PROPERTY REPORT
LOGISTICS IN SPAIN
JUNE 2013
EXECUTIVE SUMMARY

Logistics occupancy: a step ahead of the economic cycle

The resistance of the logistics business to recession in recent years is shown in the number of available units falling in Barcelona, Madrid and Valencia. Barcelona has established itself as the logistics “hub” of Spain with solid levels of transaction activity and falling availability. Madrid closed 2012 with net positive take-up, putting an end to 3 consecutive years of increases in the availability rate. Take-up in Valencia during 2012 exceeded that of 2011 and prime units became scarce because of strong demand. Demand remains weak in Seville, mirroring the low levels of local employment and consumption.

Madrid
• In annual terms, logistics take-up fell by 19% in 2012, in line with the trend for domestic consumption in Spain
• Net take up was positive, although the availability rate remained high (14%)
• The availability rate fell by 1.5 percentage points, with prime product becoming scarce in some areas
• Average rents fell in response to less vigorous demand. Free-rent periods and other incentives to deals remained in place
• Prime rents remained stable and units with high specifications saw an increase in the differential with average rents

Barcelona
• The take-up in Barcelona grew again in 2012, marking three consecutive years of expansion
• The number of available units fell and the availability rate reached 7.7%, five percentage points below the peak in 2008
• The stock of logistics product remained unchanged and the development of units is limited to turnkey projects
• Despite the higher level of transaction activity, average rents fell in response to a market which is still affected by the crisis

Valencia
• Sustained activity in the port of Valencia and increased industrial production in the area enabled growth in take-up of 26%
• The area of Ribarroja on the A-3 thoroughfare continues to act as the main logistics focus of Valencia
• The availability rate dropped in 2012, closing the year at 11.3%. This amounts to 6 percentage points lower than the peak seen in 2009

Seville
• Logistics activity remains limited, although real estate transactions for logistics improved between January and April, 2013
• Whilst asking rents have remained stable, the gap between these and closing rents has widened
• Due to the fact that there is no development of new buildings, the logistics stock has remained unchanged since 2010
ECONOMIC OUTLOOK

The recessionary phase has not come to an end in Spain and the general consensus is that there is some way to go before cutbacks in production and employment cease. It is foreseeable that domestic consumption will continue to suffer from a repressive fiscal policy throughout the remainder of 2013. There is still room for further institutional reforms in the financing of regional authorities, pensions and the financial market.

There is, however, evidence from a number of variables, which represent the basis for better economic performance in the future. In particular, foreign trade has made a positive contribution to GDP that would otherwise have slid further. And 2012 closed with a positive balance of trade and it is foreseeable that this will be repeated in the current account balance for 2013.

The better performance of foreign trade is an accompaniment to lower unit labour costs. These have fallen constantly since 2008 as a result of drops in salaries. In addition, the employment reforms undertaken in 2012 have lowered the cost of dismissals and redundancies, giving more flexibility to employers to adjust their costs and expenditure to the economic cycle. Although the short-term effects entail a higher number of layoffs, the basis has been set for a greater degree of employment mobility. This is accompanied by training policies to help absorb the manpower freed up.

The Industrial Production Index (IPI) evinces the severely testing nature of the transformation in Spain. The average value for the index in 2012 sits 23 percentage points below the benchmark of 2005 (100 points) and is the lowest level seen over the last 20 years. The implications for the logistics business are clear and the real estate sector bears witness to this with high levels in the availability of units.

A detailed diagnosis of industrial activity can be seen in the Industrial New Orders Index compiled by the INE (Office for National Statistics). Orders for perishable consumer goods (such as food and drink) exceed the benchmark for the index (2005) and grew in 2011 and 2012. The worst affected orders were those for durable goods (such as household appliances and consumer electronics), which nosedived as a result of the crisis and closed 2012 at less than 50% of the level seen in 2005. Capital and intermediate goods are also at rock bottom, at around 80% of the reference value in 2005. In summary, the industrial activity positively supporting order levels relates to non-durable consumption – people keep their pace of consumption of food and drink. This is enjoying a certain degree of momentum, cushioning a significant fall in the general index of industrial orders.

