The Real Estate M&A and Private Equity Review

Editors
Adam Emmerich and Robin Panovka

Law Business Research

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EDITORS' PREFACE

Publicly traded real estate companies and real estate investment trusts (REITs), with help from real estate private equity, have transformed the global real estate markets over the past 20 years. Their principal innovation, and secret sauce, is '*liquid* real estate'. Unlike traditional property ownership, equity in publicly traded real estate vehicles is highly liquid and can be bought and sold in large volumes, literally in minutes, on numerous global exchanges.

Publicly traded real estate vehicles have an aggregate market capitalisation of over $1.6 trillion globally, including about $1 trillion in the United States and $200 to 300 billion in each of Europe and Asia. As public REITs and other vehicles have aggregated these properties and grown in scale and sophistication, so too have real estate-focused private equity funds, playing an important role catalysing hundreds of billions of dollars of REIT and real estate M&A transactions and IPOs.

Yet, despite the massive growth, the potential growth is far larger, both in long-standing REIT markets and in newer REIT jurisdictions where the trend is more nascent. With increasing development and urbanisation, the world is producing more and more institutional-grade properties, and a growing percentage of this expanding pool – an estimated $5 trillion, and counting, so far – will inevitably seek the advantages of liquidity by migrating to the publicly traded markets. The growth is expected to be both local and cross-border, with more than 40 countries already boasting REIT regimes.

REITs and other vehicles that hold liquid real estate have grown because they are often a superior vehicle for stabilised assets. Greater liquidity and transparency – and often superior governance – create demand from investors, resulting in a lower cost of capital and superior access to the capital markets. In addition to cheaper capital, REITs and other public vehicles benefit from efficiencies of scale, sophisticated management and flexible deal structures, to name just a few advantages. With these advantages, the global march of real estate to the public markets seems unstoppable.

This volume is a multinational guide for understanding and navigating the increasingly complex and dynamic world of liquid real estate and the transactions that produce it. The sea change in the markets has meant that major real estate transactions have migrated from 'Main Street' to 'Wall Street'. They now often take the form of mergers, acquisitions, takeovers, spin-offs and other corporate transactions conducted in the public markets for both equity and debt. They have grown exponentially in complexity and sophistication, and increasingly represent cross-border multinational transactions fuelled by the now global real estate capital markets and M&A deal professionals. And they are often intermediated by international investment banks rather than local brokers, and financed with unsecured bonds or commercial mortgage-backed securities. In a fair number of cases they are instigated by private equity firms or similar catalysts, sometimes building portfolios to be taken public or sold to public real estate companies, and sometimes through buyouts of public real estate companies for repositioning or sale.

To create this volume, we have invited leading practitioners from around the globe to offer practical insights into what is going on around the conference table and in the markets in their jurisdiction, with an eye to cross-border trends and transactions. As will quickly become evident, the process of liquefying real estate, and the transactions that produce it, requires a melding of the legal principles, deal structures, cultures and financial models of traditional real estate, public company M&A and private equity. None of this, of course, happens in a vacuum, and the transactions often require expertise in tax, corporate and real estate law, not to mention securities laws and global capital markets. Each of our distinguished authors touches on these disciplines.

We hope this compilation of insight from our remarkable multinational authors produces clarity and transparency into this exciting world of 'liquid real estate' and helps to further fuel the growth of the sector.

Adam Emmerich and Robin Panovka
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Chapter 18

SPAIN

Yásser-Harbi Mustafá and Ángel Maestro[1]

I OVERVIEW OF THE MARKET

Spain's economic recession redefined the diversity of investors involved in the Spanish real estate sector giving way to various new players entering the Spanish market. These included: (1) the SAREB (Spain's 'bad bank'); (2) financial institutions that took hold of the construction and real estate sectors when the bubble burst, and who accumulated considerable real estate assets and non-performing loans secured by real estate mortgages on their balance sheets as a result of high leverage; and (3) the public sector, addressing the growing need to reduce the public deficit.

All of these continue to offload assets, for which there is no shortage of takers. Credit also appears to be flowing again and new investors are being drawn into the market, significantly increasing real estate transaction volume.

The catalyst for the frenetic real estate activity has been the vast amount of capital pouring into Spain, much of it originating from abroad: opportunity and hedge funds, global investment banks and European fund managers have all entered the fray. Domestic survivors of the Spanish crash have also got back on track and, after a few years of sluggishness, SOCIMIs (listed investment trust companies, or REITs as commonly denominated in Anglo-Saxon economies) are now a reality and the true stars of the real estate sector.

