of the (pre)lease or the (pre)sales varies according to individual asset segments: in logistics 70–90% is generally required, for retail space it is 50–70%, and for offices it is at least 50–60%. For residential projects, the standard requirements of financing banks remain at the level of 30% of pre-sale as minimum.

The higher the pre-lease/pre-sale, the lower the percentage of equity the bank is willing to accept. However, it is not often that banks provide more than 80% LTC even in a fully pre-leased project.

For development, banks also require sponsors to guarantee their obligation to fund cost overruns (i.e. Cost Overrun Guarantee), as well as the smooth completion of the project (i.e. Completion Guarantee). The guarantee is valid until the project is officially approved (in Czech "kolaudace") and real cash flow comes in, supported by long-term leases with quality tenants, or purchase contracts in the area of residential development.

For financing investment transactions, the required LTV often ranges between 55–70%. The banks' willingness to accept a higher LTV is very limited and quite exceptional in the market. Again, the reason for this is the consumption of regulatory capital. Compared to previous years, we can increasingly see a "healthier" conservative LTV of around 50%, which is due to excess liquidity in the market.

In terms of financing structure, it is interesting to look at amortization schedules, i.e. the time over which the loan is repayable, and the tenor (length) of bank financing. The amortization schedule is essential to the investor's economy: the longer the amortization schedule is, the more he can use free cash flow to pay dividends to investors.

In common practice, there are reasonable compromises made between the investor's requirements and the bank's possibilities: commonly acceptable amortization schedule for new real estate is between 20–25 years (offices and retail), and up to 15 years for older real estate. For logistics, the amortisation plan is generally shorter than for offices and retail; it is normally between 15–20 years, depending of course on the nature of the lease agreements (length/quality of tenant).

For the majority of investments, banks provide funding for clients with a five-year tenor. It is expected that the loan will be repaid at the end of the five-year period, according to the current situation of the project, length of leases, the price for the money in the market, etc. The long-term goal of investors is to gain a ten-year commitment from banks (an effort to fix the current low interest rates). However, banks very rarely take this step; the general conditions are long-term (ten-year and more) lease agreements with financially strong tenants.

WHAT INFLUENCES THE "PRICE" OF THE LOAN?

For long-term financing, banks naturally ask clients to secure the potential fluctuation of interest rates and currency movements with appropriate security instruments. With regard to the potential increase of the CZK base interest rate and an appreciating exchange rate of CZK towards EUR and USD, this banks requirement (ie interest and currency hedge) is also beneficial for clients – it secures the stability of future income.

For the financing of investment transactions, banks put great emphasis on the quality and transparency of the independent valuation and technical, legal and tax clearance of the property before the purchase (so-called due diligence). For the sustainability of the quality of the investment, professional asset and property management is also crucial.

The financing structure corresponds with the margins, which are currently in the range of 2.00–3.50% for CZK development financing, and 2.20–3.70% for EUR development financing. The margins, also including liquidity costs (costs for obtaining resources), which may

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[2] Such groups are professionally called Joint Arrangers.
[3] You can find more about bond issues in the "Alternative financing resources" chapter on page 93.

differ in individual banks.

Despite the competitive environment, the margins in investment financing did not decrease in comparison with 2016. On the contrary, they were stabilized, and we can even expect a slight increase in the forthcoming period of 2018–2019. The margins are currently in the range of 1.70–2.50 % in CZK financing, and in the case of financing in EUR, the margins are approximately by 0.20–0.30 % higher.

The specific conditions for investment financing always depend on the nature of the project, the client's history, the LTC/LTV, the parameters of lease contracts and cash flow stability. The professionalism and previous experience of the developer/investor, quality of repayment source, i.e. cash flow stability, legal enforceability and the value of collateral, continue to play a significant role in structuring financing. In this case it is also true that the lower the LTV, the lower the final margin may be.

CONCLUSION AND FUTURE PROSPECTS

Year 2017 confirmed that the real estate market in the Czech Republic is healthy, dynamic and sufficiently transparent to investors. Assets in the Czech Republic and the yields achieved here continue to be interesting for investors. We will see how much Brexit or the geopolitical context in general will affect the parameters of real estate transactions. I personally expect a gradual tightening of financing conditions, both in terms of structure (LTC/LTV) and with regard to the gradual increase in margins, especially in long-term financing.

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ALTERNATIVE FINANCING OF REAL ESTATE

The regulatory measures, especially Basel III, which came into force on January 1, 2015, its postulate in the form of Basel IV package, and other specific restrictions for the real estate sector, have had – and will have in the foreseeable future – the biggest impact on the behaviour of banks. On the other hand, the Czech economy is in good shape (according to the CNB Governor from the middle of March 2018, it is even "a bit too much"); the banks and their foreign parent companies are sufficiently capitalised, and since the financial crisis came to end, their allowances have been growing every year. This allows them to allocate a certain part of their capital to risky assets. Yet, the discussion about the structure of financial resources in the economy cannot be traditionally omitted, not to mention the real estate market.

The aim should be to reduce debt and increase the ratio of capital in the total balance sheet, which positively influences the stability and security of the market. Even though the last financial crisis is still pretty alive for us, most forecasts say that the current economic cycle has reached its peak and the dynamics of its growth will slow down in the coming years. Some estimates about when the economy turns into recession are increasingly occurring, especially in the United States, which is the usual indicator of the global economy development.

The real estate sector is no exception. In this context, there have been calls for greater allocation of the capital of pension funds and insurance companies to real estate. Also, respondents from recent ARTN surveys have repeatedly expressed their univocal opinion that financial resources should be more significantly involved in investment activities within the Czech Republic.

So far, however, there has been no development with regard to this issue. One of the reasons for this is that the requirements for the guaranteed appreciation of savings in transformed pension funds, the portfolios of which usually form the overwhelming majority of pension companies' assets (ca. 93% at the end of 2017), are still valid. There is no way to force the managers of these portfolios to invest in more profitable but also riskier and less liquid alternative assets, such as real estate. Only a legal regulation of parameters could help.

New participant funds, which allow a more dynamic investment strategy, only handle approximately 7% of assets, which means less than 35 billion crowns. Even with regard to this volume, there is not a single direct real estate investment. The percentage of real estate in investment portfolios of local pension funds is close to zero (0.4 % at the end of 2017), while 5 to 10% is considered to be a standard level[1]. However, Czech statistics do not give figures of how much was invested indirectly through real estate unit trusts.

Czech insurance companies have more favourable regulations, but the approach of their portfolio managers does not correspond to it, and the reported real estate ratio is 0.74 %[2]. The statistics don't show how much was invested indirectly. With regard to the need for higher liquidity in comparison with pension funds, the expected percentage should be between 2 and 5%, but the only insurance company that was notably active (and that has been active for a long time) in the real estate market was Kooperativa from VIG Group.

REAL ESTATE INVESTMENT FUNDS

The capital of private investors can be used similarly in investment funds. The Czech National Bank, as a regulator in this field, registered a total of 98 investment funds in the category of real estate or mixed funds that invest in real estate at the end of 2017, which represents a year-on-year increase of 15%. 19 of these funds are self-governing, the rest are managed by a total of 18 investment companies. The capital allocated in them is estimated at tens of billions of crowns. This figure also includes qualified investors funds (QIFs) and unit trusts focusing on small investors (consumers).

