Demand for logistics space is solid thanks to relocations

The take-up of logistics space in 2011 and the beginning of 2012 has been driven primarily by space optimisation. Deals amounted to 835,000 m² in the principal logistics centres in Spain at the close of 2011, the greatest take-up being seen in Madrid and Barcelona.

Vacancy rates tended towards stability as a result of a reduced supply of newly built units.

No significant reductions in vacancy rates were recorded, and some growth occurred in peripheral zones. Average rents have shown reductions in all of the logistics zones of the main centres. A certain degree of stability is recorded within the better located zones of Barcelona and Madrid.

Transaction activity remained stable in Madrid, although an increase in the number of vacant units was seen

- Compared with 2010, transaction activity in 2011 fell by 5%
- Take-up in the first quarter stood at 42,000 m², representing an annual reduction of 47%
- More than half of the area transacted was located within the “Henares Corridor” – A2 motorway
- The vacancy rate grew from 12.6% at the end of 2010 to 16% at the close of 2011. The principal source of this increase was second-hand units

Transaction activity grew strongly in Barcelona during 2011

- 2011 closed with 371,000 m² of logistics units transacted, representing an annual increase of 31%
- The most attractive logistics zones in 2011 were Vallés Oriental and Alt Penedés, within the Second Ring
- The first quarter of 2012 closed with 83,000 m² transacted, the same area as during Q1 2011
- The vacancy rate contracted 1.5 percentage points to 9.3% (10.8% in December 2010)
- Average rents have fallen, dragged down by greater discounts in the more peripheral zones

Valencia is responding favourably to the demand

- Real estate logistics demand in 2011 exceeded that of 2010 by 11.4%, reaching the figure of 116,000 m² transacted
- Five large deals during the second half of 2011 represented 60% of annual transaction activity
- Average rents included small discounts compared with the previous year
- The first quarter of 2012 closed

Demand fell in Seville, though the zone of Dos Hermanas established itself as a logistics hub

- Transaction activity fell by 41% compared with 2010
- Demand was focused primarily on logistics zones close to the centre
- The vacancy rate grew to 29% at the beginning of 2012. A similar level is seen for the Carretera de la Isla Industrial Park (28%) and in the Zona de Actividades Logísticas -ZAL (25%).
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Having endured the first stage of the crisis, the Spanish economy embarked upon a short recovery phase in 2010. Both consumption and confidence grew among producers and consumers, leading to momentary growth in GDP up to the first quarter of 2011. From that moment, Spain began to show symptoms of exhaustion within its principal sectors and a general rise of a climate of uncertainty. The poor increment in GDP for 2011 (+0.7%, INE - National Statistics Office) and entry into technical recession in Q1 2012 are understandable consequences of the tensions in financial markets and weak growth among the principal retail partners.

The downward trend in general activity left its mark on the industrial sector. The Industrial Production Index (IPI) fell at the end of 2007, saw strong negative movements between 2008 and 2009 and fluctuated between 2010 and 2011. As a result, a level of industrial activity similar to that of 2009 has been maintained; industrial production has not even recovered to the level seen in 2005. At the same time, the fall in industrial prices as indicated by the Industrial Price Index (IPRI) reversed due to increasing energy prices, weighing down the performance of the manufacturing sector.

Increased prices and lower levels of industrial activity have had a negative impact on road freight. Within mainland Spain, this has fallen by 22% since 2007 and the latest figure (Q4 2011) represents the lowest level seen since 2004. Nonetheless, international transport (5% of domestic transport) has remained stable throughout the entire period, at an average of 16 million tonnes per year.

Thanks to the more favourable situation of trading partners in Spain, exports show greater positive growth than imports throughout the entire period of 2009 - Q1 2012. Despite the fall in international trade, the export index grew above that of imports, exceeding the maximum level of 2008 (121.5) in November 2011 (132.7). In comparison, imports have remained relatively stable at an average of 105 since 2007.

External demand is contributing positively to GDP growth, resulting in the pace of decline slowing for overall production. Nevertheless, performance indicators for the industrial sector and the economy in general indicate that activity has still not emerged from the crisis. Significant challenges continue to exist; the implementation of corrective measures will set the pace for economic recovery and the future of the logistics real estate sector.
Zoning

The logistics market in Madrid may be analysed according to the main thoroughfares and by rings, up to the provincial border with Castilla-La Mancha. The eastern and southern zones have seen greater activity in terms of the development of logistics sites. The A-2 and A-4 dual-carriageways have seen the greatest growth in developments for distribution and warehousing. Market segmentation may be made according to the criteria of distance and type of distribution. Within this context, four sub-markets may be identified located within concentric rings around the municipal area of Madrid.

