

Opinion: New Opportunities in Spanish Property Market

by Fiona Borthwick*

Certainty is a luxury commodity these days and yet there are some unshakeable facts about Spain that simply make it an attractive investment whatever the climate: great weather, delicious food, cultural diversity and the *joie de vivre* of its residents.

Spain has experienced enormous changes since a democracy was established just over 30 years ago and is, unfortunately, in the grips of its first major economic crisis under a democracy. If the right lessons are learnt, Spain's second bite at the apple of development and prosperity in the coming years should be stronger, safer, and not just built around tourism and construction. Spain is a modern society with an educated population, growing numbers of entrepreneurs and vanguard designers, engineers, scientists, all hard-workers and ready for the challenges ahead. Eco-friendly politics are now mainstream, whilst transparency, efficiency, fairness will surely be the key words this time round in a more modern and dynamic economy.

It is still to be seen whether the new Spanish government currently being formed adopts the German formula of swapping land and properties for public debt, with the risk that the public deficit will reach unprecedented levels, or whether recapitalization is sought from the European Financial Stability Fund, with the down-side of the additional supervision at a European level of financial entities but all should be revealed in early 2012.

Renting to Outshine Acquisitions

Meanwhile actual numbers of sale-purchases are decreasing due to the credit crunch and until local banks start financing again and confidence returns, the housing market will continue to suffer from a certain degree of stalemate. Instead opportunities exist in the undeveloped market of rented property, the Cinderella of the Spanish property market where offer as well as demand has always been about buying. With the credit crunch, buying is simply not an option for the average Spaniard and renting is on the increase. Huge opportunities exist for investors to buy buildings in urban centers and rent out flats following renovation.

Latest reports show that in the 12 month period between October 2010 and October 2011, the average price of a property in Spain fell overall by 6.9 per cent. The highest index on record was registered in December 2007 and since then there has been an accumulative drop of 23.7 per cent across the nation, whilst coastal areas have suffered a 30 per cent decrease and properties in provincial capitals and cities have suffered a depreciation of 25.9 per cent¹.

Spanish property prices in coastal areas are still more than double what they were 10 years ago.

Developers, Constructors and Banks

Some of the best opportunities to invest in property right now lie directly with the constructors and developers, many of whom have formed associations to mutually assist each other out of the crisis. They are looking for new partners offering direct investment and preferably without any involvement of Spanish banks or building societies.

On the other hand, buying directly from a Spanish bank also presents significant opportunities for the foreign investor given that they are offering drastically improved mortgage terms on

repossessed properties. Spanish banks and building societies have an excessive stock of land and property on their hands and are being accused of artificially maintaining high property prices in Spain, just as they helped to create the bubble through overvaluing properties for financing purposes, leading to an exponential increase of property prices. Little by little, these properties are being released on to the market.

The American investor needs sound legal and tax advice from experienced local professionals, a service that Monereo Meyer Marinel-lo Abogados can provide given our long-standing involvement in property transactions and foreign investment in Spain by investment funds, banks and private individuals.

Public Auctions

Another form of investing in Spanish property is through the acquisition of property in public auctions. Public auctions are on the increase as a result of the crisis where court cases may end in repossession of a mortgaged property or the auctioning off of any immoveable assets of the debtor for the purposes of paying the creditors.

The question is no longer that of late payment, a question in which Spain excels itself having commercially-accepted payment terms of 60 to 90 days or even more, although new laws seek to change this accepted custom starting with the public administration's own payment practices, which stipulate payment in 2012 within 40 days in the public sector and within 75 days for private sector companies. Right now, however, payment for most people in debt is simply unfeasible: the debtor has no bank accounts, credits, shares or bonds or even income which can be realized quickly. Creditors have to use attachment orders in order to have any hope of recovering their credit.

Any investor needs professional and independent legal advice on participating in a Spanish auction and certain checks must be carried out with regard to other debts that may affect the property. It goes without saying that the adjudication procedures and the practices of buying and selling property in Spain are very different to the USA.

Whether your preferred option is project investment or buying to rent or to resell later, Spain offers many attractive opportunities for investing in property in 2012.

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¹Source: TINSA press release November 8, 2011