



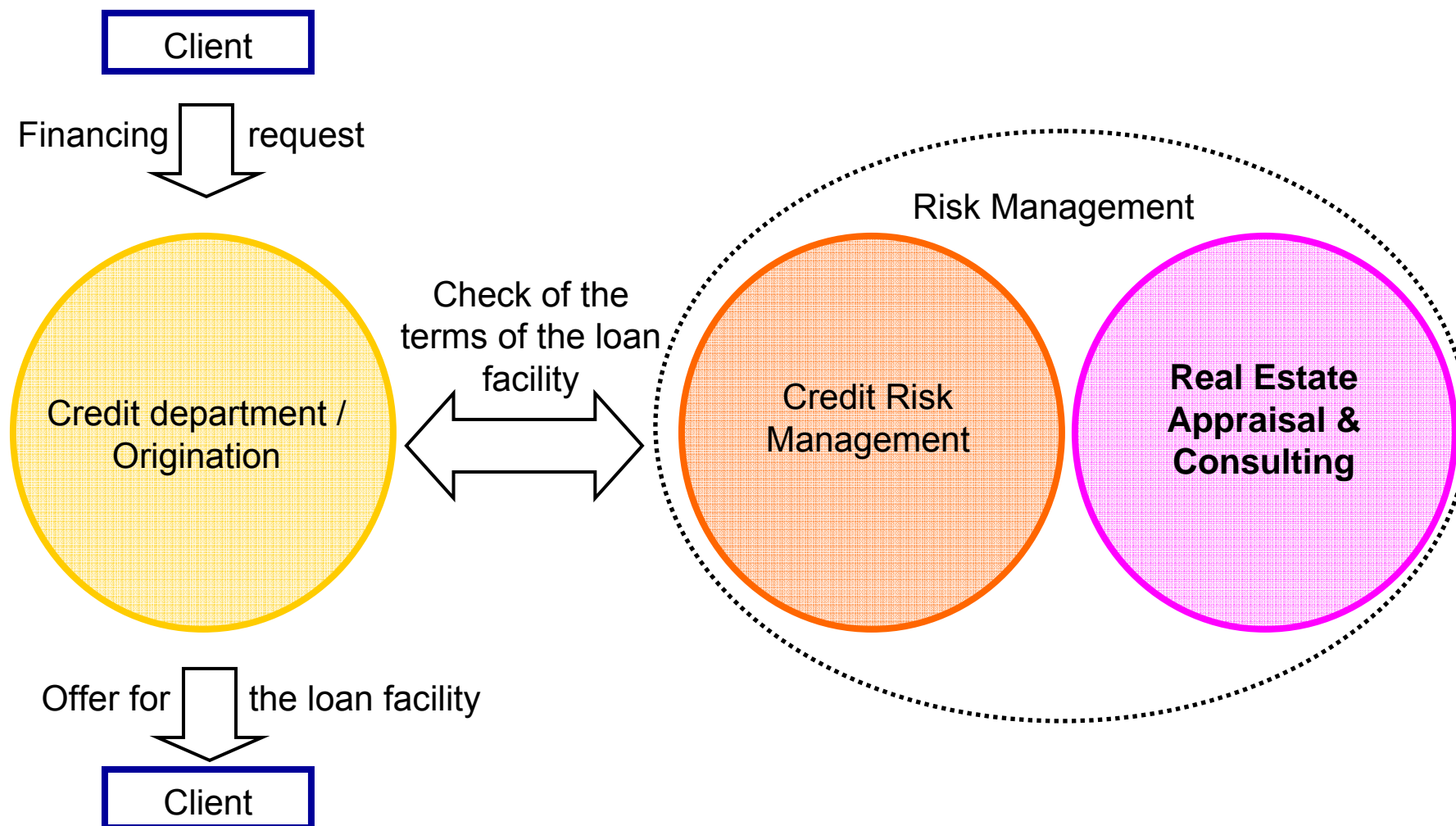
Mortgages, risk and valuation

Property valuation and risk analysis in the lending bank

**EURO
HYPO**

Giuditta Losa & Luca Pavan | Real Estate Appraisal & Consulting Department | ERES Milan 2010 – Thursday 24th June