The first ring is located between Madrid’s two ring roads, the M-40 and M-50, where activities are focused upon parcel logistics and local distribution.

The second ring is located between the M-50 and the regional border - 20km to 30km away, and is oriented towards warehousing and distribution of consumer goods.

The third ring, from 30km to 70km distance, houses logistics sites with medium and low turnover. This area is characterised by large units with extensive floor space and lower rents. The facilities in provinces bordering Madrid (such as Guadalajara, Toledo and Cuenca) clearly have a cost advantage over the capital in terms of urban development and administration.

The fourth ring offers developments which enable very large warehousing volumes and rents below the other rings. These sites are located at 70km or more from the capital city. The region of Castilla la Mancha and its provinces bordering Madrid continue to see the greatest growth in developments and facilities, making them a clear alternative to the Madrid region.
Demand performance for logistics units in Madrid in 2011 was similar to that seen in 2010, with an annual change of -5% in take-up. Deals amounted to 320,000 m² and practically all of the activity being focused on the Henares Corridor (A-2) and the A-4 dual-carriageway. Deals involving large-scale occupiers have enabled the figures to reach the levels seen in 2010. The trend in take-up therefore did not mirror that of the national economy, which has undergone substantial negative growth in other real estate markets such as offices and investment.

A decline was seen in terms of the number of deals, going from 51 in 2010 to 36 in 2011. This reduction is more in line with the level of economic stagnation and serves as a diagnosis of the weak state of logistics real estate demand in Spain.

There were 8 deals of over 10,000 m² performed, representing two thirds of take-up. Notable among these were the new distribution centres of Decathlon (43,000 m²), H&M (36,000 m²) and LG (32,000 m²) during the first half of the year, and those of Schweppes (32,000 m²) and Luis Simoes (27,500 m²) during the second.

Pure logistics operators and final users shared the number of deals, amounting to 33% for each. The remaining deals involved logistics intermediaries and industrial companies with logistics activities.

Demand has become specialised over the last year on the A-2 and A-4 thoroughfares, particularly the former. Units located around the A-2 garnered 60% of transaction activity, underlining the supremacy of this thoroughfare for the distribution business in Madrid. The following table shows analysis of the 181,000 m² transacted around the A2 carriageway in 2011:

<table>
<thead>
<tr>
<th>Ring</th>
<th>Take-up (m²)</th>
<th>Share of take-up in Madrid</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>37,053</td>
<td>12%</td>
</tr>
<tr>
<td>2</td>
<td>60,775</td>
<td>19%</td>
</tr>
<tr>
<td>3</td>
<td>68,736</td>
<td>22%</td>
</tr>
<tr>
<td>4</td>
<td>15,000</td>
<td>5%</td>
</tr>
</tbody>
</table>

The 2nd and 3rd rings are notable for having achieved the largest share of the total deals in Madrid, particularly with regard to units located in Alcalá de Henares (Ring 2) and Alovera (Ring 3).

The second most important thoroughfare was that of the A-4, with a take-up of 122,400 m², amounting to 35% of market share. The most sought-after units were those located in Getafe (Ring 1) and Seseña (Ring 3). The nearby thoroughfare of the A-42 saw no deals relating to logistics units, setting itself apart more as an industrial cluster.
In terms of the analysis by rings, the 3rd saw the greatest area of floor space transacted (47%), followed by Ring 1 (31.3%). Ring 2 took a share of 17% (all situated around the A-2) and scarcely 15,000 m² were transacted in Ring 4, amounting to a market share of only 4%. The reason is that operators traditionally from Ring 4 have moved into Ring 3, and those of the 2nd Ring into the 1st, taking advantage of offers to be more centrally located.

The first quarter of 2012 has seen a slowdown in comparison with the same period in 2011. This drop in activity is explained by the cautiousness of operators and final users of logistics, faced with poor levels of economic performance and, so far, low impact of structural reforms. Take-up in Madrid was 42,000 m², representing a reduction of 47% compared with the same period in 2011.

The remainder of 2012 will continue to mirror trends in private sector consumption, both in terms of the number of deals and gross take-up. In addition, the demand for extensive floor areas will be lower than that for last year, leading to a foreseeable reduction in take-up by the year end.

**Supply**

The logistics supply in Madrid varied slightly, the only deliveries identified being those of San Fernando de Henares (4,000 m²) and Cabanillas del Campo (20,000 m²). Following an annual average of 410,000 m² of new units between 2005 and 2009, developers have limited their projects to the utmost, pursuing almost exclusively turnkey products which significantly reduce the risk of vacancy. Speculative projects have been set aside and a resurgence is not expected until 2014. The total logistics stock in Madrid at the close of 2011 stood at 5,920,000 m².

