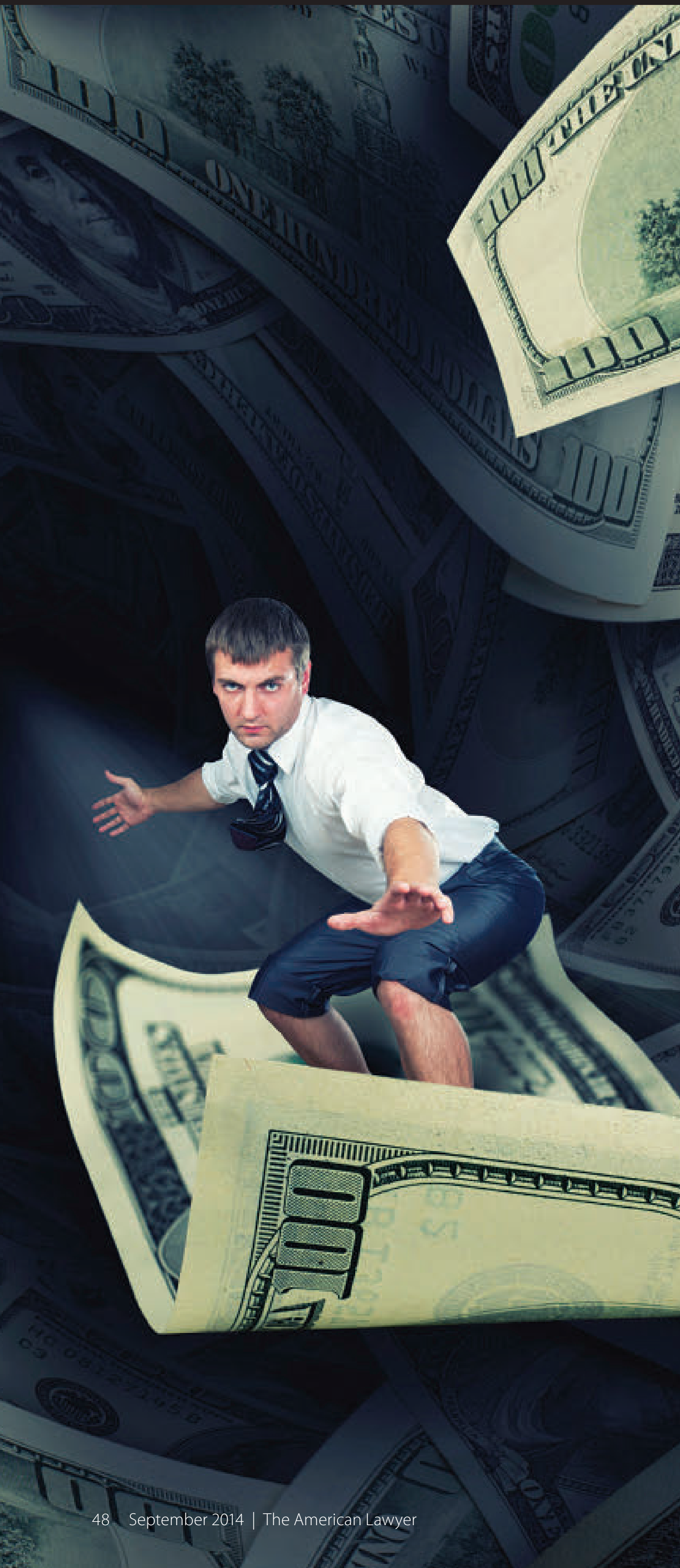


Riding a Wave

In the third quarter of 2013 the Spanish economy returned to growth, ending two years of recession. Foreign investors are lining up to take advantage of new business opportunities

By Maria Jackson

Spain has exited its recession with a bang, according to recent figures from the country's National Statistics Institute. In the second quarter of 2014, the Spanish economy grew by 0.6 percent, exceeding the Bank of Spain's projected 0.5 percent and representing its fastest three months of growth since 2007. As growth stalls across the rest of Europe, Spain's performance highlights the country as a regional hotspot for deals, which is driving up investor confidence in the euro zone's fourth largest-economy. In fact, according to data published by global law firm Clifford Chance, overall inbound M&A into Spain increased by 126 percent in 2013, reflecting opportunities in distressed debt and affordable quality assets. The country's privatization plans should also whet investor appetite in the coming months.