Internal structure of Eurohypo AG



Monitor of the mortgaged property throughout the loan term

Review of valuation / Review of risk assessment

- Maximum every 3 years when no significant changes occurred to the property or the environment (frequency depends on loan facility rating)
- Every 1 year when significant changes occur to the environment
- Every 1 year for troubled finance facilities (or greater frequency as required)
- Every time something significant occurs to the property
- In addition to valuation reviews, all loan facilities are subject to an annual rating review, which includes a property rating review

Analysis of a non performing mortgaged property

Type of problem:

- in connection with the Borrower or not directly linked to the property
- in connection with the investment property
- in connection with the development project

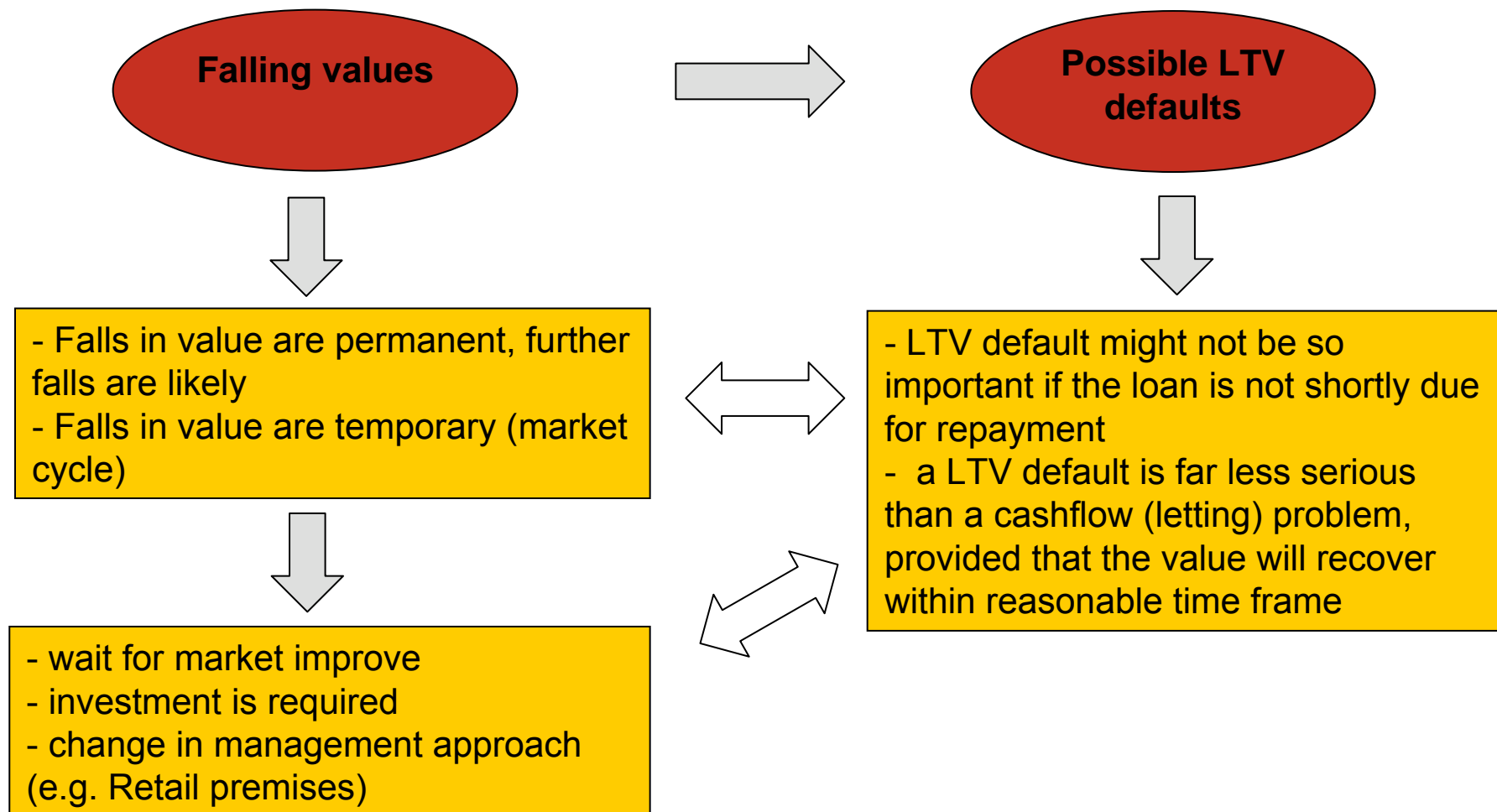
The solution of the problem is promoted by the borrower and analyzed by the bank, through its Real Estate Consultants, for those aspects that directly concern the property.

