REPORT

ESPAÑA GRI 2024

Key takeaways from GRI Club's annual gathering of leading real estate players active in Spain

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GRI Club

WELCOME TO GRI EUROPE

Spain has weathered recent macroeconomic headwinds better than many of its European neighbours. This, alongside impressive fundamentals, is driving the increasing confidence that international investors are developing in the Spanish market.

Madrid seems to have successfully established itself as a strong contender in European real estate investment, however GRI Club's annual Spanish flagship conference this year saw interesting conversations regarding investing further afield in the country's secondary locations.

While liquidity in the market leaves a lot to be desired, the optimism and range of opportunities revealed at the conference provide an interesting backdrop for Spain as it expects to strengthen its position as a European investment destination in the coming years.

Enjoy reading!

GUSTAVO FAVARON
CEO & Managing Partner, GRI Club

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INTRODUCTION

For more than 25 years, GRI Club's exclusive networking events have been providing unique opportunities for the industry's decision makers to exchange valuable insights and experiences, igniting deal flow and potentialising the real estate market.

GRI Club reports present the key takeaways from these events, including the most valuable insights, the most ardent discussions, and the most intriguing strategies.

*This report was compiled following a number of private roundtable discussion sessions during **España GRI 2024** in Madrid. GRI Club's annual Spanish flagship event gathered both Spanish and international players active in Spain, sharing unique and varied perspectives on the opportunities and challenges in the current market.*

Photos: GRI Club

CROSS-BORDER CAPITAL

Discussions began with participants revealing a consensus regarding capital strategies in Spain focusing on value-add funds across varying property types, while capital raising for core funds remains challenging across Europe.

» International Investor Sentiment

Optimistic...

Historically, Spain has been considered a periphery market within the European real estate context, with many investors demonstrating apprehension around higher risks, particularly following the aftermath of the Global Financial Crisis (GFC) and European debt crisis.

According to meeting discussions, that view is rapidly changing, and the country is moving ever closer towards being a core market for many international investors.

Much of this is attributed to economic aspects. Generally, GDP performance and growth of the economy drive returns in real estate investment, and as Spain boasts one of Europe's highest levels of GDP growth in 2023, this is supporting Spain's increasing attractiveness to investors.

Forecasts predict this trend to continue in both the short and medium-term, and potentially even beyond that.

...but realistic.

Doubts persist stemming from the size of the overall economy, capital flows, limited amount of domestic capital, and ultimately liquidity.

Spain's real estate industry continues to rely on the inflow of capital from the US, London, Paris, and Germany. When turbulence hits, this capital dries up as investors retreat to the safety of their local markets, to the detriment of liquidity in Spanish real estate.

Furthermore, some of Europe's major markets, including Germany, France, and the UK, have experienced price corrections, providing opportunities for considerably higher yields than normal with less competition - which has not been the case in Spain - drawing investors back to these markets.

In summary, although these more mature European markets may remain more "comfortable" options for international capital, the discussion emphasised that there is far less hesitation from investors to deploy capital in Spain nowadays. The market share allocated to Spain in international portfolios is certainly growing.