In contrast to the results for 2010, transaction activity in 2011 has not put a halt to the increase in vacant units; the vacancy rate has gone from 12.7% in 2010 to 16.2% in 2011. In other words, the beginning of 2012 saw around 968,000 m² vacant, 225,000 m² more than that recorded at the same time the previous year.

Analysing the supply of units according to thoroughfare, the largest volume of vacant floor space is to be found within the areas of influence of the A-2, the A-4 and the A-42. The vacancy rate in the Henares Corridor stands at 13.2%. The most modern, international standard products on offer are to be found in the areas of San Fernando de Henares (Ring 1), Alcalá de Henares (Ring 2) and Cabanillas del Campo (Ring 3). Vacant units along the A-3 amount to 84,000 m², representing a vacancy rate of 33%. The most modern available units are situated within the surroundings of Rivas-Vaciamadrid (Ring 2). The vacancy rate along the A-4 stands at 20.8% and the better quality units are found in Getafe (Ring 1) and Ciempozuelos (Ring 3).

Availability is limited in the areas of the A-1, A-5 and A-6 and there is currently no spare capacity to house logistics activities.
The outlook for the rest of 2012 and H1 2013 indicates relative stability in terms of supply. With developer activity at a standstill, the volume of floor space transacted will tend to stabilise due to the freeing up of second-hand space (regrouping strategies). Nevertheless, the scarcity of modern products in some areas will become apparent, driving up rents and, as a consequence, encouraging the activities of developers. This, however, will not take place until 2014.

**Rents**

2011 has seen a downward trend in rents. The average closing rent for Madrid stood at €3.60/m²/month, representing a fall of 17% on 2010. Taking the rent levels of 2007 as a benchmark, the aggregate discount amounts to 37%.

Prime rents stood at €6.00/m²/month, corresponding to units on the estates close to Barajas airport on the A-2 thoroughfare in Ring 1. This level is similar to that of the previous year, highlighting the greater resistance of more exclusive properties to price falls.

The units closest to the capital (Ring 1) saw a reduction in average rent of 11%, whilst the more peripheral rings (3 and 4) fell by 20%. The difference in reductions illustrates the greater efforts which landlords must make with units located in the zones furthest from the centre.

Units along the A-2 produced an average rent of €4.00/m²/month with minimums of around €1.75/m²/month and maximums of €6.00/m²/month. The area of influence of the A-4 recorded an average rent of €3.80/m²/month (€4.00/m²/month in 2010), within a range of €1.30 to €5.00/m²/month.

Incentives for transactions have remained in place since the beginning of the crisis and many new tenants are able to enjoy free rent periods, staggered rents and costs not charged to rental. These vary according to the negotiating capacity of the parties, though increase in line with the size of the deal and for locations which prove difficult to lease.

The consumption pattern anticipated for the remainder of 2012 augurs stability in rents for prime locations and reductions on units which are of lower quality and have a poorer location. The phase of rent reductions for logistics units will come to an end at the beginning of 2013, in line with better output figures for Spain.
Zoning

The logistics market in Catalonia is divided into three rings according to distance from Barcelona. Ring 1 reaches 10 km from the city, within the area of influence of the port and airport. Notable within this Ring are Zona Franca, ZAL (Logistics Activities Zone), Mas Blau and Sant Boi. Activity is oriented towards parcel logistics and small-scale distribution, in addition to the warehousing of freight from the port of Barcelona.

Ring 2 is defined by the zone located between 10km and 40km from the city. It comprises areas along the A-2 thoroughfare up to Martorell, the AP-7 motorway - in the south to Sant Sadurní and in the north up to Granollers, where the CIM of Vallès is noteworthy. Activity in this zone is oriented towards parcel logistics and logistics reception and distribution throughout metropolitan Barcelona.

Ring 3 encompasses long-distance logistics (located 40km to 100km from the city). The AP-7 motorway runs down the coastal thoroughfare, stretching to Girona in the north and to Tarragona in the south. The section of the AP-2 motorway up to Valls constitutes the interior thoroughfare and reaches Lleida. The C-25 in the area of Bages is becoming a new logistics hub.
A new increase in the demand for logistics real estate in
Barcelona was recorded in 2011. Deals amounted to 371,000
m², representing an increase of 31% on 2010, a year in which
growth had accounted for 18%. The drivers for this growth have
been relocations and regroupings, seeking to take advantage of
improvements in rents, location and/or contract terms.

