

REPORT

REAL ESTATE LENDING IN SPAIN

MAY 2023



Photo: SeanPavone / Envato Elements

Text: Sarah Garnett

Layout: Douglas Soldera Junqueira

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 España GRI 2023 in Madrid, which gathered 170+ of the top decision-makers in the business.

'The general sentiment we saw at **España GRI 2023** was that there is a 'wait and see' environment with many investors ready to deploy capital, but still awaiting new valuations or for signs of more economic stability.

Investors are not buying commercial real estate assets because they understand that prices do not reflect the rise of inflation and interest rates. Some reports indicate that prices could fall 40% until the end of 2024, with exceptions in Germany and Sweden, where prices have already fallen. This is not true in Spain, for now.'

Gustavo Favaron

GRI Club CEO & Managing Partner



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

BANK FINANCING

Conservative approaches with inflation or finding a new financial lifeline with current prices?

Lenders active in the Spanish market are having difficulty closing deals due to uncertainty, with banks behaving far more cautiously, and the same goes for cross-border lenders. The recent activity in the bank sector regarding the USA's SVB and Europe's Credit Suisse have emphasised this hesitance.

The European real estate leaders who attended the recent GRI Club discussion specifically for the SVB collapse stated that there will be repercussions. The USA is one of the biggest investors in Europe, and the loss of this capital also opens up opportunities for other areas such as Asia and the Middle East to fill the vacuum.

Europe has seen some repercussions from the banking crisis earlier this year as it has demonstrated a huge amount of focus on bank capital, and confidence is very important in this scenario. Smaller banks have suffered from nervousness, and the ECB is focused on the commercial exposure of European banks, making banks more conservative.

Banks are now less likely to offer financing to newcomers. They'd prefer to continue providing services to existing clients to meet the targets set by the bank, as well as the refinancing of existing assets.

The results of the EU's latest euro area bank lending survey show that banks tightened their credit standards for loans or credit lines to enterprises in the first quarter of 2023, i.e. the percentage of banks reporting a tightening of credit standards was substantially larger than the percentage of banks reporting an easing.

LATEST BANKING LENDING STANDARDS RESULTS FOR THE EU

Country	Credit Standards Q4 22	Credit Standards Q1 23	Demand Q4 22	Demand Q1 23
Euro area	27	27	-12	-38
Germany	19	16	-32	-26
Spain	33	17	8	-42
France	46	50	8	-33
Italy	27	36	0	-36

Source: ECB

Some at the event stated that they were still open to investing in almost anything apart from shopping centres, while focusing on the private rented sector the most. Overall, long-term investments cause excess expenditure and have cost issues in risk-weighted assets.

FACTORS CONTRIBUTING TO CHANGES IN CREDIT STANDARDS FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE (NET PERCENTAGES OF BANKS)

Country	Cost of funds and balance sheet constraints		Perception of risk		Banks' risk tolerance	
	Q4 2022	Q1 2023	Q4 2022	Q1 2023	Q4 2022	Q1 2023
Euro area	5	4	18	10	6	6
Germany	2	2	27	10	0	4
Spain	3	10	20	13	10	10
France	12	7	6	0	0	0
Italy	9	0	9	9	18	18

Source: ECB

ESG

In the banking discussion, the executives noted that there is a mismatch between the financial community and developers on the line of ESG and that green loans should be cheaper but many disagree as to how much.

Data has become very important in this area for energy production and consumption, as well as information gathering for due diligence analysis. It is also important to understand the market convention on the definition and certification of what is considered to be 'green'.

For alternative lenders, the sustainable part of the market is a key area for refinancing. Nothing is currently mandatory in this area, but most do have basic requirements that are a priority to improve liquidity. Most strongly agree that ESG criteria are increasingly important for lenders and that in the future the liquidity of brown assets will decrease due to this trend.

Photo: liufuyu / Envato Elements



ALTERNATIVE LENDING

Moving forward to special situations or risks to be avoided?

Alternative lending is going to be key for the upcoming years compared to more traditional investments and financing. Unlike last year, when everyone was finding deals and value, it is much harder to do the same in 2023.

Many investors, especially institutional investors, are using a wait-and-watch approach. More news is coming about difficulty in closing deals with current buyer and seller expectations although the situation might improve in the coming months.

We have seen that this year had more surprises. The market has much less liquidity. This comes after some years of having the market on steroids, full of operations where everything seemed to work, and when every net yield could be even more compressed.

Now with the uncertainty and rise in interest rates, we are competing with all types of financing products that have similar yields and may have less risk profiles, such as bonds and fixed incomes. On top of everything else we have sustainability, which has become the major influencer and a requirement from investors and tenants.

SOME OF THE KPIS BEING TARGETED ARE



Gender equality in operator models



Certification



Efficiency plan for the asset's operation

Many feel that banks do not want alternative lenders on the capital stack, and that it is difficult to be complementary to the bank, although not impossible. Complementary activity can be seen in some deals; most feel that an ideal situation is for an alternative lender to be a solution for the borrower so they can be both complementary or supplementary. Alternative lending can also help stabilise risky assets that can then be refinanced with the bank.

Alternative lending is adding opportunities by providing better Loan-to-Value ratios and less requirements to senior loans. Bank financing is not cheap, so alternative lending is competitive and growing. Some executives mentioned that even banks have formed alternative lending teams to evaluate opportunities.

TRENDING SECTORS FOR ALTERNATIVE LENDING



Hospitality

Both acquisition and refinance



Student housing

Especially in Spain and Portugal's fragmented markets



Logistics



Offices

Some attendees also mentioned refinancing opportunities in the Retail sector, as well as more specific sectors with criteria that banks do not necessarily meet.

For refinancing, a popular choice in recent months, alternative lending companies are making themselves competitive by having more cash to lend, being less cautious, and having a lower cost of debt than banks.

MEZZANINE DEBT

Mezzanine debt is not as frequently adopted in the real estate market in Spain, as it is also dependent on banks to work collaboratively. Banks instead prioritise participation in preferred equity capital. If high quality assets are available, they might consider collaborating, but with a very low percentage of the volume.

Finding the right structure is the real key to executing Mezzanine debt. Enforcement is the biggest difference between Europe and Spain, and in Spain, it is difficult to enforce the Mezzanine debt structure.

Photo: Pawel Pajor / Adobe Stock



GRI CLUB SPAIN

Aside from España GRI, the members of GRI Club Spain meet at club meetings throughout the year in order to discuss new trends and maintain their real estate connections while making new deals.

This year, GRI Club Spain has aimed to create a strong network of players in the Spanish market as well as interested international players in order to facilitate the injection of new capital into the country.

Our club meetings have allowed GRI members to get insights into macroeconomic developments and market changes for the main asset classes while exploring up-and-coming assets such as Co-Living.

SOME OTHER **CLUB MEETINGS** IN THE PAST YEAR



MEMBERS OF GRI CLUB SPAIN WILL
ALSO ATTEND **EUROPE GRI 2023**

SEPTEMBER 12-13, PARIS

EUROPE

— GRI 2023 —

Access multiple discussions at the
most **exclusive real estate event**

GET YOUR PLACE

griclub.org/europegri

GRI *Club*

GRI Club



GRI Club Europe



GRI Club



@griclub.europe



griclub.org

GRI CLUB