From the perspective of the variability of capital, 83 funds are open-end and 15 are closed-end funds. Part of them are entities whose portfolio consists of corporate securities of the companies who perform their business activities in the real estate sector, they therefore don't invest in specific properties (directly or through single-purpose vehicles – SPVs). Off-shore closed-end private equity funds established abroad are not included.

More than half of them (52) have the identification numbers of securities assigned (ISIN) for the purposes of trading, and approximately a third of them are registered at Prague Stock Exchange even though they are not active there. Since legislation was changed in 2015, it is allowed for QIFs to only pay 5% income tax under the condition that the trades take place in a regulated market. It is clear, however, from

For comparison: According to the analysis of pension systems of OECD countries in 2016 (more up-to-date data was not available when this text was written), the percentage of direct real estate investments in the portfolios of pension funds is 2.2% on average, while the margin was between 0 to 11.5% for one country. European countries Finland (11.5 %), Switzerland (8.8%) and Portugal (8.4%) were the top three countries according to the analysis. In the category of indirect investments through structures of collective investment (real estate unit trusts), the average was 6.1% with a margin between 0 and 17.6%. European countries were, again, among the top three countries – Switzerland (17.6 %), Portugal (14.9%) and Italy (10.9 %). The sum of the two values gives the total exposure of pension systems of OECD countries to real estate sector – in Switzerland, it is 26.4%, 23.3% in Portugal, 13.2% in Canada, 12.4% in Italy, etc., and the average is 9.3%. The averages were calculated using only the countries that provide the necessary data – for example, in the case of Czech statistics, the allocation of underlying assets of unit trusts is missing.

Insurance companies had 0.74% of the assets volume in real estate at the end of 2016 (more up-to-date data was not available when this text was written), and it was a total amount of 3.4 billion crowns, but their own operational buildings account for 70% of this, and when they are deducted the exposure was only a bit more than 0.2%. Year-on-year these investments declined, but the percentage of non-operational properties has increased by almost a half. Kooperativa reports 45% of the whole amount. For comparison: Insurance companies of OECD countries had an average of 1.94% of all their investments directly or indirectly saved in real estate in the same period. Except for Estonia, all OECD countries were using this class of assets. The highest percentage was reported by Switzerland (11.1 %), which was followed by Norway (8.1%) and Austria (6.6 %). From the largest European economies, the percentage was 3.8% in Spain, 3.4% in France, 2.7% in Germany, 1.1% in Great Britain and 0.8% in Italy.

the statement of the Ministry of Finance of the Czech Republic from 2016 that if a QIF with received shares that are not really traded on a regulated market apply the reduced 5% tax rate without fulfilling other conditions, it is a breach of the law. Tax administration will then base its decision on the principle of the substance over form according to Section 8, Paragraph 3 of the tax law, and on the principle of the prohibition of abuse of the law.

However, the fund can also use the reduced tax rate even under different circumstances, for example, when they do not hold properties directly but through an SPV, or they have a form of open-end unit trust. The amendment to the act that came into effect in 2016 also allowed a form of closed-end unit trust. Even though there were some unfavourable changes to taxes that should particularly affect the real estate QIFs by increasing the income tax rate from 5 to 19%, after three years it can be said that there is not less private capital on the market; quite the opposite, thanks to the acceleration of the economic growth, low interest rates and the resulting excess pressure of available money, our prediction that also holds true for the future has been confirmed: the number of funds focused on qualified private investors will increase.

Part of them are being established by strong companies that provide their name, know-how and so-called seed money in the form of capital or assets. So far, these were companies such as Central Group, CIMEX and their fund Edulios, NOVA Real Estate and Nova Hotels from Arca Capital Group, RSJ Investments Real Estate sub-fund, and others. Other funds are being established for the purpose of gaining capital gradually, such as IMPERA Invest and DRFG Czech Real Estate Investment Fund (an off-shore fund registered in Liechtenstein) from Brno, or two real estate funds of Komerční banka (Realitní fond KB I and II), the product of which is intended for clients of its private banking services.

The newest additions are Českomoravský nemovitostní fond RSBC and Realitní fond Generali Investments CEE. They usually promise their investors an annual yield in a range between 3 and 6% – for example, IMPERA pays a fixed interest of 3.1% starting from this year, DRFG has reached a yield of 5.06 – 5.17% in the last two years, and the appreciation of investment in Realitní fond KB I was 17.5% for the last three years since its establishment (5.83% p.a.).

Fond udržitelnosti Římskokatolické církve (the sustainability fund of Roman Catholic Church) became a specific entity in the market, and it extended its focus to a real estate sub-fund in 2017 as well. This does not mean only investment in common real estate sectors such as offices and business centres, plans also include assets more typical for church property, such as agricultural land and forests. With regard to the means the church gets from the state in terms of separation, and which will be invested in some way, this fund may gradually become one of the major players in the market. The church as an investor is beginning to cooperate with established developers; for example, the diocese of Hradec Králové cooperated with Serge Borenstein on the project of a multi-purpose project in Karlín in Prague.

As opposed to Western Europe, open-end real estate unit trusts with public offer focused on consumers only played a minor role in the Czech Republic until recently. This ceases to be true. ČS nemovitostní fond with a capital amounting to 17.5 billion CZK and a property value of 19 billion crowns is probably the biggest Czech real estate fund today. In the last two years, it significantly increased its investment appetite and concluded large transactions in Prague, Bratislava and Poland, among which City Towers in Pankrác in Prague in the value of 4.4 billion crowns and a shopping centre in Radom in Poland for 4.3 billion crowns can be mentioned. On other hand, it is also true that it has no real competitor in this group of real estate funds yet. At least the five-billion ZFP real estate fund with assets in Northern Moravia, Prague, Budapest and Krakow is worth mentioning.

SECURITIES

Another source of alternative financing is also the issue of securities. After the infamous end of Orco Property Group and ECM on the stock market, corporate and project bonds are more common in the Czech Republic – bonds that are usually issued in cooperation with a bank, which also places them on the market. They can be traded both in and outside the stock market. They do not generate their own equity as such, but they usefully fulfil the structure of the financing of a company or a specific project in the form of subordinated debt. The primary target group for their offer are private investors or clients of private banking services, but institutions that are allowed to buy riskier securities are also interested. With regard to the excess of capital in the market, the number of issuers started to significantly increase, and the volume of various programmes and issues without CPI (see below) reaches almost 17 billion crowns included those already paid. Year-on-year, it has therefore increased by one third. When CPI is added, it is approximately 69 billion crowns, but the securities were not sold for this whole amount, it is a sum of the maximum limits that were only used partially. Our estimate is that about half of the given amount is already sold, i.e. 35 billion crowns. At the same time, we assume that the number of new issues will continue to grow at a similar rate.