The market has also been driven by a number of deals for units
with extensive floor space, among which the new head office of
Miquel Alimentación (turnkey project) at 40,000 m², Gomá
Camps with 28,600 m² and Grupo Correos at 22,400 m² are
noteworthy; all occurred during the second half of 2011.

Ring 2 garnered the greatest share of take-up (48%). This
performance was based on affordable rents and an offering of
quality units which proved viable alternatives to those of Ring
1. The latter took 23% of transaction activity, below that of Ring
3 (29%).

Around 46 deals were recorded in 2011, exceeding the 42 of
2010 as well as those registered in 2009 (25) and 2008 (39).
Despite the low levels of economic activity at a national level,
logistics activities in Barcelona remain solid and are preparing
themselves to meet higher levels of consumption in the future.

Units of between 5,000 and 10,000 m² enjoy the greatest share
of deals (37%), in line with the characteristics and needs of
the Barcelona market. In terms of large units (over 10,000 m²)
12 deals were recorded, representing 26.1% of the total. The
share of large units by number of deals went from 46% to 63%
between 2010 and 2011, primarily at the expense of transactions
regarding small units (less than 3000 m²).

The average size of units transacted went from 6,500 m² a
year ago to 8,100 m² in 2011, reaffirming the greater levels
of activity related to large units. Nevertheless, as mentioned
above the main driver for logistics deals continues to be the
rationalisation of space and not the expansion of activities.

The principal players were end users of logistics with a market
share of 53% of take-up. These were followed by pure logistics
operators with 35% of transaction activity. The remainder
consisted of logistics intermediaries and industrial companies
with logistics activities.

During 2012 to date (first quarter), deals have amounted to
83,000 m², implying a repeat of the floor space transacted
during the same period in 2011. Average volumes per deal were
similar in both periods, although the number of deals has fallen
(12 in Q1 2011 and 9 in Q1 2012).

The outlook for the close of 2012 indicates that regrouping and
relocation will remain as drivers for the take-up of space.
Transaction activity in 2011 served to reduce the available logistics floor space by 73,500 m². Vacant units during the first quarter of 2012 amounted to somewhat less than 490,000 m². This floor space represents a vacancy rate of 9.3%, one and a half percentage points lower than the rate of one year ago.

Ring 2 shows the lowest vacancy rate even though this fell by scarcely half a percentage point over the last year, reaching 5.4%. This figure is close to the scarcity threshold and will serve as lower bound to rents during 2012.

The vacancy rate reached 7.3% in Ring 1, amounting to approximately 100,000 m². Compared with 2010, this rate increased by 2 points due to the freeing-up of units, particularly within the estates of San Boi and Mas Blau II. This freeing-up of space has enabled the zone to return to vacancy levels which offer a degree of flexibility to operators to choose between different floor space options, especially those of medium size. As in the case of other European cities, there is, however, a lack of high-quality, well located products.

Ring 3 has the highest vacancy rate, with 13% of the stock availability. This rate is significant, especially when considering that Ring 3 covers almost half of the logistics stock of Barcelona. Nonetheless, this zone saw the greatest fall in the vacancy rate (going from 17% to 13% in one year), due to the minimal freeing-up of floor space. This led to deals having a direct effect on the reduction in the vacancy rate.

Despite the fact that the vacancy rate has fallen over the last year, the level remains above the stability threshold (5% to 8%) and scarcity of products is not apparent. Consequently, speculative projects are not being developed and the trend in average rents continues downwards, staving off any hopes of making new construction profitable. Nevertheless, turnkey projects with guaranteed end users remain active. This drought in developer activity has led to stability in the logistics stock in Barcelona; 2012 began with a total of 5,267,000 m². The stock will increase by around 45,000 m² during 2012 by way of turnkey projects (not affecting vacancies).

At the level of take-up seen in 2011, 1.3 years would be necessary to exhaust the immediate supply at the close of the year. This indicator has fallen by 0.7 years (8 months) compared with 2010 and 1.4 years (17 months) compared with 2009. This illustrates the some progress of the logistics market in Barcelona, despite the arduous conditions set by the economic climate.

It is expected that the vacancy rate will be sustained at the close of 2012. The freeing-up of second-hand units will continue to mirror consumption, with an outlook indicating contraction. As a result, transaction activity will be counterbalanced by the freeing-up of space. Nonetheless, the scarcity of modern, well located products will persist, as in other European cities.
Despite an increase in deals, the average rent in 2011 saw an annual reduction of 17%, reaching €3.60 m²/month. In comparison with average rents for 2007, the aggregate reduction up to 2011 amounted to 33%.