Port activity, new automotive lines and the textile and food industries have sustained transaction activity for logistics and industrial space in 2011 and 2012. 2013 will follow the same lines as 2012, with domestic demand yet to recover. Forecasts point towards greater activity at the beginning of 2014. This will have a knock-on effect both in terms of deals and the availability of logistics space, particularly in locations close to the focal points for consumption.
Zoning
The market for logistics units in Madrid

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.

Activities focused on parcel logistics and local distribution are located between Madrid’s two ring roads, the M-40 and M-50. The primary feature of this activity is high turnover of goods.

The following zone – between the 20 km and 30 km points, is oriented towards the storage and distribution of consumer goods and is of medium turnover.

Medium and low turnover logistics sites are located between 30 km and 70 km, comprising extensive units with 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.

Beyond the 70 km point, developments enable large storage volumes (low turnover of goods) and rents below those of the other rings.
Logistics take-up and economic cycle

Take-up by quarter

Transactions by size - 2012

Transaction activity

The drivers of logistics deals over the last year are relocation and more affordable rents. Operators are seeking sites close to the city centre in high quality units, though with less extensive floor area.

Transaction activity during the first quarter of 2013 was noteworthy, reaching 131,000 m². This was based on two large operations which amounted to almost 90,000 m², trebling the transaction activity recorded during Q1 2012. Both deals were advised on by BNP Paribas Real Estate. But the number of deals matches that of one year ago (10 logistics transactions) indicating similar, still delicate demand conditions.

Around 260,000 m² were transacted in 2012, take-up for the year remaining 60,000 m² below that recorded in 2011. This fall comes as no surprise given that the indicators and outlook for production and consumption continue to slide throughout the Madrid region.

Logistics operators have sought locations on the main thoroughfares of logistics activity, such as the A-2 and A-4. Nevertheless, take-up has fallen on these thoroughfares by 12% and 20% respectively. The most sought-after logistics centres were:

- Coslada and San Fernando de Henares on the A-2 (74,100 m² take-up in 2012)
- Valdemoro and Getafe on the A-4 (40,000 m² transacted in 2012)

The main attractions of these zones consist of the proximity to Madrid and sizes which are appropriate for almost any type of activity. Discounted rents have represented an additional incentive in recent years.

The importance of the A-2 thoroughfare may be seen from its level of take-up, in that it cornered 63% of this in 2012 (160,000 m²). The second largest share went to the A-4, reaching 30%. Transactions were nominal on the A-1 and A-3 thoroughfares and no deals were recorded on the A-42 dual carriageway (which has logistics units on offer) or the A-5 or A-6 (on which very few logistics units exist).

Deals relating to the smallest-sized units (2000 to 3000 m²) gained the greatest market share (42%), followed by medium-sized units (3000 to 10,000 m²) and finally large units. The distribution coincides with current market conditions where smaller floor areas are more sought after.

In terms of the demand profile, significant activity from logistics operators and package distribution is recorded. Lower levels of activity were recorded for corporates, indicating a greater degree of professionalisation of the logistics market in Madrid. E-Commerce operators were notable among the final users and will remain active over the coming years.

The share of transactions was determined by proximity to the city centre. Almost half of the deals in 2012 were cornered by the nearest zone (Ring 1), whereas those furthest away (Ring 4) amounted to solely 4%. In terms of the share of floor space transacted, the zones closest to Madrid (Ring 1) cornered 40% followed by those at a medium distance (Ring 3) with 32% (greater proportion of large volume units).
Logistics take-up by corridor

![Graph showing logistics take-up by corridor]

Logistics stock evolution

![Graph showing logistics stock evolution]

Vacancy rate evolution

![Graph showing vacancy rate evolution]

Vacancy rate in the main logistics corridor

![Graph showing vacancy rate in the main logistics corridor]

**MADRID**

The most sought-after areas in 2013 continue to be the A-2 and A-4, although demand relating to the A-3 has surfaced (April and May, 2013). The outlook for demand activity is similar to 2012, with a significant proportion of operations arising from the rationalisation of space. The take-up for 2013 will however exceed that of 2012, thanks to the impetus during the first quarter.

**Supply**

The logistics stock in Madrid has remained practically unchanged since 2009. Developer interest has been focused on turnkey projects, forsaking speculative projects without assured clients. The stock amounts to 6,060,000 m². Two thirds of the stock corresponds to the Henares Corridor (A-2) and 20% to the A-4 dual carriageway.

