# DTZ Insight
# Developer's bond market in Poland

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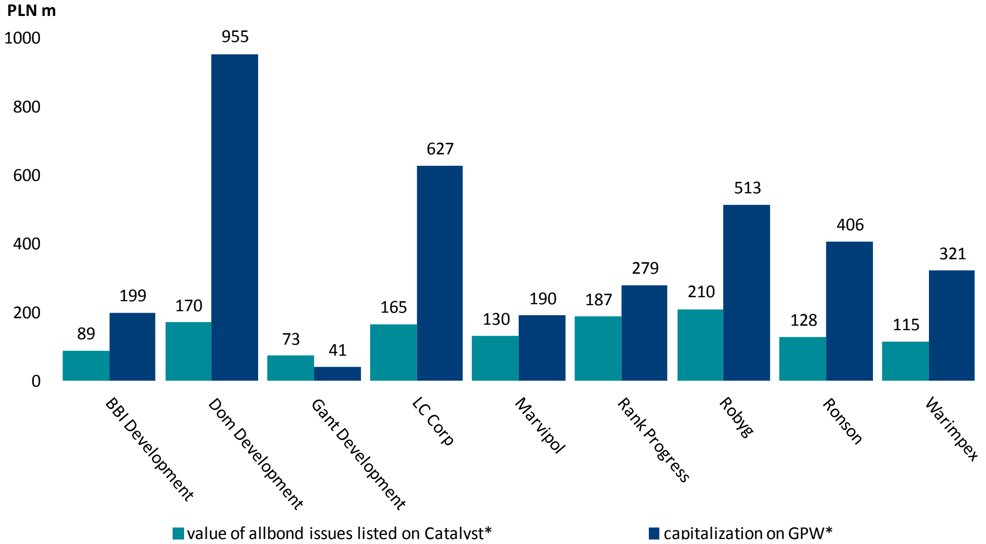
- Securing finance for real estate investments becomes one of the main barriers in the development of the industry.
- Since 2008 banks have become increasingly restrictive in their lending policy towards commercial real estate due to the risks included in property development. During the financial crisis banks virtually stopped lending to new developments in Poland. The main source of external financing for investments was limited.
- Corporate bonds have arisen as an alternative way of financing investments.
- The interest of real estate development companies in bond financing has been growing steadily since 2008.
- Financing through bonds is a more flexible and effective method from the issuer's perspective than bank loans.
- Issuing bonds allows you to raise funds directly from the market and from numerous investors.

Figure 1

**Value of bond issues compared to capitalisation as of September 2013 for the selected developers listed on Warsaw Stock Exchange**




Source: DTZ based on Catalyst, GPW data,
* - as of 30.09.2013

Among the pioneers that started to get financing through the capital markets were developers like Gant Development, Marvipol and Rank Progress. The pricing is based on a floating base rate (usually WIBOR 3M or 6M) plus a fixed margin. The initial conditions of bond issues in 2009 included WIBOR 3M or 6M plus 4% margin. The profitability of those securities fell due to a decreasing WIBOR and the growing risk linked to an increasing number of issues. Nowadays issuers offer lower interest rates and the increase in the proportion of securities with a longer maturity date is noticeable. However bonds still offer a relatively attractive rate of return of 6% to even 13% per annum. It is a very competitive alternative compared to bank deposits and Treasury securities.

In September 2009 Catalyst was established as the first organised debt instrument market in Poland. This increased security and organised formal conditions of bond trade. It was an important step that helped to increase the credibility of bond issuers.

The growing supply of bonds does not translate into an improvement of margins. In previous years there was a noticeably increased pressure on collateral with a mortgage on the land being the most popular. The value of the mortgage was two to three times higher than the bond issue. The double-digit coupon is not enough to encourage potential buyers, therefore strong balance sheets, cash reserves and good performance histories are required. In 2013 developer's securities have been sold with margins from 3.5 to 10 percent over WIBOR 6M and 3M. The size of issues placed by developers in the bond market is very diverse. It ranges from a few million to several hundred million PLN. Developers and construction companies are ranked as the second group of issuers after banks and they account for around 15% of the total bond volume recorded in Catalyst. One issue placed by Green House Development, a residential developer recorded one of the highest interest rates on the market – 17% in 2010.