Falls were also detected in terms of logistics areas. The greatest reductions were seen in the units of Ring 3, at 24%. This represents the attempts by landlords of estates located furthest away from the city to attract demand more focused on Ring 2, which is also offering discounted rents. Ring 1 also saw reductions in rents of around 7.5% in 2011.

No movements were recorded for the rents of the best quality units. Rents have converged at €6.00 /m²/month on the estates of Parc Logistic (P.L.Z.F.) and Zona Actividades Logísticas (ZAL). The solidity of rents for prime product may be explained by the relatively strong demand for better located, higher quality units. No reductions in rents for prime units have been detected in 2012 to date.

Non-nominal discounts were also present over the last year. Strategies such as free rent periods and staggered rents have continued to represent significant elements within contracts. Conditions vary in line with the negotiating capacity of the parties.

Staggered rent formulas have proliferated due to the fact that these provide both incentives to tenants and activate the revenue flows of landlords. In a market dictated by the demand, it is anticipated that incentives will remain in place until scarcities appear.

The spread between asking and closing rents has also varied due to the crisis. Lower negotiating margins were detected in line with decreasing rents. This indicates that tenants have more information regarding real estate costs and that landlords are more willing to close deals within shorter lead times for negotiation and first refusal.

Forecasts point to levels of real estate demand which will not be able to bear rent increases. Even the most peripheral units are still offering a margin for further discounts, although at levels which are lower than those seen to date. It will be necessary to wait until 2013 to see upward pressure based on an anticipated increase in consumption.
Zoning

The logistics market in Valencia is primarily focused on the first 20 kilometres surrounding the regional capital, three distinct zones being distinguishable. The Centro QUE zone is considered the most symbolic. 15km from the city lies Ribarroja, with excellent communications due to location at the junction of the A3 and A7 (E-15 Valencia bypass). This district encompasses the majority of the logistics stock and therefore represents a preferred location for operators within the sector. The southern zone comprises the V-30 (new course of the River Túria) the inner ring road of Valencia, the Pista de Silla (southern exit from Valencia), the N-340 (Alicante via interior and Albacete), the A-7 bypass and the AP-7 in the direction of Alicante. The business fabric in this zone encompasses showroom companies - in the settlements closest to Valencia such as Alfasar and Sedavi, and industrial and logistics companies in Almussafes, Sollana and Picassent. The proximity of the Port and its connections make this the most attractive zone for activities related to intermodal transport and for operators undertaking activities both within the south of the Valencia region and the Port of Valencia.

The Southern zone is also particularly relevant owing to the proximity of the regional capital, the estates of Picanya and Paiporta (less than 2 km from Valencia) and Fuente del Jarro in Paterna (less than 9 km). This is the reference zone for parcel logistics and distribution activities.

The Northern zone is characterised by the existence of uncongested estates which nevertheless have high levels of occupancy. Noteworthy in this zone are the “Mediterráneo” industrial estate in Albuixech-Massalfassar and the estates in the district of Sagunto.
2011 represented a positive year in the demand for logistics space in the regional capital. Transaction activity has seen two consecutive years of increases and reached 118,000 m², 11% more than in 2010. The second half of the year was most active with all deals exceeding 10,000 m² and accounting for 80% of the transaction activity.

In exception to the trend of other locations in Spain, the expansion of existing installations was one of the main drivers for take-up in 2011. Some 87% of the demand was primarily driven by expansion. Operators have correctly estimated rent levels and therefore achieved a reduction in vacancy rates. Despite the economic circumstances, certain conditions about the local market have favoured expansion. For example, one of the drivers for logistics at a regional level - the Ford factory in Almussafes, has recently been awarded the worldwide manufacturing contract for a new model of vehicle. Consequently this has increased the real estate activities of suppliers. The Port of Valencia has also had an effect, increasing freight traffic by 10.8% in 2010 and 2.7% in 2011.

Representing the core for logistics activities in Valencia, the Central zone garnered 72% of the transaction activity in 2011, thanks to the quality, location and rent adjustments for units in the Ribarroja area. The estates of the Southern zone (the districts of Sollana and Massanassa) took the remaining transaction activity, gaining in market share compared with 2010 (from 18% to 28% of take-up).

Despite the greater floor space transacted, the number of deals fell slightly with 16 deals recorded, 10 less than during 2010. The 5 largest represented 60% of the transaction activity during the year. In this case, the reason is that the demand for large units (exceeding 10,000 m²) was sustained, whereas that for less extensive units lost momentum as a consequence of lower levels of activity.