Traditionally, bond financing is most frequently used by Czech Property Investments, a.s. (CPI) Group in the Czech Republic. Since

TABLE 1 Czech open-end real estate unit trusts

Source: ARTN

Name of the fund	Administrator	Establishment	Capital of the fund as of February 28, 2018 (billions of CZK)	Performance of the fund the last 3 years (% p.a.)
ČS nemovitostní fond	REICO České spořitelny	2007	17.46	2.5
ZFP realitní fond	ZFP Investments	2013	5.31	6.4
Realita	WMS	2009	1.35	4.4
Conseq Realitní	Conseq Funds	2008	1.22	3.0
Investika realitní fond	Investika investiční spol.	2015	1.15	4.7 (since its establishment)
Raiffeisen realitní fond	Raiffeisen investiční spol.	2017	0.28	2.5 (since its establishment)

2015, it has prepared programmes in a total volume of approximately 52 billion crowns, while their majority was prepared in the last six years. This also includes the issue of corporate bonds of the parent company of Czech Property Investments, a.s. for more than 15 billion crowns, or covered project bonds of CPI Alfa, CPI BYTY and CPI Retail Portfolio. In the last year, there were two new Czech issues from the two-year tranches within the scope of adjusted programme CPI BYTY, which was extended for a period of ten years and the aggregated volume increased from the original 3.8 billion to 17 billion crowns. The above-mentioned tranches reached 800 million crowns with an interest rate of 1.85% or 2.25%

The group has already gained a more significant position in foreign capital markets. After Slovak issues in the amount of 80 million EUR from previous years, it offered bonds in the value of 600 million EUR last autumn in London, which are payable in October 2024. Thanks to the high demand, it managed to get an interest rate of 2.125%. The yield will be used to refinance older debts, which will allow it to reduce interest costs and to nullify the issues it holds on its own balance sheet from a large part, and to invest in the current portfolio and new acquisitions. It plans to issue bonds in a total value of 1.25 billion EUR (almost 32 billion crowns) this way. The current liabilities of the whole group from the issued bonds were around 15 billion crowns in mid- 2017 (more current data was not available when this text was written), but the London subscription is not included.

Another Central European player, Slovak group HB Reavis, has gained more than 311 million EUR (7.8 billion crowns) since 2013 in capital markets in Poland and Slovakia, and two thirds of this amount was gained thanks to seven issues from the last year. In May 2016, it successfully added one Czech issue covered by the guarantee of a holding company in the amount of 1.25 billion crowns payable in 2021, and a current floating yield of ca. 5% p.a. More than 71% of the volume was subscribed by institutional investors, and the rest was subscribed by private banking clients.

Developers Central Group and SATPO also tried financing using securities in 2012 and 2013, even though it was on a much smaller scale. In 2017, the latter repeated this action using corporate bonds for 315 million crowns with an interest rate of 7% p.a. and a payment period of 5 years. An interesting and big issue in 2013 was also the issue of project bonds Diamond Point in the value of 1.1 billion crowns payable in 2024 with a yield at 4%.

Looking at older actions, it is also good to remember the corporate bonds of Passerinvest Group from May 2014 in the volume of 550 million crowns payable in 3.5 years, with an interest rate at 5 % p.a. The company used the yield of these bonds to co-finance the repurchase of its older development assets in BB Centrum in Prague. At the end of March 2017, Passerinvest Finance issued corporate bonds for another 1.5 billion crowns (with the possibility of an increase to 2 billion) covered by the guarantee of Passerinvest Group payable in 6 years, with an interest rate at 5.25%.

From issues from Prague, it is also worth noticing the six-year corporate bonds of GES Real in the volume of 400 million crowns and an annual yield of 5%, or the certificates (which behave similarly to bonds) of Cyprian GRAMEXO in the amount of 1.395 billion crowns payable in 5 years with an annual yield of approximately 5.8%, which were issued to finance the Rustonka project. In the same year, group

TABLE 2 Selected small corporate bond issues

Source: ARTN

Issuer	Date of issue	Volume (million CZK)	Maturity (years)	Yield (% p. a.)	Subscription	Purpose
			Prague			
Římská 1222/33 (Činžovní domy Prague group)	2016	20	6	6	closed	reconstruction of an apartment building on Elišky Krásnohorské 4, Prague 1
Premiot Group	2016	8.5	3	8.5	subscribed	acquisition of land
2M Invest	2017	10	2	7	subscribed	financing development projects
Na Doubkové 2	2017	12.5	2,5	8.5	subscribed	reconstruction of an apartment building
K&K Invest Group	2017	7	2	8	subscribed	reconstruction of a building on 28. pluku street, Prague 10
Charles Bridge Real Estate	2017	25	5	5	in progress	residential real estate acquisitions
Činžovní domy Praha	2018	25	2	8	in progress	construction of penthouses on Korunovační 11, Prague 7
			Outskrits of Prague			
Market Balance	2015	5	3	9	subscribed	construction of a medical centre in Frýdek-Místek
Prago Investment	2016	22	2	8.1	closed	reconstruction of Hnědý vrch hotel
Prago Investment	2016	5	3	5.7	closed	in Pec pod Sněžkou
Market Balance	2017	15	2,5	9	subscribed	construction of houses under Lysá Hora mountain
Invest Gates Group	2017	10	3.5	6.6	closed	construction of an apartment building in Brno
Capital for you	2017	22	1,5	9	subscribed	construction of houses in Český Brod
Start Up Bydlení	2017	25	2	8	in progress	construction of projects in Úžice, Kunětice and Kozomín
RealityPozitivně	2017	20	3	9	in progress	environmentally friendly reconstructions of buildings in South Moravia region
Satori Capital	2017	25	3	7.2+0.5	in progress	acquisition of properties for income
Office-Leasing	2018	18	2	8.8	probíhá	construction of offices in Ostrava

FINEP issued project bonds in the volume of 201 million crowns, which are payable in 4 year, with an interest rate at 3.75% for the purpose of financing the construction of four new stages of the Kaskády Barrandov project. This March, it continued in alternative financing by issuing RED Thirteen, the business in cooperation with RSJ Investments of Karel Janeček, in the amount of 210 million crowns payable in 4.5 years, with an interest rate at 4.8%, intended for the development of the Drnovská apartment complex.

Residential developer Trigema is a newcomer to the capital market, and it is active in several other regions besides Prague, starting the bond programme with a three-year issue in the amount of 300 million crowns in 2017 (with the possibility of an increase to up to 450 million), and with a current floating interest rate at ca. 4% p.a. Its yield will be used for financing specific projects in the developer's group. Also, CEE Real Estate entered the market three months earlier with a ten-year programme in the amount of 500 million crowns and an initial corporate issue in the amount of 25 million payable in 5 years, with an interest rate at 6%.

Activity is increasing even outside the capital, especially in Brno. Since 2009, real estate company e-Finance from Brno has been issuing corporate bonds. It is currently possible to purchase approximately ten small three-year issues of e-Finance Property with a yield of 4.5 %, which are a part of the whole programme in the volume of 1 billion crowns. Last year, the company still offered project bonds of its subsidiary eFi Palace as part of another 25-year bond programme with a limit of 600 million crowns, but they are no longer available.

An interesting alternative for investors seemed to be five-year bonds of Brooc Global Investment from Brno in the volume of 300 milllion crowns and with a yield of 7% intended for investment in holiday homes on Canary Island Tenerife. Their public offer was closed on December 31, 2017 with the resulting subscription of 127 million crowns, i.e. 42% of the planned volume. In December 2016, the corporate issue of Moravské stavební – INVEST in the amount of 320 million crowns for 5 years with a yield of ca. 6% was also added, and another five-year issue in the volume of 250 million crowns with an interest rate at 5% followed in November 2017.

Two groups from the Moravian capital that were already mentioned in the subchapter about funds were also among the issuers. In February 2017, IMPERA issued corporate bonds in the volume of 200 million crowns (with the possibility of an increase to 300 million) payable in 3 years, with the interest rate at 3.1%. In autumn of the same year, the bond programme of DRFG Group in the volume of 1 billion crowns for 10 years was approved, and this programme started in January 2019 with three separate issues in a total value of 600 million crowns, which are payable in 3 to 7 years and have an interest rate between 5 and 7%.