Table 1

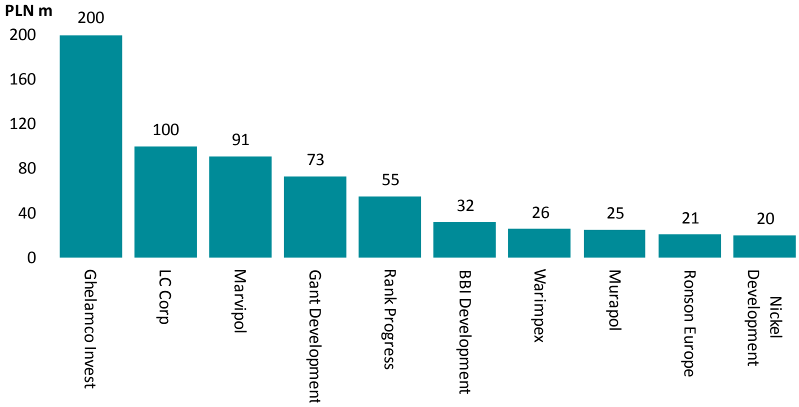
**Change of typical issue conditions from 2009 to 2013**

| | 2009 | 2013 |
|---|---|---|
| **Base rate** | WIBOR 6M (4.33%) | WIBOR 6M (2.72%) |
| **Interest rate** | + 4% - 8% | + 3.5%-10% |
| **Typical maturity** | 12 - 18 months | 18 - 60 months |
| **Typical security** | 1x issue value | 2-3x issue value |

Source: DTZ based on Catalyst data

Figure 2

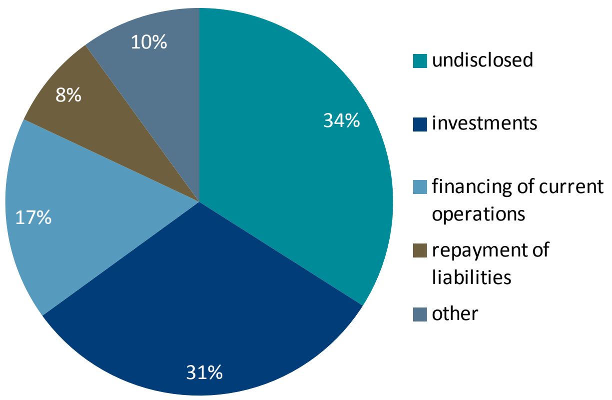
**Value of bonds which reach maturity by end of 2014**




Source: DTZ based on Catalyst data on 30.09.2013

Figure 3

**Main purposes of bond issues on Catalyst (2009-2012)**




**Source:** Grant Thornton analysis

From year to year the maturity of placed securities rises as well – in 2009 and 2010 the majority of stock was characterised by less than 18 months maturity. In 2013 the majority of issues from the real estate sector offered bonds with a maturity from 2 to 5 years.

The value of the developers' bond market continues to grow – at the end of September 2012 the value of issued securities totalled approximately PLN 1.7 billion, while at the end of September 2013 it increased to almost PLN 2.6 billion. Given the growing number of new issues the potential buyer market is shrinking. This fact results in the relatively risky procedure of placing new issues to roll over those that should be already redeemed. The developer J.W. Construction has decided to do such a thing this year. Their January issue, worth PLN 105.7 million, was used to purchase securities maturing in June 2013, moving the maturity date to 2016. Similar issue was made by Polnord and enabled them to postpone the maturity date of their bonds to 2016. Bond issues aiming at extending the time for repayment of earlier commitments were carried out also by Warimpex, Marvipol and GTC.

In accordance with the Bonds Act, the terms of a bonds issue can determine a specific purpose for the bonds but this is not a requirement. Lack of a clear purpose gives issuers the ability to allocate funds in any manner. In fact, the majority of analysed developer's issues either did not specify the purpose or defined it in a very general manner such as "financing of current operations of company". A growing number of issuers aim to raise funds in order to repay current liabilities.

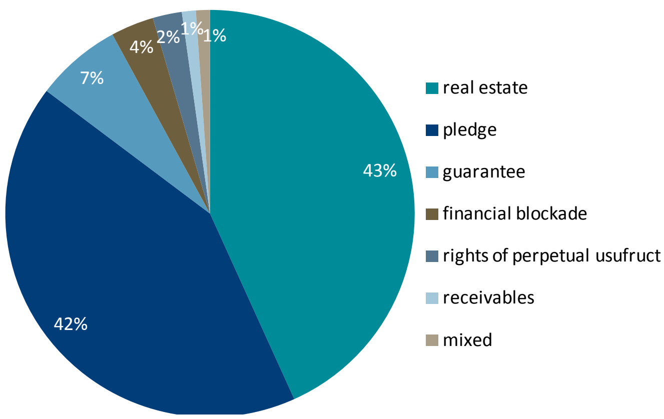
There are some companies that have spoilt their reputation on the bond market. Due to a lack of appropriate security for new issues they now search for alternative ways of obtaining financing, for example issuing shares.

**Advantages of corporate bonds**

- issuing bonds enables raising funds directly from the market and from numerous investors
- property developers may issue bonds without giving details on what they will spend the funds; as opposed to a bank loan, which is granted for a specific purpose
- the proceeds from the sale of the bonds may be used as the developer's contribution to a new investment while applying for bank loan
- bonds may be issued for a period selected by the issuer while credit is granted only for the duration of the investment
- the Issuer alone determines the size and type of security, it is possible to sell unsecured financial assets
- the Issuer has more flexibility – they may speed up or delay the date of redemption or convert bond into shares

Figure 4

**Structure of collateral of company bonds listed on Catalyst**




**Source:** Grant Thornton analysis

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