The size transacted in 2012 (take-up) exceeded the size freed-up over the same period. As a result, the availability rate fell by one and a half percentage points from the peak reached at the close of 2011 (16.2%) to close 2012 at 14.6%. The availability rate in December, 2012 stood at 14% in both the Henares Corridor and the A-4. On the A-4 it has fallen by 7 percentage points since 2011.

The first quarter of 2013 closed with increases in the vacancy rate on the A-2 (+0.7 points) and the A-4 (+0.5 points). Reduction in availability on the A-42 (-3 points) has however offset these increases, leaving the rate in Madrid unchanged at 14.7%.

The logistics zones closest to the city have less availability thanks to their strategic location. On the other hand, sites towards Guadalajara have availabilities reaching around 30%. This supply is capable of satisfying almost any type of demand and will be a key factor when the central zones begin to show scarcities (whether with regard to size, quality or specifications).

The estimated time for the take-up of total supply has gone from three to three and a half years. It has risen in all areas over the last year due to lower logistics demand activity in 2012. Using the take-up rate for 2012, two years are necessary in the central zones for the absorption of available product, in comparison with five and a half years in the areas furthest away.

The supply under development is currently at rock bottom, with no outlook for recovery in the short term. Developers remain cautious due to current rent levels and expectations of low occupancy. Various projects remain ‘on paper’ awaiting the appearance of an occupant and a financial backer. The only logistics space currently under development consists of a turnkey project ordered by Inditex in the area of Cabanillas del Campo. This project consists of two phases, one for delivery in 2013 and amounting to 60,000 m², with another in 2014.

Despite the high availability rate in Madrid (14%) there is a scarcity of:

- Units of more than 25,000 m²
- Cross-docking facilities
- High-quality, energy-efficient medium-sized units

It is therefore possible to predict the emergence of turnkey products in 2013 and 2014 for these types of units. The supply of land for logistics developments (including that from the SAREB, savings banks, banks and developers) is sufficient within the Madrid region, Guadalajara and Toledo, and prices are affordable.
Despite a certain degree of strength in property segments with availability issues, rents mirror the slowdown in economic activity. The weakness of demand and the abundant supply of units, particularly at more distant sites with secondhand units, represent key factors in the fall in rents. The average rent for the city fell by 16% in 2012, giving an aggregate fall of 48% from the maximum in 2007. This markdown has not arisen as a result of a greater proportion of deals in more distant logistics centres (where it is cheaper) but due to lower levels of rent in all areas.

The prime rent has fallen once again, going from €5.50/m²/month in 2011 to between €4.50 and €5.00/m²/month in 2012. No reductions have been seen between January and March 2013.

The highest valued units are located in the area of influence of Barajas Airport and in the logistics centres of Coslada and Getafe.

The most commonly employed incentive in the Madrid market continues to be the free-rent period. Its use has become more widespread over the past year and periods have tended to lengthen. Institutional landlords in particular are more inclined towards incentives than rent discounts, whereas private landlords prefer reductions with early rent reviews.

Costs not charged to rent also remain prevalent. Landlords are looking to avoid longer periods of vacancy by assuming some of the fitting out and relocation costs.

As a result, face rents are becoming ever more distant from effective rents and this is interpreted as an opportunity for the occupation of logistics space in Madrid.

The fundamental variables of the logistics market in Madrid indicate stability in prime rents for the remainder of 2013. General increases are not envisaged for 2014 given the anticipated weakness of the economy. Nonetheless, the lack of quality product close to Madrid points to an expectation that these locations will soon come under pressure, leading to increased rents for prime product in the coming year. In view of the better economic conditions in coming years, the main message in Madrid is one of ‘taking positions’.

**Madrid**

Rents

**Average rent evolution**

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**Main logistics zones rentals**

<table>
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<tr>
<th>€/m²/month</th>
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<th>Ring 3</th>
<th>Ring 4</th>
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<td>2/3</td>
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<td>35/5</td>
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<tr>
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<td>18/32</td>
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<tr>
<td>A-5</td>
<td>4.5</td>
<td>3/4</td>
<td>18/3</td>
<td>15/25</td>
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</tbody>
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*Source: BNP Paribas Real Estate Research*
Zoning

The market for logistics units in Barcelona

The logistics market in Catalonia is divided into three rings according to distance from Barcelona. Ring 1 reaches 10km from the city, within the area of influence of the port and airport. Notable within this ring are Zona Franca, the ZAL, 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 coast, 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.
Transaction activity

The economic situation in Barcelona cannot be divorced from the difficulties suffered by the national economy. Nevertheless, the industrial strength of Catalonia and its port activity have strengthened logistics take-up. The take-up of 376,000 m² in 2012 exceeded the four previous years, although with a very slight margin over that of 2011.

