Spain Real Estate Is Heading Back To Where It All Began.

02/06/2014

Spanish Real Estate News

British-Airways flights to Madrid are packed with London-based real estate executives.-The hedge fund Baupost is buying shopping-centers,-Goldman Sachs-and-Blackstone are buying apartments in Madrid, and Paulson & Company and-George Soros's fund are anchor-investors in a-publicly listed Spanish real estate investment vehicle.-Kohlberg Kravis Roberts-just bought a stake in a Spanish-amusement-park complex. Big-name-private equity-firms-and banks are teaming up with and competing against one another on huge loan-portfolios-with names like Project Hercules and Project Octopus.

"It's-surreal," said Dilip Khullar, a 25-year veteran of Spanish real estate-investing and director of Cadena, an investment fund. "One day-it's the worst-place in the world to buy real estate and the next, it's the best."

Low interest rates, set-by the-European Central Bank-to help buoy Germany's market, helped to-fuel Spain's housing boom. Real estate-developers teamed up with local savings-banks to borrow and build over and over again. "We were a train going 200-kilometers an hour-and it was hard to stop," said Jaime Pascual-Sanchiz de la-Serna, executive director at Aguirre Newman, a leading real estate consulting-firm. Construction reached a staggering 12 percent of gross domestic product,-more than double the proportion in Britain or France.

When the bubble burst in-2008, Spain became toxic. “Nobody wanted to invest a penny in real estate,” said-Mr. Pascual-Sanchiz de la-Serna. “Spain was overbuilt and it was going to take-10 years to work through.” It hasn’t taken that-long.

The real estate market-started to revive in 2013. Government reforms, including a relaxation of labor-laws and stricter rules for banks-related to accounting for bad real estate,-meant that banks could no longer ignore the assets on their balance sheets. Once-the banks had-to hold more capital — in some cases drastically more — they-started to think it was better to sell, analysts and bankers said.

Spain’s “bad bank,”-called Sareb, formed in 2012 with the real estate assets of the country’s-bailed-out banks, started to close deals.-Separately, last July, Blackstone-bought 1,860 apartments for 125.5 million euros, then about $166 million, and-in August, Goldman-bought a block of public housing in central Madrid. This-combination of deals set a floor price, analysts said.

The recovery is still-nascent. About €5 billion worth of real estate transactions took place last-year, according to the consulting firmCBRE-Spain — more than double the amount of the-previous year but still small compared with the €166 billion in commercial real-estate deals-made in Europe last year. At the peak, Spain issued 120,000-mortgages a quarter; in the fourth quarter of 2013, the figure was 15,000.-Fitch Ratings-recently issued a report saying that real-estate prices would continue to fall through 2014, not rebounding until 2015.

And Spain’s economy-continues to struggle. The unemployment rate is 26 percent, and growth is-estimated to be about 1 percent this-year. The government contends things are-better, said Pedro Gonzalez, a former shopkeeper who now drives a taxi, but the-people haven’t-seen it. “There are no jobs,” he added.

But that looks like an-opportunity to investors who believe the market will truly take off and want to-get in before it does.

“It’s crazy the number-of investors coming in,” said Fernando Acuña, co-founder of-Aura, a start-up real-estate advisory firm in Spain, as-he toggled between multiple screens-dissecting data in the residential real estate market and showing the uptick inGoogle-searches for-“comprar piso” — “buy an-apartment” — in his bustling office on Madrid’s fashionable Almirante Street.

Small firms like Mr.-Acuña’s, midsize investment banks in Spain and global banks in London are-buzzing with investors looking for-different ways to play the real estate-market, by buying apartments or office buildings, scooping up loans from Sareb-or the banks-themselves, creating pools of capital to buy real estate assets or-buying servicing platforms, which give the private equity firms that own-them-the ability to manage their assets as well as critical market intelligence.