II RECENT MARKET ACTIVITY

i M&A transactions

The Spanish market could be characterised, unlike the Anglo-Saxon real estate markets, as an unsophisticated environment governed implicitly by myriad rules and structures accepted by all players; in recent years, however, new business structures in major M&A transactions, mainly steered by SOCIMIs, have been appearing in the Spanish real estate scene.

1 Yásser-Harbi Mustafá is a partner and Ángel Maestro is an associate at Uría Menéndez.

Among such players, the Merlin Properties SOCIMI has played one of the leading roles in the market in recent years. Merlin Properties, which in 2014 was just starting its trading activities in the stock market, has been involved in some of the most discussed transactions in the real estate sector.

In 2015, Merlin acquired the company Testa Inmuebles en Renta, which until that time had been one of the giants of the Spanish real estate sector, for approximately €2 billion, consolidating Merlin's position as the largest SOCIMI in Spain with approximately €5.5 billion in assets. The transaction was carried out through an initial share capital reduction by Testa with a dividend distribution, which allowed the company to repay a credit owed to its former owner, Sacyr Vallehermoso. A capital increase subscribed exclusively by Merlin was then carried out to facilitate the acquisition of 25 per cent of Testa's share capital. The remaining 75 per cent was subsequently acquired in various steps.

Further, in June of this year Merlin announced its merger with Metrovacesa, another giant in the Spanish real estate sector. The parties announced that the transaction would be carried out in three phases.

First, Metrovacesa would be split into three distinct business parts: (1) equity assets with a gross approximate value of €3.2 billion, (2) residential assets, with a gross approximate value of €692 million, and (3) assets under development, considered non-strategic assets, which would fall outside the transaction's perimeter.

In the second stage, the equity portfolio assets would be contributed to Merlin as consideration in exchange for Metrovacesa's shares in the SOCIMI through a share capital increase. Finally, the third step would involve the contribution of the residential portfolio to a company within the Merlin group.

Despite the transaction being subject to approval at the general meetings of both companies (expected to be held in September 2016), there is no doubt that, if completed, it would reinforce Merlin's position as the largest real estate company in Spain.

ii Private equity transactions

In recent years foreign investment funds have been the main participants in large real estate transactions or transactions with an underlying real estate component, such as sales of loan portfolios (both performing and non-performing) or property acquired by Spanish financial institutions through mortgage foreclosures.

These transactions have been characterised by offering international investment funds portfolios of highly discounted assets for the purpose of either clearing the balance sheets of the owners (financial entities), or simply transferring their asset balances prior to their exit from the Spanish market. In this context, two transactions are particularly notable in view of the volume of the acquired portfolio or the quality and complexity of the underlying assets.

First, under 'Project Hercules', with an approximate value of €6.5 billion, Blackstone acquired a portfolio of real estate loans owned by Catalunya Banc at a discount of around 40 per cent. Second – and within this context, perhaps the most-discussed transaction in recent years – came Hypothekenbank Frankfurt's (formerly Eurohypo) sale of its entire loan portfolio in Spain under 'Project Octopus'. Through this sale, Lone Star and JPMorgan acquired a portfolio of top-level financings (either performing or non-performing) valued at around €4.5 billion for an approximate price of €3.5 billion.

It is important to consider that, in the years preceding the crisis, Eurohypo, along with other foreign financial institutions (including Royal Bank of Scotland), had led the grant of funding in large real estate transactions. As such, the loan portfolio was guaranteed with some prime real estate assets in the Spanish market, almost all of which were located in Spain's most populous cities. Therefore, despite the nominal value of the portfolio being less than, for instance, the value of the portfolio acquired by Blackstone in Project Hercules, the complexity of each credit's exposure, the categories of actors involved (representing almost the entire Spanish real estate sector during the pre-crisis years) and, as noted, the prime value of the real estate assets encumbered with mortgages securing these positions made Project Octopus one of the most significant transactions in recent years.

These transactions have acted as a stimulus in Spain's times of crisis and resulted in these funds' decisive entry into the Spanish property market. They are now seeking continuity as opposed to merely specific opportunistic transactions; thus, only a few months after the closing of Project Octopus, Lone Star once again made headlines with 'Project Lion', which involved the acquisition of the real estate platform of Kutxabank, the leading financial institution in the Basque Region (see Section V, *infra*).