The average size per deal grew from 2500 m² to 7000 m², exceeding those for 2008 (6200 m²), 2009 (2800 m²) and 2010 (4000 m²).

Deals relating to more extensive space involved the following companies: Alfil Logistics (16,800 m², Torrente), In side Logistics, a supplier of IKEA (18,300 m², Ribarroja) and Johnson Controls (11,550 m², Sollana), the latter two mediated by BNP Paribas Real Estate. In Side Logistic represented the largest deal carried out within the logistics market in Valencia during 2011.

In terms of the types of tenants, a significant increase in deals involving end users was noteworthy during 2011, going from 5% to 56% both by number of deals and transaction volumes.

There were 8 deals closed between January and March, 2012, amounting to a take-up of 45,600 m². Due to the poor performance of consumption and production within the region, it is not anticipated that this level of take-up will be sustained through to the end of the year. The forecast for 2012 indicates transaction activity similar to that of 2011. Greater demand for more modern units at competitive prices is anticipated, in particular within the area of Ribarroja and Sollana.
Supply

The availability of units has fallen for the second consecutive year since the beginning of the crisis. Vacant space went from 209,000 m² in 2010 to 166,000 in 2011, representing a reduction of 20%.

The trade-off between floor space transacted (116,000 m²) and freed-up (62,000 m²) was positive and the vacancy rate fell from 16% in 2010 to 12.5% in 2011. This rate has remained steady up to March, 2012.

The Central zone saw a reduction in the vacancy rate of 4.7 percentage points, reaching 11.7%. A reduction in the vacancy rate for better quality units was observed, thanks to more competitive prices over recent years. Nevertheless, the current level of supply makes it possible to find prime specifications in the areas of Ribarroja and Paterna.

The vacancy rate in the Southern zone has remained stable since 2010, despite the fact that this area led the growth in space transacted during 2011. Bearing in mind the freeing up of space in the Southern zone, the high level of turnover has compensated for vacancies.

The Northern zone shows a low vacancy rate in line with the lesser degree of specialisation in logistics services. This is due to the fact that this location is less strategic when compared with other areas.

The juncture of rents and a vacancy rate above equilibrium (between 5% and 8%) checked the development of new logistics projects in Valencia during 2010 and 2011. Given the current convergence of a high vacancy rate, lower consumption and the lack of financing, it is anticipated that no speculative developments will be undertaken. Although the continual fall in land prices in Valencia will eventually encourage the investment and logistics development market. Turnkey operations with a user/tenant willing to occupy the unit are being studied.

Available and is well located and qualified for industrial and logistics use, and may be assigned to bespoke or turnkey projects.
The current market may be described as a “buyer’s market”. Tenants who are able to pay have greater negotiating strength than before the beginning of the crisis. And landlords have become aware of the market situation, adjusting their rents to the requests from possible tenants. This has enabled the maintenance of transaction activity over the last two years.

The downward trend in rents over the last three years has represented an opportunity for some operators to transfer to more modern, better equipped installations.

Average rents have drifted downwards, amounting to a discount of 3.5% during 2011. The average fall since 2008 amounted to 33%, in the case of some units reaching 50%.

The highest rents were found in the area of Ribarroja (Central zone) and Almussafes/Sollana (Southern zone), justified by the fact that these are prime logistics zones and due to the high quality of properties. The maximum rate stood at around €4.00/m²/month at the close of the first quarter of 2012. Compared with 2007, the aggregate discount amounted to 33%.

The gap between asking and closing rents continues to shrink. Contracts were agreed over the last year at rents very close to those sought by tenants. Nevertheless, the determining factor for the real discount is the quality of the future tenant and, in particular, their payment guarantees.

In terms of commercial strategies, rent free periods and staggered rents are common practice. The average term of lease contracts tends to be lower than that seen before the crisis, giving the prospective tenant greater room for manoeuvre.

The same favourable conditions for prospective tenants in terms of rent incentives and uncharged expenditure will remain in place for the remainder of the year.
Zoning

The logistics real estate market in Seville is divided into five zones: Central, North, South, East and West.

Units for logistics use are to be found in most all the estates within the Metropolitan district, alongside small and medium sized industrial units and those for commercial use.

Central Zone: Units within the SE-30, containing the bulk of logistics activity in the city. Sites such as the Centro de Transportes de Mercancías (CTM) and the Zona de Actividad Logística (ZAL) of the Port of Sevilla are to be found here. The latter has access to numerous forms of transport by river, land and rail.