As a real estate specialist bank with in-house valuation and appraisal professionals, Eurohypo can be proactive in discussion with borrowers concerning solutions for troubled assets.

Problems that might occur to a property

Risk \ Type of property	Investment property		Development project	
	Let	Vacant	Pre-let / Pre-sold	Speculative
Building permits / certificates	X	X	X	X
Risk in connection with construction	X	X	X	X
Sales / income	X	X <i>Rent</i>	X	X <i>Sales</i>
Market	X	X	X	X


Value deterioration



Problems that might occur to an Investment Property

Issue	Analysis of the issue
<p style="text-align: center;">VACANCY</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> <p>↙</p> <p>Permanent</p> </div> <div style="text-align: center;"> <p>↘</p> <p>Increasing</p> </div> </div>	<p>To be verified:</p> <ul style="list-style-type: none"> - layout, - systems, - location suitable for the type of use, - type of use suitable for the demand <p>To be verified:</p> <ul style="list-style-type: none"> - obsolescence, - efficiency of systems, - maintenance of the building - new competition - evolution of demand requests

Problems that might occur to an Investment Property

Issue	Analysis of the issue
<p>DAMAGES OCCURRED TO THE PREMISE</p>	<p>To be verified:</p> <ul style="list-style-type: none"> - Type and level of damage: frame. Finishing, systems, etc. - Likely further damages - Repair works <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> <p>Keep business going is possible</p> </div> <div style="text-align: center;"> <p>Keep business going is NOT possible</p> </div> </div> 
<p>INSURANCE POLICY</p>	<p>To be verified:</p> <ul style="list-style-type: none"> - all security properties are insured - is the insurance policy cover adequate

Problems that might occur to an Investment Property

Issue	Analysis of the issue
<p>LEGAL AND ADMINISTRATIVE ISSUE</p>	<p>To be verified:</p> <ul style="list-style-type: none"> - Up to date of systems to comply with current law - Timing to obtain new certificates <div style="display: flex; justify-content: space-around; margin-top: 20px;"> <div style="text-align: center;"> <p>Keep business going is possible</p> </div> <div style="text-align: center;"> <p>Keep business going is NOT possible</p> </div> </div>

Problems that might occur to an Investment Property

Issue	Analysis of the issue
<p>CHANGES OF THE ENVIRONMENT AND SURROUNDINGS</p>	<p>To be verified:</p> <ul style="list-style-type: none"> - market analysis (decrease of rent, increase of yields) - fairness of the rent in relation with the location and the market - fairness of the property in relation with market demand (new products, competition)

Problems that might occur to a Development Project

Issue	Analysis of the issue
<p>INCREASE OF CONSTRUCTION COSTS</p>	<p>To be verified:</p> <ul style="list-style-type: none"> - reclamation not previously scheduled - design - construction - municipality fees
<p>DEVELOPER SKILLS UNSUFFICIENT TO MANAGE THE PROJECT</p>	<p>To be verified:</p> <ul style="list-style-type: none"> - lack of key people - troubled sharing of information
<p>OBTAINING OF LICENCES / CERTIFICATES</p>	<p>To be verified:</p> <ul style="list-style-type: none"> - Amendments on the projects - Claims from third parties - Masterplan amendments

Problems that might occur to a Development Project

Issue	Analysis of the issue
<p>EXCEEDING THE MILESTONES PLAN</p>	<p>To be verified:</p> <ul style="list-style-type: none"> - Construction: delays of GC, bad weather conditions - Sales: pricing to optimistic, weak market
<p>INCREASE OF COMPETITION</p>	<p>To be verified:</p> <ul style="list-style-type: none"> - to develop a more interesting product - decrease of sale price

Problems that might occur to a Development Project

Issue	Analysis of the issue
<p>INCOME OVERESTIMATED</p>	<p>To be verified:</p> <ul style="list-style-type: none"> - letting prospects - sale price estimation too optimistic (for residential unit) - changes in the market environment - wrong mix product/price/final user
<p>EXIT VALUE (SALE PRICE) OVERESTIMATED</p>	<p>To be verified:</p> <ul style="list-style-type: none"> - value on completion - are assumption realistic - be careful concerning rent + yield projections