At the end of 2017, the ten-year programme in the volume of 300 million crowns was started by NWD investment company from Brno with two issues in the volume of 70 million crowns payable in 3 to 5 years, with an interest rate at 3.1 or 5.1%. At the beginning of 2018, the same thing was done by Czech-Moravian Properties in the form of a five-year programme in the volume of 1 billion crowns, and two initial issues in the total volume of 200 million crowns payable in 3 to 5 years, with an interest rate at 4 and 5% p.a. As another Moravian company, RSRE Invest from Redstone Real Estate group from Olomouc can also be mentioned – the developer of the Šantovka shopping centre – with the issue from November 2017 in the amount of 20 million EUR (500 million crowns) payable in 5 years, with an interest rate of 5%.

The activities of small issuers from different regions are also gradually accelerating, which confirms the increasing awareness of this form of financing. Some issues are purchased by predetermined investors, and the subscription of others takes longer. For example, in 2012 R.E.I.T. Group from Pardubice, which also has business activities as a real estate fund, issued twenty-year (!) bonds in the total volume of 50 million crowns with the interest rate of 9% intended for the acquisition of discounted properties, but only slightly more than 30% was purchased by March 2018. With regard to the above-average volume and the payment period, we would not call this situation a success. A group of companies Činžovní domy Praha made several issues from the yields of which it gradually finances the reconstructions and completions of constructions of residential buildings. We include selected examples from the last several years in the attached table.

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THE ENTRY OF CZECH REAL ESTATE FUNDS

Real estate funds and investment companies focusing on real estate are being established at an unprecedented level today. As the numbers gained by the Czech Capital Market Association (abbreviated as AKAT ČR) suggest, this trend is not going to diminish. Year-on-year, the amount of financial resources in the Czech real estate funds in the hands of Czech investment companies has increased by more than 26 %. This is the biggest increase in all asset classes – the next biggest increase was recorded for funds of funds (22 %) and for equity funds (21 %). The Czech Republic is therefore getting closer to financially developed countries in the field of collective investment.

With regard to this development, the Czech real estate funds increasingly influence the local real estate market. If someone was surprised that Czech capital is invested in premium properties in the centre of the capital 10 years ago, acquisition like this is standard today. It is expected that the Czech real estate funds presented 31 % of the total volume of transactions in the last year, and this figure does not include the acquisitions of Radovan Víteks Czech Property Investments group as it belongs to a slightly different category. Czech money allocated in real estate funds has even crossed the borders of the Czech Republic, and it is active in the acquisitions in CEE. We can take the investment transaction of Česká Spořitelna's REICO fund in Poland last year as an example.

TABLE Investment companies focused on real estate

Source: Czech National Bank

Investment company	Date of incorporation
Generali Investments CEE, investiční společnost, a.s.	January 28, 1992
WOOD & Company investiční společnost, a.s.	October 14, 1993
AMISTA investiční společnost, a.s.	September 20, 2006
AXA investiční společnost a.s.	September 22, 2006
REICO investiční společnost České spořitelny, a.s.	November 27, 2006
AVANT investiční společnost, a.s.	April 4, 2007
WMS investiční společnost, a.s.	May 10, 2007
Safety invest funds, investiční společnost, a.s.	January 29, 2010
Conseq Funds investiční společnost, a.s.	May 11, 2011
ZFP Investments, investiční společnost, a.s.	January 22, 2013
Raiffeisen investiční společnost a.s.	April 9, 2013
REDSIDE investiční společnost, a.s.	April 29, 2013
DELTA Investiční společnost, a.s.	July 24, 2014
CARDUUS Asset Management, investiční společnost, a.s.	May 26, 2015
INVESTIKA, investiční společnost, a.s.	June 11, 2015
Patria investiční společnost, a.s.	June 9, 2016
RSJ Investments investiční společnost a.s.	December 20, 2017
Proton investiční společnost, a.s.	February 2, 2018

At the beginning of 2018, 30 investment companies were registered at the Czech National Bank, more than half of them focusing on real estate investments. The increase in the number of companies is clearly noticeable in the past 5 years.[1]

TABLE Investments in funds (divided by type of fund)

Source: AKAT ČR

Asset class	September 30, 2017	September 30, 2016	Change
Money-market funds	CZK 3,343,676,565	CZK 3,701,045,330	-9.66%
Structural Funds	CZK 25,720,727,501	CZK 26,832,316,994	-4.14%
Equity funds	CZK 94,302,318,841	CZK 76,717,577,148	22.92%
Bond funds	CZK 121,222,369,457	CZK 123,035,422,273	-1.47%
Mixed funds	CZK 180,288,749,346	CZK 150,457,000,300	19.83%
Funds of funds	CZK 23,326,643,585	CZK 18,762,763,383	24.32%
Real estate funds	CZK 21,721,945,989	CZK 16,346,753,883	32.88%
TOTAL	**CZK 469,926,431,284**	**CZK 415,852,879,311**	**13.00%**

WHAT IS A REAL ESTATE INVESTMENT FUND?

Before we go into a deeper analysis, we should define what real estate investment funds really are. The public uses the term "real estate fund" for anything in which investors' financial resources are accumulated and subsequently invested into real estate property purchases. Some funds are for small investors but others are for the already qualified.

The amounts of investments may vary – from hundreds to hundreds of millions of crowns. Each fund has a different strategy, time frame and target products. If an investor is considering the allocation of his/her resources to a real estate fund, he/she should take interest in several basic parameters:

- The estimated return
- Risk profile – to which asset classes the fund invests
- Liquidity
- The experience of the administrator / the reputation of the investment company
- Further information, such as the form of fund, other rights and obligations related to investment

REAL ESTATE INVESTMENT FUNDS ARE GETTING CLOSER TO SMALLER INVESTORS

Investments in real estate have always been very popular among investors, but many smaller investors have thought for a long time (or still think) that investments in real estate start and end with buying a flat and renting it, or selling it later with a profit. This is no longer true, and even small local investors started to use professional investment companies that offer the diversification and benefits of bigger investment platforms to ensure better value for their financial resources. This is also due to the fact that investment companies can access a suitable product more easily than individual clients.

We can also see a shift in the behaviour of investment companies that are the administrators of funds towards the investors. Focus on the client, clear materials, a mobile app that allows the tracking of the portfolio developments, workshops, broadcasting using Internet channels and other activities that bring the investment environment and fund functioning closer to the interested public.

Fund yield

The estimates of fund yields are stated as the annual appreciation of investor's investment and they reach values ranging from 2 to 10 % and even more. It naturally depends on the risk profile of the fund, as well as the asset class in which the investment company invests. The appreciation for the investor is influenced by:

1/ The collected rent represented by yield[1]

2/ The appreciation of the property on the market, influenced by the market situation and its development

3/ The expense-to-revenue ratio of the fund itself, individual funds may differ from each other by tens of basis points

Some funds are even subject to better taxation (5 % tax rate instead of 19 %). It is definitely worth checking what rules apply to which fund.

Risks and asset classes

The product score of the investment is also important. It ranges from 1 (minimal risk and lower yield) to 7 (high risk and higher yield). Liquidity, currency risk, credit risk, diversification risk, market risks and other factors influence the product score.

In this regard, investors can be recommended to have a closer look at the product in which the investment company invests. You can check if the products are fully rented buildings in city centres or empty warehouses at the end of their working lives. Each class of real estate properties brings certain benefits and negatives, and it is expected that the investor possesses the basic knowledge about the risks related to the investment. Funds with product scores from 2 to 7 are on the market, and it depends on the investor what he/she prefers.

