



OPTIMISTIC OUTLOOK

The Iberian real estate sector is currently going through a solid moment and is expected to keep lawyers in Spain and Portugal busy in the coming year. With investors still targeting the market, law firms must embrace a transversal vision and offer versatility.

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Despite the fact that some voices in the market suggest that investors may be more cautious in the coming months because of a possible slowdown in the global economy, there is considerable momentum in the property sector, with growing interests in logistics and alternative assets. The real estate sector has gone from being a traditional sector, to one in which the complexity of transactions and technological innovation determine how lawyers advise their clients. For this reason, says Garrigues' real estate partner **Óscar de Santiago**, "law firms must embrace a transversal vision and offer versatility, which can only be achieved by creating specialized real estate teams comprising professionals with expertise in bankruptcy, regulatory compliance, tax, financing, urban planning and, of course, real estate". Moreover, he adds, these teams must have an increasingly international and less local perspective. "A law firm that offers this comprehensive and end-to-end advice will undoubtedly be a leading advisor in the real estate market", De Santiago explains. Real estate is an important asset class, says Denton's managing partner **Jesús Varela**, so all law Firms have a strategic interest in covering the needs of their clients around this asset class or investment product. "The last few years have been particularly busy for real estate lawyers, for

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divestments of opportunistic funds that started investing in Spain a few years ago, investments from institutional funds now that the market is more stable. As per the specific investment sectors with greater opportunities, Romero-Miura highlights “the transactions related to logistics, hotels and the so called alternative investments”.

In light of the current real estate market situation in Portugal, Morais Leitão’s partner **João**



Oscar de Santiago



Jesús Varela



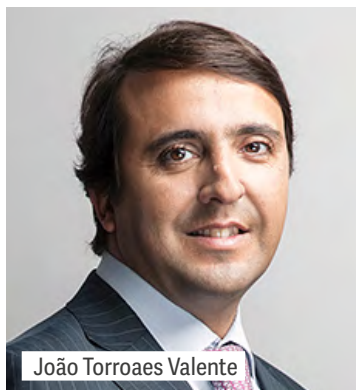
Fausto Romero Miura

various reasons (low interest rates being only one of them)”, says Varela, who adds that each law firm has a specific approach to this business line. “Some try to cover every part of the cycle (planning, investment, financing, listing, asset management), others try to concentrate on parts of the cycle and cover also some parts of it”. In any case, he says, “real estate will continue to weight a lot for law Firms,

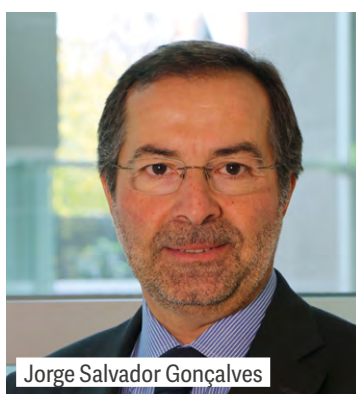
no matter what their specific strategy around this product is going to be”.

LOGISTIC AND ALTERNATIVE ASSETS ARE KEY

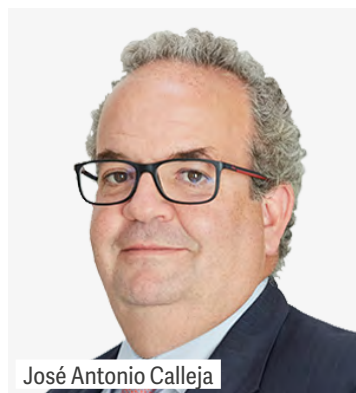
According to **Fausto Romero-Miura**, corporate partner at Pérez-Llorca, the main opportunities will be related to “big corporate transactions within the development sector,



João Torroaes Valente



Jorge Salvador Gonçalves



José Antonio Calleja

Torroaes Valente, believes that the greatest opportunities are to be found in “green field development projects (bearing in mind the scarce product existing in the market investors are now looking more into the development product rather than the existing built properties); NPLs and REOs; (re) sale of portfolios that have been acquired to insurance companies and banks by the investors and Hotels and resorts”, notably, he says, those held by banks and by

restructuring funds that are now coming into the market. **Jorge Salvador Gonçalves**, real estate partner at Garrigues’s Portuguese office, highlights that the property investment market in Portugal has attracted record volumes every year since 2016. Most of the capital, he explains, is coming from foreign investors who are looking for a wide range of asset types. “Residential property and logistics in Portugal became a target for institutional investors, alongside the retail and office segments. Alternative asset types such as student accommodation, co-working facilities, or hybrid properties are popping-up everywhere in Portugal, which was previously seen as a more traditional property market”. He sees this situation as a context of great opportunities for law firms, “provided that we are capable of understanding the new trends and the modern drivers for investors these days”.

UNCERTAINTY AHEAD

Although conditions remain favorable for 2020, one of the key challenges in the forthcoming months that real estate companies should face is the uncertainty in the regulation of the residential sector, says King & Wood Mallesons’ partner **José Antonio Calleja**, “this results from the continuous amendments that the Spanish Government has made to the *Ley de Arrendamientos Urbanos* during the last year”. In addition to this, he warns that Real Estate companies may deal with harder conditions to get financing from financial



Rita Xavier de Brito

institutions due to the general instability in the national and international economic and political situation. For Varela, customers today face two challenges; “the first would be diversification”. Investing in income-producing real estate is not as straightforward as it was; players need to diversify and think out of the box. “Retail is a business subject to dramatic changes (e-commerce being one of them). Co-living and co-working are two alternatives to the traditional residential and offices investment that investors need to absorb and digest. Student housing and senior accommodation and care are flavour of the month”. As De Santiago explains, in the past, discussions with clients focused on rental income and profitability, non-occupancy rates and turnkey projects, now, the conversation revolves around co-working, co-living and flexible spaces, workplace strategy, blockchain, artificial intelligence, quantitative risk management, and more. He adds that the fact that private equity funds have taken a key role in the sector following the massive disposal of real estate assets/NPLs by Spanish financial institutions, “has added a noticeable financial tone to the sector, reflected


in areas such as direct lending, forward funding agreements, SOCIMIS (real estate investment trusts), etc”.

NO RECESSION IN SIGHT

Another important challenge within the real estate community, “which is probably the big elephant in the room” as Varela puts it, is whether a recession is coming. Even though some voices in the market consider that a recession is something that could happen in the short, mid-term, says Varela, “as lawyers (and therefore mere witness of the market) we do not notice any sign of any such recession, we may see some correction around some products, but not a slowdown or recession”.

The big competition that exists in the sector is the biggest challenge for clients, says Romero-Miura, “additionally, the lack of land opportunities for developers, the small yields currently offered to investors and the lack of opportunities in the retail sector, especially in shopping centres”. Commercially speaking, competition and price levels are the biggest challenges according to Salvador Gonçalves, who also explains that the Portuguese tax regime and the instability around it is still probably the biggest challenge that foreign investors face in Portugal. “The first legal regime for a “Portuguese REIT” vehicle for investment in the real estate sector, the so-called “SIGIs”, which came into force very recently with a friendly tax-

transparent model, will be tested in 2020”.

The Portuguese market is currently considered “seller friendly”, where speed of action is key, says Uría Menéndez’s partner **Rita Xavier de Brito**. “From a buy-side perspective, this puts pressure on investors to assess the risks of the deal in less time, which requires the enhancement of the clients’ risk factor models and, therefore, a deeper knowledge of the underlying issues”. She also says that competitive bidding processes are also a challenge for investors, “as they find themselves with the need to assess the value and potential of a sometimes very significant number of assets in a very limited period of time”. 

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