» Madrid vs. Secondary Locations

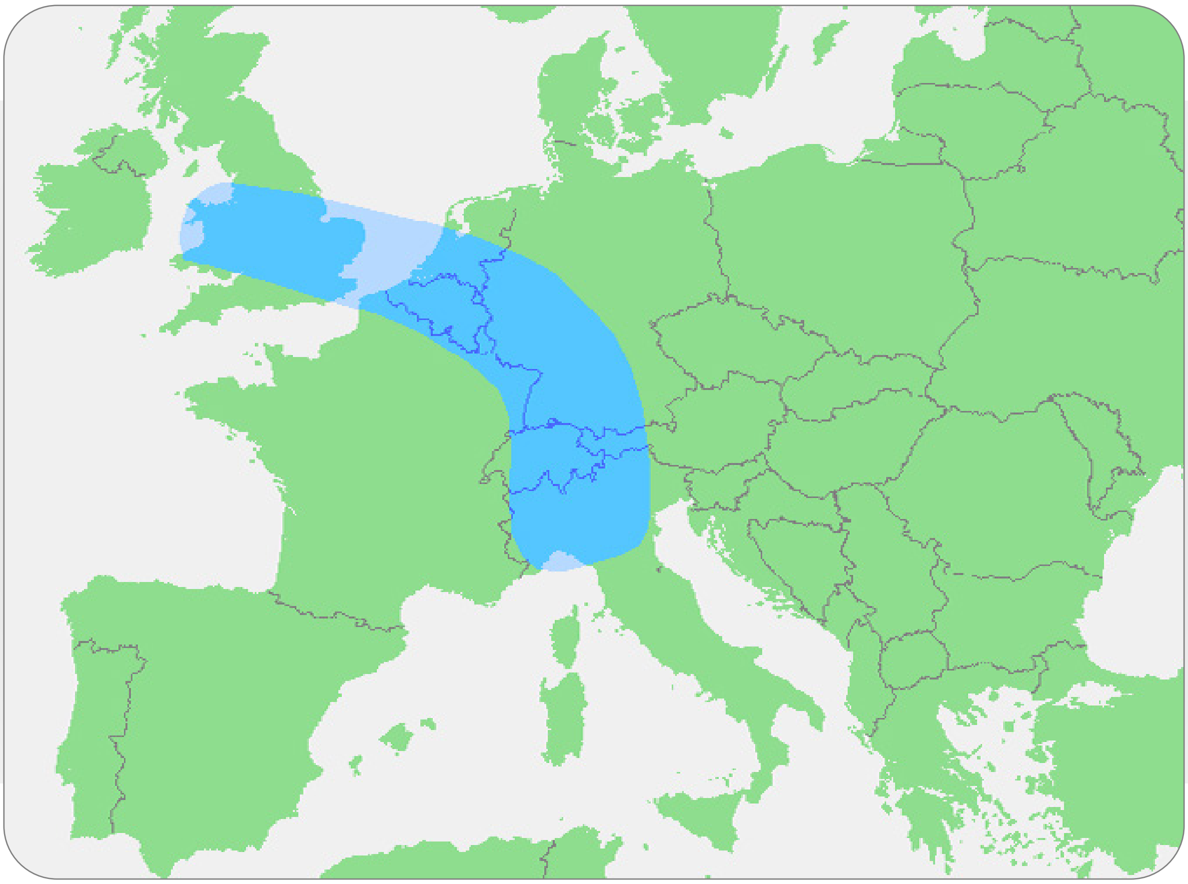
A decade ago, cross-border investment assessed opportunities by the country, while nowadays individual cities hold more prominence in investor decisions. Naturally, investors gravitate to capital cities where the most advantageous fundamentals are.

In the case of Spain, the capital Madrid is the one of the fastest growing cities in Europe and boasts a significant amount of available land in its vicinity with few constraints, making it extremely attractive to investors.

Meanwhile, Barcelona, although attractive, suffers from major supply constraints due to its geography and sheer lack of land availability.

Following GDP

Throughout Europe, GDP is not uniformly distributed. One discussion participant referenced the “blue banana” - the shape that stands out on a European map when highlighting the area with highest levels of GDP. It starts in Southern England, going down through Western Germany, before bending into Switzerland and Northern Italy.



Credit: Che829

This obvious concentration of GDP distribution across the continent is similar in the case of Spain, where GDP is very heavily concentrated in Madrid and Barcelona. For international investors, this provides a clear sign of where to pursue areas of economic growth, and thus real estate investment opportunities.

It was reminded, however, that when considering quasi-real estate infrastructure projects, such as data centres, this does not always apply. These asset classes do not necessarily benefit from following GDP and the density of population.

Local Expertise

It was suggested that the readiness and willingness to invest in a country also depends upon comfort level, local presence, and experience in the country. For this reason, secondary locations are rarely pursued when an international investor first enters a country. Once a local team has been established and expertise in the local market has been gained, this may change.

Expertise is gained by being on the ground, walking the streets, and getting to know the places. There is efficiency and feasibility associated with focusing on one city or even a neighbourhood within a city, rather than an entire country.

