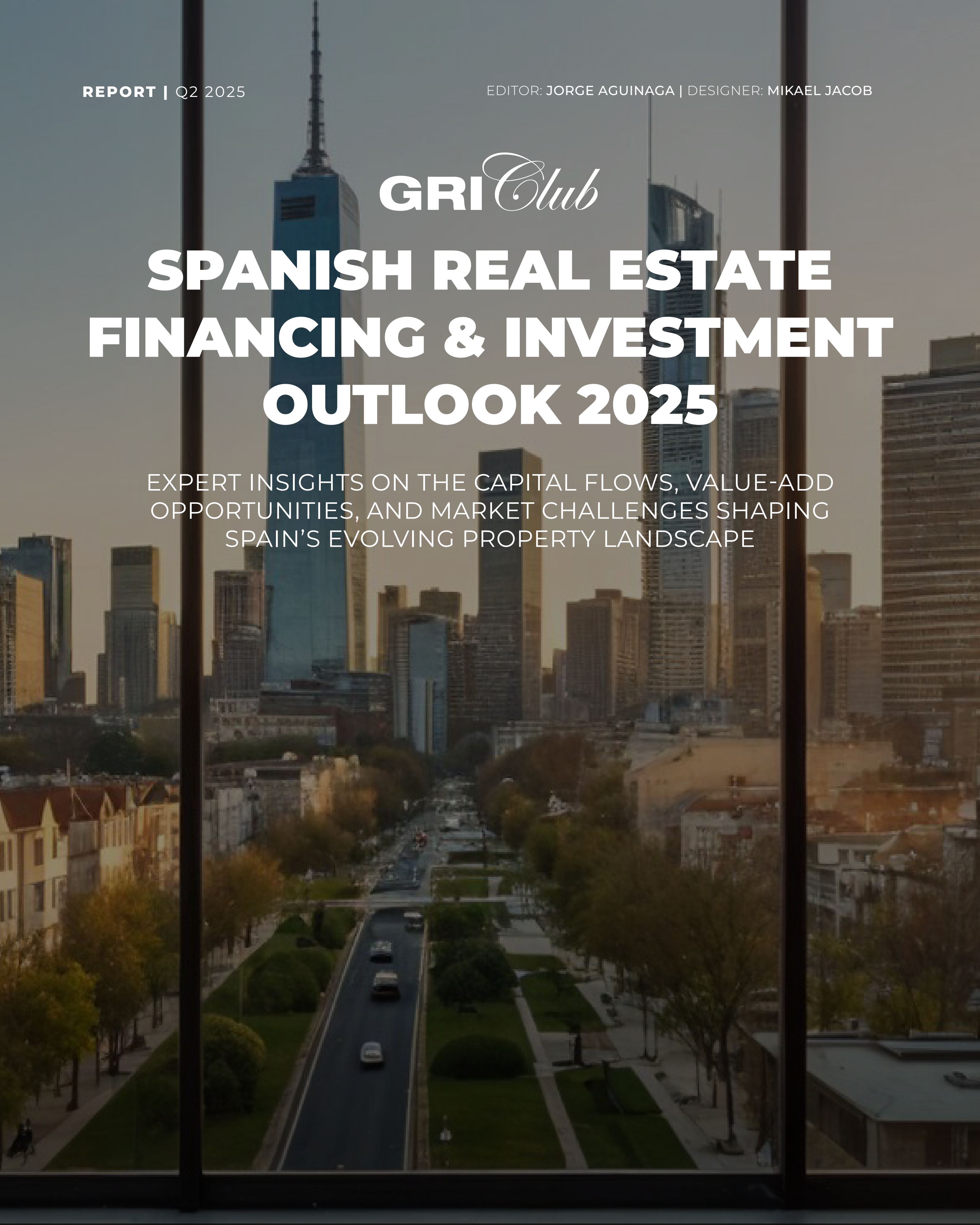

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GRI Club

SPANISH REAL ESTATE FINANCING & INVESTMENT OUTLOOK 2025

EXPERT INSIGHTS ON THE CAPITAL FLOWS, VALUE-ADD OPPORTUNITIES, AND MARKET CHALLENGES SHAPING SPAIN'S EVOLVING PROPERTY LANDSCAPE

