

## Spain's Littered With Unsold Homes. This U.S. Firm Wants to Build More

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Ignore those million-plus empty new homes scattered across Spain. A developer owned by Lone Star Funds says there's never been a better time to build more.

Neinor Homes, bought in 2014 by the Dallas-based investor, aims to become one of Spain's biggest homebuilders by increasing construction in big cities where the housing stock is running low, according to Chief Executive Officer Juan Velayos. Competition is thin after the 2008 real estate collapse wiped out about half the company's competitors and made banks reluctant to finance development.

"During the boom years, anyone could simply get a bank loan to finance construction," Velayos said in an interview at his Madrid office. "It is a very different story now, you need equity and that is going to be the real game changer."

The apartment blocks standing empty in secondary towns and cities contrast with the scene in Madrid and Barcelona, where the country's economic recovery is more advanced and construction has fallen behind demand. Bank lending to the real estate industry fell by 65 percent between 2009 and last year, handing the advantage to private-equity backed companies like Neinor and Dos Puntos, which was bought by U.S. investor Varde Partners LP in 2015.

Lone Star, founded by billionaire John Grayken, bought Neinor from Spanish lender Kutxabank for 930 million euros in 2014. The company built 2,000 homes in 2016 and expects that to rise to 3,250 a year from 2018 to 2020. The owner plans to sell 25 percent to 50 percent of the company this year in a deal that could value Neinor at around 2 billion euros.

### Intense Research

"Neinor's model is Anglo-Saxon, in that they do their research in minute detail and don't build unless it's clear there's demand today, tomorrow and in two years," said Fernando Rodriguez de Acuna Martinez, general director of R.R. de Acuna & Asociados, a Madrid-based real-estate consulting firm. "It's what the sector needed and it's nothing like Spanish developers that built whatever, wherever and however many homes they wanted."

Varde, a private equity firm with \$12 billion under management, takes control of troubled companies by purchasing their debt and then selling or floating them. It took over Dos Puntos, then named San Jose Desarrollos Inmobiliarios, mirroring the strategy it employed in 2011 when it bought Crest Nicholson Holdings Plc and floated the company less than two years later. Varde is also preparing an IPO for Dos Puntos, a spokesman said without providing further details.

## Not Alone

“The fact we’re not alone in identifying Spain as the place to be is a comfort,” Velayos said, “Varde which did an amazing job turning Crest Nicholson around in the U.K. is also here working with a local developer to build.”

Spain saw 675,000 homes a year built from 1997 to 2006, according to a report by a unit of Spanish savings bank Cajamar. The frenzy resulted in a surplus of 1.4 million empty homes, around 60 percent of which will never find buyers, Rodriguez de Acuna Martinez estimates.

“Those homes are in the middle of nowhere, with no schools hospitals and transport infrastructure,” said Jose Luis Ruiz Bartolome, co-author of *The Return of Bricks and Mortar*, a 2015 book about the decline and recovery of Spain’s real estate and mortgage markets. “Now there is demand for homes where stock has run out in large cities where Neinor is focused. They have really done their homework.”

About half of Spain’s 58,900 developers have gone out of business since 2008. The biggest was publicly traded Martinsa-Fadesa SA, which sought protection from creditors in 2015 with debts of 5.2 billion euros. Construction ground to a halt, and Spanish banks were forced to take 270 billion euros in provisions from 2008 to 2013 to clean up their real estate risk. Just 39,890 homes were completed in 2015, according to data from Spain’s Industry Ministry.

That leaves few builders in the position to take advantage of a recovery. Spanish home sales rose 14.2 percent in the 11 months through November from a year earlier, according to data from the National Statistics Institute. Average prices climbed 5 percent last year, according to Spanish home appraiser Tinsa. The biggest price gains were in Barcelona at 8.4 percent, Guipuzcoa in the north at 7.4 percent and Madrid at 5.2 percent, the data show.

For Fernando Encinar, co-founder of Idealista.com, Spain’s largest property website, a stock market listing for Neinor couldn’t come at a better time.

“The housing market is returning to normal in some areas,” Encinar said. “While there is ample new home stock in places with no demand, there is none at all now in places like Madrid and Barcelona.”