The main drivers for deals in 2012 and the first quarter of 2013 have been:
• Cost savings
• Improvements in the quality of facilities
• Grouping together of activities

This suggests the outlook for the year is highly positive, positioning Barcelona as the main logistics hub in Spain.

A total of 45 deals were recorded in 2012, in line with the figure for the previous year. Those deals amounting to more than 10,000 m² had a significant market share of 27%, as did smaller units (2000 to 3000 m²), amounting to 33%.

Around 68,000 m² were transacted during the first quarter of 2013, representing a reduction of 33% in comparison with Q1 2012. The number of deals however went from 11 to 15, meaning that the average area transacted fell by half.

Due to low prices in recent years there has been greater occupancy of Ring 1 and, as a result, there is currently less availability. In 2012 this generated an ‘overflow’ effect – the share of take-up in Ring 2 was greater than that seen over the last 5 years (55%).

The most active logistics zones consisted of Barcelona and el Prat de Llobregat in Ring 1 and El Vallès in the second ring.

The main roadway subject to transaction activity was the AP-7 motorway (northbound and southbound).

Turnkey deals came to life in 2012. Some large scale logistics operators such as Norbert Dentressangle (7300 m² Pla de Llerona) and end clients, such as Honda Motors in Santa Perpetua, entered into contract last year for the development of their new logistics facilities. These bespoke projects sought:
• Technical adaptations to current regulations
• Construction costs and rents which have fallen continuously since 2008

At the time of writing this report, demand exists for new bespoke developments. This would give momentum to logistics take-up for 2013/2014, as well as increasing stock with quality units in future development of logistics parks.

It is observed that providers of logistics services predominate over corporates of logistics and industrial activities in terms of the sector of activity of contracting parties. One out of every three deals in 2012 corresponds to these providers.
These drivers of transaction activity confirm the solidity of the Catalan market against the economic cycle. It is anticipated that transaction activity will once again exceed other logistics sites in Spain at the close of 2013. Nevertheless, growth in take-up is not anticipated, with levels similar to those of 2012 being reached. As in the case of 2012, Ring 2 and, progressively, Ring 3, will corner a significant proportion of deals by having greater availability, a good share of the quality stock and affordable rents.

Supply

The previous year saw a significant reduction in available units. This reflected good results for demand but also moderate levels of development activity. The stock amounted to 5,332,000 m² in 2012, with 65,000 m² being added during the year. About 26% of the stock is found in Ring 1, 28% in Ring 2 and the remainder in Ring 3.

The availability rate stood at 7.7% in December, 2012, 1.6 percentage points below the figure for 2011 and 5 percentage points below the maximum seen in 2009. The level of supply therefore falls within the equilibrium range (5 to 8%), in which it is possible to meet demand without an excess of idle space.

The proportion of vacant units in Rings 1 and 2 amounts to 5.3% and 5% respectively. In absolute terms, 73,000 m² are available in Ring 1 and 76,000 m² in Ring 2.

The greatest scarcity of logistics units is found in:

• Baix de Llobregat Sud (Sant Boi) and Zona de Actividades logísticas – ZAL
• Baix de Llobregat Nord (Martorell), Valles Oriental (AP-7 norte) and Valles Occidental (Terrassa and Sabadell)

The most peripheral logistics areas have greater availability. The average availability Ring 3 stands at 11%, despite the fact that it saw the greatest reduction in 2012, of 2 percentage points. The main contributors to the 452,000 m² available are found on the logistics parks of Bages (70,000 m²), Alt Camp (50,000 m²) and Tarragonès (50,000 m²).

Were the pace of transaction activity in 2012 to persist, the available supply for the entire area of influence of Barcelona would be exhausted within a period of one year. The lowest levels are those of Ring 2, where the supply would be exhausted in 3 months and the first ring in one year. The interpretation points towards positive pressure on the rents for units closest to the centre and improved chance of occupancy for logistics developments in coming years.

