

REPORT

FINANCING REAL ESTATE IN PORTUGAL

JULY 2023



Photo: GRI Club / Midjourney

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GRI CLUB

GRI CLUB

GRI Club is changing the game for networking and providing key market insights with its event coverage that transforms the intimate discussions of C-level executives into digestible reports.

GRI Club events are a way to pick the brains of the leading figures in real estate. This report was created after Portugal GRI 2023 in Lisbon, which gathered 100+ of the top decision-makers in the business.

“The high number of investors present at Portugal GRI 2023 proves that the country remains in the crosshairs of foreign capital, which currently identifies opportunities in the most different asset classes.”

Gustavo Favaron

GRI Club CEO & Managing Partner



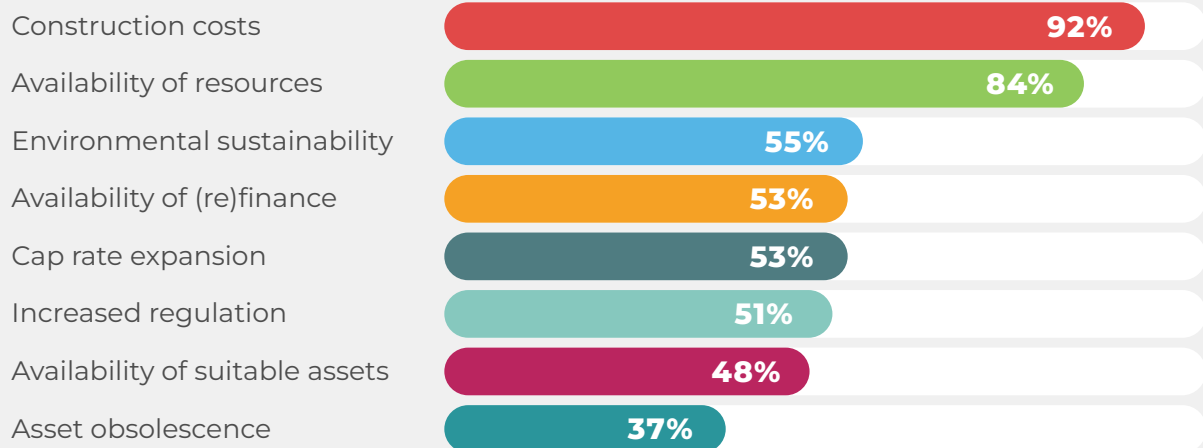
For more insights into the Italian and European markets, attend **Europe GRI 2023**, GRI's flagship event for real estate leaders.

FINANCING WITH BANKS

With interest rates on the rise, the challenges of banking finance in commercial real estate are only expected to increase. This not only affects the banks but also the real estate market as a whole. One major issue that institutions are experiencing is the difficulty in improving deals and getting more deals altogether.

Local banks have been feeling the impact of the rising interest rates. Banks have had to adjust their lending norms and policies in order to stay competitive in the market. The increased interest rates have made it harder for them to provide attractive interest rates.