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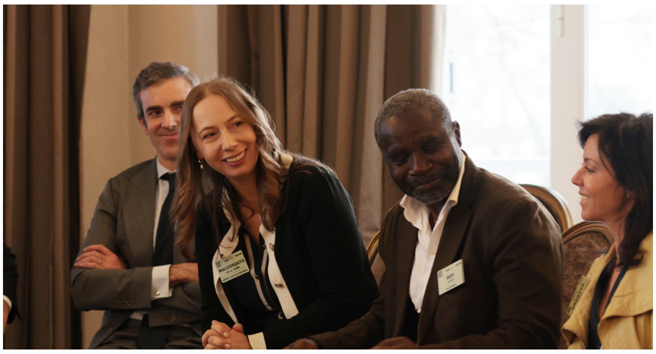
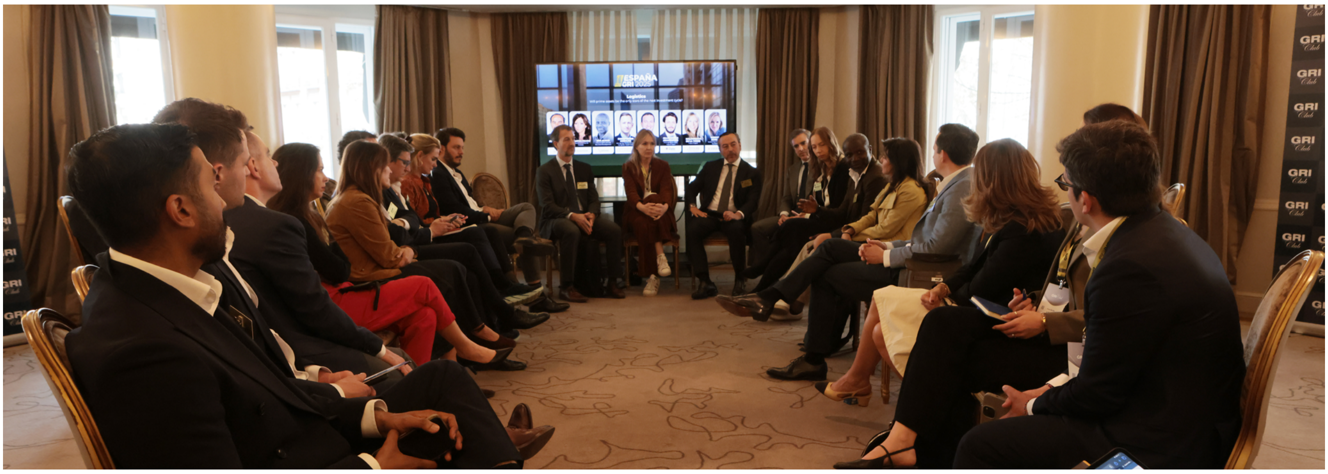
INTRODUCTION

Since 1998, 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 captures the key insights exchanged at **España GRI 2025**, where we hosted top global investors, lenders, developers, and asset managers for an opportunity to explore the outlook for Spain's real estate market from a wide range of perspectives.





CHECK OUT ALL THE PHOTOS FROM **ESPAÑA GRI 2025**

SPANISH ECONOMIC OUTLOOK

» Challenges and Reforms Ahead

The keynote address by Víctor Ausín, General Director of Economic Policy at the Ministry of Economy, stressed the importance of policy stability to retain investor confidence.

Ausín provided a pragmatic yet forward-looking assessment of Spain's macro fundamentals, identifying demographic shifts, resilient tourism, and rising domestic savings as critical long-term growth drivers.

However, major constraints were also in the spotlight, including insufficient financing for smaller construction firms, rising input costs, and stagnant sales prices that compress developer margins.

These conditions are hindering new developments, leaving only a few luxury-focused players active in the country.

Spain's complex land transformation processes were repeatedly criticised. Fragmented jurisdiction across municipal, regional, and national levels delays land conversion, discouraging investment.

