



Värde Partners,
a building empire

Global alternative investment firm Värde Partners now owns the biggest housebuilder in Spain by some measures. *Alt Credit* sits down with Francisco Milone, partner and head of European real estate to learn how debt turned to houses

By Jon Close

In October, Värde Partners, probably best known to *Alt Credit* readers as a buyer of distressed debt, announced plans for its portfolio company Via Célere to acquire land bank assets of another Värde company, Aelca, to create the largest home builder in the country, with a gross asset value of over €2bn. The move is the latest in a string of deals which had begun well before the firm opened its Madrid offices in 2014.

Alt Credit (ACI): How did Värde come to be interested in the Spanish real estate market?

Francisco Milone (FM): We are value investors and we are trying to buy assets at a discount to their intrinsic value. To do that, we're always looking for motivated sellers and to access assets in sophisticated ways, allowing us to solve for complexity. The reward for that is the potential to get a good asset at a discount to its market value.

One way to do this is buying loans against assets, so we will buy NPLs. When we access an asset, we want to own that asset and create it in the cheapest possible way, whether that means holding the loan or converting it into equity. The most important thing is holding real estate assets.

Banks are very often motivated sellers, because regulation has increasingly put them under pressure to dispose of assets that are non-core, and they are not in the business of turnaround assets.

ACI: Was it always the plan to become a homebuilder in such a big way?

FM: Absolutely. Typically, before entering a new country, we take a business plan into committee which will address why we think the country is interesting, the two or three key themes that we think are driving the opportunity in the country, and the investments that the firm has to make to develop the business in the country.

When we enter a country, we seek to do so in a differentiated way to add value, but also in a sustainable way meaning that we will continue to be able to do deals in the coun-

try for the long term. Värde had already gone through the same process in the UK, starting in 2008. We bought land, restructured a home building company, developed housing and eventually led to an IPO five years later.

We took a lot of what we had learned from that process and applied it to Spain in 2013. The regulators were putting pressure on the banks at that point. We started looking in 2011, when regulators began putting pressure on banks, the FROB (fund for orderly bank restructuring) was created, which was the catalyst for banks to restructure their balance sheets.

ACI: Why did Spanish housing stand out as attractive in particular in 2013?

FM: Part of our philosophy is being very deliberate in identifying countries and themes that we think are interesting.

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which is important for home building.

The other interesting thing about Spain was that banks were going to enforce a lot of loans, or own loans against land, and so we've been buyers of land where it's not really in the seller's business model to develop land.

ACI: Why build the homes yourself and not stop at buying NPLs?

FM: If you don't build a housebuilder, and you buy a lot of NPLs, then you're relying on someone else to bail you out of the land. The shape of that trade is much less interesting. If you're a builder you can be a buyer of land and a seller of homes at the same time.

As a real estate investor that understands residential, knows how to deal with loans, and has bank relationships, building a housebuilder was a better way to invest for us. An advantage of this strategy is that the market and the public is much more amenable to a portfolio of loans being sold to a homebuilder, as opposed to a fund or a bank.

ACI: How did you actually go about the process?

FM: On a practical level, we opened an office in Madrid in 2014, and hired Hector Serrat who had worked in real estate-focused private equity. We now have a team of four in Madrid, and I travel back and forth, having put over a billion to work so far.



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Francisco Milone, Värde Partners

the market, a disproportionate amount of the economy was dedicated to residential development in 2008-2009, so banks were overly exposed.

Many got completely wiped out because they were over levered and not particularly knowledgeable. The country went from building 600,000 homes per year at its peak to 40,000 at its worst. On the other hand, the Spanish government seemed to be doing broadly the right structural reforms. Unemployment back then was over 20%.

We thought there was a lot of potential for the economy to grow and to outperform and that high unemployment provided a big buffer in terms of the economy overheating,

On the homebuilder side, the first thing we did was look for a good land bank. We created a company called Dospuntos by buying out the property development of the San José Desarrollo Inmobiliarios structure, which was acquired from Grupo San Jose. We then did some restructuring, and merged it with a company called Via Célere. We brought in new management and did a series of capital increases to fund the company and buy more land. We then scaled another platform for buying land through NPL sales, called Aelca, which has been a pretty significant buyer of loans from Spanish banks for more than two years now. We recently merged Aelca and Via Célere, creating the biggest home builder in

Spain based on ready-to-build units with \$2.5bn in gross asset value.

On the loan side, the first meaningful transaction we did in Spain was with Banco Popular to enter into a joint venture with their servicer, which was managing over €20bn of NPLs at the time and non-core assets on behalf of the bank. That was a sustainable way to learn about the market. It was an asset light transaction that gave us access to over €20bn of non-performing assets. We really started ramping up building our direct exposure a year later.

ACI: What is next?

FM: There's still plenty to do in Spain. Overall, homebuilding volumes are still low. We believe in the economy and story and the market is still fragmented, so the biggest builders should get bigger. If you compare Spain to the UK, in the UK the biggest public listed builders make up around 40% to 60% of the market.

The two public-listed companies plus us would make around 20% of what should be getting built at the moment, so the market is still growing, and we believe our share of it still has room to grow. The majority of international investors just want to buy property around Barcelona and Madrid, because if you fly in from New York, that's where you go. Having a local team in Spain helps us buy land in places others don't.



interesting. Italy has a lot to offer tourists which makes it a strong market for owning hotels. There are many family-owned businesses, over levered and under invested and a lot of those have non-performing loans. Similar to the Spanish residential market, there's

ACI: Have you started your Italian process the same way as Spain?

FM: Not exactly, because the story and the assets are quite different. For example, NPLs in Spain were largely backed by mortgages, so you really had to be a residential developer.

In Italy, the pools are much more mixed, with much smaller assets, so we believe the key is actually being a loan servicer, which is why we bought a stake in Guber Banca SpA. We're helping them grow, and they are now licensed to be a bank and so they can raise their own capital and deposits to buy NPLs.

It also helps that Italian banks will prefer to sell to another local bank. We think Guber will have an active role to play in solving Italy's NPL problem.

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If you're local, you'll understand the market dynamics in Zaragoza, Marbella, so it moves less from a financial transaction to a general property development company. We're building homes for people to live in. The only thing we're not focused on is second homes and foreign owners.

ACI: And outside Spain?

FM: We're using the same approach in Italy, but that market is about two years behind where Spain is and the circumstances are different. Italy does have interesting niches of residential opportunities, such as in Milan and Rome, but we were never going to put \$1bn to work in the residential market in Italy.

The hotel market on the other hand is very

also a lack of good operators. The market is relatively underpenetrated by global chains and brands.

In Portugal, we just announced the acquisition of a real estate asset manager called Imópolis. Consistent with our approach in other countries, we've identified specific themes to guide our investing. We think that commercial real estate and office space is particularly attractive given recent economic growth has led to a supply-demand imbalance in that market.

Outside Southern Europe, India is again another few years behind the Italian market. We're in the process of growing our team there and we have only just opened our first office in Mumbai.

ACI: What have you learned from Spain that you can take to Italy?

FM: The name of the game investing in Southern Europe is having a local team, but also being well linked up with the head office. It's crucial to have that team on the ground who speak the language and know the culture, but you also don't want to have your investment committee in a black box in New York somewhere that's making all the decisions, so that communication line is vital. □



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