REAL ESTATE BUSINESS ISSUES MAKING PLAYERS CONCERNED IN 2023



Source: Emerging Trends Europe survey 2023

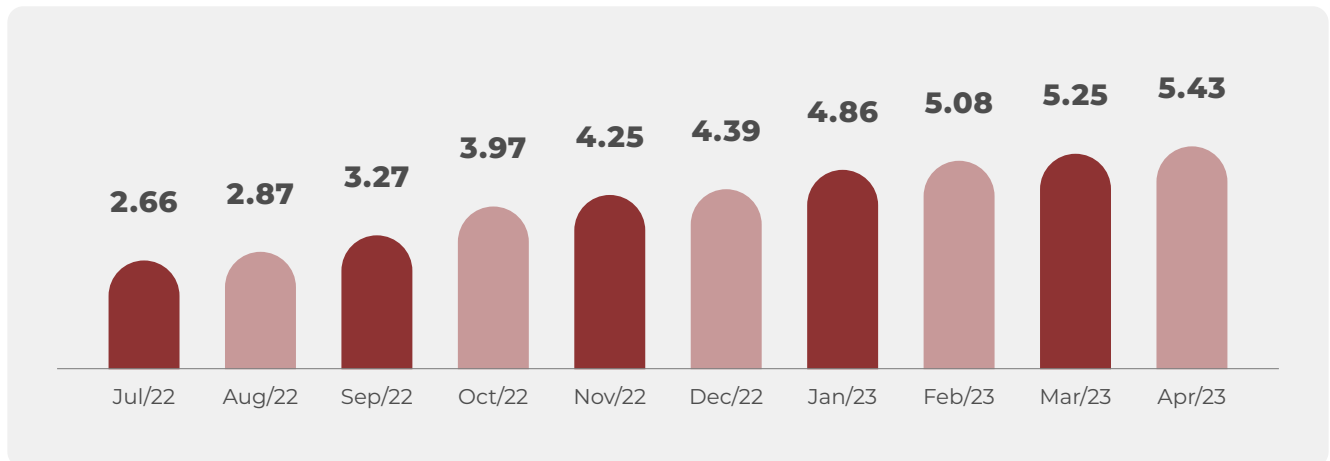
This has also led to more stringent underwriting guidelines in order to ensure that the loans that are approved are better secured. The banks are gradually retreating or reducing leverage while focusing on their traditional plans or repricing financing.

Photo: igorparusnikov / Freepik



On the other hand, while interest rates do present a challenge, rents are increasing and there are strong fundamentals in the market with high yields in commercial real estate. Therefore, there are still projects being financed by banks, and there hasn't necessarily been a decrease in the funding requests they receive.

BANK LENDING RATE IN PORTUGAL, 2022-23, %



Source: ECB

For commercial real estate and cash flowing assets, some asserted that the best option is to go with the bank if the property is stabilized, as there are a variety of platforms backed by pension funds or backed by banks that are willing to provide loans.

There are alternative platforms available, such as buying bonds, which can provide an additional layer of leverage. However, this approach is not very common compared to the corporate lending world. It needs to be promoted in other countries like Portugal to make it more acceptable to stakeholders and investors. The government also needs to structure the capital better by providing more options and flexibility.

Currently, Portugal needs to be alert that stakeholders, including local sponsors, must search for business processes for capital other than relying only on equity or banks.

Financing real estate projects in Portugal will become challenging as banks shift their lending policies. Banks will seek to reduce exposure to specific sectors, realtors, and properties with decreasing valuations or as capital rises. The financing gap can be bridgeable by covering the relative leverage gap with alternative capital solutions through complete replacement loans or being subordinated/in different positions with banks. The gap in financing will be an educational process for lenders and borrowers alike, wherein borrowers will recognize the significance of gigantic lenders' flexibility in closing deals in one or two months.

Green financing

ESG is becoming an increasingly important consideration in financing. Some banks and investors are looking for ESG requirements on the land being developed. Certain attendees are already offering rebates to individuals who finance an apartment or house with high ESG ratings. In the future, lenders plan to offer discounts for companies with certain certifications. Overall, it is believed that ESG is not a burden but a demand that is being seen more and more from clients. Some intend to present offers specifically focused on ESG with discounts for promoters with ESG justifications for their projects.

PORTUGAL'S HOUSING DEFICIT

For years, banks have been the only option for financing Residential construction, which has caused a lack of diversity in the market, and the balance sheet of banks is limited by the economy. This creates a huge housing deficit, and other financing options are needed to fill the gap.

In other more developed economies such as the UK and Germany, and perhaps more comparably, Spain, there are many alternative lenders participating in the market. It is important that stakeholders understand that banks are part of the solution, not the only solution.

