

Industry Interview:

Rafael Molina, Partner, Linklaters, Madrid

First Title catches up with Rafael Molina, Partner of Linklaters, Madrid. He talks about the main factors influencing the real estate Spanish market, the challenges facing Spanish lawyers and how he'd love to manage a Formula 1 team if he wasn't a lawyer.

What led you to becoming a lawyer?

I am not really sure...One thing led to another and by the time I was 26 years old, I had become a qualified lawyer in Spain, a Solicitor in England and Wales, a qualified New York attorney and had worked as a lawyer in London, New York and Madrid. The fact that my father studied law and that law studies allow you to do many things other than practice law is probably the most relevant factor that attracted me to study law. Chance and hard work probably did the rest.

What is your view on the current situation of the real estate market in Spain?

At present we are seeing a commercial real estate market in which there are fewer traditional investment deals and fewer plain vanilla financings, but a surge in restructuring work, distressed corporate debt / distressed assets-related deals, as well as performing and non-performing secured and unsecured loan portfolios.

and REO portfolio deals, largely driven by the deleveraging needs that financial institutions are facing.

The main factors that are influencing the market are the yield of the Spanish sovereign debt and its impact on pricing, the scarcity of bank financing for new investments and to refinance legacy investments, the decision of some foreign lenders to exit the market, the maturity of a number of large real estate loans granted at the peak of the market, the unavoidable insolvency of some property companies and the refusal of some lenders to continue “kicking the can”.

Significantly, this shift towards restructuring and distressed matters has resulted in new players – specialized investors and alternative credit providers (ACPs) – looking at Spain for investment opportunities. At Linklaters we saw this trend coming and got ready for it in advance, which has helped us position ourselves very well in this new Spanish market.

We have advised clients on some high-profile restructuring transactions, including the largest residential mortgage loan portfolio deal (close to 3,000 residential mortgages), the only large REO portfolio deal so far (more than 1,500 REOs) as well as the largest consumer loan portfolio deals.

Will the Spanish Bad Bank improve the current housing market and how long do you think this will take?

The impact of the setting up of the Spanish Bad Bank remains to be seen. The Bad Bank has helped the four nationalised banks (Bankia, Banco de Valencia, Novagalicia and Catalunya Caixa) clean up their balance sheets by allowing them to transfer impaired real estate assets to it. Other Spanish troubled institutions will be doing the same thing in 2013 and therefore, will also benefit from such transfers.

In an ideal world, the Bad Bank should ultimately help reduce the country's current housing surplus and set the foundations for a progressive resuming of the construction activity which, for many years, was the country's main growth driver. However, there is still uncertainty as to how the Bad Bank is going to conduct business. It remains to be seen if the valuation discounts applied to the transferred assets will be enough to attract buyers (including both investors and retailers) and to ultimately make a profit (the Bank of Spain expects the Bad Bank to start generating profits as from 2017).

Otherwise it will have become a fancy, yet expensive, restructuring tool for taxpayers, but necessary to get the Spanish banking system lending again to businesses and the real economy.

Do you think 2013 will see an increase in property investors being active in Spain?

As mentioned above, we expect restructuring and distressed debt and asset deals to continue being the most relevant type of transaction in the Spanish real estate market in 2013 and the years to come.

Spain, the on-going restructuring of its financial system and the potential opportunities associated with such restructuring are currently on the spotlight of the global financial community and they will continue to be so for some time. I have no doubt that foreign investors will regain interest in Spain during 2013.

What will be the greatest challenge facing Spanish lawyers in the future?

When I think of Spanish lawyers, I think of lawyers working at major law firms such as Linklaters. The greatest challenge facing Spanish lawyers at the moment and in the future is flexibility. The world has changed and continues to change, the type of legal advice that clients require changes over time and consequently, either you adapt or die.

In Spain we are in the middle of a large restructuring process affecting everyone and everything.

The sort of environment that creates lots of different opportunities and very interesting and varied work for law firms. But, this type work is not going to be with us forever, so we need to be thinking ahead and be prepared for the new normal, a more regulated environment with different players, less bank financing and alternative sources of funding.

I have no doubt that there will also be opportunities in the next phase of the cycle and the challenge will be to spot them well ahead and position ourselves with enough flexibility to become the trusted advisors we want to be for our clients.

If you could do anything (other than practice the law), what would you choose?

I would enjoy being part of the business team of a private equity, hedge or opportunity fund doing deals in Spain at the moment. I enjoy acting for them so it would be interesting being more involved in the business side.

Other dream jobs would include being the manager of a Formula 1 team or a Hollywood movie producer. Simply because I think it would be a lot of fun.

How do you keep busy when you're not at work?

These days I end up working even when I am not at work...Seriously, I like to enjoy time with my family when I am not at work and if I have behaved well enough, my lovely wife lets me watch the Formula 1 grand prix races (I am a big fan of Alonso!) and the odd Chelsea and Real Madrid football matches (my son's and my team, respectively).

Please recommended a book, program or website & why?

I don't usually watch TV except for sports events. My favourite website is www.autosport.com. As for books, I would recommend the last one I have read ("SuperFreakonomics") and the one I am reading at the moment ("23 Things They Don't Tell You About Capitalism").

I would recommend "SuperFreakonomics" because it is a very entertaining book that shows with very good examples how people respond to incentives, although not necessarily in ways that are clear or evident to us. This leads the authors to formulate the law of unintended consequences, which constantly affects our daily lives.

I would also recommend "23 Things They Don't Tell You About Capitalism" (I am half way through it at the moment) because it gives a different view on how capitalism works and challenges the very existence of commonly accepted concepts (such as free markets). One might or not agree with what the author (a Cambridge professor called Ha-Joon Chang) says, but the book is very well written and the author argues his points very well.