Despite macroeconomic improvements, banks remain cautious and construction costs are still high, creating a subdued development pipeline. Investors are increasingly turning to joint ventures and alternative financing structures.

To address these challenges, Ausín pointed to upcoming reforms under "Regime 20", a framework aimed at streamlining the permitting process, reducing bureaucracy, and incentivising productivity, along with discussing plans for facilitating down payment financing to support younger, cash-constrained buyers.

» Pan-European Investment Perspectives

A follow-up talkshow tackled broader European housing market trends, with a recurring theme: the growing rental trap.

With home prices outpacing incomes and rents too high to enable savings, affordability has become a pressing social issue.

Despite this, Spain continues to attract capital from across Europe. Investors cited tourism, macroeconomic recovery, and a stable debt market as reasons for Spain's relative strength.

Unique demand drivers, rising student populations, an ageing society, and immigration, are reshaping demand for multifamily, senior living, and student housing assets.

Residential challenges notwithstanding, logistics and commercial real estate offer more stability.

» Asset Classes in Focus

Logistics remains a strong performer, benefiting from continued urban demand and last-mile distribution trends, as well as being further supported by e-commerce, reshoring, and Spain's strategic location.

Government efforts to localise production and improve infrastructure have reinforced the sector's importance to national resilience. However, participants warned that complacency could derail progress.

The build-to-rent (BTR) and co-living sectors remain attractive in theory, but profitability is constrained by construction costs, zoning issues, and regulatory hurdles. A paradox persists: rental demand is rising, yet supply growth is stalled.

Commercial spaces are gradually adjusting to hybrid work in offices and shifting consumer habits in retail, providing selective opportunities for price recovery.

Hospitality continues to perform extremely well overall, cementing Spain's global reputation in lifestyle tourism. Seasonal fluctuations and regional disparities exist, but fundamentals remain solid.

» Emerging Opportunities

Two emerging sectors stood out:

Senior Living: Spain's climate, healthcare, and quality of life make it an ideal retirement destination. Yet, institutional-grade assets are still scarce. Participants expect this to become a key investment frontier.

Data Centres: Although regulatory and power supply issues pose obstacles, underlying demand is strong. As digital infrastructure becomes critical, data centres are gaining traction among investors.

» PRS as Infrastructure?

Private rented sector (PRS) investment drew considerable attention. A central debate focused on whether PRS should be reclassified as infrastructure to unlock institutional capital.

However, infrastructure funds were noted to be typically larger, longer-dated, and risk-averse - criteria PRS has yet to consistently meet.

Nevertheless, demographic shifts and affordability concerns have created momentum. Proposals such as government-backed rental guarantees could mitigate risks and encourage institutional engagement.

» Construction Bottlenecks

Construction emerged as a key concern. Although Spain boasts technical capacity, labour shortages and a lack of scalability hinder output.

Lengthy land development timelines, often exceeding 10 years, can serve to deter long-term investors from entering the Spanish real estate sector.

Although these bottlenecks are not without precedent, Spain previously delivered over 500,000 homes annually under similar legal frameworks, and yet today, fragmented permitting processes and inconsistent municipal rules are slowing the engine.

Speakers called for a more standardised national approach, drawing comparisons with successful northern European models.

» Public-Private Collaboration: Still Evolving

A recurring call to action throughout the event was the need for greater alignment between public policy and private initiative. The objective is not to replace market dynamics, but to catalyse them.

Faster approvals, standardised regulations, and inter-municipal coordination were highlighted as essential next steps to reinvigorate Spain's real estate pipeline.

» Challenges and Shifts in Financing

Access to funding remains uneven. While alternative lenders, such as insurers, credit funds, and institutional players, are increasingly active, traditional banks remain risk-averse.

Financing for residential and BTR projects remains constrained by low returns, regulatory uncertainty, and limited scale.

Despite this, Spain's macro stability has opened the door to more innovative capital strategies, such as platform deals and joint ventures. Still, widespread adoption requires clearer policies and stronger government-market alignment.

SPAIN'S REAL ESTATE DEBT MARKET

» Resilience Meets Caution

The overall outlook for Spain's real estate debt market is one of cautious confidence.