15%

EMPTY HOMES IN
LISBON, Q4 2022

0.6%

HOUSE PRICE INCREASE
M-O-M, MAY 2023

14.1%

HOUSE PRICE INCREASE
Y-O-Y, MAY 2023

Source: Confidencial Imobiliário

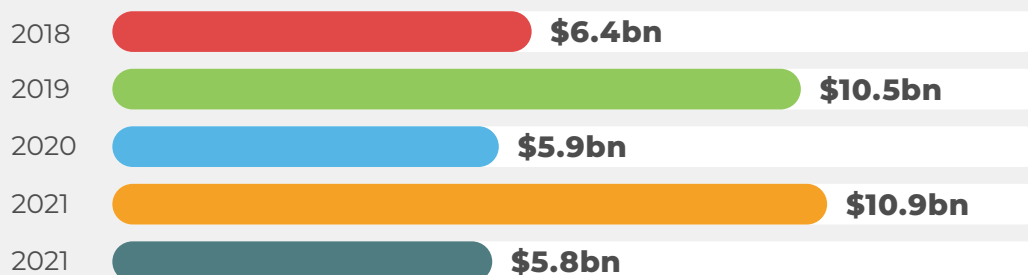
If alternative lenders are brought into this Residential space, there will be enough space for all of them due to the significance of the housing deficit, developing the landscape to be financed from different capital sources rather than just equity and banks.

ALTERNATIVE LENDING

With the maturity of loans from banks, borrowers will have a hard time refinancing them. And banks won't be there to finance the same purchase level because they want to reduce their exposure for some sectors and sponsors. Therefore, there will be a gap in financing, which will result in borrowers seeking alternative capital solutions.

In a competitive market, it is essential for alternative lenders to take more risk in order to remain competitive. However, this was challenging in the past, as interest rates were low, making it difficult to create competitiveness and remunerate players. Over the last 12 to 18 months, a shift has occurred, and interest rates have gone in favour of alternative lenders. This means that there is less adverse selection in the market, making it easier for alternative lenders to compete.

CAPITAL RAISED FOR EUROPEAN REAL ESTATE DEBT FUNDS, 2018-22



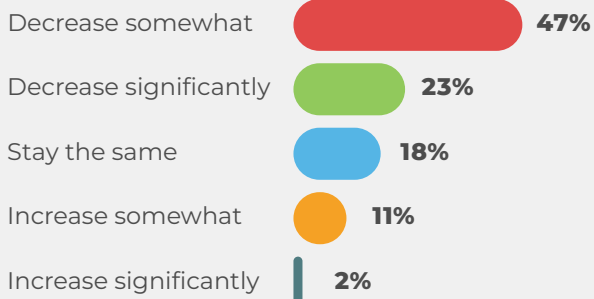
Source: PEI Group

Alternative financiers can work complementarily to banks, covering the spaces that banks are not willing to work in. There is a growing attraction to alternative lending in Portugal, including development deals, restructuring, and refinancing of mature loans. Alternative lenders are becoming partners in financing projects or assets rather than competitors. While alternative lenders may be involved in all levels of the technical aspects of financing, they are most valuable when they are before or above senior loans.

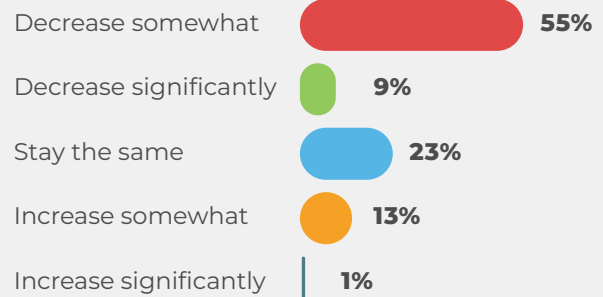
Working together with banks and other lenders, alternative lenders provide subordinated loans that can be combined with public funds to create a balanced funding structure. As institutions look for investment opportunities, ticket size will be a factor in determining where to allocate resources. Alternative lenders must focus on creating appealing offers that encourage investors to take a chance on their lending strategies.