Ultimately, it depends on the size of the organisation and the resources available, but it was agreed that evaluating regional opportunities also depends on the sector and the cycle stage, as well as an organisation's level of sophistication when it comes to its understanding of the local market. The less experience, the more probable it is that an investor will focus on Madrid.


Image: GRI Club / Midjourney

» Logistics

The appeal of logistics projects in Spain is driven by a few simple levers, participants explained, with demand being strictly linked to economic growth. Whether it's from manufacturers, supply chain logistics, or distribution logistics, it supports GDP. It is a very simple market, which will continue to benefit from Spain's forecast for economic growth.

A deterrent of logistics investments in Spain was identified as the current excess of supply which is maintaining vacancy rates higher than in other parts of Europe. Logistics land supply in many of these other countries is extremely limited due to a number of factors including the sheer lack of land, lack of grid capacity, and growing regulatory restrictions for development on greenfield sites.

Vacancy rates in Germany, the Netherlands, and the UK are all sub 4%, and while Spanish logistics is approaching this number, it is still too high to trigger the desired rental growth which has been seen elsewhere.

While some participants showed optimism that this vacancy rate will drop in Spain's logistics sector, others revealed that it is a contributing factor averting their investment into the sector, alongside the opportunities among distressed logistics assets found elsewhere in Europe.

» Residential

It was noted that institutional investors throughout Europe seem to be migrating to residential from offices and retail, including in Spain. As is also the case across Europe, undersupply in housing is providing strong supply-demand fundamentals. Other appeals include the high level of home-ownership, the changing demographics, and higher than expected rental growth of late.

Although returns are not necessarily as high as those achievable in other European regions, the attractiveness lies in the lack of maturity of the Spanish residential sector. Customer demands in residential vary starkly between regions. As people live, work, and play differently, their needs for housing differs. Participants revealed being in a process of learning and understanding the needs of Spanish residents.

Affordable housing in Spain was highlighted as an interesting opportunity going forward, particularly in Madrid where local municipalities have demonstrated innovation in addressing housing needs by making land available for developers.

This was contrasted with Barcelona, where a very different approach has involved rental caps, suggested to be further limiting the supply of housing.

» Retail

Many factors driving retail's poor performance in the US are not applicable to Europe, and particularly Spain. E-commerce penetration in Spain is far lower than the rest of Europe, and dramatically lower than the US.

The success of any retail market depends heavily on the cultural aspect. Certain countries have a cultural affinity to certain shopping experiences. Whether that is an everlasting condition for a country is the vital question when analysing retail opportunities.

One participant suggested that over time all cultures and countries will eventually migrate to the efficiency of online commerce and the distribution of goods, while another exemplified London's Westfield Stratford, which continues to enjoy success despite the UK's cultural aversion to large format shopping centres. The only certainty is that nothing is certain.

» Alternative Asset Classes

Senior housing was briefly mentioned in discussions as an interesting opportunity in Spain for similar reasons to elsewhere: the impending demographic shift that has, in fact, already begun.

On the topic of alternative asset classes, the discussion also touched on industrial outdoor storage, data centres, life sciences, and varying workspaces. Spain was not, however, suggested to be the regional choice for these exploratory investments.


Image: GRI Club / Midjourney

RESI FOR SALE

» Demand

The Resi for Sale discussion session opened with the question: Who is our customer? There was more than one answer, with attention brought upon three particular profiles. The first; the international affluent individual and often digital nomad, the second; Spanish native looking for an affordable home, and the third; mid-high level resident with increasingly more demands for quality and amenities.

International affluent individual

Why does anybody live in Spain? It's obviously the sun and the security, one participant suggested. Simply comparing the quality of life to that of the US, Spain comes out on top, the participant continued to explain, listing the beaches, the good wine, and the skiing, to name a few.

The COVID-19 pandemic was a game changer for residential demand in Spain, which saw "something click" in many people's minds, and a realisation that "we are here today, and maybe tomorrow we are not". People have started to pursue a higher quality of life, and the Iberian region has become "the Florida of Europe", where people from across the globe, including the US, are moving in with their families.

