CAUTIOUS CONFIDENCE RETURNS TO REAL ESTATE MARKET

Posted on 12/12/2013

Category: [Archive]

There has been a sharp up-turn in the Spanish real estate market, but there are worries over whether a new bubble is about to burst

The economic problems in Iberia have been most severely felt in the real estate sector. Faced with overpriced real estate assets, few investors wanted to sell on the cheap, despite the stark deprecation, so – combined with books of bad debt – the market stagnated. But this is most definitely changing, say lawyers. Although there is concern that the recent wave of deals could be temporary.

The financial crisis crushed confidence, which has yet to be fully rekindled as the unprecedented pre-recession rise in real estate asset prices has yet to rebalance, lawyers agree. But according to Diego Armero, a Real Estate Partner at Uría Menéndez, the perception of the Spanish economy has changed as the talk about the euro crisis and possible bankruptcy has stopped.

"This rediscovered confidence has been especially evident in real estate and we've seen many deals close in 2013 with more expected by year-end. Indeed, it is reported that up to 50 percent of all

Spanish transactions are related to real estate so the sector is keeping law firms very busy."

Private investors and hedge funds have been especially active and have now reached a certain level of comfort in terms of price and returns, explains Víctor Casarrubios, Head of Real Estate at Jones Day. One of the biggest drivers has been SAREB, the 'bad bank' established in 2012 to collate around €50bn of toxic real estate assets from Spanish lenders. Clifford Chance, as lead legal counsel, has been working on the planned divestiture, with Broseta Abogados, Cuatrecasas Gonçalves Pereira, Deloitte Abogados, Gómez-Acebo & Pombo, Pérez-Llorca and Ramón y Cajal also in the advisory group.

SAREB recently sold its first property portfolio with HIG Capital winning a stake in a group of 1,000 properties, with Ashurst and Baker & McKenzie advising. The sale attracted many bidders, with more – such as Cerberus Capital Management, Lone Star and Centerbridge Partners – said to be interested in subsequent SAREB investments, say lawyers.

Around half the bidders for SAREB assets are opportunistic investors, such as hedge funds or distressed funds, from places like the US and UK, Armero explains.

"The other interested parties are banks, especially for the loan portfolios, with only 10 percent to 20 percent of bidders being Spanish investors. The market is now clearly driven by foreign investment."

To echo the point, other recent assets have gone to funds involving the likes of Microsoft founder Bill Gates and Mexican mogul Carlos Slim, with social housing, hotels and even real estate management companies themselves, rather than assets or loan books, on the agenda. A prime example is Bankia, which transferred the management of its real estate business to a Cerberus group in September. Uría Menéndez was counsel to Bankia while Ashurst and Schulte Roth & Zabel acted for the buyer.

Other deals saw Apollo purchase the company that manages the real estate debt owned by Santander for €700m in November, while Banco Popular's Aliseda division is also said to be the focus of some international bidders. Both Caixabank and Catalunya Banc sold its unit to international bidders with Sabadell and BBVA set to follow suit.

More traditional transactions saw the Madrid Government sell 3,000 apartments to Goldman Sachs and Azora for €201m, which Uría Menéndez also led on, as well as a 1,860 rent-controlled portfolio to Blackstone for €125.5m. While on the hotels side, Emin Capital secured Barcelona's Torre Agbar for €150m, with the plan to redevelop the building into a Grand Hyatt luxury hotel.

The abundance of work is providing a boost but Armero warns that there are few real estate development transactions as it is still hard to obtain financing.

"Spain is currently in the process of cleaning out the sector and, while there remains a lot to do, the process will end eventually," he says. "That will leave us with a more mature market focused on core assets in a few years' time."

Many investors are attempting to get deals closed by year-end and the concern is that the uptake could be temporary. "Appetite is high and more and more bidders are going after quality assets," says Casarrubios.

"This is good for sellers but it may also lead to price escalation as investors outbid each other. Indeed, some recent transactions have been questioned in the market in terms of yields and prices perhaps not being as expected."

SAREB in fact recently withdrew from its first commercial real estate portfolio because the bids were deemed too low, despite more than 30 offers being registered, lawyers say. Even so, with deals being done and bidders lining up for assets then the short-term looks positive – as long as the price is right.