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Lone Star Spending \$565 Million on Land for Spain Homes in 2015

By Sharon R Smyth - June 11, 2015

Lone Star Funds, the private-equity firm founded by billionaire John Grayken, will invest as much as 500 million euros (\$565 million) this year buying land for Spanish housing developments as demand picks up.

“Despite the glut of homes in Spain, there are areas where stock is running out and we aim to fill that gap,” said Juan Velayos, chief executive officer of Neinor Homes, the Lone Star unit seeking to become Spain’s biggest home builder. “We aim to build homes where there is solvent demand and where people can afford to and want to buy.”

Lone Star’s blueprint for Neinor signals the changing sentiment toward the nation’s residential property market, which is rebounding after a six-year slump when prices fell as much as 40 percent. The company will buy land in Madrid, Barcelona, the Balearic Islands and some coastal areas where stock is being depleted, Velayos said in an interview in Madrid.

Dallas-based Lone Star bought Neinor from Spanish lender Kutxabank SA in December for 930 million euros. It has already signed contracts to purchase 230,000 square meters (2.5 million square feet) of land for 187 million euros to construct 2,050 homes, Velayos said. The firm will target middle class homebuyers aged 40 to 50, he said.

House prices rose 1.5 percent in the first quarter from a year earlier and there was a 9.4 percent surge in transactions. The Madrid region is helping to lead the revival, with sales jumping an annual 20 percent in April, while business climbed 18 percent in Catalonia.

‘Astute’ Strategy

“Their strategy has a very high chance of success as properties are literally flying off the shelf in these areas,” said Fernando Rodriguez de Acuna, head of Madrid-based property research firm R.R. de Acuna & Asociados. “Targeting that stratum of the population is very astute given that age bracket normally has stable employment, savings and already some equity in housing.”

Both domestic and international buyers evaporated when the economy collapsed during the financial crisis, leading to an international bailout of Spanish banks and the worst recession in the country’s democratic history. An excess of credit-driven construction before the slump led to a surplus of more than 1.6 million homes after sales plunged from 955,186 units in the peak in 2006 to 365,594 units last year.

IPO Possible

“Demand for homes in Spain will never go back to the numbers we saw at the peak of the boom and for this reason we have carried out extensive research,” Velayos said. “Many excess homes and land are situated in areas that will never sell because there is simply no demand. So we only develop in areas where we have the complete conviction that people can and want to buy.”

An initial public offering of Neinor could happen if plans for the company work out, Velayos said.

Spain has an excess of 1.6 million empty homes, as much as 60 percent of which were built in areas where there is no demand, according to Rodriguez de Acuna.

“Madrid, Barcelona and good areas on the coast such as Malaga are where we are seeing the most activity and the jump in transactions that we are seeing corresponds to those areas,” Rodriguez de Acuna added.

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