While the country continues to benefit from resilient macro fundamentals, particularly in tourism and consumer spending, the question of whether these strengths are sufficient to stimulate broader lending remains unresolved.

As discussions suggested, investors must tread carefully, balancing selective risk-taking with a defensive posture.

» Hospitality and Retail: Pillars of Confidence

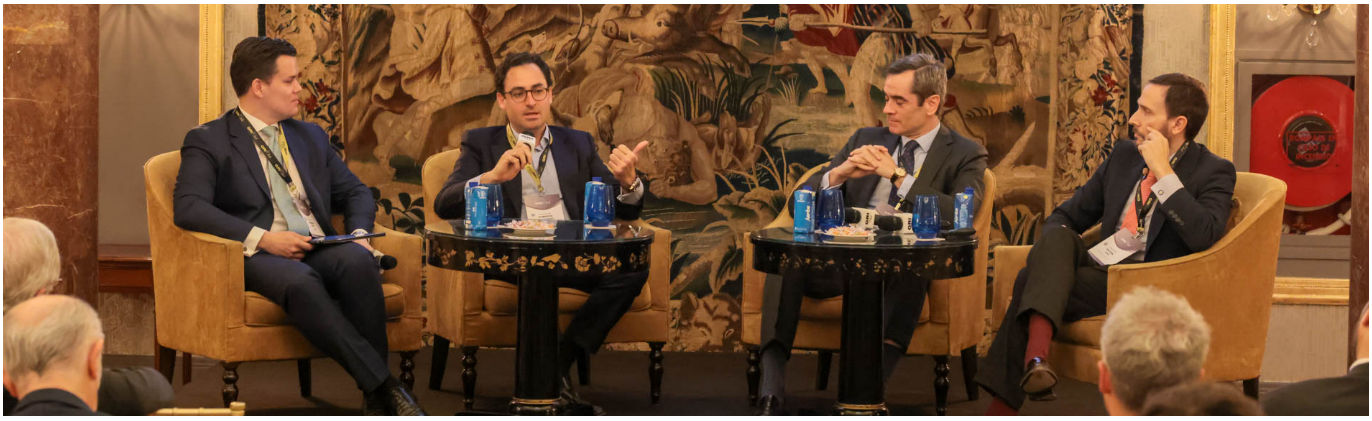
One of the key differentiators between Spain and its European peers is its continued strength in hospitality.

Thanks to strong domestic consumption and a vibrant tourism sector, lenders remain particularly confident in hotel-backed deals.

As reported by one attendee, "everyone and their mother wants to be in hotels," reflecting a sector-wide appetite that spans institutional investors and family offices alike.

Retail, often maligned elsewhere, also presents both potential and challenges in Spain. While some lenders continue to exercise caution, others highlight dominant shopping centres with stable fundamentals as viable investment opportunities.

This trend presents a rare divergence from continental Europe, where retail has largely fallen out of favour.



Photos: GRI Club

» Challenges of Scale and Deal Flow

Despite the optimism surrounding key sectors, one critical factor often overlooked is deal size. Spain tends to offer smaller transactions, posing a significant challenge for global players seeking scale and double-digit returns.

As one pan-European lender put it, “we struggle with Spain for size”, a sentiment echoed throughout the session.

At the same time, there are hints of change. Discussions highlighted that larger transactions, those exceeding EUR 100 million, have begun to return to lenders’ pipelines.

While still the exception, these deals indicate renewed interest and growing momentum in selected pockets of the market.

» Refinancing Activity Falls Short of Expectations

The question of whether refinancing would drive lending activity in 2025 emerged repeatedly throughout the panel.

Consensus posits that refinancing should be on the rise given the maturity of earlier debt cycles, but the actual volume of such deals has yet to materialise as expected.

An illustrative point is that, while refinancing deals are present, particularly where banks are constrained by loan-to-value thresholds or borrower execution speed, they remain below anticipated levels.

» Risk, Regulation, and the German Paradigm Shift

A key distinction in lender strategy became evident in an example shared about the evolving posture of German banks where, paradoxically, recent pressures on funding costs and stricter internal credit scrutiny have allowed for more nuanced risk-taking, at least where pricing justifies such moves.