These affluent individuals are not price sensitive, and are creating a new ecosystem of demand with different expectations to those the Spanish residential market is accustomed to. It includes both students and corporates, though the exciting opportunities, one participant revealed, is among those that prioritise lifestyle.

In Barcelona, there is a lack of supply for this high-end customer and little competition offering such high-end specs. With regulatory constraints further hindering the supply, rents are being pushed "through the roof".

One challenge identified with this customer, however, was the expectations of quality. Size constraints can be accepted, however the customer is less willing to compromise on condition and quality, classing a lot of stock as unsuitable for this product.


Image: GRI Club / Midjourney

Affordable Housing

There is a massive undersupply of homes, resulting in an intense pressure on rent. The demand for affordable housing is infinite, and that will be the case for decades to come, discussion participants shared. However, providing for this market is a matter of “getting the numbers right”.

There is political will to produce more homes, however actually converting that into the production of homes is more complex.

Mid-High Level Market

In the mid-high level of Spain’s residential market, customers are increasingly sophisticated and demanding more quality in many aspects of the buildings, including amenities such as co-working spaces and interior spas/gyms.

Participants reported experiencing success with these products, where they have been able to increase price points for such extras.

» ESG

Discussions highlighted the increasing demands for ESG compliance, and more specifically SFDR Article 8 and Article 9 compliance, from both lenders and occupiers.

Participants reported Spanish banks, including Banco Santander, offering loan discounts with lending for energy efficient assets. Meanwhile, following the extreme heatwave which struck Spain last year, occupiers are increasingly requesting energy efficiency in buildings to avoid sky-rocketing energy bills.

Participants also revealed an increased social awareness throughout the market regarding ESG and sustainability. Furthermore, general understanding of energy performance certificates is improving, and although the system may not be perfect, society is recognising that these certificates can help to achieve more sustainable energy use.

This awareness and the demands for ESG compliance in buildings were reported to be coming not only from international players - particularly Europeans who have a good understanding of the concept - but also national players.

Currently, the main challenge is to justify increased costs related to ESG compliance, as despite the demands for ESG, affordability remains an issue. It must be justified through life cycle and not just on the acquisition, participants suggested.

» Lending

Spain has fared better against inflation than many of its neighbouring countries, however this has not helped ward off elevated interest rates.

One participant described obtaining financing in Spain at present as “inefficient”, and another explained the mismatch between how senior lenders and alternative lenders are approaching the market.

LTV available with local banks is around 20-30%, and with such high cost of debt, even with cash-flow heavy assets it is not viable - not to mention their reluctance to lend. Meanwhile, alternative lenders take a market view on prices and want a 10-15% return. “The maths doesn’t make sense,” one participant declared.

Development Lending

Surprisingly, banks were reported to be lending up to 65% LTC for development, although this is heavily concentrated for construction and not land.

The discussion revealed the importance that banks are putting on track-record and trust in the developer, aware that the asset developed will be collateral for a failed project. Due to this, obtaining development financing involves lengthy processes regarding many non-financial aspects to approve lending.

Therefore, there is an adverse selection of the best projects. Considering the massive undersupply of homes in the market and totalling the pipeline of residential projects of the large developers in the country, one participant suggested that the projects for which banks are willing to lend cover a mere 20% of the market demand. Furthermore, this extensive pipeline of projects is contributing to the selectivity of banks.

The discussion addressed the interest banks are showing in green projects, due to specifically appointed funds available for sustainable developments. Developing such a project has proved to provide substantial leverage when negotiating for funding, with one participant reporting discounts of between 10-20 basis points for carbon neutral projects, or those complying with SFDR Article 8 or Article 9.

Land Financing

Difficulties with land acquisition was highlighted as a major issue contributing to the lack of residential development and thus supply continually failing to meet demand.

Two factors were suggested, the first being the resistance from banks for financing land. Despite availability of land, getting deferred payment on land was reported as extremely challenging.

Secondly, the pricing of land was suggested to be a significant obstacle. If costs were lower, purchasing with equity would be a more feasible possibility.

» Permits & Planning

Historically, investors have demonstrated reservations about developing in Spain due to licensing and the lengthy processes involved with permits. During discussions, participants revealed mixed experiences regarding these processes, stressing that it is also regional dependent.