The SE-30 dual carriageway defines the interior boundary from the remaining zones, which extend up to 40 km from the city centre.

Southern Zone: Situated between the River Guadalquivir and the A-376 road. Houses logistics units located alongside the A-4 towards Cádiz and, more importantly, the Carretera de La Isla Estate. A mix of logistics and industrial units.

Eastern Zone: Between the A-4 Seville-Madrid and the A-92, including its edges. The estates of Los Espartales and Carmona are located here, primarily for logistics use. The oldest logistics units are found along the A-92 thoroughfare, between Seville and Alcalá de Guadaira.

Northern Zone: Area between the A-66 and the A-4. Including both sides of the A-66 and excluding the estates along the A-4. Primarily houses the estates El Esparragal, El Cañamo, Cañamo II, III and Cañamo IV, the latter of which is at the project stage.

Western Zone: Between the River Guadalquiver and the A-66, excluding the banks/edges. The most notable states are PISA and PIBO, with a greater proportion of retail and industrial activity than logistics.
Deals

Around 27,200 m² of logistics units were transacted in Sevilla in 2011, shared between three deals. The figure represents less than half of that recorded for 2010 and reflects the total lack of growth in the distribution business over the last year.

The most notable deals were performed on behalf of Master Paper (11,500 m²) and Carvolum (12,200 m²) on the La Isla Estate in the area of Dos Hermanas.

Although transaction activity was lower than that of the previous year, it is not possible to state that the market has gone from an expansion phase to a slowdown. Rather that the logistics potential in Seville is limited, leading to volatile transaction activity depending on specific deals.

Movements for the remainder of 2012 in Seville will depend upon the regrouping process, taking advantage of the existing availability of quality, well-connected units on the market.

Vacancies

The deals recorded in 2011 did not offset the second-hand space freed-up. As a result, the vacancy rate rose three percentage points to 29%.

The most active area in logistics, the Central zone, also showed the least vacant space. In particular, the estates of this zone, such as the ZAL and CTM, showed vacancy rates of 20% and 15% respectively.

The Southern zone, which houses one of the most dynamic estates in terms of industrial and logistics activity - Carretera de la Isla, has a vacancy rate of 28%, three percentage points above that of 2010.

In response to high vacancy rates and downward trends in rents, no new units have been added to stock over the last year.

Seville currently has sufficient capacity to house logistics activities of any type. The most established estates offer space at affordable rents and land which is well located for large, modern developments.
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PROPERTY REPORT - LOGISTICS IN SPAIN - JUNE 2012

SEVILLA 2011

Rents

The prime rent in Seville stood at €4.60 /m²/month in 2011 in units located in the Western zone, more specifically the PISA estate. The maximum rent suffered a fall of 16.7% compared with 2011. The ZAL (Southern zone) achieved a maximum rent of €4.00 /m²/month.

An annual reduction in maximum rents for the different zones was also recorded, with the exception of Parque de Plata, the rent of which remained constant in comparison with the previous period (€3.50 /m²/month). The zones showing the greatest reductions in 2011 were el Cáñamo, Pisa and Pibo, with falls of 23.8%, 16.7% and 16.7% respectively.

The zones showing greatest resistance to reductions were characterised by:
• Having seen significant falls in previous years (Guadalquivir, Parque de Plata, Navaexpo)
• Experiencing more active demand (ZAL, Palmera, la Isla, Mensaque)

Minimum rents also felt the impact of reductions, in some cases greater than the discounts on maximum rents. The estates seeing the greatest reductions were those of La Isla (38.5%), Calonge (20%) and Cáñamo (16.7%).

Faced with the limited degree of logistics activity in Seville and the weakness of the economy, increases in rents are not anticipated in either the short or medium term. Opportunistic rents and sale prices will continue to be seen. The former due to landlords fleeing extended vacancies and the latter as a result of the need of some landlords to sell.
LOGISTICS INVESTMENT IN SPAIN

2011 represented a slowdown in property investment in Spain. Investment volumes saw an annual fall of 38%, with reductions in all real estate segments, except logistics.

Although still at very low levels, the last 2 years have seen investment growth in logistics, reaching €219 million and exceeding the figures for 2010 by almost €100 million and that of 2009 by €160 million.

An important fact regarding the origin of investors must be taken into account: whereas offices and retail premises were acquired primarily by domestic players, many of these being private equity investors and Family Offices, 2 out of every 3 logistics deals involves international investors. Investors from France, Germany and the United States were the most active.

In terms of vendors, the trend was clear with both domestic funds and private equity investors showing the greatest levels of divestment.

