Special Report: **Spain: Business & Innovation**

Spanish construction rebuilds after market collapse

The property business is turning a corner after one of the worst busts in history

Ready to go: a construction worker on a building site in Barcelona © Bloomberg

6 HOURS AGO by: **Ian Mount**

Property developer Olivier Crambade founded Therus Invest in Madrid in 2004 to build offices and retail space. For five years business went quite well, and Therus developed and sold more than €300m of properties. Then Spain (https://www.ft.com/topics/places/Spain)'s economy imploded, taking property with it, and Mr Crambade spent six years tending to Dhamma Energy, a solar energy business.

Now, however, the pendulum has begun to swing back. Therus has just broken ground on what Mr Crambade describes as Spain's first large-scale speculative office project since the crisis, a 34,000 sq m complex near Madrid's Barajas airport. Hispania, a *socimi*, or Spanish Reit (real estate investment trust), which counts George Soros among its investors, is forward funding the €106m project, which it will rent out.

"Now that they see that the Spanish economy is growing, that at least we have a government, businesses that had been waiting are looking for more space for growth, says Mr Crambade.

After one of the most brutal property busts in history — housing prices fell 45.2 per cent from 2007-2015, according to property site Fotocasa — the market seems to have turned a corner.

During the third quarter of 2016, average office rents rose 9 per cent in Madrid and 14 per cent in Barcelona year-on-year, says BNP Paribas Real Estate. Home sales are up 10 per cent and home foreclosures down 30 per cent annually, according to Spain's national statistics agency, INE. Asking prices for homes in downtown Madrid and Barcelona are up 7 per cent and 9 per cent respectively since 2015, says Beatriz Toribio, Fotocasa's head of research.

"From 2010 to 2012, international investors didn't want to touch the Spanish market with a stick," says Fernando Encinar, co-founder of property website Idealista. "We've passed from a brutal lack of trust in the Spanish economy, to now when you speak with investors [they say] 'Give me yield.' "

The nascent recovery in Spain's real estate market has come in stages, starting with opportunistic investors who bought high-risk assets in search of big returns. The first wave arrived in 2013, when large international funds from Goldman Sachs, Cerberus Capital Management and Blackstone bought bad loans and apartment portfolios.

The following year, the first *socimis* listed on Spain's stock exchange and raised funds for more value-added investing. These Reits, along with funds such as GreenOak Real Estate, bought into the shopping centre market. They also began to bet on Spain's economy — GDP is expected to grow 3.2 per cent in 2016, one of the fastest rates in the EU — by financing prime office renovations.

One of the earliest arrivals after the distressed asset investors was Lar España, the first *socimi* to list its shares publicly, in March 2014. Its primary bet has been on retail, as a way to ride increasing consumer spending. Today it has 26 properties worth some €1.2bn, 75 per cent of which is in shopping centres.

"There's been a clear recovery of consumption in Spain, as well as a drop in unemployment," says Miguel Pereda, chief executive of Grupo Lar. Sales at its shopping centres rose 9.2 per cent in the first nine months of 2016, he adds.

Related article

Spain's recovery story shines through the global gloom (http://next.ft.com/content/549d7f08-9a09-11e6-8f9b-70e3cabccfae)

Economic and political progress help nation abandon defensive crouch

Investment in commercial real estate boomed in 2015, rising 25 per cent to €13bn, according to CBRE Spain; 43 per cent of that went into offices. This year's figure is expected to be about €9.5bn, slowed in part by global uncertainty and the lack of a proper government in Madrid for 10 months, until October.

The residential market has also returned, led by foreign nationals who bought in Madrid and Barcelona (http://next.ft.com/content/4b1af4f6-83d4-11e6-8897-2359a58ac7a5) and on the Mediterranean coast. There are still 500,000 unsold housing units in Spain, but new residential housing has begun to sprout. Last year, US investment firm Lone Star Funds bought a local residential real estate development firm, Neinor Homes, for €930m, with plans to build 1,000 units in the first year.

"We've gone from 'invest and wait' to 'produce and generate'," says Adolfo Ramirez-Escudero, chief executive of CBRE Spain. "Now there's more development and construction, more cranes, more economic activity leading to better sale prices and rents."

Referring to a Neinor Homes sign in the CBRE's Madrid offices, Mr Ramirez-Escudero says that the firm returned to promoting new residential units only last year. Now, he says, it has 1,500 and demand has returned.

> Now there are more cranes, more economic activity, better sale prices
> **Adolfo Ramirez-Escudero**

Weak spots remain. Outside prime locations in Madrid and Barcelona and on the coast (http://next.ft.com/content/a29c2f76-74f0-11e6-bf48-b372cdb1043a), many markets still have a "major hangover", with no recovery in sight, Mr Pereda says.

In the office market, investor competition has pushed up prices and squeezed profitability. In downtown Madrid, prime office yield has fallen from 6.2 per cent at its peak to 4 per cent today, says Ramiro Rodríguez, European analyst at BNP Paribas Real Estate.

Madrid and Barcelona have voted in city leaders who are less friendly with property developers than their predecessors, stalling the massive Castellana Norte development in Madrid and also hotel projects in Barcelona.

For developers like Mr Crambade, however, it is good to be back. "After six years of being a taboo topic in economic circles, real estate developers are being invited back into the official cocktails," he says. "The stars are lining up again."

Read latest

Spain's recovery story shines through the global gloom