Regarding building permits and regulation, the discussion revealed general satisfaction with the system. "It's bureaucratic, but if you know how to manage a bureaucracy, it's a pretty good system," one participant shared.

Regarding zoning and urban planning, however, there is a political element, including the polarisation of political debates which can shift discussions. Barcelona has been particularly contaminated by politics in recent years, resulting in a backlog of permits, although the current mayor has vocalised promises to rectify this.

Contrarily, participants relayed having more simple experiences with permitting in Madrid, where it was suggested the system is a lot more automated.

The country's history of "abusive" development, particularly in the 60s and 70s, when a number of buildings were constructed along the coasts of Spain with worryingly proximity to the sea, has also contributed to today's excess of rules, laws, and norms delaying permit processes.

One participant shared an example of the Costa del Sol's town of Estepona which has implemented the declaración responsable - a form of self declaration that the building is constructed according to the project, majorly streamlining administrative bureaucracy. However, the idea of implementing this throughout the country was met with mixed responses.

» Why Stagnation?

It was suggested that the stagnation in residential transactions in Spain could also be attributed to lack of price corrections in the market. Germany and other European countries have seen price corrections over the past 12 months, whereas Spain has experienced far less, primarily because of the excess demand.

It is fair to argue that the slowdown in transactions is a matter of price, however the discussion inferred that the problem is in fact on the side of supply far more than demand.

Closing the discussion, one participant returned to the topic of permits - a common culprit for stagnation - and reinforced that Spain's reputation for complex and slow contractual permits is not accurate. "It's straightforward. There's no way you can mess it up, unless you try to do things inappropriately."

The participant continued to argue that the stagnation in residential transactions is attributed to a lack of capital in pushing supply, and more specifically capital for acquiring land.

» Infrastructure

The increase in digital nomads and foreigners migrating to Spain is, on one side, very positive as it creates stable and continuous demand. On the other hand, it is concerningly revealing failures in the country's infrastructure.

One participant exemplified the Costa del Sol which stretches 100 kilometres and hosts very weak infrastructure. Highways include the toll-free A7, and the AP7 - one of the most expensive highways in the world. The promise of a train in the region is yet to materialise. Barcelona was also noted for its infrastructure problems relating to its highways, exacerbated by eco-zoning laws for cars in the city centre.

Participants continued to clarify, however, that Spain does not currently stand out for its failures in infrastructure. Many would even argue that it fares well in this regard when compared to some other European countries. However, if politicians do not begin plans to improve the existing infrastructure, and population growth continues on its accelerated upward trend, the future will be problematic.

The real estate market plays an important role in advocating for much-needed infrastructure, and encouraging a private-public alliance in working towards solutions. Furthermore, participants emphasised that improved collaboration between municipalities is vital.

Image: GRI Club / Midjourney

BUILD-TO-RENT (BTR)

» Market Momentum

Following a BTR boom in Spain post COVID-19, the market continues to enjoy very good demand. Occupancy rates are higher than ever, with one discussion participant revealing rates of 99%. Rents are also increasing significantly, with another participant revealing a 15% increase on rents last year.

However, despite these strong fundamentals, momentum in the BTR market is stalling due to regulations, high interest rates, and soaring construction and land costs. Considering such factors, yields are struggling.

As demand continues to grow with an influx of immigration into Spanish cities, long term investors are keeping the strength of fundamentals firm in their mind while they anxiously anticipate a fall in interest rates.

As investment volumes fail to take off, one participant suggested the need to educate the investor community around the strength of the fundamentals in Spain relative to Europe, and the need to underwrite on a fundamentals basis.

» Secondary Cities

Land costs are skyrocketing in Spain's largest cities, Madrid, Barcelona, and Valencia, prompting the possibility of construction in secondary cities.

In response, one participant explained the difficulty in presenting these secondary cities to international investors due to lack of liquidity in these cities - one of the most crucial factors for many of these investors. Even if liquidity improves in coming years, it is unlikely to be enough to prompt heavy investment.