The added area in 2012 (65,000 m²) was located in the zones of San Boi and Mas Blau/El Prat (Ring 1) and the northbound AP-7 (Ring 2), in line with the aforementioned scarcity.

Speculative supply under development is non-existent, although projects which have remained at a standstill for the last two or three years could be restarted. These would add quality supply to a stock which has exhausted the vacant prime units and which, in the coming years, could entirely lack quality units in the strategic zones of Rings 1 and 2.
Rents

The average rent in Barcelona has fallen continuously since 2007. The aggregate drop since then amounts to 37%. Nonetheless, the pace of the fall slowed in 2012, possibly presaging stability at the close of 2013. The data collected in 2012 showed an average rent of €3.40/m²/month, falling from €3.70 in 2011. The fall was down to weak demand.

Compared with 2011, all zones have seen falls in average rents, the greatest being that of Ring 2 (-10%). The trend for Ring 1 is more gradual. The fall was particularly drastic at the beginning of the crisis (-22% between 2008 and 2009) leading to less severe reductions in the following years. Over the last two years these have amounted to -7.7% and -5.2%. This trend, along with the progressive scarcity of units in the area, indicates possible stability in 2013.

At the date of writing this report (May, 2013) the prime rent stood at €5.50/m²/month for the highest quality units located in Ring 1. The best units in Ring 2 enjoyed a maximum rent of €4.00/m²/month on the same date.

Incentive frameworks continue to grow and new tenants in 2012 have taken advantage of non-nominal discounts such as free rent periods and staggered rents. It is anticipated that these frameworks will remain in place throughout the rest of 2013. With a foreseeable stabilisation of domestic demand for the period 2014/2015, it is possible that the market will become less tenant friendly and that incentives will be gradually reduced.

The outlook for the close of 2013 points towards stable rents in Rings 1 and 2. Nevertheless, the meagre availability of units in zones closer to Barcelona may generate positive pressure with regard to 2014.
Zoning

The market for logistics units in Valencia

The logistics market in Valencia is primarily focused on the first 20 kilometres surrounding the regional capital, three distinct zones being distinguishable. The Central zone is considered the most symbolic. Ribarroja lies 15 km from the city centre, 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 Alfafar 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 due 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 estates in this zone are the “Mediterráneo” industrial estate in Albuixech-Massalfassar and the estates in the district of Sagunto.
Transaction activity

The market in Valencia has once again demonstrated its strength in the logistics sector with notable take-up in 2012. Transaction activity for logistics units grew by 25% compared with 2011, reaching a historic peak for the Valencian market of 146,000 m² transacted.

In 2012, the majority of the deals undertaken by logistics operators were driven by the need for greater area and improved facilities.

Other drivers behind the good results were continued activity in the Port of Valencia, where freight movements remained constant in comparison with 2011, and the automotive industry. This augurs a good year for transaction activity for the southern zone in 2013.

Logistics transaction activity in the A-3 thoroughfare area of influence attracted the bulk of demand in 2012, amounting to two out of every three deals and 60% of take-up. The rest of the activity was focused around the southern zone, where two of the most significant market operations were undertaken. Deals were few and far between on the estates of the northern zone.

Besides an increase in the area taken-up, the number of deals also increased, amounting to 20 in 2012 compared with 16 in 2011. The average size per deal therefore remained constant for the second year running at 7300 m², exceeding the average areas for 2008 (6200 m²), 2009 (2800 m²) and 2010 (4000 m²).

Around 35% of the transactions involved units of less than 7000 m². Three deals involving areas in excess of 15,000 m² were noteworthy, corresponding to Faurecia (automotive industry - 20,000 m², Almussafes), Alnut (food industry - 15,900 m², Ribarroja), Euro Pool Systems (logistics operator - 15,600 m², Masalavés) and Norbert Dentressangle (logistics operator - 15,278 m² - Ribarroja). The latter was mediated by BNP Paribas Real Estate.

Seven deals amounting to 40,132 m² were closed during the first quarter of 2013. The main focal point continues to be the A-3 thoroughfare, with five deals and a 56% share of take-up. The most important transaction in a different zone during the quarter was recorded in Sollana (Southern Zone), with 7600 m² leased by Johnson Control (advised by BNP Paribas Real Estate). Current levels of activity point towards the close of year recording levels of transaction activity similar to those of 2012.
Supply

The logistics stock in Valencia amounted to 1,338,000 m² in December, 2012. The A-3 thoroughfare (Central Zone) represents 70% of stock, primarily on the estates in the area of Ribarroja. The logistics areas of the Southern Zone, in the vicinity of Picassent, Almufasses and Sollana, have a 27% share. The remainder (3%) is contributed by the Northern Zone (Massalfassar and Sagunto).

