PwC Real Estate Financing Barometer

Key financing themes in the year ahead

January 2024

Introduction

Rising rates and a reduced risk appetite from banks necessitates a more thoughtful financing approach for both existing and new issuers. Below we set out the main takeaways across the entire deal lifecycle.

2024 initial highlights

Certain lenders are resurfacing with renewed capital budgets after having stepped out of the market last year.

The recent mild decline in long-term rates provides an opportunity for issuers considering new floating financings to improve their day-1 debt servicing capability by entering more extensively into swap arrangements.

In this volatile market, PwC is ideally positioned to help issuers navigate through the current complex environment in order to achieve a successful financing outcome.

Existing transactions

Issuers are focused on managing their covenants to ensure adequate near-term headroom. A proactive approach vis-a-vis lenders paired with strong documentation knowledge is key to navigate the current macro environment.

Refinancings

In response to rising rates, LTVs have come down from c.70% historically to c.50-55% (60% area for new premium, high ESG-scoring assets).

Bullet structures have become off-market with banks requiring a substantial amortising component.

Alternative lenders, such as debt funds and mezzanine players, are selectively stepping forward to fill the apparent funding gap and may provide non-cash pay layers of capital to facilitate debt servicing, however, these come at an elevated cost.

Refinance processes are becoming increasingly lengthy and require effective relationship management with banks and alternative lenders. We therefore recommend issuers to commence preparations 9-12 months prior to existing maturities.

New acquisitions

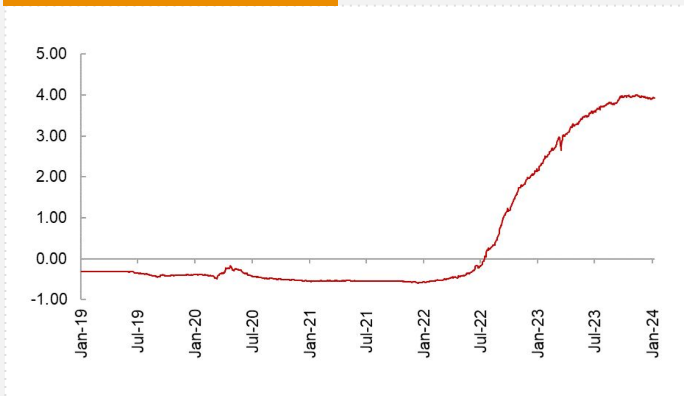
Banks are increasingly selective in providing financing for new clients and acquisitions, with ESG-scoring often being a deciding factor.

New acquisition financings require reduced LTVs and amortisation, similar to refinancings.

Summary table

	Historic financings	New financings
LTV	70-80%	50-55% (60% area if premium/new/high ESG-scoring)
Margin	125-175 bps	175-225 bps
Amortisation	Bullet (asset-specific)	Amortising

EURIBOR 3m



Swap rates

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