Belén Romana, chairwoman-of Sareb, said the number of investors — around 50 — who turned up for the-first auctions surprised her.-They were aggressive, she said. “It was early and-they thought they could make a killing.” They pushed her to move fast and do-deals.-“They wanted to sit in a dark room and do a bilateral deal,” she said.-She refused. Auction processes were put in place, with data rooms-for deal-teams and deadlines for nonbinding and binding deals.

In 2013, Sareb sold €1.5-billion of the €51 billion in assets it was created to sell. Of the €51-billion, about 20 percent is real estate and 80-percent are loans. Ms. Romana-said the agency bought the assets at discounts of 40 percent to 80 percent.

There is a lot to sell.-Sareb aims to sell nearly 10,500 assets this year, and the top six Spanish-banks hold an additional €159 billion worth-of real estate and development-loans, according to a Goldman Sachs research report.

Catalunya Bank has just-received bids for Project Hercules, a €6.95 billion portfolio of residential-home loans, 43 percent of which are-nonperforming, or overdue by at least 90-days. The bidders are a who's who of private equity: Blackstone and TPG are-competing against-teams of Goldman Sachs and Cerberus; Apollo and Centerbridge;-and-Deutsche Bank, Pimco-and Marathon, according to a person-briefed on the sale.

Commerzbank recently-sold €4.4 billion of loans backed by commercial real estate in a separate deal-called Project Octopus, in which-Lone Star and-JPMorgan Chase-beat out Blackstone and Deutsche Bank. The-price was not disclosed but market participants said the sale-was made at close-to a 30 percent discount.

In February, a Socimi,-or Spanish real estate investment trust, came to market, raising $547 million.-Two weeks later, Hispania Activos,-another pool of capital, raised $763-million, with Paulson & Company, George Soros's Quantum fund and Moore-Capital as anchor-investors.

Before Grupo Azora, the-Spanish real estate company behind Hispania, decided in the early fall on an-initial public offering, some of the-bankers its executives spoke with wondered-whether there would be ample demand. But by the time the deal was marketed,-investors-were jockeying to get a piece of the action.

"We generated demand of-$2.3 billion," said Juan del Rivero, chairman of Grupo Azora and a former-Goldman Sachs partner. "In my 30-years of experience in investment banking, I-haven't seen a lot of books like that," he said, referring to the process in-which investment-bankers take orders for a deal before pricing it.

More Socimis are in the-pipeline, with at least one set to raise more than €1 billion.

Already the deal-landscape is changing. While many investors want trophy commercial real estate-assets, extremely few are for sale in-prime areas of Madrid and Barcelona.-Investors who hoped for 20 percent internal rates of return are now expecting-12 percent to 15-percent, and shifting their focus to residential properties,-analysts said.

That shift suits Mr.-Acuña of Aura very well. He has ridden the boom and bust of the real estate-cycle and is gearing up for the next boom.

In 2006, Deutsche Bank-hired him to build its mortgage business. When the market collapsed, he added-the title of head of collections. In-2009, he started a business trying to sell-repossessed houses for the banks and formed a database with 450,000 properties-from banks-and more than a million from private clients. When investors started-calling and asked him for valuations of land, houses, buildings and-portfolios,-he started Aura to advise them and also to invest in the sector. Its website is-in English because, he said, "all my clients are in-Mayfair."

"I think 2014 is the-year we will see a lot of transactions," he added.

Many worry that the-competition for some assets and excess liquidity is driving prices higher.

"People are starting to-overpay on certain assets," said one investment banker who spoke on the-condition of anonymity because he works-with many of the funds active in the-market. "There's pressure from investment committees in London to do deals."

One private equity-executive said a recent auction for a mediocre office building attracted 30-bids. His company's bid — which he said-was fully priced — did not even make it-past the first round.

Are prices too high?-“That’s the million-dollar question,” said Javier Martinez-Piqueras, co-head of-equity capital markets atUBS.-“Actually, it’s-the billion-dollar question.”

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Source New York Times 29.6.2014

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