AVAILABILITY OF DEBT AND EQUITY IN 2023: SURVEY

DEBT FOR DEVELOPMENT



DEBT FOR REFINANCING

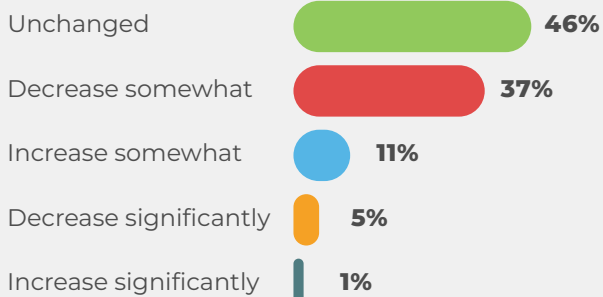


Source: PEI Group

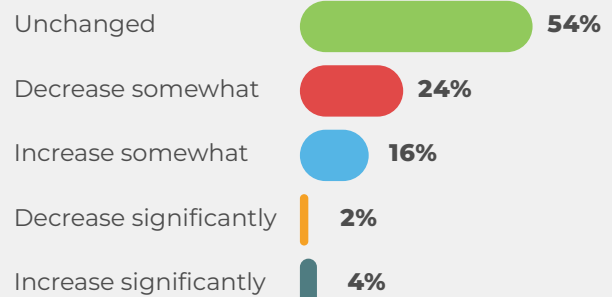
Though the market dynamics are challenging, alternative lending has been well received in Portugal. Developers and real estate agents are exploring opportunities in alternative lending, especially in areas such as real estate, commercial real estate, hotels, student housing, office, senior living, and more. Many alternative financiers are flexible and cautious in some asset classes while more positive in others. These alternative financiers also offer quick turnarounds, which proves to be an advantage over traditional banks that can take a long time to complete loan approvals.

EXPECTED ABILITY TO SECURE SENIOR DEBT IN 2023 COMPARED WITH THE PREVIOUS YEAR

REFINANCING



CORE REAL ESTATE



Source: Emerging Trends Europe survey 2023

The relative leverage gap can cover the financing gap through different capital solutions that replace the existing loans or have a different transit, such as subordination or a different position with the bank. Borrowers who plan to launch new projects, such as acquiring new properties or developing new credit, may find accessing bank financing difficult. However, they can recognize the flexibility of giant lenders who close transactions in one or two months and pay a premium for optimizer equity.

Projects with a low level of free sales or a low level of free loans may require alternative financing because banks may not lend to them or may not understand their fundamentals. As the risk assumption is higher with alternative lenders, they charge an extra cost, but borrowers must be flexible in loan structuring to cover the gap in financing.



GRI CLUB PORTUGAL

Aside from Portugal GRI, the members of GRI Club Portugal meet throughout the year to discuss new trends and maintain their real estate connections while making new deals.

Over the past year, the GRI Club Portugal has aimed to create a strong network of players in the Portuguese market as well as international players interested in the country in order to facilitate the injection of new capital.

Our club meetings have aimed to cover rented living models and the transaction volumes in the country, as well as Chinese and Brazilian investments in the country and how they're powering up the property sector and getting more synergy with the local market.

CHECK OUT THE CLUB MEETINGS IN THE PAST YEAR:

CHINESE CAPITAL'S STRATEGIC POWER PLAY INTO PORTUGAL REAL ESTATE

Powering-up investment decisions or waiting-seeing to sharpen focus on the property sector?



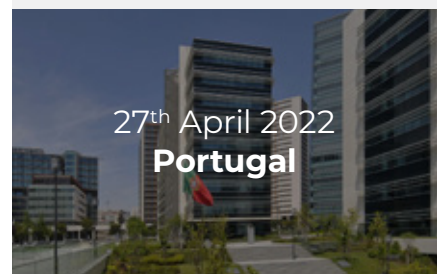
INVESTIMENTOS IMOBILIÁRIOS ENTRE BRASIL E PORTUGAL

Cada vez mais sinergia?



PORTUGAL RENTED LIVING MODELS

Investment scale growing or transaction volumes and market maturity not there?



THE MEMBERS OF GRI CLUB PORTUGAL WILL
ALSO ATTEND **EUROPE GRI 2023**

SEPTEMBER 12-13, PARIS

EUROPE

— GRI 2023 —

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