Box 6

PROPERTY COMPANIES IN THE EURO AREA

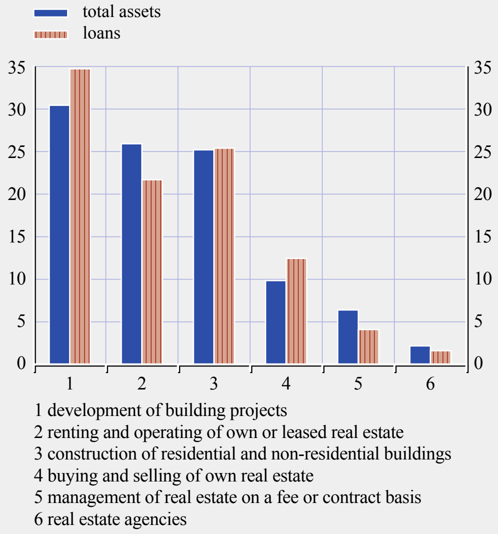
The business activities of property companies span a variety of areas related to real estate, and the definition of a property company is therefore a rather broad concept. This box briefly describes the structure of the property company sector in the euro area.

Property companies engaged in developing,[1] renting and operating, and/or constructing buildings account for more than 80% of the total assets of 31,000 property companies in the euro area (see Chart). Companies buying and selling properties account for an additional 10%, and management companies and real estate agencies for another 8%.

The relative size of the companies when measured by total loans received broadly follows that of the total asset distribution (see the chart). The largest credit exposures for banks are to property developers and property construction companies.[2] It is, however, difficult to obtain data for these segments

The relative size of different types of property companies in the euro area

(percentage of total; data for the last available year)



Sources: Bureau van Dijk (Amadeus) and ECB calculations.
Notes: The data cover almost 31,000 companies in the euro area. The classifications are in line with the Statistical Classification of Economic Activities in the European Community (NACE).

1 This includes the development of building projects for residential and non-residential buildings by bringing together financial, technical and physical means to realise the building projects for later sale.
2 It should, however, be noted that in some cases the size of the different property sectors vary significantly across euro area countries.

of banks' commercial property lending as they are often grouped together under the broader category "construction" (which also includes lending to railways and motorway builders, for example) (see Section 4).

From a financial stability perspective, it is important to know what kinds of activity the property companies that euro area banks lend to are engaged in. This helps to understand and analyse the credit risks with which banks are confronted. While bank lending to commercial property companies is, to a large extent, secured, significant drops in the value of collateral, as well as negative developments during the project or construction phases, can pose material risks to banks.