III REAL ESTATE COMPANIES AND FIRMS

i Publicly traded REITs and REOCs – structures and roles in the market

Although the SOCIMI regime dates from 2009, only at the end of 2012 was the law governing the requirements for their creation approved, ushering in a new era for the Spanish real estate market.

SOCIMIs are listed companies whose principal activity is the acquisition, promotion and rehabilitation of urban real estate assets for their leasing, either directly or through equity investments in other REITs. Therefore, these companies focus on active urban properties, excluding specifically exempt categories such as, financial leasing of real estate to third parties, nuclear power plants, wind energy electric generator parks, photovoltaic installations, refineries and airports.

The characteristics of the SOCIMIs can be summarised as follows:

a A SOCIMI is incorporated in the form of a joint stock company (SA);
b The minimum share capital of a SOCIMI is €5 million and it must have at least 50 shareholders.
c A shareholder may own up to 75 per cent of the issued shares, with the remaining 25 per cent subject being floated on the stock market.
d 80 per cent of the asset value must be invested in urban real estate assets leased out, land for development into urban properties for lease (if the development activities start within the three years following the acquisition), and shares in other SOCIMIs, foreign REITs, sub-SOCIMIs or real estate investment funds.

Furthermore, mandatory minimum distributions of profits must be carried out by SOCIMIs in accordance with the following criteria:

a 100 per cent of the dividends received from participating entities;
b 80 per cent of the profit resulting from leasing of real estate and ancillary activities; and
c 50 per cent of the profits resulting from the transfer of properties and shares linked to the company activity, the rest must be reinvested in a three-year period.

Having said this, in order to keep applying the SOCIMI regime, certain investment maintenance requirements must be met. In particular, the participation in other entities as well as the real estate assets must be maintained for a minimum of three years.

The main attraction of the SOCIMI regime is its favorable tax treatment. In this sense, real estate income for SOCIMIs is taxed at a zero corporation tax (CIT) rate (instead of the general rate of 25 per cent), provided that the requirements of the SOCIMI regime are met. In addition, dividends distributed to shareholders whose stake in the share capital of the entity is at least 5 per cent will trigger CIT of 19 per cent on the gross amount, if the dividends are tax exempt or subject to a rate of less than nominal 10 per cent income tax rate in the hands of the relevant shareholder (unless the shareholder is in turn a SOCIMI).

Furthermore, a partial exemption of 20 per cent applies to rents deriving from the lease of residential assets for entities for whom that type of leasing represents more than 50 per cent of their equity. It is also noteworthy that dividends distributed by SOCIMIs are not subject to withholding tax.

Among the most important SOCIMIs in Spain's real estate sector is Merlin Properties, the largest, and also listed on the Ibex 35 (Spain's benchmark stock index consisting of Spain's 35 most liquid companies). Merlin is held by leading international investment funds, including Blackstone, which holds 5 per cent of its share capital. Moreover, should Merlin Properties' projected merger with Metrovacesa bear fruit, the SOCIMI will expand its advantage over all its competitors.

Other well-known SOCIMIs include Hispania, with the backing of George Soros (holding a 16 per cent stake); Lar España, which is focused on shopping centres and holds the distinction of being the first SOCIMI incorporated; and Axiare Patrimonio, whose shareholders include funds such as Citigroup, Deutsche Bank and JPMorgan.

ii Real estate PE firms – footprint and structures

Private equity firms in Spain tend to be characterised by a foreign component, either through direct foreign investment funds operating in Spain or Spanish companies with capital held by foreign entities.

Among the former group, and apart from the investment funds already mentioned (Blackstone, Cerberus, Lone Star, Apollo, etc.), Goldman Sachs has undertaken some intense activity, especially in the latter part of 2015 and the first two quarters of 2016 as reflected in, for example, 'Project Atalaya', which involved the purchase (along with the US fund TPG) of a loan portfolio owned by CaixaBank with a gross value of approximately €800 million.

In any case, the footprint of private equity firms appears to be increasing in the Spanish real estate market with the trend seemingly set to continue. Thus, during the first quarter of 2016, private equity transactions in Spain grew by 164 per cent over the previous year, with the real estate sector being the leading sector.

IV TRANSACTIONS

i Legal frameworks and deal structures

Each investor is different and has its own goals, targets and demands when considering real estate investments. Investments can be executed by acquiring property directly (asset deal) or indirectly by purchasing the share capital of the legal entity owning the real estate (share deal).