Liquidity

Generally, one of the biggest negatives of the real estate sector in comparison to other asset classes is its liquidity, but real estate funds partially or fully eliminate this disadvantage. Example: when you want to purchase a flat worth 5,000,000 CZK, you realistically spend several months on it – by searching, working with land registry, preparation of contracts, etc. With real estate funds, you can value your investment (particularly with lower sums of money) over a period of several days or weeks.

Of course, not all funds allow immediate liquidity of the invested resources. Again, it is necessary to pay attention to the status of the concerned fund and the conditions for the redemption of units or shares.

The reputation of the investment company

The investment company is responsible for the economic functioning of the fund, it takes care of the elimination of risks related to investments and it complies with the regulatory and legal frameworks required by the Czech National Bank and Czech legislation. The investment company decides about the strategy of the fund, about the realization of transactions, about the administration of assets in the fund and about the potential selling of properties. The role of an investment company and its members is crucial for each fund and the experience, knowledge and reputation of its employees is fundamental.

The form of the fund

The most common forms of real estate funds on the Czech market are open-end or closed-end unit trusts, joint stock companies, or companies with variable capital (abbreviated as SICAV). The law allows other forms:

- Limited liability companies
- Trust funds
- Cooperatives
- European companies and other forms

Different forms mean different rights and obligations for investors with regard to their investments. The form of the fund can also influence the fund profit taxation and the net return for the unitholder or shareholder.

[1] The rent-to-purchase price ratio – the prime yields of properties are stated in the "Investment market" chapter on page 82.

CONCLUSION

Getting resources from investors with the use of funds and their subsequent investment into commercial and residential properties has become natural for the Czech real estate market. From an investment point of view, Prague and regions are not only reserved for foreign funds and large private companies.

More important investments in 2017 with the participation of Czech real estate funds and investment companies

Several types of entities usually stand behind investment companies that have to be regulated by the Czech National Bank and own a relevant licence.

The first group consists of investment companies that operate the resources of clients of big banks and insurance companies. REICO of Česká spořitelna, Patria investiční společnost (ČSOB), Raiffeisen investiční společnost or Generali Investments CEE belong to this category. The second group consists of investment companies connected to larger private financial groups or entrepreneurs such as REDSIDE investiční společnost (ARCA Capital) or RSJ Investments (Eduard Kučera, Pavel Baudiš – AVAST). "Professional" investment companies that offer their services to third parties such as Amista, Avant or Conseq belong to the third category. With these companies, it can be asked for the management and administration of various types of funds and use the fact they have the relevant licence. These investment companies usually use channels that appeal to the general public including local financial advisers to get financial resources.

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Panattoni

FINANCING RESIDENTIAL REAL ESTATE

In 2017, the total volume of provided mortgage loans in the Czech Republic reached 216.7 billion crowns[1]. This result comparable to that of 2016 was caused by the increasing apartment and house prices, and also by the previously announced gradual tightening of rules by the CNB for the provision of mortgage loans, especially the introduction of the LTV limit.

The demand for real estate was also maintained by the announced slight increase in interest rates. In December 2016, the rates started to increase from their historic low, to which they dropped in November 2016 with 1.77 %.

A turning point of this negative trend was represented by two ground-breaking events. An amendment to the Act on Consumer Loan, which vigorously changed the conditions of prepayments for mortgages, entered into force, and it required a significant decline in fees related to the management and change of a mortgage loan, very often to a value below real costs of banks. The increased risk level was therefore reflected in the growth of interest rates.

RELATIVE STABILITY AND NEW CHALLENGES

An important role in the growth of interest rates was played by the central bank, which used one of its central instruments – the increase of two-weak repo rate – twice. The first increase came at the beginning of August, and it was by 0.2 percentage points to 0.25 %. This happened after the interest rates of mortgage loans reached their annual maximum of 2.04 %, so they could slightly decrease again in July and August.

The CNB used the same instrument again and more noticeably at the beginning of November when it increased the interest rates by another 0.25 percentage points. 2017 was therefore closed with a two-week repo rate of 0.5 %, while the December average interest rate for mortgage loans reached the annual maximum of 2.19 %. The interest rates thus decreased back to their level of February 2015.

But 2017 did not differ from the previous year only with regard to the interest rates. The most interesting factor was the seasonal development of concluding mortgage loans. While in 2016 there was a significant increase in the number of provided mortgages in November, the last month when the old Consumer Loan Act was effective, in 2017 there were no significant deviations. The volume of mortgage loans in individual months was stable regardless of the interest rate development. Even at the end of the year when interest rates of mortgage loans increased even more, there was no larger decrease in the demand for housing loans.

The commercially strongest quarter was the first one, when the volume of granted mortgage loans did not decrease below 17.5 billion crowns. This surprisingly increased demand reflected the fears from the increasing interest rates. In the end, the interest rates annually increased by only 0.42 percentage points even after the CNB intervened in the field of interest rates twice.

The fears of mortgage providers from the beginning of the year were therefore not fulfilled. With its volume, the market basically copied the previous year's development even despite the previously announced CNB's intervention with regard to maximum LTV limits. The intervention was done in the form of a recommendation; however, the central bank declared clearly at the end of the year that due to risk management it wishes the maximum LTV to be at only 80 %. With regard to the insufficient reflection of this wish in the mortgage market, the CNB wants to proceed with more prescriptive regulation tools in 2018.

With a view of the mortgage market, the essential factor was a significant real estate price increase. This concerned apartment prices, which annually increased by an average of 11.9 percentage points, putting the Czech Republic on the list of countries with the fastest real estate price increase. Houses have reported a year-on-year increase by "only" 7.5 percentage points. The prices of plots as the most stable part of the residential segment increased with the slowest rate – by 4.4 percentage points.

FACTORS AFFECTING THE MARKET

Macroeconomic environment

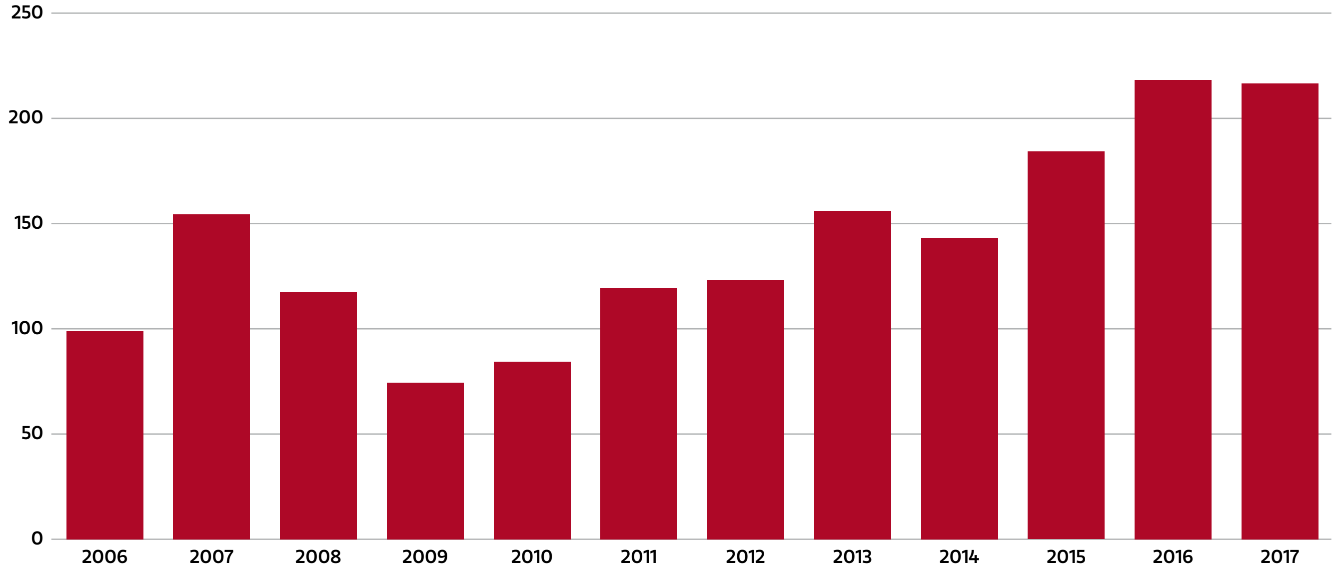
Let's take a closer look at all macroeconomic factors that influenced the mortgage market in the last year. The Czech economy reported quite a strong GDP growth again, specifically 4.5%. At the same time, the trend of a significant decrease in the unemployment rate continued; it was only 3.8 % in December 2017. Nominally, there were 280,620 unemployed people and 217,000 job vacancies, which is a ratio that inevitably leads to pressure on the overall increase in wages or incomes.