The most active location was Madrid, closing 60% of deals representing a total volume of €251 million (66% of the national total). One of the largest deals of the year was performed here, in which ING Industrial Fund sold a portfolio of units in Quer, Daganzo and Valdemoro for a total sum of €70.5 million. This consisted of a joint-venture between Goodman Group, CPP Invest, ABP and CIC. Despite having an active market during 2011, Barcelona accounted for only 12% of the logistics investment, below the figures for 2010 (23%) and 2009 (20%).

Prime returns reached 7.75% for the best units in Madrid. This level has been sustained since the beginning of 2011 and will remain stable throughout the remainder of 2012. The best units in Barcelona show returns of 8%, similarly stable since the close of 2010.

Investment activity during Q1 2012 was weak in general, and the logistics segment proved to be no exception. Causes such as poor consumer and business sentiment and tougher government austerity measures lie behind this performance.

Access to financing remains restricted due to the policy of minimum risk pursued by banks with regard to real estate projects. In addition to the returns on investment (formerly the sole parameter for project feasibility) financiers are giving considerable emphasis to other aspects of the property, such as location, quality and type of tenants, duration and binding compliance.

Within this scenario, three factors will influence logistics investment in Spain during the remainder of 2012:

1. The heightened cautiousness of investors.
2. Investors’ appetite skewed towards prime assets in Madrid and Barcelona, giving guarantees of sustainability compared with the degree of uncertainty at a national and European level.
3. Opportunities arising from landlords facing financial difficulties, of which equity buyers may take advantage without the need for leverage (investment funds, insurers and pension funds).
GNOSARY

BNP Paribas Real Estate Research aims, to the extent possible, to produce comparable and homogeneous indicators. We try to contribute to market transparency by entering the definitions of concepts and indicators used in our reports, so that readers can clearly understand each one of them.

Calculation of surface area: Data on take-up, vacancies, stock and future supply (pipeline), are expressed in gross area in square meters. For internationally comparable figures, BNP Paribas Real Estate multiplies Spanish figures by 0.82.

CBD: This is the most active business area for the tertiary sector in the city. For this reason it is considered as the most interesting real estate.

Take-up: This represents the total surface area rented, pre-let, sold or pre-sold during the analysis period.
- It does not include surface area available for rent.
- An area is considered 'taken-up' when the contract is signed or a binding agreement has been reached.
- A pre-let is considered as take-up executed off-plan or during the construction period.
- Deals are the number of transactions where the contract was signed in the period of analysis.
- Take-up figures are subject to change.
The breakdown of take-up by sector is compatible with European NACE activity codes.

Supply: Total office space, which at the date of preparation of the report are:
- Physically unoccupied.
- Ready for immediate occupancy.
- Actively marketed.
Includes sub-let area and is mentioned separately when possible.
- Vacancy rate: Total area available divided by stock at the date of preparation of the report.

New deliveries: Amount of office space having reached technical completion in the period of analysis. They can be pre-let or available for occupancy.

Pipeline: Surface area of properties for which works have started on a new development or significant reforms at the date of preparation of the report. Includes projects for occupancy by the owner (turnkey). Excluding land adaptation works.

Stock: Total amount of surface area for office use, whether occupied or available, at the close of the report.

Average rent: The average rent charged during the last quarter, weighted by the surface area of each rental contract during period, either, new or used.

Gross Yield: Annual gross income (before property costs and expenses) on the purchase price, excluding transfer costs.

Net Yield: Net income on the purchase price plus all costs of purchase.

Prime Rent/Yield: Represents the highest rent/yield on the the dates of the report, in one unit:
- Standard size proportional to demand in each location.
- High quality and specifications.
- In the best office locations in the market.
The transactions executed during the period are used to determine the prime rent and yield. In the absence prime transactions during the period of analysis, a hypothetical rent/yield is based on expert opinion and market conditions.

Pipeline: Total surface of all projects under construction. Includes reforms of buildings undergoing conversion to offices.

Investment volume: The sum of the selling prices of all non-residential real estate assets in which BNP Paribas Real Estate has identified a change of ownership. Includes office buildings, Retail, Industrial and logistics, and hotels. The levels reported in the reports are not final and are subject to change.

Types of investors:
- Insurance
- Public Sector
- Property Companies
- Shareholders
- Private Investors and Family Office
- Corporations
- Consortia
- Others

Opportunistic investment vehicles: Investors seeking a yield of over 17% with leverage levels of over 60% of the gross value of the asset.

Value-added Investment Vehicles: Investors seeking a yield of between 11.5% and 17% with leverage levels of between 30% and 70% of the gross value of the asset.

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