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A Decade After Bubble, Spanish Real Estate a Hot Buy Again

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Spanish real estate is hot property once again.

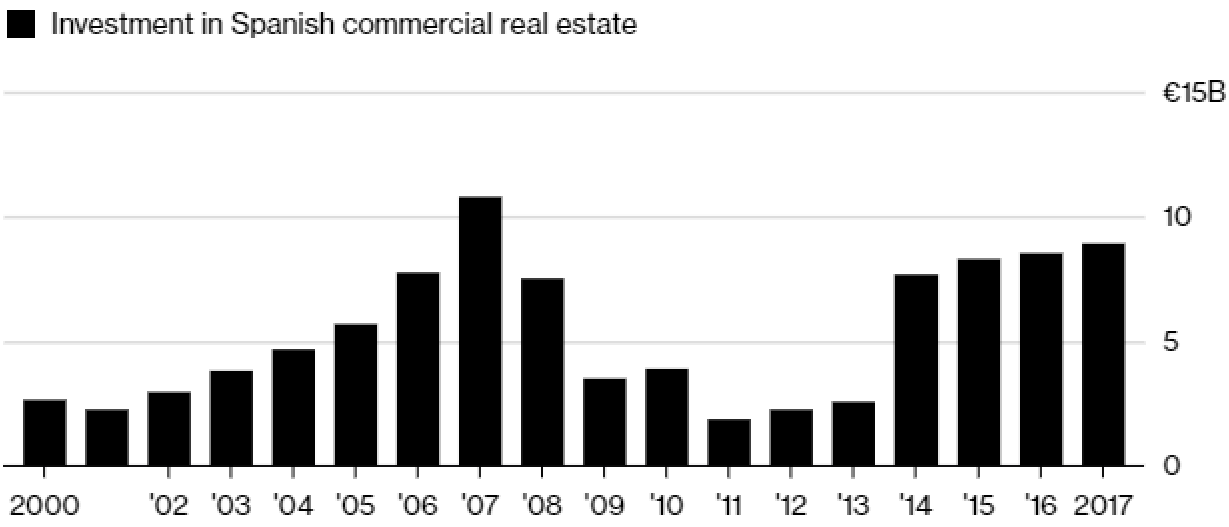
Investment in malls, warehouses, hotels and offices is this year set to reach the highest since 2007, just before the bursting of a decade-long property bubble tipped the economy into the worst slump in the nation's democratic history.

Banks are clearing the way for the turnaround, beating their euro-zone peers in ridding their balance sheets of foreclosed assets and luring foreign buyers to heavily discounted properties. And with Spain's economy now outpacing the rest of the continent, 2018 is set to be as strong for commercial real estate investment as 2017, according to Savills Plc.

"It's basically the year when it's all come together," said Ismael Clemente, founder and chief executive officer of Madrid-based Merlin Properties Socimi SA, Europe's third-largest real estate investment trust. "The Spanish economy is doing well, its banks are healthy, there's a very investor-friendly legal framework and property is still cheap compared to other European cities."

Real Recovery

Spanish commercial real-estate investment at highest since property-bubble burst



Source: Savills

It's a far cry from 2008, when investors couldn't dump Spanish real estate fast enough. The recovery started four years later with a 41 billion-euro ($49 billion) banking-system bailout, and is gathering pace as lenders discount and clear out toxic property assets.

"When the global financial crisis broke out, the phones literally stopped ringing overnight and they stayed silent until 2012, when the Spanish bank rescue came," said Fernando Rodriguez de Acuna Martinez, director of Madrid-based real-estate consultancy R.R. de Acuna & Asociados. "Investment volumes today are the fruition of that bailout, which has allowed lenders to mark down real estate loans and assets at a price investors will pay."

The rescue allowed Spain to set up Sareb, a bad bank, to manage 50.8 billion euros of soured real estate assets from lenders in 2012. On Thursday, the entity announced it had sold loans with a face value of 375 million euros to Deutsche Bank AG, bringing the total sales since its inception to 13.9 billion euros.

Cleaning Up

Spain's second-largest bank, Banco Bilbao Vizcaya Argentaria SA, agreed last month to sell foreclosed property assets with a gross book value of 13 billion euros to Cerberus Capital Management in a deal that valued them at just 5 billion euros. In August, Blackstone Group LP paid about 5 billion euros for 51 percent of Banco Popular Espanol SA's real estate assets, which had a face value of around 30 billion euros.

Those two deals represent the lion's share of soured property debt sales this year, which reached a record 48.2 billion euros, according to advisory firm Evercore Partners International. That's more than the preceding four years combined.

This year "has seen a significant transfer of real estate assets and loans from banks to investment funds," said David Finkel, managing director of Talus Real Estate, which set up in Madrid in 2013 to invest in Spanish property. "I expect the trend to continue and transaction volumes in 2018 and beyond to grow further as buyers of these large portfolios sell on a significant amount to longer-term holders."

Investment in Spanish commercial property will reach 8.9 billion euros by the end of this year, Savills predicts, up from 1.9 billion euros in the post-crisis depths of 2011 and approaching the 10.8 billion euros seen in 2007.

Just over two thirds of the money this year has come from foreign buyers, with retail assets the most popular investment, followed by hotels and offices, Savills data show. Spanish shopping malls offer owners a yield of 4.25 percent, compared with 3.75 percent in Berlin, Frankfurt and Paris, according to broker Knight Frank LLP.

The economy is also helping drive deals, with Spain forecast to grow 3.1 percent this year and 2.5 percent in 2018. That beats the major euro-area nations and shows that even the political turbulence sparked by the Catalan secession crisis earlier this year failed to knock Spain's recovery off track.

Unemployment at a nine-year low, and Prime Minister Mariano Rajoy's ambition to have 20 million Spaniards in work by 2020, are helping consumer and business confidence and translating into higher rents for retail and office properties, said Luis Espadas, head of capital markets at Savills in Madrid.

"Rents are rising and so is occupancy, and that's what's motivating investors," Espadas said. "They can see there's still a lot of upside."