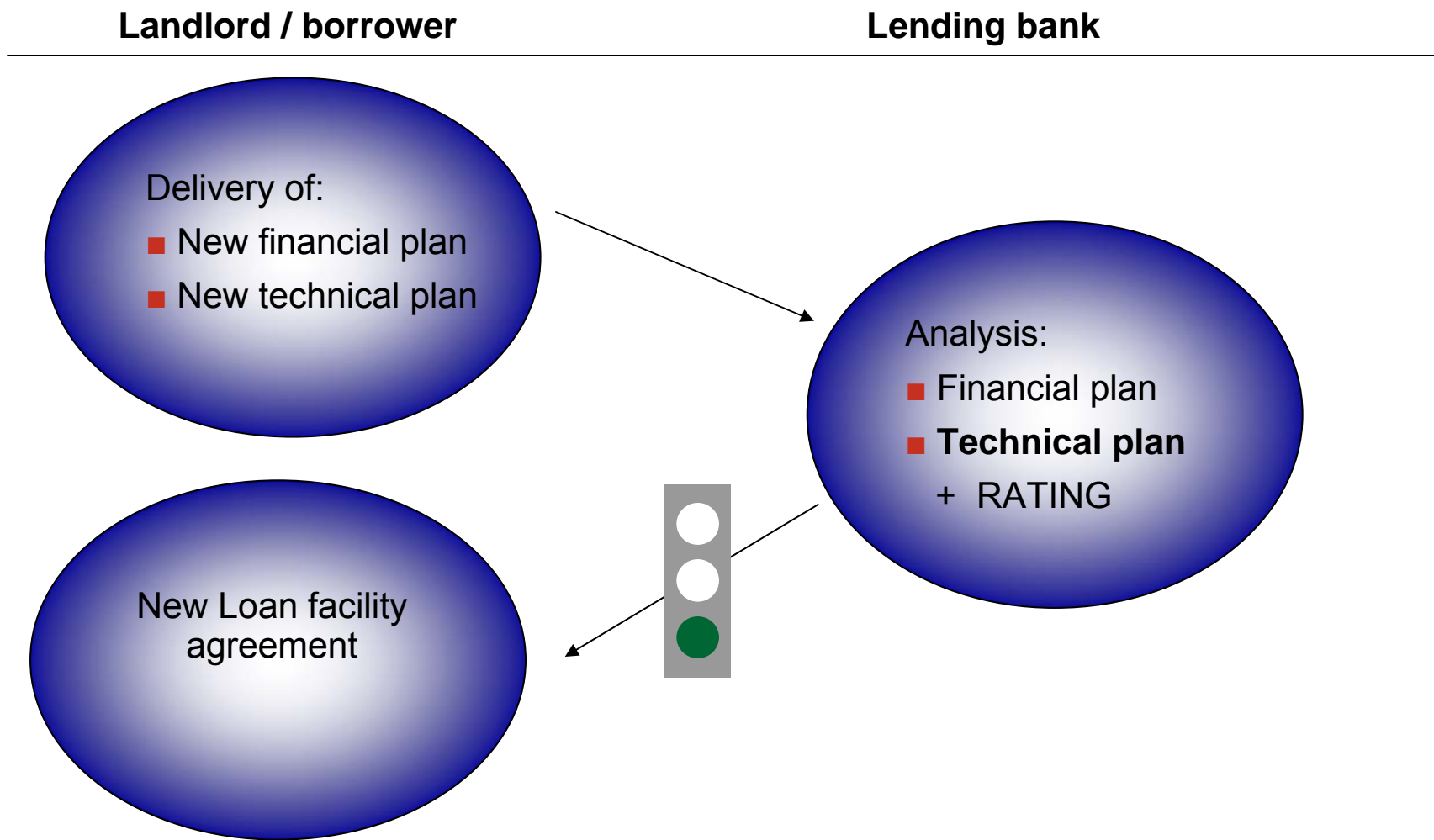
Property rating

- Assessment produced by the valuer within the bank in connection with the level of risk of the specific development project or investment property.
- Features to be analysed:
 - macro-economics aspects, local and national market
 - features of the property and level of maintenance
 - location and competition
 - cash flow analysis, letting status, duration of likely lease contracts
- Each assessment ranges from 1 to 10. The weighted assessment of each features of the “project” has a direct impact, together with the financial/borrower rating, on the feasibility of the deal and its pricing and further conditions.