"Spain is back on agenda for investors and new players, mainly international investment funds actively looking for opportunities in the Spanish market, are driving transactional activity," says Jaime Velazquez, managing partner of Clifford Chance Spain. "At the same time top Spanish companies looking to consolidate their leadership in the international markets are being increasingly active on corporate transactions to support their expansion plans."

HOT PROPERTY

Law firms are unanimously reporting a rise in deal flow as the economy continues to right itself and new business opportunities arise.

"Without question, one of the more noteworthy recent developments has been the gradual re-emergence of transactional practices," says Adolfo Suárez Illana, president of ONTIER. "Corporate and M&A transactions are increasing in number and value. Real estate work has been steadily improving along with the housing and commercial construction markets."

Across Europe, real estate assets are being snapped up by savvy investors with an eye for a bargain and Spain is winning a significant piece of that market. Jones Lang LaSalle's 'Global Market Perspective: Second Quarter

2014' report shows that recovering European markets are attracting increasing levels of foreign investment. Notably, Barcelona, Madrid and Dublin accounted for over $300 million of investment activity in the first quarter of 2014, which represents a 52 percent increase on the first quarter of 2013. Indeed, Spain alone posted a 14 percent increase in direct commercial real estate investment between the first quarter of 2014 to the second quarter of 2013.

"Foreign investors are definitely driving the industry at this stage, mainly concentrating on real estate opportunities," says Pedro Rueda, co-founder of Spanish law firm Araoz & Rueda. "Three out of every four euro invested derives from abroad."

In 2014 Madrid-based partner Diego Armero led a team from Iberian law firm Uría Menéndez in its advice to a consortium, comprising Texas-headquartered private equity firm Lone Star and JP Morgan, in its $6.9 billion (€5.1 billion) acquisition from Commerzbank of its entire Spanish commercial real estate financing portfolio and a portfolio of non-performing loans in Portugal.

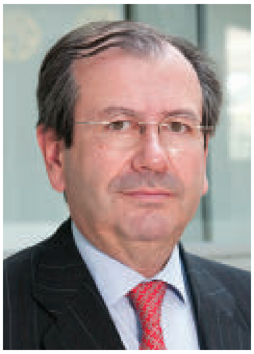
"There has been increasing attention in the Spanish market from a wide array of international funds and investors, particularly in real estate assets, non-performing loans and banks assets," says Luis de Carlos, managing partner at Uría Menéndez. "This has generated a substantial increase in the workload of our M&A and Real Estate practice areas."

As the Commerzbank deal demonstrates, it is foreign investment that is currently fuelling deals in the real estate sector. Many economists are tipping the country as one of the most attractive real estate destinations in Europe.

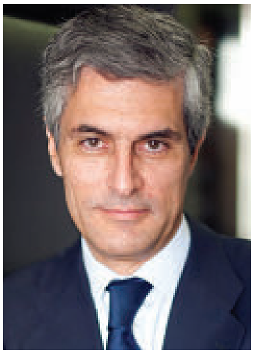
"Securities market transactions continue to grow as alternatives to the shortfall in bank financing."

—FERNANDO VIVES, MANAGING PARTNER, GARRIGUES

"One of the main conclusions of the CBRE report 'European Real Estate Investor Intentions 2014', drafted from the views of nearly 400 European investors from funds, banks and private equity, was that Spain ranks as the third most attractive country in Europe to invest in property, just behind the United Kingdom and Germany," says Rubén Ferrer, resident partner in the New York office of Madrid-headquartered firm,



FERNANDO VIVES
GARRIGUES



ADOLFO SUÁREZ ILLANA
ONTIER

Gómez-Acebo & Pombo. "This indicates that more mature European markets are becoming expensive while Spain seems more accessible."