The increase in incomes and thus an increase in costs naturally leads to inflation pressure. Last year these were mitigated by the central bank, which ended monetary interventions that were stabilizing the exchange rate of the crown at 27 EU/CZK, immediately leading

[1] The statistics of the Czech Ministry for Regional Development (MMR).

GRAPH 1 Development of the volume of granted mortgages in the period of 2006 – 2017 in billions of CZK

Source: Ministry for Regional Development of the Czech Republic



to significant strengthening of the Czech crown against the euro. As a consequence, the price of imported goods decreased and our export, which is usually directed at countries that use euro as their currency, especially Germany, got more expensive. The exchange rate of the Czech crown also broke down the magic threshold of 25.50 EUR/CZK at the end of the year.

A key macroeconomic factor was naturally the central bank's actions related to interest rates in the interbank market; they were very close to zero, the purpose of which was to boost the demand. As stated, the CNB increased them twice in quite a short period of time. Even though the impact on the interest rates of mortgage loans was clear, it did not proportionally correspond to the level of CNB's interventions by far. While the two-week repo rate in 2017 increased by 0.45 percentage points, the interest rates of mortgage loans, despite the impacts of new legislation, the CNB's pressure on the decrease of maximum LTV and a noticeable growth of residential real estate prices, have only increased by 0.42 percentage points after all.

Interest rate development

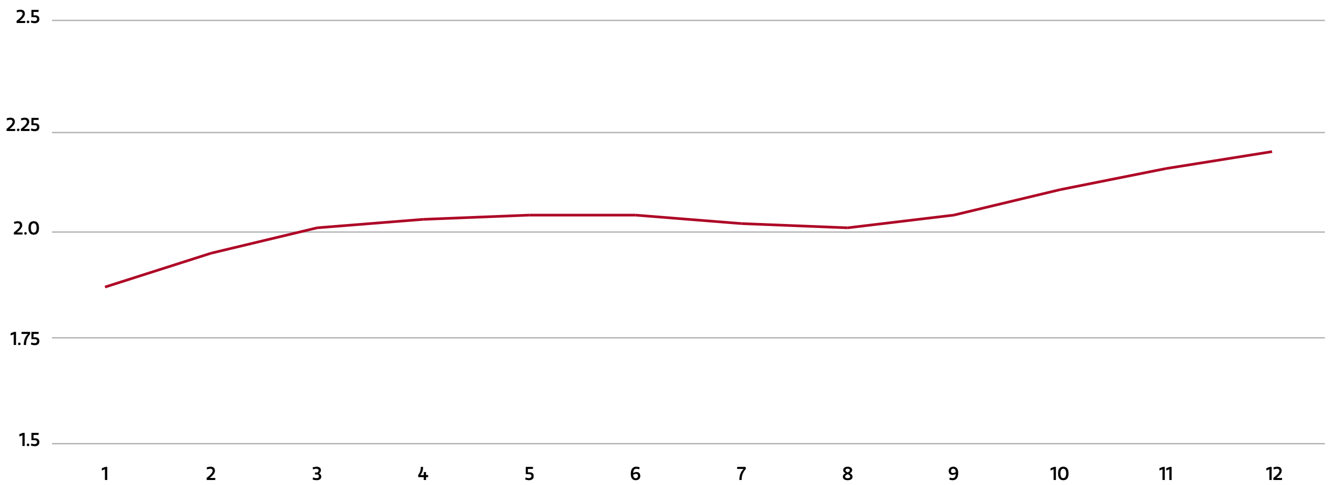
One of the key factors affecting the market efficiency is the low cost of money in the interbank market. This cost increased by a total of 0.45 percentage points due to the year-on-year increase of the two-week repo rate; however, its level did not bring a significant slowdown of the Czech economy. It is also good to mention that from the perspective of modern history, the minimum interest rate of 0.05% was established by the central bank back in November 2012. This means it was continuously maintained at this level for 5 years while it had never been this low before.

Let's also remember that the long-term primary task of the CNB is to fulfil its inflation targets, which means that it takes action with regard to interest rates only to fulfil its targets. The reason for the increase in interest rates by the CNB last year was mainly the satisfactory economic growth at 4.5%, and the CNB didn't feel it needs to be further supported by the historically lowest cost of money. The supply of money in the economy was also influenced by the cancellation of currency interventions in April last year when the crown strengthened against the euro by 5.6%.

It can be concluded from the development of the mortgage market in the second half of last year that not one of the interventions of the CNB and the associated slight increase in interest rates had a more significant influence on the mortgage market itself, because July, August, October and December figures were almost identical in 2016 and 2017.

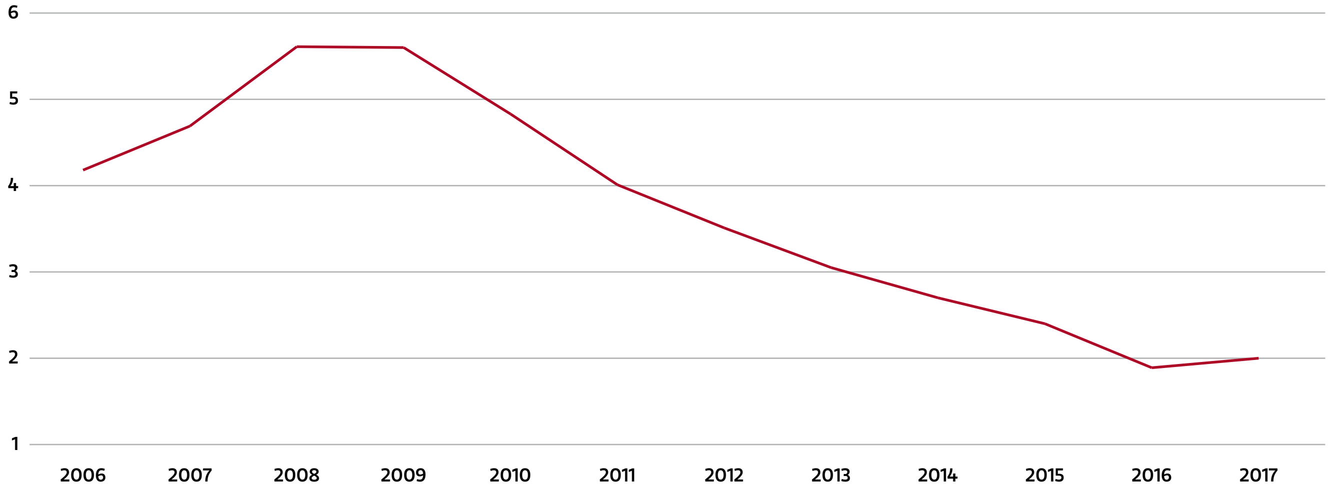
GRAPH 2 Development of interest rates on mortgage loans in 2017 in %

Source: Hypoindex



GRAPH 3 Illustration of the development of average interest rates in the period of 2006 – 2017 in %

Source: Hypoindex



It therefore seems that only the new legislation in the field of consumer loans and the heavy pressure of the CNB on gradually decreasing the maximum LTV to 80 % had greater impacts on the market or on the development of mortgage loan interest rates. This indicates the pressure on the lowering of the total volume of mortgage loans and inevitably leads to pressure for a slight increase in interest rates.