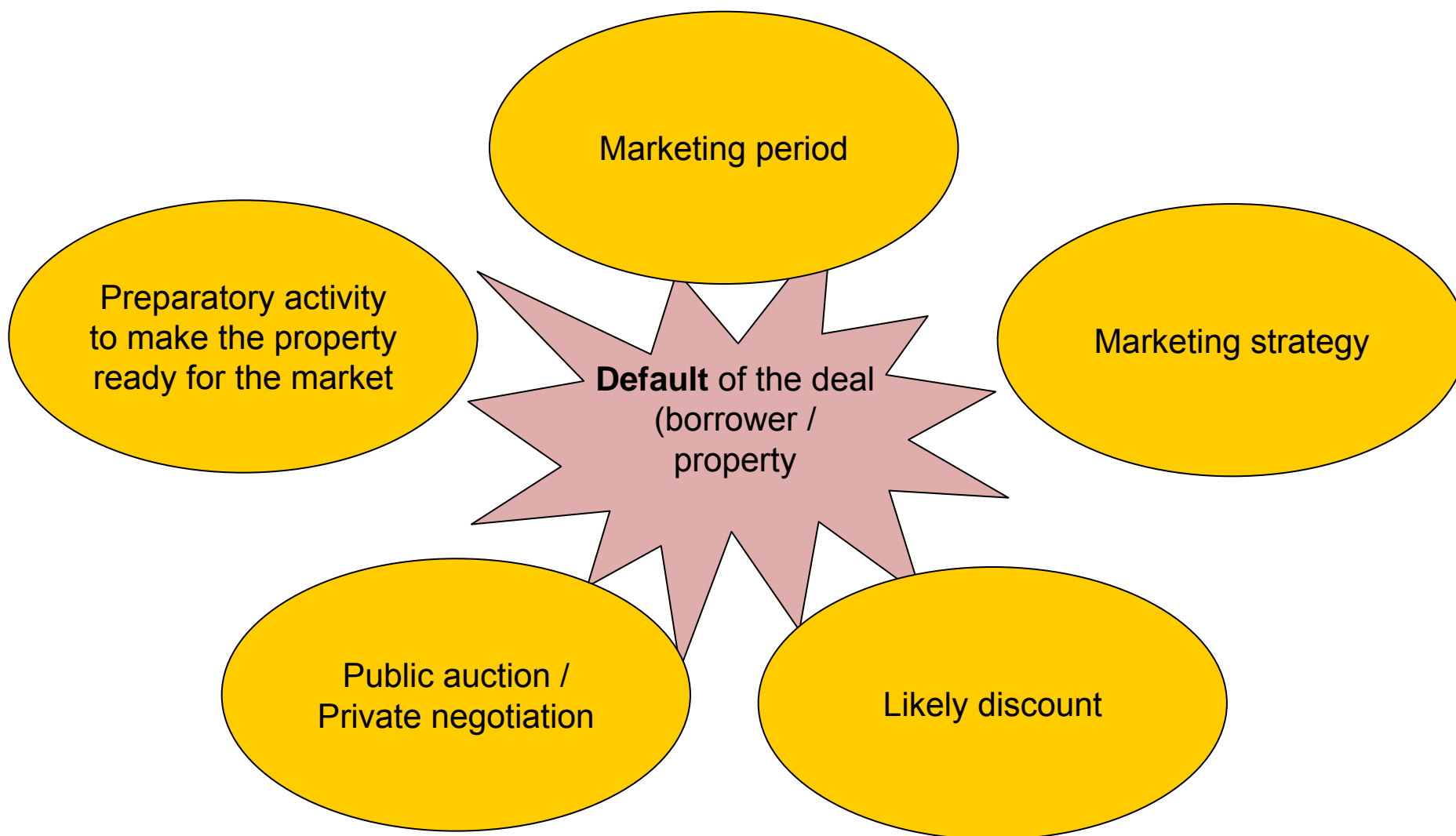
+ +		+			-			- -	
1	2	3	4	5	6	7	8	9	10

- The Rating does not have a direct impact on the Market Value, however many features considered in the MV calculation are the same considered in the rating assessment.

Restructuring of the loan facility agreement or other countermeasures



Marketability of the property in case of default





Thank you!

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