



# SPAIN

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**Q** COULD YOU OUTLINE SOME OF THE MAJOR TRENDS IN THE REAL ESTATE SPACE IN SPAIN OVER THE LAST 12-18 MONTHS?

**CONDE:** The Spanish real estate sector over the past 12-18 months has experienced a significant change, from a market mainly focused on opportunistic transactions, either regarding assets of NPLs, based on the need for many financial entities to get rid of their major portfolios arising from the credit crunch back in 2008-2011, to a more stabilised environment where long and mid-term transactions are the main target of investors. Further, real estate development is again an area of interest and products like care homes and student accommodation are attracting new players.

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**Q** WHAT PARTICULAR RISKS AND CHALLENGES ARE REAL ESTATE PLAYERS FACING IN TODAY'S MARKET? HOW ARE THESE FACTORS IMPACTING STRATEGIES?

**CONDE:** The main challenge faced by investors relates to financing restrictions enforced due to the current reluctance of Spanish banks to provide credit for real estate projects. In addition, the progress of the new wave of development transactions requires close cooperation between foreign investors and local partners, who can provide expertise on planning requirements and construction standard practice. As a result, one of the main goals of a great number of investors interested in development is to incorporate long-term joint ventures with local specialised operators.

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**Q** WHAT FACTORS ARE DRIVING REAL ESTATE M&A AND INVESTMENT IN TODAY'S MARKET? ARE THERE ANY SEGMENTS OR REGIONS THAT SEEM TO BE OFFERING A WEALTH OF OPPORTUNITIES?

**CONDE:** Investors are generally looking for products which may provide relevant returns in a market experiencing outstanding growth over the past three to four years. This leads to the search for new niches offering less competition and enough margin for good selling prices. In this context, alternative investments, such as luxury residential, healthcare and student hospitality, are generating additional interest. While residential and hotels are still mainly focused on Madrid and Barcelona, investments in care homes and student accommodation may cover other less 'core' locations.

**Q** IN BROAD TERMS, HOW WOULD YOU DESCRIBE CURRENT VALUATIONS FOR REAL ESTATE ASSETS IN SPAIN? IS THERE A GAP BETWEEN BUYER AND SELLER PRICE EXPECTATIONS IN THE CURRENT MARKET?

**CONDE:** Due to the growth of transactions in recent years, prices in conventional real estate sectors, such as office and retail, have experienced an upward trend which can sometimes create a gap between buyers and sellers, protracting the closing of deals. However, alternative sectors are helping to keep more control over prices and allow better returns. This is also consistent with the current environment, which is more favourable to long-term investors as opposed to opportunistic sales where a low price was a condition for the transaction to happen.



**Q** MANAGING RISK AND IDENTIFYING VALUE ARE FUNDAMENTAL PARTS OF THE ACQUISITION AND INVESTMENT PROCESS. IN YOUR EXPERIENCE, IS ENOUGH DUE DILIGENCE BEING CONDUCTED IN TODAY'S REAL ESTATE DEALS?

**CONDE:** Due diligence is usually properly conducted in the Spanish real estate market. We would stress the importance of proceeding with careful planning and licence reviews, which may indicate the existence of issues in the long term and could potentially affect timing. Tax structuring is also relevant, especially in a competitive context where correct tax planning may help to adjust pricing and therefore help to submit a competitive offer. Finally, labour issues may be also crucial in complex deals, such as hotel transactions where the acquired asset includes an operating business.

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**Q** WHAT KINDS OF TRANSACTION STRUCTURES AND INVESTMENT VEHICLES ARE REAL ESTATE PLAYERS USING TO EXECUTE DEALS AND OPTIMISE THEIR LONG-TERM RETURNS?

**CONDE:** From the perspective of local players, the growing involvement in the real estate market of *Socimis*, an investment vehicle focused on rented assets following the same structure as REITs, has contributed to the recent reinvigoration of the sector, and has increased prices in certain areas, including offices and logistics. For a number of reasons, the usual investment structure including a Dutch company is now being replaced by other possibilities like a double tier Spanish company or the use of other jurisdictions, like Luxembourg. In any case, good local tax advice prior to the commercial implementation of the transaction is of the utmost importance in order to achieve a sound return on investment and final disinvestment in the future.

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**Q** WHAT ISSUES AND DEVELOPMENTS DO YOU BELIEVE WILL SHAPE THE REAL ESTATE MARKET IN SPAIN OVER THE MONTHS AND YEARS AHEAD?

**CONDE:** The now confirmed increase of residential developments in certain areas of Spain will be one of the factors which will help to shape the future of the market. Another issue of particular importance will be the outcome of the Brexit negotiations, and whether the final agreement reached between the European Union and the UK may lead to a balance where incentives for real estate investment in continental Europe are not jeopardised or questioned. Finally, the continued economic resurgence, which currently places Spain among the bigger European countries, will be essential in the incoming years.

ABOGADOS

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Jesús Conde, partner of the real estate department of Araoz & Rueda, joined the firm in 2016 from the real estate department of Baker & McKenzie (2009-2016). He started his professional career as an associate at Uría Menéndez (1996-1999) having also worked as a senior associate of the real estate department of Freshfields Bruckhaus Deringer (1999-2009). Throughout his career he has specialised in projects concerning the restructuring, negotiation and execution of international real estate transactions, handling civil, commercial, planning and administrative aspects of matters such as auction sales and sale and lease back transactions of industrial and commercial premises.