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Blackstone's Spanish Investment Caught in Political Crossfire

By Sharon Smyth - March 26, 2015

When Blackstone Group LP and Goldman Sachs Group Inc. bought into Spain's residential real estate market two years ago, they saw it as a bet on the nation's economic recovery.

While they've been right about the turnaround, their investment in homes for low-income tenants is proving more complicated, with both companies embroiled in a political dispute over allegations of evictions and rent increases. The New York-based investors say they've done nothing wrong.

The controversy is fueling concern that international buyers will shun Spain's residential rental market just at the moment they're most needed. The nation has 1.4 million excess homes, according to consultants R R de Acuna y Asociados, a legacy of a lending spree that tipped the country into its worst recession in Spain's democratic history.

"All the polemical statements about rental social housing and evictions are creating some uncertainty that's really harming investment in this nascent industry," said Javier Picon, investment director at Azora Capital SL, a Madrid-based manager of rental homes that works with Goldman Sachs. "Even if there was a large portfolio of units on sale now from a public administration, international investors would think twice about buying."

Office Demonstrations

Blackstone, the world's largest private-equity investor, bought 1,860 rental-housing units from cash-strapped local authorities in 2013. Goldman Sachs acquired 3,000 low-income apartments from the city of Madrid the same year.

Activists from Platform Against Evictions, known as PAH, say 500,000 people have been evicted from their homes since the implosion of the Spanish real estate market in 2008. It's running a campaign called "Blackstone Evicts," with demonstrations twice this year outside the firm's offices in London, New York and Madrid.

The anti-establishment Podemos party is making housing a central issue as the country heads into an electoral marathon to choose governments in 15 regions, including Catalonia and Madrid, before a national election due at the end of the year.

"Anyone who can show me that we've raised their rents, community charges or evicted a single person unfairly should come to me and prove it," said Miguel Onate, the Madrid-based head of Fidere, the residential unit of Blackstone. "We're caught in the political crossfire. No one mentions the money we've invested to improve the properties and lives of more than 3,000 tenants who pay their rents."

Forcible Evictions

Odate says that since taking over management of the properties 18 months ago, Fidere has forcibly evicted just 11 tenants who were defaulting on their rents long before they bought the properties. Blackstone offered interest-free grace periods, rent reductions and alternative accommodation, all of which were rejected, before finally deciding to evict the tenants, he said.

There are few signs yet that international buyers are shying away from Spain, with private-equity firms, hedge funds and sovereign wealth funds tripling direct investment in the nation's property market last year to 9.7 billion euros, according to data from Irea, a Madrid-based debt-restructuring firm.

Goldman Sachs, which paid 201 million euros for its Madrid apartments, said it has forcibly evicted one person in the 20 months since the transaction closed.

The tenant, who was 61 months in arrears on his rent had also broken into 13 other units his block to sublet them illegally, according to Carlos Rodriguez, a manager at Goldman Sachs's Spanish partner Azora.

Property Renovations

Goldman Sachs has invested 5 million euros renovating properties and increasing security to improve the living conditions of tenants, 85 percent of whom have no problem paying their rents, which haven't been raised since the investment bank took over, according to Rodriguez.

Since being posted on the Internet last month, a PAH video accusing Blackstone of evicting thousands of people in Spain and around the world has had 30,000 views. The organization said it was unable to find a tenant of Goldman Sachs or Blackstone who has had his or her rent or community charges raised, or has been evicted unfairly to comment for this article.

"Blackstone has started to change the terms of peoples' contracts and they have already carried out evictions," said Santi Mas de Xaxas Faus, a Barcelona-based spokesman for PAH. "Blackstone needs to make a profit and how are they going to do that if the homes they bought are not rented out at the highest-rate possible?"

Podemos, which is promising to restructure \$1.1 trillion of Spanish public debt, while halting evictions and home foreclosures and impede further sales of government owned rental housing units to private equity firms, has also criticized Goldman Sachs's purchase.

Protected Rents

"They know that at a certain point the protected rents will expire, and when that happens, they will throw the tenants out," Juan Carlos Monedero, a member of Podemos's executive committee, said in an interview in January. "They're enriching people who already have more money than they know what to do with, and in turn they are forcing people to live on the streets."

Podemos widened its lead over Prime Minister Mariano Rajoy's People's Party with 19.3 percent of respondents saying they'd vote for Podemos compared with 12.9 percent backing the ruling PP, according to a survey by the state polling company CIS carried out on Feb. 4.

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“Our policy is to help these people. We have a social worker and we sit down with each and every one to discuss their situation,” Azora’s Rodriguez said during an interview in Madrid. “We do all that we can to find a solution for tenants who want to, but we cannot pay their rents.”

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