Asset deals

Real estate investments are commonly structured as asset deals in which Spanish special purpose vehicles (SPVs) owned by Spanish or a foreign holding companies purchase the assets.

The Spanish SPV's acquisition of a property will be subject to VAT if certain requirements are met (see Section VI.iv, *infra*) and is non-recoverable. The Spanish SPV will be subject to Spanish CIT, generally at a rate of 25 per cent, on its net income (e.g., rental income and capital gains realised on the transfer of a property). Interest (subject to specific limitations under Spanish law), amortisation and expenses are generally deductible if they are linked to the company's business activities and transfer pricing rules are complied with.

Share deals

Share deals were traditionally shunned on the basis that the acquisition of more than 50 per cent of the shares of a company with more than 50 per cent of its assets in real estate was subject to non-recoverable transfer tax (payable by the purchaser) at a rate of between 2 and 11 per cent over the property's market value (depending on the region in which the real estate is located). However, that is no longer the case and under the new draft of Article 314 of Royal Decree 4/2015 of 23 October, approving the revised Securities Market Law, only the transfer of shares that are intended to avoid the payment of taxes applicable on the transfer of real estate will be subject to transfer tax or VAT. In this sense, a legal, rebuttable presumption exists that there is intent to avoid the payment of the indirect taxes applicable to the transfer of real estate in the following circumstances:

a As a consequence of a secondary market transfer of shares, control of a company (defined as an equity stake exceeding 50 per cent) is acquired and the company's assets consist of at least 50 per cent of real estate assets located in Spain that are not linked to a business or professional activity, or if, following the change of control, the purchaser's stake in the company increases.

b As a consequence of a secondary market transfer of shares, control of a company is acquired and the securities forming part of the company's assets lead to control over another entity with assets comprising at least 50 per cent of the real estate assets located in Spain not linked to a business or professional activity, or if, following the change of control, the purchaser's indirect stake in the company increases.

c There is a transfer of shares and the transferred securities are received in exchange for contributions in kind of real estate assets upon the company's incorporation or share capital increase, provided that the real estate assets are not linked to a business or professional activity and no more than three years have elapsed between the contribution date and the transfer date.

As rebuttable presumptions, if any is met, the Spanish tax authorities need not prove an intent to avoid taxes. Conversely, taxpayers are entitled to demonstrate the absence of intent even if the transactions are subject to such presumption. It is worth clarifying that the tax authorities are not precluded from showing the existence of intent to avoid indirect taxes in scenarios other than those covered by these presumptions.

Note that if the transfer of shares is subject to tax (i.e., because the anti-avoidance clause applies), it will be subject to VAT or transfer tax, depending on the tax that would apply to the direct transfer of the real estate assets owned by the company whose shares are being transferred (not always transfer tax, as was the case under the previous regulations).

Divestment
Various exit scenarios exist in terms of divestment.

In an asset deal, the sale of real estate assets would be subject to CIT at a 25 per cent rate on the difference between their market value and their tax basis. The distribution of the proceeds from the Spanish SPV's sale to its Spanish holding company should be exempt from withholdings. Distributions from a Spanish holding company to a foreign investor are subject to a 19 per cent withholding in Spain unless the foreign investor is a tax resident in an EU jurisdiction and the corresponding requirements are met (in which case, the exemption should apply) or if it is tax resident in a country that has ratified a tax treaty for the avoidance of international taxation with Spain and the relevant requirements are met (in which case, reduced withholding rates should apply).

Exit from a share deal involves the disposal of the Spanish SPV's shares. The sale of these shares should not, under certain conditions, trigger indirect taxation for the acquirer or direct taxation for the Spanish holding company since the capital gain realised upon the sale of the Spanish SPV should be exempt from CIT if the corresponding requirements are met at that time. The buyer will, however, inherit embedded taxation and potential contingencies.

Subsequent distributions of the proceeds from the sale of a Spanish holding company to a foreign investor would have the same tax treatment as that outlined for asset deals.

If the sale is executed at the level of the Spanish holding company, the foreign investor will generally be subject to withholding at a 19 per cent rate in accordance with Spanish legislation and tax treaties Spain has ratified.

ii Acquisition agreement terms

As previously mentioned, the Spanish property market has its own idiosyncrasies and structures that may be common in other markets – particularly Anglo-Saxon markets – are not generally common in Spain. The vast majority of real estate transactions fall within the asset deal and share deal umbrella, with one approach being preferred over the other primarily on the basis of the tax benefits of each structure in each specific case. Therefore, regardless of the selected framework, the ultimate result in most cases will involve the exchange of a cash consideration.

