



Beyond Borders: A Global Perspective of International Real Estate Valuation

CHAPTER 42:

COMPARATIVE ANALYSIS OF REAL ESTATE FINANCING PRACTICES ACROSS GLOBAL MARKETS

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The financing of real estate projects plays a critical role in shaping property markets around the world. As globalization intensifies cross-border investment and development activity, a comparative understanding of real estate financing practices becomes increasingly valuable for valuation professionals, investors, lenders, and policymakers. Financing structures, regulatory frameworks, interest rates, and market maturity all influence how properties are funded—and ultimately how they are valued—across jurisdictions. This article provides a detailed analysis of key differences in real estate financing practices globally, outlines challenges and strategic considerations, and identifies best practices for navigating diverse financing environments.

Real Estate Financing Structures: Global Variations

Debt vs. Equity Preferences

One of the most significant differences in global financing practices is the relative reliance on debt versus equity. In Anglo-American markets such as the United States and the United Kingdom, commercial real estate is typically debt-heavy, with loan-to-value (LTV) ratios often reaching 60–80% for stabilized assets. In contrast, many Asian markets (e.g., Japan and China) tend to favor lower leverage or prefer equity participation, particularly for institutional-grade developments.

Institutional vs. Informal Financing Channels

In developed economies, real estate financing is

largely institutionalized through commercial banks, real estate investment trusts (REITs), and structured finance vehicles. Meanwhile, in emerging markets—such as parts of Sub-Saharan Africa and Southeast Asia—financing channels may still involve informal networks, private capital pools, or government-backed development finance institutions.

Islamic Finance Principles

In Middle Eastern markets and other jurisdictions with large Muslim populations, Islamic finance principles strongly influence real estate funding structures. Products must comply with Shariah law, which prohibits interest payments. Instead, profit-and-loss sharing models such as Murabaha (cost-plus sale) or Ijara (leasing arrangements) are commonly used.

Regulatory and Legal Considerations

Real estate financing cannot be separated from the regulatory and legal environment in which it operates. Lenders and borrowers must consider:

- Foreign ownership restrictions: Some countries (e.g., Thailand or Indonesia) limit the ability of foreign investors to acquire land or real property outright, complicating loan underwriting for cross-border deals.
- Foreclosure and insolvency laws: Jurisdictions with strong creditor rights, such as Germany or Canada, offer more predictability for lenders. Others, such as India, have historically faced slow and uncertain foreclosure processes—though reforms are ongoing.

- Tax regimes: Mortgage interest deductibility, capital gains taxation, and stamp duties vary significantly and can affect the relative attractiveness of financing options.

Impact on Valuation Practices

Financing conditions directly influence valuation outcomes. Interest rates and loan terms feed into the discount rates and capitalization rates used in income-based valuation models. For example, in high-risk or inflationary environments like Argentina or Turkey, discount rates must be adjusted significantly upward to reflect financing uncertainty.

Furthermore, markets with greater transparency and liquidity—such as Singapore, Germany, or Australia—support more standardized financing and valuation practices, allowing for better comparability of assets. In contrast, valuation in fragmented or opaque financing environments often requires localized knowledge and bespoke modeling.

Challenges & Considerations

Currency Risk and Hedging

Cross-border financing often introduces currency risk. A U.S.-based investor borrowing in euros to acquire property in Poland must navigate exchange rate volatility, which can distort returns and impact debt servicing capacity. Valuers must consider whether financing is hedged and how currency mismatches may influence asset risk profiles.

Data Availability and Market Transparency

Reliable information on financing terms, lender behavior, and debt market performance is often limited in developing markets. This data gap complicates benchmarking and makes valuation assumptions less robust, especially for debt-laden transactions.

Regulatory Compliance and Cross-Border Coordination
Financing deals that span multiple jurisdictions must comply with diverse banking, anti-money laundering (AML), and tax regulations. Coordinating among legal counsel, valuation professionals, and financiers in multiple time zones can be resource-intensive.

Best Practices and Strategies

Incorporate Financing Terms into Valuation Models
Valuation professionals should explicitly model financing structures—such as debt service coverage ratios (DSCR), internal rate of return (IRR) differentials, and equity return hurdles—when analyzing investment-grade properties. This is especially critical in highly leveraged or yield-sensitive environments.

Leverage Local Financing Intelligence

Engaging with local mortgage brokers, lenders, and financial advisors can provide critical insights into prevailing financing terms, underwriting standards, and borrower behavior. Such intelligence can enhance both the accuracy and credibility of valuation reports.

Apply Scenario and Sensitivity Analysis

Given the variability in financing practices, professionals should conduct sensitivity analyses that reflect shifts in interest rates, LTV ratios, and exit strategies. Scenario planning is particularly valuable in volatile markets or during economic downturns, where financing assumptions may change rapidly.

Promote Interdisciplinary Collaboration

Collaboration between valuers, finance specialists, and legal advisors ensures that all financing aspects—such as covenants, guarantees, and repayment structures—

are accurately interpreted and reflected in valuations.

Hypothetical Scenario

Consider a cross-border acquisition of an office tower in São Paulo, Brazil, by a European pension fund. The local financing market offers a loan with a 55% LTV and 14% fixed interest rate—reflecting local inflation risks. Meanwhile, the investor could also secure a euro-denominated facility at 4% from its home country but faces currency and political risk in Brazil. The valuation must account for the different financing scenarios, adjusting both the discount rate and risk premium, and include a detailed justification for chosen assumptions in the final report.

Conclusion

A nuanced understanding of real estate financing practices across global markets is essential for accurate and reliable property valuations. Financing structures, regulatory frameworks, and market maturity all influence not only how deals are funded but how value is perceived and realized. Valuation professionals who integrate financing variables into their methodologies, leverage local expertise, and engage in robust risk analysis will be better positioned to support cross-border transactions and investment decisions in today's increasingly interconnected real estate landscape.

Sources & Citations

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