REAL ESTATE PRICE DEVELOPMENT

Last year residential real estate prices increased even faster than in 2016. Apartment prices annually increased by 11.9 percentage points; in 2016 it was 11.0 percentage points. The increase in prices took place in all regions of the Czech Republic. The fastest price increase was in the Southern Moravia Region, Zlín Region and Central Bohemia Region. The prices of older prefabricated apartments grew more than the prices of apartments in brick buildings, and the greatest interest was recorded for flats with two rooms and a separated kitchen, or two rooms with a kitchen included in one of them[2].

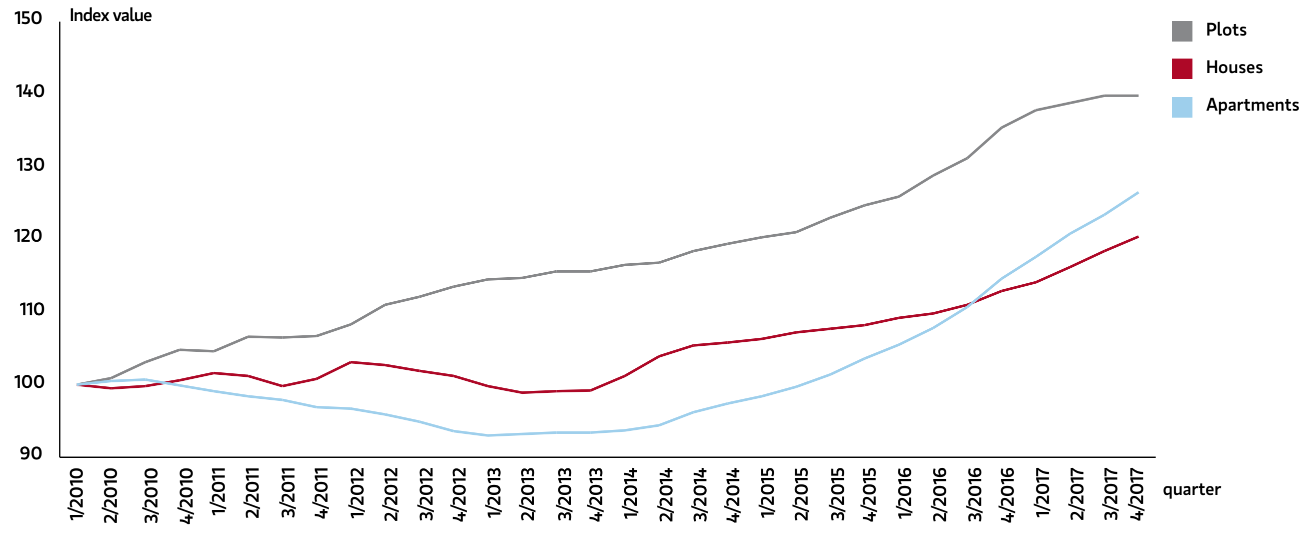
The price increase of older apartments has slowed down in Prague, but new projects in the capital are offered only with prices starting at 80,000 CZK/m². This leads to the transfer of the focus of new building sales on locations outside Prague. The ratio of apartments bought as investments in Prague has reached the range between 30 and 40%.[3] The purchase of apartments as a form of an investment could get less popular in 2018–2019 due to a decrease in the maximum LTV limit to 80%.

The prices of houses also grew significantly last year. They increased by 7.5 percentage points, which is a more noticeable difference with regard to 4.7 percentage points in 2016 than for apartment price increase. The continuously increasing construction already had an impact on the increase in building material prices last year. The interest in the construction of low-energy houses persisted also thanks to the ongoing "Green for Savings" programme.

There was also a slight increase in development construction supply, particularly terraced houses in Prague, Brno and Plzeň. The interest in older houses continued in the market, mainly because of their lower price and the possibility of their adjustment to the ideas of their new owners. Developers often dealt with the favourable economic situation and the subsequent record-breaking demand for own housing by circumventing the regulation plans for the construction of houses with regard to the minimum size of the plot by officially labelling terraced houses as housing units.

GRAPH 4 Index of real estate price development (HB INDEX)

Source: HB Index

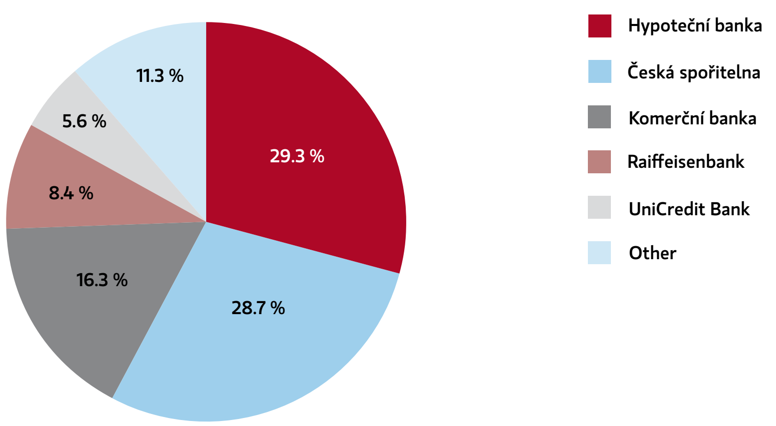


[2] The development is depicted in greater detail in chapter "Macroeconomic market" on page 22.
[3] The data can be compared to the statistics in chapter "Residential market" on page 34. Partial differences are given by different input data, or more precisely their amount.

The market with plots was the only segment of the residential real estate market in which the increase in prices slowed down compared to 2016, and even stopped in the last quarter of 2017. While two years ago the prices of plots increased by 10.7 percentage points, it was only 4.4 percentage points in 2017. The demand was stable again, but with the increasing prices, the area of plots reduced. High prices of plots around large cities pushed the demand to more distant locations. Last year there was a high demand for plots without complete public utility networks where domestic water purifiers can be installed, for example.

GRAPH 5 Market shares of individual banks in terms of volume in %

Source: Ministry for Regional Development of the Czech Republic



FIERCE COMPETITION IN THE MORTGAGE MARKET

The mortgage market has long been dominated by three major players – Hypoteční banka, which belongs to ČSOB Group, Česká spořitelna and Komerční banka. Hypoteční banka remained number one with a slight increase in its market share again. The market share of Česká spořitelna also increased, but the market share of Komerční banka significantly decreased with a year-on-year decrease of 6 percentage points. And number four on the market, Raiffeisenbank, also did not improve its market share with a decrease of 0.7 percentage points. A certain part of the market also belongs to smaller banks.