The suggestion of lower construction costs in secondary cities was also contested, with claims that they can, in fact, be higher in more remote cities.

Spain is an extremely concentrated country; 80% of its territory has a similar population density to Finland. This makes the largest cities far superior in terms of demand, and with current elevated costs of land, construction and debt, this is a crucial factor. Rental growth in Barcelona and Madrid have the potential to beat yield on cost - an unlikely scenario in Spain's secondary cities.

» BTR vs BTS

Discussions addressed the idea of a contingency plan for Build-to-Rent as offering the units for sale.

It was highlighted that design elements of BTR, such as size and central heating systems, aren't ideal for Built-to-Sell (BTS) purposes, potentially leading to suboptimal buildings and reduced profitability upon sale.

However, this is precisely why it serves as a viable "plan B". Despite not being perfectly suited to BTS, given the significant demand - especially in tier one cities experiencing high population influx and limited new inventory - selling will be relatively easy.

This prompted concerns among meeting participants, however, who argued the need for clear differentiation between BTS and BTR. For the market to grow, there needs to be distinction, otherwise the sectors compete for the same (highly coveted) land, and ultimately compete for growth.

With such high interest rates at present, BTR cannot compete with BTS in which a large part is purchased with equity by high-net-worth individuals, often from abroad.

» Affordable Housing

As salary growth remains far behind rental growth, the problem of affordability in the Spanish residential market is forecast to worsen. From a social angle, discussion participants suggested it was important to consider affordable housing investments, however it is not scalable for all investors.

The problem of land was emphasised as an aggravating factor in this matter, and the need for more private-public collaboration to unlock certain land was suggested, including the possibility of zero land costs.

It was deemed vital that the public power assists in making the product profitable to attract long-term investors to build. Suggestions included reducing financing costs and demand risk.


Image: GRI Club / Midjourney

» Flex-Living

The discussion saw a degree of disagreement regarding the comparability between flex-living and Build-To-Rent.

It was suggested that in pursuit of innovation within the BTR sector to increase yield on cost, the sector was shifting to flex-living. The use of cheaper tertiary land for flex-living and the possibility of VAT deductions offer attractive financial benefits.

One participant implied that by adding simple amenities, such as cleaning services, internet, or a gym, BTR ultimately becomes flex-living. The key difference is found in the length of stay, where flex-living rarely sees tenancy for longer than 2-3 years, as the smaller units result in the space being used for more of a transitional period, typically among tenants in the age range of 27-35, although at times up to 40.

The idea of an intermediate product was presented, serving the influx of affluent internationals into Spain. They are not price sensitive and prioritise location as well as ease. There is demand for a product that is not abusive in terms of lack of space and has a central location. For such products, rents can reach up to EUR 1,600 per month.

This was contested by more than one participant, however, who declared that flex-living and BTR are entirely different, arguing that it depends on strategy. Furthermore, flex-living disables the possibility of selling the units as a contingency plan.

Regulatory Risk

Participants warned of the risk of tempting regulations into the flex-market. As the demand for stable housing persists, people may find themselves unable to secure long-term accommodation, forcing them to flex-living arrangements and facing challenges as landlords consistently raise rents according to market trends.

This situation could lead to a shift in the housing landscape, drawing the attention of government regulators and more importantly media coverage, prompting intervention and the implementation of regulations that may not align with the interests of all stakeholders.

Image: GRI Club / Midjourney

HOSPITALITY

» Sourcing Supply

Since the COVID-19 pandemic, the Spanish hospitality investment landscape has become increasingly crowded as many investors recognise its resilience and growth potential, making it persistently more competitive.

The ultimate challenge in the market at present is sourcing value-add supply. Particularly in the resorts sector, the market is occupied by low-leverage sellers with high cash flow, and commonly family-owned assets. The motivation of this type of seller remains the same as it has for decades: price per room, and not yield.

Participants explained that although there is a certain level of institutionalisation occurring, it is simply not a yield market in terms of the ecosystem dynamics.

Regarding value-add deals, the market has therefore been quiet for the past 12-18 months. One participant reported that the deals which have occurred during this time have been mainly among mid-sized Spanish operators, although sourced in 2021-22 prior to the recent extraordinary performance of the hospitality sector.