Nevertheless, there now appears to be some divergence from traditional approaches, which has generated hybrid figures and alternative solutions that are expanding the range of possibilities for real estate transactions. Interesting payment options are appearing in the market, including the payment of the purchase price by the issuance of shares in the parent company of the buyer's group of companies. It should be understood that, in this case, the issue does not relate to corporate structural modifications such as mergers or splits for the purpose of creating a new company (such as the *Merlín/Metrovacesa* deal referred to above), but is rather about two independent parties who, upon completion of the transaction, will continue to maintain their separate identities. In fact, the idea of offering shares is not intended to force the coalition of the parties, rather to provide a simple solution to liquidity issues.

iii Hostile transactions

The Spanish real estate market's lack of sophistication implies that the possible structures for setting up the conditions and steps of a transaction are highly defined (see Section IV.i *supra*). Thus, the real estate market is predictable for its usual participants.

iv Financing considerations

Having weathered the worst years of the crisis, in which funding and investment was dramatically diminished, a recent surge in credit appears to have taken place, prompted largely by favourable economic prospects.

In this sense, one of the most distinguishing features of the current environment in comparison with the pre-crisis years relates to the identity of the participants in the financing market. As previously discussed, before the crisis, foreign financial institutions had principally provided credit in large real estate transactions; the banking crisis that affected almost the entire eurozone meant that many of those entities, facing highly complex situations in their countries of origin, abandoned the Spanish market. In this context, the main Spanish banks seem to have taken the lead from such foreign entities and are currently involved in almost all financing transactions in Spain's resurgent real estate market.

Current standard market conditions for lending have not significantly changed from those in the past. However, financial entities are increasingly cautious and tend to impose more restrictive conditions on borrowers regarding their capacity to freely dispose of funds prior to the granting of credit. Nevertheless, the main standard market conditions can be summarised as follows:

a interest rates calculated by applying Euribor and a margin of approximately 300 to 350 basis points;

b financing with a loan-to-value ratio of between 50 and 70 per cent;

c the structure of securities being led by a mortgage encumbering the real estate assets with standard mortgage liability representing approximately 130 per cent of the principal credit amount, and additional securities packages mainly consisting of pledges over credit rights, over the SPV shares or pledges over operating bank accounts; and

d hedge agreements covering the risk on interest rate.

v Tax considerations

VAT and transfer tax

As a general rule,[2] the first transfer of non-residential properties by sellers in the course of their business activity is subject to VAT at a rate of 21 per cent; the first transfer of residential properties is subject to VAT at a rate of 10 per cent.

Second and subsequent transfers of built or finished properties by sellers in the course of their business activity are exempt from VAT, and are subject to transfer tax at a rate that ranges between 2 and 11 per cent of their market value (depending on the region in which the property is located and the tax benefits applicable). This VAT exemption can be waived by the parties when the seller and the buyer are VAT registered and the purchaser is entitled to a total or partial VAT credit allowance, and the waiver is expressly made before or by the time the transfer of the property is executed. If the exemption is waived, VAT (rather than non-recoverable transfer tax) will be levied on the transfer.

2 This rule will apply provided that the transfer is not deemed as a transfer of a business as a going concern (TOGC). For VAT purposes, TOGCs are defined as transfers of a business or an independent part of an undertaking that includes the minimum human and material production elements needed for the business or undertaking to operate independently. TOGCs are not subject to VAT but to non-recoverable transfer tax when there are properties involved.

If the VAT exemption is waived, the reverse charge mechanism would apply, and the acquirer of property would be considered to be the VAT taxpayer having the obligations to charge itself the VAT derived from the acquisition and to directly declare the VAT arising from the acquisition of the property (thus generally resulting in a neutral scenario, as output and input VAT will be compensated for in the corresponding VAT return).

Stamp duty

Stamp duty is levied upon execution of a transfer deed if the transfer of real estate is subject to VAT, in which case it will be levied at a rate of between 0.25 and 2 per cent, depending on the region in which the real estate is located; if the transfer is technically subject to VAT and the exemption is waived, stamp duty will be levied at a rate between 0.25 and 2.5 per cent, depending on the autonomous region in which the real estate is located. Stamp duty is paid by the acquirer. It is also paid on many other occasions, including on the creation of mortgages and certain other charges in the Land Registry, at a rate that ranges between 0.25 and 2 per cent.