One lender explained that assets previously dismissed due to moderate risk are now under consideration, given the ability to command higher margins.

The shift from rigid conservatism to case-by-case underwriting illustrates a broader reconfiguration of credit strategies.

Determining whether this reflects a temporary adaptation or a structural change remains a vital question. What is clear, however, is that location and sponsor credibility are assuming greater importance in credit decisions.

» Development Finance

Despite widespread concerns about speculative development, certain lenders are showing willingness to re-enter the space under specific conditions.

The current environment still favours defensive lending, but conversations at the gathering confirmed that prime locations with experienced sponsors can, in select cases, justify new development finance.

This returns to the idea of selective risk allocation. If this is the case, a modest revival of development activity may accompany stabilised capital costs and refined underwriting models. Ultimately, trust in local expertise and asset performance will determine viability.

» Relationship Lending

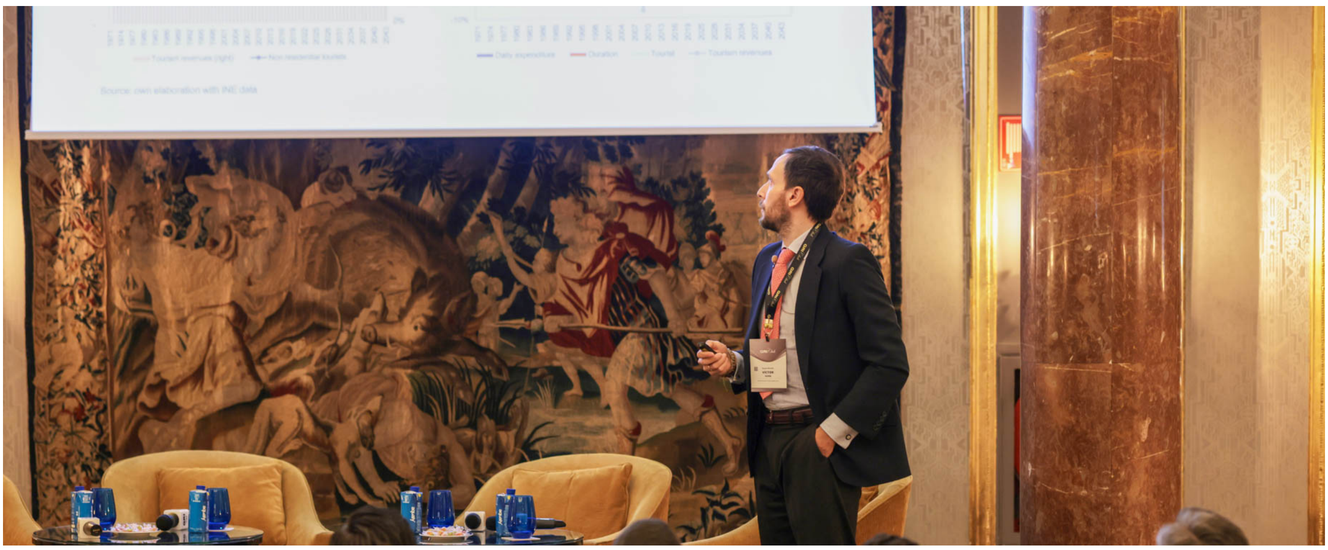
Within the context of tightening credit conditions, it was observed that lenders are leaning heavily on relationship-based underwriting.

While new capital continues to trickle into the system, only the most strategic and long-standing borrowers are securing advantageous terms.

Most importantly, this shift is not solely driven by sentiment, but by stringent mathematical models imposed by Basel IV.

Capital consumption calculations, previously flexible under internal models, are now more tightly controlled, forcing lenders to reprice risk with greater scrutiny.

Given this situation, borrowers lacking depth in their banking relationships may find themselves increasingly priced out of favourable financing structures.



Photos: GRI Club

» The Impact of Basel IV

Discussions at the event suggested that regulatory burdens are reshaping the contours of the market.