The reality is now different, and sourcing supply is more difficult. This was reported to be the case in both resorts and urban hospitality.

The option of hotel development and creating product was addressed, however immediately recognised as extremely challenging, especially for luxury 4-5 star hotels.

Obstacles include finding plots in suitable locations, particularly in Barcelona where licensing is difficult, and Madrid where there is a sheer lack of opportunities. Conversion of offices or residential into hotels was considered non-ideal due to the higher levels of capital and risk involved.

» Market Growth

The question was asked if the spectacular growth that the Spanish hospitality real estate market is experiencing will continue.

Consensus from the discussion was that the trend in Spain's tourist numbers will continue, as well as the constraints on supply, supporting the fundamentals and the resultant "mega-trend" in the hospitality real estate sector.

Furthermore, although liquidity in the sector remains a problem, the entry of more private equity into the market should improve this, further encouraging sector growth.

The sustainability of the growth was questioned, however. The current double-digit growth in ADRs (average daily rates) will most likely drop to single-digit growth, supported by macro-trends, changes of generation, new feeder markets, and the recovery of long haul flights.

One participant recognised that the summer of 2023 was, in fact, worse than forecast in terms of tourism levels, due to the expense of air fares. Despite January and February of this year showing positive signs, the participant expects summer growth rates to be shyer than forecast.

While Spain's tourism boom began many decades ago, explained another participant, the market now hosts a far superior product. It was questioned if the sector's growth can be partially attributed to this offer of a higher quality product.

The significant increase in costs including labour, operations, land, and construction over recent years must eventually be transferred to the final product. In certain cities, where operators cannot reach a certain level of ADR, that market will eventually suffer. However, recognising that Spain remains a relatively cheap tourist destination within Europe, participants were optimistic that there is still room for growth in many destinations.

» Best Opportunities

"It's difficult to choose, everything is working really well," joked one participant.

While the luxury hospitality sector has been reported as the main driver of growth, some questioned if ADRs have reached their ceiling.

Meanwhile, a strong belief was displayed in the flexible living trend merged with short-term rentals which has proved to hold great opportunities and have a resilience against pricing shocks. This sub-sector is increasingly attracting institutional investors.

Luxury Brands

The entrance of luxury hotel brands into the Spanish market is a great advantage in terms of the creation of supply.

Participants encouraged attracting such competition from other countries in order to create supply and consequently attract buyers. Reference was made to the Middle East where luxury brands are promoting improvements in infrastructure and ultimately attracting more clients to the region. It was recognised that Southern Europe is behind in this regard.

The latent demand in the Spanish market - the second most visited country in the world - is a major driver for these brands, however challenges are those typical to the market, such as the type of ownership, the length of investment of these kinds of owners, and the financing. It was also questioned whether Spain really sits on the map of luxury travel.

In terms of whether local Spanish operators can withhold such strong competition, it was suggested that while they lack speed in terms of development and growth, their balance sheets are strong.

Secondary Locations

The appeal of secondary locations in Spain was discussed and one participant revealed opportunities found within the concept of "half-urban", being destinations which can serve as a refuge in the winter, with frequent trips to the city, and then be used as a longer full-on leisure destination during the summer.

The lack of value-add opportunities in Madrid and Barcelona are encouraging more investors to look to secondary cities, firstly Malaga, Sevilla, Valencia, and Bilbao, and more recently La Colonia, Granada, and Cali. The ultimate need for fundamentals was emphasised, as well as good communications and, more ideally, a nearby airport.

A comparison exercise was done between Spain's secondary and tertiary locations, and other less liquid European destinations, such as those on the Adriatic Coast. Would investors prefer a value-added opportunity in Granada or in Croatia? It was suggested that exit strategy needs to be carefully considered in this decision, due to the lack of liquidity in both markets.

» ESG

Discussions revealed that ESG compliance pressure in Spanish hospitality is being felt from various angles, including the financial side, customers, and tour operators, and it was agreed that this pressure would only increase. One participant even attributed the decrease in Nordic tourists in Spain to ESG, or rather a lack thereof.