As Ferrer adds, it is not just the perceived value of the market that has helped to bolster the sector; other developments have combined with affordability to boost investment. Most notably, the easing of restrictions on SOCIMIs (Spanish real estate investment trusts, or REITS) and the ongoing disposal of assets by SAREB (Spain's 'bad bank', which absorbed around $69 billion of real-estate assets) have worked to drive up demand.

"None of these vehicles or concepts were in proper shape, or even existed, by January 1st, 2013," explains Ferrer.

As the involvement of Lone Star in the Commerzbank transaction also demonstrates, private equity deals are becoming more commonplace in the market again.

"Securities market transactions continue to grow," explains Fernando Vives, managing partner of Garrigues, the Iberian Peninsula's largest law firm. "In terms of both equity and debt, as well as private equity, as alternatives to the shortfall in bank financing."

FUNDING GROWTH

The renaissance in private equity activity is being witnessed across Europe, but nowhere is this revival more obvious than in Spain.

"International funds are clearly considering Spain again in their business plans with particular focus on real estate assets," says Suárez Illana. "Our Latin American offices are especially active in helping our clients in both inbound and outbound investment."

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Research compiled by Thomson Reuters illustrates that the first half of 2014 saw more than $3.4 billion worth of Spanish buyouts. Not only does this mark a 33 percent rise on last year's half-year total but it also represents the largest value seen since 2007's $3.54 billion peak.

"Spain has yet to return to the bullish years before 2007; however, the revival of private equity activity has been palpable, especially in the financial and real estate sectors," says de Carlos. "Moreover, private equity firms are not the only entities that have been active in Spain; many types of funds from America, Europe and Asia have also been taking advantage of the varied opportunities Spain has to offer."

Uría Menéndez also acted on one of last year's most high-profile private equity transactions. In what was to become a significant bellwether for the market, U.S.-based private equity houses Warburg Pincus and General Atlantic jointly acquired a 50 percent stake in Banco Santander's asset management arm, in a deal worth nearly $2.7 billion. Barcelona managing partner, Antonio Herrera, led the team from Uría Menéndez that advised Santander on the deal. Garrigues represented Warburg Pincus and General Atlantic and points to the transaction as evidence of the growth in cross-border deals involving Spain.

'Recently, the trend in the rise of services provided by Spanish lawyers on international contracts has prevailed," says Vives. "The most active industries continue to be divestments on the part of the financial institutions, debt refinancing and advice on insolvency and pre-insolvency situations." The firm has responded to the trend by ramping up its international capability, particularly in Latin America. Since June 2013, it has established new offices in Colombia, Mexico and Peru to add to its existing offices in Brazil and Mexico. Notably, the firm secured an instruction from Portugal Telecom to advise on its headline merger with Brazil's largest phone company, Oi, to create a combined company with nearly $17 billion in annual sales. The transaction demonstrates the appetite for strategic deals alongside more opportunistic investments.

"Strategic investors are returning to the scene," says Rafael Fontana, chief executive officer at Cuatrecasas, Gonçalves Pereira. "So we are seeing strategic deals with foreign investors acquiring or taking significant stakes in Spanish companies, while the internationalization process of Spanish companies is also going on."

Unsurprising, therefore, the mood in Spain is upbeat. The brightening domestic outlook is matched by a more stable economic environment globally, which is ensuring the deal pipeline looks healthier than it has in some time.

"Our industry has undergone significant change since the recession, and it's moving very fast toward new business and service models and new competitors," Suárez Illana. "That means new investments and new projects, which translates into an increase of transactional work. Spain is becoming attractive again." ■