Basel IV was a recurring topic, with concerns ranging from inconsistent implementation across Europe to its still-unclear operational implications at a loan-by-loan level.

Market leaders reiterated that even within large institutions, full clarity on the new framework is elusive. In response, banks are re-evaluating exposures and rebalancing portfolios.

This event reflected a broader regulatory harmonisation drive by the ECB, which aims to align internal risk models with standardised ones.

However, as one panellist commented, this convergence is not without cost. It was reported that several institutions may be forced to either raise margins or reduce lending volumes to comply.

» Alternative Lenders

An illustrative point is the rise of alternative lending, which now represents 21% of the Spanish market, up from 15% the previous year.

This trend presents both potential opportunities and challenges. On the one hand, the flexibility of non-bank lenders allows them to operate outside the capital constraints imposed on traditional banks.

On the other, they remain less mature in Spain compared to their Anglo-Saxon counterparts.

That said, as conversations at the gathering confirmed, there is a growing belief that clients are increasingly open to these alternatives, thanks in part to improved market education and proven deal execution.

The shift from bank-led to hybrid financing models is underway, even if still in its early stages.

» Selectivity Over Surge

The key question is therefore: are we on the brink of a new leverage cycle, or is this simply a tactical phase of cautious deployment? Based on the discussions at España GRI 2025, the answer leans towards the latter.

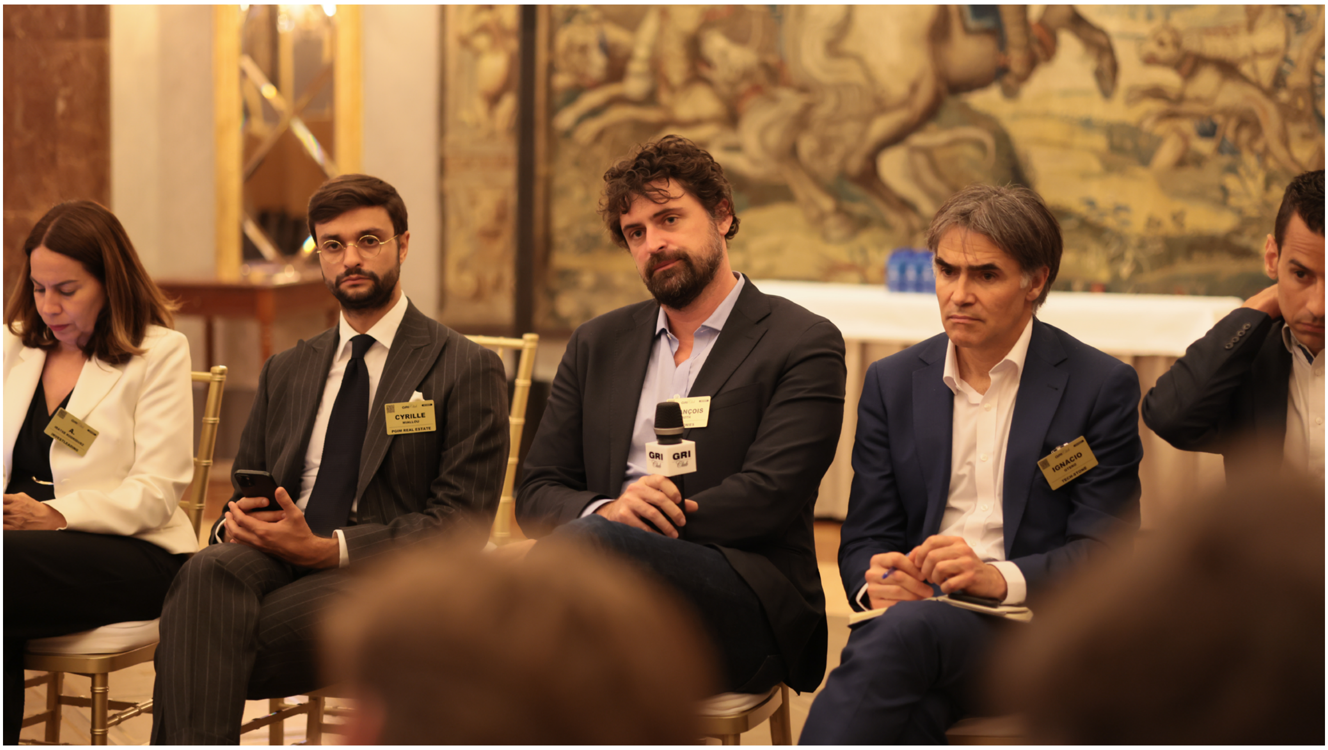
The industry is seeing a recalibrated form of optimism, measured, sector-specific, and grounded in disciplined underwriting.

