Thousands of homes meant for Madrid’s poor have been sold to Goldman Sachs and Blackstone. Rents are rising. Now people fear eviction.

Spain’s new property fear

BY SONYA DOWSETT

Last year Madrid’s city and regional governments sold almost 5,000 rent-controlled flats to private equity investors including Goldman Sachs and Blackstone. At the time, the tenants were told their rental conditions would remain the same.

But as old contracts expire, dozens of people have received demands for higher rent, been told their rents will increase dramatically, been threatened with eviction or moved out to escape the insecurity. Thousands of Spain’s poor now depend for their homes on the generosity of private equity.

Jamila Bouzelmat is one of them.

The mother of six lives in a four-bedroom flat on the outskirts of the Spanish capital that was bought jointly by Goldman and a Spanish firm. The 44-year-old said that until March her family paid 58 euros ($73) a month in rent out of her husband’s 500-euro unemployment benefit. In April, her bank statement shows, her new landlords suddenly took 436 euros from her bank account.

She discovered the payment when she tried to pay an electricity bill.

IN THE SHADOWS:
Jorge Blanco outside his home, owned by Goldman Sachs and Spanish partner Azora.

The landlords told his wife Saida Juarez they are not a charity. REUTERS/ JUAN MEDINA
“We went to take money out and there wasn’t a cent left in the bank,” she said, her 18-month-old daughter playing at her feet. She got charity hand-outs to feed her children, aged between 18 months and 19 years, and now lives in fear of the rent bill. Goldman declined to comment.

In the buildings sold to the funds, Reuters has spoken to more than 40 households who face similar difficulties. They include some of Madrid’s most vulnerable people: an unemployed single mother of five with a severely disabled daughter, for example, and an HIV patient with one lung. Both faced evictions that were temporarily halted at the last minute.

There is no suggestion the buyers have acted illegally. Having bought around 15 percent of Madrid’s publicly held social housing, the new owners are simply exercising their right to charge commercial rents once reduced rents that tenants have paid expire.

However, Socialist councillors in Madrid have launched lawsuits directed at the state bodies that sold the rent-controlled homes, and tenants meet weekly to organise street protests. Evictions ordered and postponed by the new owners are an increasingly common sight in Spain’s media.

The auctions in Madrid come as Spain tries to recover from its historic property-market collapse and deep economic crisis. Between 2007 and 2013, Spanish property prices fell by nearly 40 percent. More than 3 million houses and apartments sit empty, according to official figures. Spain has one of the smallest stocks of social housing in Europe, but as Madrid’s authorities cut their budgets, they have sold what they can at fire-sale prices.

For the private equity firms that bought the flats, the deal was good business. For tenants, less so. The poorest had long benefited from rent reductions - some of them officially documented contracts, others informal arrangements with well-meaning public officials.

Of the homes Goldman bought, around 400 benefited from official rent reductions, according to one government source. Such cuts were agreed individually for up to two years, and some tenants used to pay less than 20 percent of the going rate. The informal deals are hard to count.

The apartments were sold by two government agencies. One of them, the Madrid city housing body, told Reuters the sales were crucial to paying its debt, but did not answer questions on the number of tenants affected or their situation.

The other, the regional housing body known as IVIMA, sold its flats to Goldman Sachs International and Azora, a Spanish private equity firm which invests in rental accommodation. Azora set up a management firm, Encasa Cibeles, to manage the flats, and both Goldman and Azora referred inquiries to Encasa Cibeles.

In the case of Bouzelmat, whose rental agreement ended in March, an Encasa Cibeles spokesman declined to comment on “processes and methods of payment.” But he said Bouzelmat had been paying by direct debit. The company said it respects all ongoing contracts, including rent reductions, and once these expire, reviews each tenant case-by-case. “Evictions occur in an extremely small number of cases,” the spokesman said: “Our priority is to help those in need and we are doing this with a team of social workers looking to help the most vulnerable.”

Pablo Sola, a spokesman for IVIMA, said the deal had been exemplary and IVIMA meets Encasa Cibeles every week to ensure “no family that wants to pay” is evicted. “The Madrid government has not washed its hands of the management of these flats. We are following up the process to avoid the eviction of any family in financial difficulty.”

The public-sector real estate workout is creating winners and losers. Spain needs new investment to put a floor under its property market - a necessary condition for a broader recovery - and at the same time its social safety net needs funds. Economist Miguel Hernandez said foreign investors play an important role by providing cash to public institutions.

“These funds may appear to be acting like vultures, but they are also helping the system, because the administrations had very few options to get the cash they needed,” said Hernandez, professor at IE Business School.

“A GOOD PRICE”

The red-brick development where
Bouzelmat lives is in Vallecas, a working-class area in the south of Madrid. Thousands of new flats — many of them state-owned social housing — were built there during Spain’s property boom in the early 2000s.

When boom turned to bust in 2008, Spain’s budget for housing collapsed. It was 1.4 billion euros in 2008 and is now 800 million. That left local governments scrambling to cut costs, and eyeing privatisations. To lure foreign investors, Madrid overhauled rental laws, making it easier for landlords to evict non-paying tenants. It worked: Investment in Spanish real estate increased 12-fold last year to 5.2 billion euros.

A confidential May 2013 report — commissioned by Madrid city council and prepared by PriceWaterhouseCoopers — found that the city’s housing unit, known as EMVS, was unsustainable. EMVS, set up over 30 years ago to house the poor and disadvantaged, had higher debt repayments than its cash income. PWC’s report advised Madrid to sell some flats immediately.

