

# REAL ESTATE INVESTMENT POURING INTO SPAIN, BUT LAWYERS' FEES FALLING

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**Spain the second most desirable location for European real estate investment, but lawyers face increased competition as new players enter the market**



With Spain currently the second most popular location in Europe for real estate investment, work for the country's real estate lawyers is booming; however, this has led to an excess of supply in the legal services market with the result that, in some instances, fees are being cut.

A recent survey of investors conducted by real estate consultancy Knight Frank Spain showed that Spain is now second only to Germany in the ranking of real estate investors' preferred locations in Europe – 28.5 per cent of investors said Germany was their top location, while 20 per cent favour Spain.

Fernando Azofra, partner at Uría Menéndez, attributes Spain's soaring popularity to two factors. "On one hand, all general and specific Spanish economic growth ratios have outperformed those in other European countries, while on the other, the Spanish real estate sector has grown in professionalism, sophistication and competitiveness during the years of the crisis," he says.

While there remain plenty of distressed real estate assets in the Spanish market – a legacy of the global economic crisis – the country also offers a wide spectrum of other assets for investors, says Cristina Calvo, partner at Ashurst in Madrid. Lawyers highlight strong investor demand for assets such as hotels, shopping centres, residential property, student housing and logistics. Transactions announced so far in 2018 have included Allen & Overy advising Barcelona-based hotel company HIP Partners on the €70 million acquisition of a 50 per cent stake in hotel management company Tropical Partners, and Watson Farley & Williams advising a syndicate of lenders – comprising Bankia, CaixaBank and Spanish government-owned SAREB – on the financing of Redevco Iberian Ventures' acquisition of a majority stake in the Parque Corredor shopping centre in Madrid.

Meanwhile, real estate for the logistics sector is particularly in demand as consumer appetite for online shopping increases. And there is no shortage of funding available for real estate deals. "Financing (both from banks and debt funds) is on the rise, there is a stable political environment and a sound legal system, all of which are key to attracting investors," Calvo says.

Another factor in Spain's appeal is the fact it not only offers better economic growth prospects than other European countries, but that the growth is steady. Lawyers note that real estate in Spain does not have "overheated prices" and that, to the contrary, rents and prices have steadily grown over the last three to four years, despite overseas investment pouring into the country. A wide range of investors have been doing deals, including Spanish REITs (SOCIMIs), opportunistic funds and 'value-added funds'.

### **Low fees on offer**

However, a booming market means real estate lawyers are facing increasing competition from law firms that previously had little involvement in the sector. "Though they continue to lack sizable and skilled teams, they [the new players] seem to be happy to offer low fees in order to learn from clients and the lawyers on the other side of the table," says Azofra. And even though the complexity of real estate matters – mainly in relation to civil law issues, town planning, and licensing – can work

as a barrier to new legal market entrants, "it is true that there is some commoditised work that they can handle", Azofra admits.

Meanwhile, Ismael Fernández Antón, partner at Ashurst in Madrid, says another effect of this trend is a lack of relevant expertise among some real estate lawyers. "There is a clear lack of expertise in the market with regards to zoning, construction and development, which is due to the fact that, during the crisis, real estate lawyers were mainly dealing with insolvency proceedings rather than with pure real estate development," he says. In addition, in some circumstances fees are decreasing, according to Sergio Agüera, real estate partner at Pérez-Llorca in Barcelona, who says major international investors "are starting to ask for discounts that were not previously discussed".