

M&A and Real Estate opportunities in Spain

With the toughest months of the Covid-19 pandemic soon behind and the start of the vaccination campaign approaching, the Spanish economy will be embarking on a new path to return to pre-Covid levels. In this article we analyze the main effects of the pandemic, how the economy has reacted to the impact of Covid-19, how investment will evolve, and which assets are best positioned in both M&A and Real Estate transactions.

Covid-19 and M&A in Spain

Buyers that make deals in a recession are likely to have higher investment returns because the pressure of the economic crisis and the need of many companies to restructure their balances create good M&A opportunities.

In Spain, the lockdown led to a reduction of 38% in the number of operations announced between January and June 2020 compared to the same period in 2019. But unlike other previous crises, in this recession the existing liquidity in the hands of private and institutional financial investors is much higher and this, combined with declining market valuations, anticipates a good M&A cycle coming up in 2021.

Companies offering telemedicine services, online education, e-commerce and virtual communication will likely be preferred targets for acquisitions, given their increased need as a result of the changes in consumer habits. Therefore, their valuations will be higher.

However, distress purchase opportunities will arise in other sectors more affected by the Covid-19 crisis, such as leisure, travel, tourism and retail. In the current context, there are investors looking for companies with liquidity problems, and they are willing to access their capital at discounted values. In these cases, finding formulas for providing liquidity to the target company while limiting the risk for investors will be paramount. Possible options can be the use of convertible debt, earn-outs or price adjustments after closing. With these formulas, distressed companies can obtain an injection of liquidity that allow them to cope with the current crisis and investors can ensure entering into the share capital with a relatively controlled risk. Other alternatives, such as strategic alliances and joint-ventures, can also be good options to provide liquidity while limiting the risks to the investors.

Simultaneously, M&A activity is also rapidly adapting to the new circumstances with an increased use of available technologies; videoconference meetings, virtual data room for the due diligence process, etc. All parties involved will need to show greater agility and creativity when closing M&A deals.

In summary, although Covid-19 has impacted M&A activity in Spain during 2020, it is expected that the M&A activity will reactivate in the coming months as a result of the opportunities created by the recession and the existing lower valuations, and it will likely do so with force.

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Covid-19 Impact on Real Estate in Spain

The volume of real estate transactions in the second quarter of 2020 has decreased by 67% compared to the same period last year. Although it is true that a certain reactivation has been observed since the beginning of September, we anticipate that the volume captured at the end of 2020 will be reduced by around 30% compared to 2019.

To this fact, we must add the effect that Covid-19 has generated in the entire economic environment. On the one hand the financial markets are suffering falls, on the other the banks are not remunerating the deposits while, unlike the last crisis in Spain, there is liquidity in the market. Currently investors are looking for both, assets that can act as self-havens and opportunities generated by the recession. These facts are making that the on-going health crisis is generating very uneven effects on the real estate market.

On the one hand, there are a number of assets that may act as a self-haven which is why in the short term the most sought deals are sale & leaseback transactions. In this context, the type of assets that may act as a self-haven are all those that can ensure long-term liquidity. In particular, the market is looking for high-quality assets, in prime areas and with an institutional profile in the logistics sectors, student residences and sustainable offices.

On the other hand, in the sectors where Covid-19 has higher impact, great opportunities may appear in the medium term. Taking into account that the recovery takes 6 to 12 months to transfer to the real estate market, good opportunities may appear both in 2021 and 2022 in the sectors most damaged by Covid-19. These sectors will be those related to consumption and tourism, that is, retail and hotels and, to a lesser extent, residential.

Despite the impact that Covid-19 has had on the volume of real estate transactions in 2020 in Spain, a reactivation of activity is expected starting from 2021 especially in premium areas. In the medium term, we expect a strong rebound thanks to the existing liquidity in the market and the appearance of opportunities in sectors that have historically been very powerful in Spain and which will become so once Covid-19 is over.

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