While Spain's fundamentals offer compelling reasons to invest, uncertainties around valuation, deal scale, and refinancing volume continue to weigh on decision-making.

Overall, investors acknowledge that opportunities exist, but only for those prepared to navigate complexity with precision and patience.

Looking ahead, the ability to adapt financing models, incorporate higher-margin risk, and align with reliable partners will be essential.

As a result, Spain may not yet be entering a full-blown leverage cycle, but it is unquestionably laying the groundwork for a new chapter in real estate debt strategy.



Photos: GRI Club

OPPORTUNISTIC & VALUE ADD

» Opportunities and Timing

The discussion opened with the panel grappling with the central question of whether widespread repricing is underway, and if so, where?

Despite lingering fears of distress, the prevailing sentiment was that real estate valuations are slower to adjust than capital markets. “Capital is not that quick to move in and out of real estate,” one panellist remarked. “We do not foresee a major repricing soon”

Another participant added that while systemic distress remains unlikely, there are pockets of opportunity, particularly smaller, targeted value-add plays, though not at the scale many investors might hope for.

“There is distress in the market,” a speaker acknowledged, “but not as large in size as we would like.”

Across Spain and broader Europe, the consensus was that fundamentals in key verticals, particularly logistics, residential and selective office assets, remain broadly intact, cushioning against sharp valuation declines.

However, participants warned that the window for opportunistic investments may be closing in the second half of 2025.

» The Myth of ‘Buying Cheap’

Beyond headline valuations, participants agreed that simply purchasing assets at a steep discount is no longer sufficient.

“Buying cheap is not the only variable investors should consider,” one executive insisted. “Risk factors demand fundamentals, sector resilience, and location quality are equally critical.”

In this regard, Iberia was viewed favourably. Despite political turbulence in both Spain and Portugal, economic indicators remain strong.

“Compared to Central Europe, Iberia today feels like a small paradise,” an investor remarked, noting Portugal’s fiscal surplus and relative economic resilience.

» Construction Risk and Labour Shortages

While capital is available, building or repositioning assets may become increasingly costly. A recurring concern among panellists was the deteriorating construction labour market, especially in Spain.

"In Spain, nearly 50% of construction workers are set to retire in the next three to four years," one participant warned. "Those replacing them often lack the necessary skills, leading to higher risks and rising costs."

Industrial construction, which relies more heavily on prefabrication, was cited as a potential hedge against these pressures.

After lessons learned during the Ukraine war, when material costs surged significantly, some developers have shifted towards controlled-environment construction to mitigate volatility.

Still, even industrial development is not immune to ongoing financing complexity, with some banks reluctant to underwrite loans against pre-built components, and regulatory frameworks struggling to keep pace with new construction methods.

» Bureaucracy Constraints

Regulatory risk emerged as another obstacle for investors. Despite reforms intended to speed up approvals, such as Portugal's "Urbanistic Simplex" law, bureaucratic inertia persists across the Iberian region.

In Spain, the process is particularly fragmented. Examples shared by panellists revealed how changes in municipal governments following elections could delay licensing processes, regardless of prior agreements.

"It's a matter of time, and proximity to decision-makers," an executive noted, underlining the importance of local relationships in navigating Spain's regulatory labyrinth.

» Technology, AI, and ESG

Technology and artificial intelligence (AI) are gradually becoming more relevant, although their adoption across firms is uneven.

Some investors already use proprietary systems for asset management and decision-making, particularly when managing granular portfolios.