However, not all banks in the Czech market report their results to the official statistics of the Czech Ministry for Regional Development. There are many smaller banks in the mortgage market that do not publish their results. According to expert estimates, the total volume of loans provided by these entities that do not provide reports may reach an approximate market share of 4%.

AVERAGE MORTGAGE, INSTALMENT AMOUNT, PAYBACK PERIOD

Based on a set of recommendations from the CNB, mortgage loans with 100% LTV disappeared from the market. The central bank therefore required its reduction to a maximum limit of 95%, but it also announced its intention to continue with a further decrease in this limit in 2017, which it eventually did.

Since 2017, the CNB recommended to decrease this limit to 85% LTV, which didn't mean a significant change for the large players in the market. The analysis of risks to financial stability in the real estate market, which was published by the central bank at the end of May, came up with the results that showed the insufficient implementation of these recommendations, as well as the intention to further decrease the maximum LTV limit to 80%. This year the central bank could therefore come up with other tools to achieve the maximum LTV.

Due to the increasing real estate prices, there was an increase in the average volume of a mortgage loan to 2.06 million crowns despite the decreasing average LTV. Such an average volume of a mortgage loan means an increase by 5% compared to 2016, and a new historic record. Despite the slight increase in interest rates, there was no significant change in the average maturity of loans. The average is around 24 years.

Based on available information from Hypoteční banka, 72% of newly granted mortgage loans were used to purchase real estate, more than 20% were used for construction, and the remaining 8% consists of other forms of use (reconstruction, settlement of ownership, refinancing). Last year the typical client was a man aged 37 years with secondary education, married with one child and an average income of 37,000 CZK. Most mortgage loans, specifically 58%, were used to purchase a house.

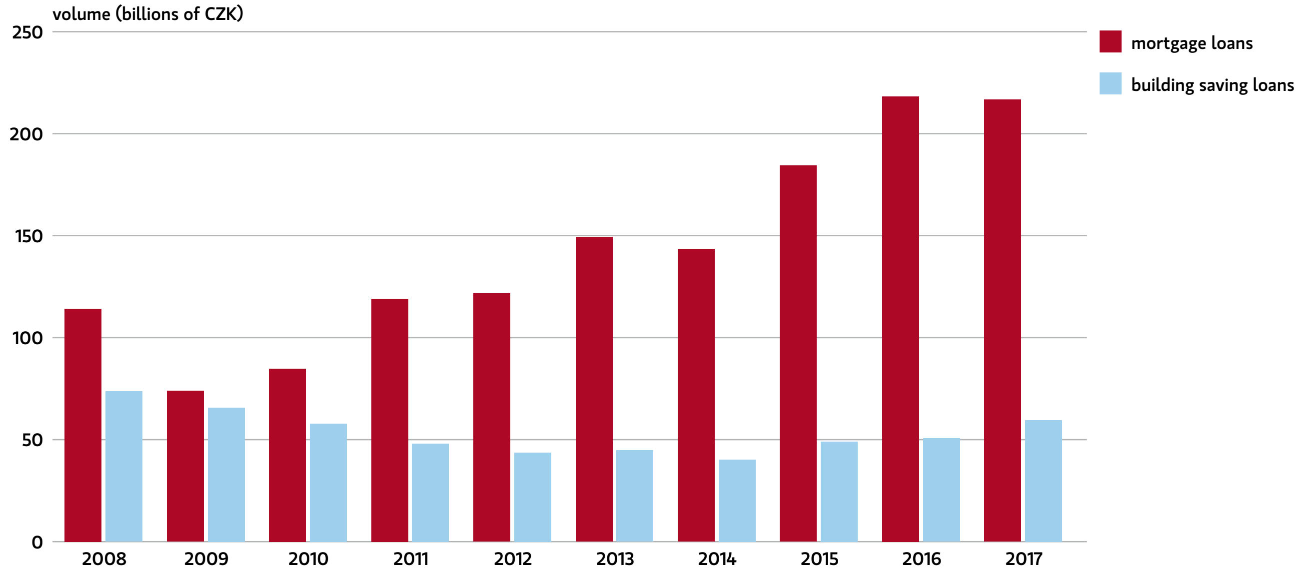
SHARE OF BUILDING SOCIETIES

Building societies continued in credit expansion last year, and the volume of provided loans increased for the seventh consecutive year. They provided loans for almost 60 billion crowns, which meant a year-on-year increase by 18 per cent. The reasons for this strong growth are mainly the favourable interest rates and the need of Czech households to reconstruct their housing.

With regard to the fact that a half of households are planning to further reconstruct their housing, the building savings will probably experience another good year. The interest in loans from building societies should also grow in 2018, even though the growth rate will probably slow down. The interest in new agreements with building societies decreased by approximately 10% in the previous year, but building companies expect an increase this year, which will exceed 450 thousand of new agreements.

GRAPH 6 Ratio of building savings loans to mortgage loans

Source: Ministry for Regional Development of the Czech Republic



ESTIMATE OF FUTURE DEVELOPMENT

What will 2018 be like in terms of mortgages? We expect that favourable interest rates will persist this year, even though they will slightly increase as they also did last year. With regard to the stabilization of market conditions[4], it can be expected that a further increase in interest rates will not take place in the rest of the year, which means that the increase in interest rates for mortgage loans will also not be significant but gradual instead.

In Prague, which represents an important part of the market with regard to its volume in the long term, the prices exceeded the threshold above which they became unaffordable for many income groups. The sign of a potential decrease in residential real estate prices is also a noticeable slowdown of the increase in plot prices last year. Moreover, the demand for own housing was saturated to a certain extent in the past two to three years. The record amount of apartments purchased as a form of investment using mortgage loans is proof of this.

The combination of the low cost of money and the strong economic growth was undoubtedly another strong stimulus that kept last year's volumes of mortgage loans at a record-breaking level. However, after the last increase in the two-week repo rate the value of money increased, and with regard to the strengthening crown exchange rate, we can also expect a slower GDP growth than in the past years. It is therefore likely that in 2018 the increase in apartment prices will noticeably slow down and there will be a moderate stagnation of house prices. For plots, the growth rate should not differ very much from the growth rate in 2017.

As a consequence of the above-mentioned trends, we expect that the volume of concluded mortgage loans this year will be a bit lower compared to the two past record-breaking years. Also, the long-term and increasingly intense pressure of the CNB to reduce the maximum LTV for mortgage loans to 80 % will contribute to the decrease in the volume of mortgages.

The further decrease in maximum LTV will contribute to a slight increase in interest rates, which, together with the increasing residential real estate prices, will probably lead to complications for many clients in purchasing their own housing, and the whole mortgage market will slow down. However, the whole volume of the market should still be comparable to 2015; the interest rates at the end of the year in the market were identical to those in 2015 after all.

From the view of banks, 2018 will definitely be much calmer. Banks fully adapted to the new conditions for mortgage loans; they obtained sufficient data to properly set interest rates and risk management according to new conditions in the market, which allow much easier prepayment of the loan. And finally, thanks to the increasing interest rates, lower requirements for refinancing and changes in the interest rate fixation for the existing mortgage loans can be expected.

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ČSOB

[4] By stabilization we mean legislative or regulatory conditions, mainly with regard to the pressure for decreasing the maximum LTV. It is necessary to take into account the fact that the central bank increased the two-week repo rate again by 0.25 percentage points on February 1, 2018.