However, another participant shared a contrasting experience, where the popular travel booking platform booking.com removed its sustainability ranking after research showed it was not a priority for B2C sales. Another participant agreed that it will take time for ESG to become a determining factor in the decision making process of guests, and reported receiving more internal pressure from employees.

The sustainability of Spain's overall tourist industry was also questioned. Jumping from receiving 60 million tourists in 2016, to a staggering 85 million tourists in 2023 is a considerable strain on the country's environment and community. The lack of consideration to this matter was highlighted as conflicting while more generic ESG pressures are so firmly in the spotlight.


Image: GRI Club / Midjourney

REFINANCING

As loans mature, there is a natural surge in refinancing activity, and as many more are due to mature between 2025 and 2026, expectation of an acceleration in activity is expected. The exact moment and the level of this activity remains unclear, with interest rate speculation adding to this lack of clarity.

Discussion participants revealed that refinancing discussions for loans maturing in 2025 are already taking place, indicating proactivity from borrowers. Meanwhile, banks are demonstrating active engagement in refinancing, but with a clear bias for reputable clients and strong portfolios.

» Traditional vs. Alternative

Reflecting on the hard lessons learnt in the 2008 crisis, Spanish banks emanate caution, opening up opportunities for alternative lenders, which are demonstrating increasing prevalence in the Spanish market.

A duality of alternative lenders is occurring, with many offering extremely competitive rates, the sustainability of which was questioned during discussions.

Discussion participants firmly agreed regarding the importance of adopting a more sophisticated capital structure, similar to the US and UK markets, in order to bring more liquidity to the Spanish real estate market.

It was noted that the capital stack is changing and has become more diverse and complex over the last 15 years following the involvement of alternative lenders. There is still room for this to develop further and participants showed optimism around the expectation of this to continue over the next decade. A more competitive and dynamic ecosystem will offer more diverse opportunities for various types of investors and borrowers.

Image: GRI Club / Midjourney

Path to Liquidity

COVID-19 had an unequivocal impact on real estate globally, and this was also the case in Spain, with transactions dropping 50-60%. Participants suggested that this lack of transactions is inhibiting price corrections and exacerbating the lack of liquidity in the Spanish market.

The role of Spanish banks in the lack of liquidity was also addressed. Participants referred to a reluctance of banks around financing in new markets with new operators. They show extreme caution particularly in being pioneers and financing new types of projects, necessitating the presence of alternative lenders.

Implementing intercreditor agreements is also challenging due to differences in how senior and junior lenders assess risk. While Spanish banks heavily consider cash flow which is a significant advancement, their philosophy doesn’t parallel easily with that of alternative lenders.

A more sophisticated intercreditor structure is necessary to align risk assessment between lenders, and ultimately create a more fluid market.

» Asset Class Attitudes

Build-to-Rent (BTR)

Residential may be the biggest asset class in Spain, but increasing construction costs and widening yields have made financing BTR assets more challenging.

Flex-Living

While there is recognition of the demand for such spaces, legal and regulatory uncertainties pose challenges for banks in financing these projects.

PBSA (Purpose-Built Student Accommodation)

Clearer legal regulations compared to co-living spaces, making it more favourable for financing.

Retail

Retail properties, particularly shopping centres, are facing greater scrutiny from lenders, and securing financing for them has become more challenging. However, assets in the most prime locations, and certain retail types, such as food retailing and warehouse parks, are still attracting appetite.

Senior Living

There is clear interest for senior living projects and it is growing, but regulations, particularly in the Madrid region, have not been conducive to tertiary space development. Banks are also hesitant to take the lead in financing less traditional project types.

GRI CLUB MEMBERS WILL ALSO ATTEND

EUROPE GRI 2024

Founded in 1998 in London, GRI Club currently brings together more than 10,000 senior executives spread across 100 countries, operating in both real estate and infrastructure markets.

GRI Club's innovative discussion model allows free participation of all executives, encouraging the exchange of experiences and knowledge, networking and business generation.

GRI Club Members also have access to our exclusive online platform to learn more about other members and their companies, correspond and schedule meetings, and receive unrestricted access to all GRI Club content.

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