Other tax considerations to be taken into account

As explained in Section IV.i, *supra*, the chosen structure for a transaction (i.e., asset deal or share deal) will depend on many considerations, such as the nature of the investor and the type of real estate asset to be acquired; therefore, tax concerns should be taken into account on a case-by-case basis once all these considerations are apparent. However, market practice is more favourable to share deals as a result of the amendment of indirect taxation derived from the acquisition of the real estate company's shares.

In this sense, and by way of an example, it is becoming more and more usual that foreign investors opt for the incorporation of a Spanish two-tier investment structure as a consequence of the new participation exemption framework applicable to capital gains realised upon the disposal of shares of subsidiary entities, provided some requirements are met.

vi Cross-border complications and solutions

Apart from the standard money-laundering regulations that apply in Spain as in other European jurisdictions, there are no restrictions or complications for foreign investments.

From a tax standpoint, non-Spanish resident investors should consider any double taxation treaty entered into by and between Spain and their countries of residence in order to avoid or reduce applicable Spanish withholdings on dividends, interest and capital gains. As stated in Section IV.i, *supra*, there are several structures to reduce the Spanish taxation in this kind of transaction.

V CORPORATE REAL ESTATE

As previously mentioned, corporate real estate transactions have in recent years been marked by the entry of international investment funds particularly by way of the sales by Spanish financial institutions of their real estate platforms.

This trend began at the end of 2013 and continued throughout early 2014 with Banco Santander's sale of its Altamira Real Estate platform, with about €8 billion in real estate assets under management, to the Apollo fund in exchange for a consideration of approximately €665 million. Other Spanish banks soon followed, including Banco Popular (selling Aliseda Real Estate to Kennedy Wilson and Varde for approximately €9.3 billion) and CatalunyaCaixa (selling its platform to investment funds managed by Blackstone and Magic).

Following this approach, Lone Star acquired the Neinor group, Kutxabank's real estate platform, for approximately price of €930 million under 'Project Lion'. The transaction was unusual as Lone Star not only acquired the platform but also a 50 per cent stake in the portfolio of real estate assets owned by Kutxabank.

Other Spanish financial institutions have also taken this path, or plan to do so in the near future. However, although it seems that this trend must inevitably end given the limited number of remaining real estate platforms; it nevertheless suggests that the large international private equity funds intend to remain in the Spanish market.

VI OUTLOOK

2016 has been meeting the favourable growth forecasts of the Spanish economy – among the eurozone's highest – with growth forecasts close to 2.7 per cent according to various market sources. These estimates have clearly affected Spain's property market.

Thus, although foreign investment in real estate will not achieve levels similar to those in recent years, the positive trend is predicted to continue (with expected investment of between €8.5 billion and €9.5 billion according to CBRE), with the added value of higher-quality real estate currently available in the market now the discounted sales characterising real estate investment during recent years have ended.

2016 also saw a consolidation of SOCIMIs; more than 40 per cent of the real estate investment in Spain in 2015 derived from SOCIMIs, and it is expected that SOCIMIs will remain the main players in Spanish real estate transactions. This upward trend has also been seen in those sectors hit more heavily during the crisis, such as logistics (especially in Barcelona), retail and residential (being in a period of increasing new housing stock).

In relation to the activity of investment funds and other private equity funds, although the supply of credit portfolios has nearly come to an end, there are some appealing last-minute scraps, such as the portfolio Bankia sought to place on the market in 'Project Big Bang', estimated to be worth approximately €4.8 billion.

It is important to point out, however, that, in contrast to this positive trend in the economic outlook, Spain's current political uncertainty – not only resulting from the lack of a strong central government but also the actions of some of the parties currently governing in important municipalities (especially Madrid and Barcelona) – has been causing concern about the immediate path of future growth. This follows the dispiriting moratorium approved by the municipality of Barcelona, suspending the opening of new tourist accommodation in the city, as well as the municipality of Madrid's blocking of major real estate development transactions, particularly 'Project Chamartín'.

This environment along with other international events, including Brexit and the challenges it poses for the current EU project, will test the true strength of the Spanish economy in the immediate future.

Appendix 1

ABOUT THE AUTHORS

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Yásser-Harbi Mustafá is a partner in the Madrid office of Uría Menéndez. He joined the firm in 1999 and became a partner in 2010. He advises on all types of real estate transactions and, particularly, on the sale and purchase of companies operating in the real estate sector, asset deals, sale-and-leaseback transactions, loan portfolios and real estate finance.

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