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Eurostate mulls mezzanine finance for EUR 450m Catalonian real estate deal

Eurostate to provide junior debt for EUR 450m Catalonian deal

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Catalonia's debt-laden regional authorities are offloading two portfolios consisting of 26 office buildings. The portfolios, comprising 13 properties each, all in Barcelona's city centre, are being sold through a sale-and-leaseback whereby the Catalan Government is committing to occupy the assets for a minimum period of 25 years.

Eurostate's founder and managing director Steven Zijl told PropertyEU that the company is looking to provide mezzanine finance or preferred equity, enabling investors to leverage the acquisition up to 85%.

'Despite the recent downgrade of Catalonia's debt rating, we have perceived a strong appetite amongst international investment funds to consider this sale-and-leaseback deal,' Zijl told PropertyEU. 'At the same time, given the current economic conditions, it will be difficult for many funds to secure a large amount of senior debt and therefore we are analysing the possibility of providing junior debt.'

It is understood that the Catalan authorities are prepared to pay up to EUR 36 mln in annual rental fees, which brings the deal's maximum initial yield to 8%. Aguirre Newman and law firm Deloitte have been mandated to sell one portfolio, valued at EUR 221 mln, while Jones Lang LaSalle and law firm Roca Junyent were picked for the remaining EUR 228 mln of assets.

The two sales are planned to close by mid-December in a sign of increasing pressure on the Catalan Authorities to create more liquidity and decrease its debt pressure on the short term. On the other side, three months is a limited period to close such a deal in realistic terms, confirms Steven Zijl.

The Catalan Authorities have seen their Rating being downgraded over the last months. Fitch gave a warning earlier this month and modified its Rating from A to A-. Previously, Moody's did the same in July this year by lowering its Rating from A3 down to Baa.