One executive described AI as “absolutely critical” to minimising errors across thousands of assets, noting that in his company, investment decisions are driven almost exclusively by internal valuations supported by a robust data-driven system.

Elsewhere, however, adoption remains cautious. Several participants acknowledged experimenting with AI tools in “sandbox” environments but felt the technology was not yet reliable enough for underwriting or core investment decisions. Concerns about data confidentiality also temper broader deployment.

At the same time, ESG remains a strong theme. Participants agreed that sustainable assets, especially energy-efficient buildings, are increasingly likely to command premium valuations and resilient rents. Yet, it was equally noted that ESG initiatives must be more than superficial to truly drive value.

» Distinguishing Value-Add from Opportunistic

One specialist explained that in their firm, a proprietary rating system is used to assess risk across three key dimensions: tenant risk, lease duration, and location.

Assets are scored from ‘opportunistic’ through to ‘core’, offering a structured approach in an otherwise subjective market.

Importantly, it was noted that the industry’s recent decade of low inflation and cheap debt blurred these definitions. Opportunistic and value-add funds often pursued core assets, leveraging cheaply to achieve returns.

» Capital Dynamics

When considering where capital is flowing, participants agreed that fundraising remains challenging. However, value-add strategies are still attracting significant attention.

As one pan-European investment executive explained, core capital has largely withdrawn, attracted by more stable bond yields, but value-add remains relevant because of supply shortages and the increasing demand for ESG-compliant assets.

The emphasis on growth was underscored repeatedly. Buying cheaply, without a clear path to income expansion, was described as a flawed strategy.

“Cheap is not enough anymore,” a speaker stressed. “Without growth in net operating income (NOI), the returns will not materialise.”

This new reality is also pushing investors toward more operational real estate segments such as self-storage, private rental sector (PRS), and other income-generating asset classes where value creation is directly linked to management expertise.

» Operational Expertise Becomes the New Battleground

Operational capability was repeatedly described as “the key differentiator” in the current environment.

As one specialist put it, “Generalist managers without in-house operational expertise must either build it or partner with those who have it, otherwise, fees could erode profitability.”

A clear divide is emerging between firms that outsource non-core activities and those that insist on developing all value-adding capabilities internally.

One leading managing director remarked that his firm only outsources tasks that add little value to the portfolio; everything else is built in-house, despite the heavier burden on payroll.

“If you outsource the processes that create value, you’re going to pay heavily for it, and kill your returns,” he said.

However, there was also a recognition that in some instances, outsourcing to expert operators can significantly boost performance.

One investor illustrated this with an anecdote from the residential sector, where a professional developer's management of sales cadence produced a 15-20% uplift in profits compared to an in-house effort.

The key, it was argued, is ensuring strong alignment through co-investments and carefully structured incentives.

» Exit Environment

Given the market repricing, concerns were raised around whether current business plans, especially for value-add investments, could deliver the underwritten returns. Transaction activity remains sluggish in many sectors, with exceptions in prime logistics.

"In logistics, core capital is back," one investor noted, citing recent transactions achieving yields around 4-5%.

However, in the hospitality and living sectors, institutional core buyers remain cautious, requiring a shift in perception around operational risk.

The necessity for flexibility at exit was a recurring theme. Structures need to accommodate both operational and non-operational buyers, maintaining maximum optionality for future divestments.

» Looking Ahead

Ultimately, participants at España GRI 2025 agreed that success in the current environment demands a sharper focus on asset management, operational enhancement, and strategic patience.

For those prepared to adapt and innovate, opportunities remain abundant, but the bar for success is undeniably higher.

Some open-ended funds in Portugal, it was reported, are attracting significant inflows even in today's volatile environment, highlighting that capital is still available, but only for the right strategies.

As the España GRI discussions made clear, success in this next phase of the cycle will hinge not merely on finding discounts, but on creating lasting value, navigating complexity, and, above all, keeping a long-term view.

UPCOMING EVENTS

GRI CLUB MEMBERS WILL ALSO ATTEND

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ABOUT GRI CLUB

Founded in 1998 in London, GRI Club currently brings together more than 19,000 senior executives spread across 110+ 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.

Learn more about GRI Club Europe here

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