In July 2013, the city sold 1,860 properties to a fund jointly owned by Blackstone and Spanish fund Magic Real Estate. The average price per apartment was around 67,200 euros.

EMVS said the sales were crucial to paying down its debt. Opposition United Left councillor Angel Perez said it was an outrage. “You are playing with people’s lives,” he told an angry town hall session at the time. Blackstone declined to comment.

How Spain’s social housing imploded

Social housing in Spain is not generous. Rented social housing makes up just 2 percent of all residential property compared with 18 percent in Britain and 17 percent in France, according to the European Federation of Public, Cooperative and Social Housing.

The country’s investment in social housing is just 0.79 percent of Gross Domestic Product, about half the European average, according to Human Rights Watch.

Rather than offer subsidies to help people rent cheaply, Spain’s government has focused on helping people to buy. Social housing tenants have typically rented for around 10 years and then been given the option to buy.

The property crash has torpedoed that policy. Rent-to-buy agreements set the purchase price at the start of the rental lease. When prices rise, that works. But any flats coming up for sale now were priced at the height of the boom. Today’s buyers would likely pay above a property’s current market value.
between 5 percent and 95 percent, a source close to IVIMA said.

Late last year, Encasa Cibeles invited four tenants’ representatives from Bouzelmat’s block to a meeting. The company told them rent reductions would not be renewed once contracts expired. “Encasa Cibeles told us they would respect reductions until the contract ended but then it would return to the base rate, because they were not a charity,” said Saida Juarez, the tenant representative from the block.

“FULL PAYMENT”

Unemployed hairdresser and mother-of-three Yasmin Rubiano lives in a flat now owned by Goldman and Azora. Rubiano said she stopped getting a printed rent bill once her reduced rent of 50 euros per month ended in December, but got no word from the new owners.

In January she started to receive monthly text messages from her bank, which she showed a reporter, advising that it had received a demand for 498.18 euros. She has been paying 100 euros a month to show goodwill, but cannot pay more. In March, Rubiano said, she received a letter from Encasa Cibeles demanding full payment or threatening legal action.

The Encasa Cibeles spokesman said it had nothing to do with the text messages. Social workers have been working for some time to find the best solution for the family, who still live in the flat, he added. “Encasa Cibeles has not started any legal action against them.”

The situation with Blackstone and Magic Real Estate is slightly different. Their tenants generally have longer contracts and fewer formal deals for reduced rents, though most pay below market rates.

As with the Goldman flats, tenants were told nothing would change: “The contracts ... are guaranteed,” seller EMVS said in a July news release. “The only thing that will change in the rent statement is the issuer.”

As leases near expiry, at least 20 tenants in one block have signed new contracts for sharp rent rises, said a source with knowledge of the matter.

On March 12, he got a letter from the new management company, Fidere, saying he owed them 5,133.54 euros in “inherent obligations” to be paid by March 5.

“I started to panic,” he said. He met Fidere and was told his arrangement with the council was not viable for the firm. On June 24 he got a letter of eviction. A judge overruled this in September, but Fidere can appeal. Gamarra fears he will be thrown out.

“These flats were built with public money for people in difficulty,” Gamarra said.

Calculated risk

In August 2013, Goldman Sachs and Azora bought 2,935 apartments in Vallecas, Madrid, for an average 980 euros ($1,240) per square metre – roughly a 50 percent discount to the market rate.

About 2,500 of the flats were occupied, including around 400 with tenants on reduced rents.

If the funds collected zero rent from the empty flats and from those on reduced rents, this would give a delinquency rate of up to 28 percent.

That compares with a rate of about 6.4 percent on mortgage loans in Spain.

“It’s a high default rate,” said IE Business School professor Miguel Hernandez. The lower the price, the higher the default rate an investor can risk.

Sources: IVIMA, Madrid real estate agents, sources close to the funds. Calculations are approximations. Average price based on flat size of 70 sq m, excludes garage space etc.
Jorge Arriba, a 37-year-old car mechanic, lives in a Blackstone flat; his 10-year contract ended in August. He used to pay 415 euros per month in rent, around a third of his salary. When he met Fidere in May, he said, they told him the rent would go up from September.

On Aug. 6, the 20 tenants in Arriba's block signed new contracts with Fidere, some of them seen by Reuters, which stipulate a rise of more than 40 percent in rent over three years. Blackstone referred inquiries to Fidere.

“It is not true that it is our intention to increase rent once the contracts end,” Fidere spokesman Miguel Onate said in an email. Later, he said “some people have lost the public subsidy they received from the council.” Of the flats under Fidere's management, he said, fewer than 2 percent have recurring problems with payments.

Six sources involved in the bidding process told Reuters that bidders knew the straitened circumstances of the tenants. The funds that entered final bidding – nine in all – were given detailed information. The sale terms, seen by Reuters, show the regional government stressed that the new owners must honour all the tenants’ rights and obligations.

Goldman went for the Madrid homes after a successful pair of similar deals in Germany, a person familiar with the matter said. Goldman looked at the profiles of the tenants and considered whether the properties were “under-managed from a yield perspective” and whether new ownership could “improve rents.” The deal was particularly appealing because 85 percent of the flats were occupied and most tenants were paying rent, in contrast to other properties with high percentages of defaulted mortgages or laws that made it hard to raise rents.

Some local politicians say IVIMA acted illegally by selling the flats cheap. IVIMA Director Ana Gomendio declined to comment.

Now a judge will decide who, if anyone, to blame. Any tenants evicted can reapply for social housing. Around 13,000 households are already on the waiting list for flats owned by Madrid city council, a source close to the council said.

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