The good results for logistics demand in recent years have led to a continuous reduction in available area. 2012 closed with 15,000 m² less than in 2011, amounting to a total of 151,400 m² and an availability rate of 11.3%. The fall in comparison with the previous year amounted to one percentage point and, in comparison with 2009, six percentage points.

Valencia has seen three consecutive years of falls in the availability rate. Within the principal reference zone – Ribarroja, the proportion of vacant units remained stable during the previous year at 15%. Quality units have gradually become occupied, leading to a lengthening of the search times for modern logistics units.

The scarcity of quality units is striking in all zones, even Ribarroja where the supply of the best quality space is currently inadequate. As in the case of other sites, the "flight towards quality" in times of crisis is generating a two-speed market. Logistics units which are not located in the prime zone and are of lower quality allow further room for discounts or greater incentives, whereas prime units are practically 100% occupied.

Almost 8000 m² of new units were incorporated into the stock in Valencia in 2012. These were shared between two projects, adding available area to Pista de Silla (3400 m²) and Ribarroja (4380 m²). Nonetheless, no projects have begun either in 2012 or 2013 and no significant developments are currently envisaged. Local developers remain absent due to the recent performance of rents which, during 2012, continued their downward slide. The drought of development activity will provide upward pressure on rents in coming years, reactivating the expectations of investors and developers.

The estimated time for the take up of supply amounted to one year in December, 2012. In other words, available supply would be exhausted within 12 months at the rate of take-up of the previous year. This indicator has also fallen in recent years, going from 5 years in 2009 to 1.5 years in 2011.
Rents

The downward trend continued over the last year. The average rent for 2012 stood at €2.50/m² gross/month. As a result, logistics lettings have resulted in an aggregate fall of 45% over the last 4 years. But the drop in rents together with the increase in transaction activity also indicate that the rent cutting phase is coming to a close.

Asking rents in the prime zone in March 2013 stood at the same level as the previous two years. This is due to the lack of quality space on offer. On the other hand, minimum rents continue to fall, particularly in the case of low quality units. The acclimatisation of landlords to the new market situation has enabled the adjustment of asking rents to demand, leading to an increase in transaction activity. The differential between asking and closing rents has narrowed from around 15% to 20% in 2010 / 2011 and now stands at 10%. The negotiating capacity of the parties is, however, what determines the real discount shown in the contract. Free-rent periods and staggered rents remain commonplace. The other outcome of flexibility is that the average term of lease contracts also tends to be lower than those seen before the crisis.
Zoning

The market for logistics units in Seville

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 practically all of 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 Seville are found here. The latter has access to numerous forms of transport by river, land and rail. Only logistics units are to be found in both of these locations, in contrast to the rest of the metropolitan area of Seville.

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

Southern Zone: comprising the area between the River Guadalquivir and the A-376 road. Houses the units located alongside the A-4 towards Cádiz and, more importantly, the Carretera de La Isla Estate, where the largest logistics and industrial units are situated.

Eastern Zone: between the A-4 Seville-Madrid dual carriageway and the A-92 including its fringes. The estates of Los Espartales and Carmona are located here, primarily for logistics use. The oldest logistics units are found spread among various estates 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 of El Esparragal, El Cáñamo I, II, III and IV, the latter of which is at the project stage. Industrial units predominate in this zone.

Western Zone: between the River Guadalquivir and the A-66, excluding the banks/edges thereof. The most notable estates are PISA and PIBO, with a greater proportion of retail and industrial activity than logistics.
Transaction activity

Deals relating to logistics units in Seville were minimal in 2012. **Three deals relating to logistics units were recorded last year.** Two of these amounted to 4100 m², located on the Carretera de la Isla industrial estate in Dos Hermanas (Southern Zone) and the third on the Zal (Central Zone), also in excess of 4000 m².

Three logistics operations have been recorded during 2013 to date. The aeronautics company Airbus Military has leased 8300 m² on the ZAL, the logistics operator Disayt has leased 7000 m² on the Carmona Logistics Park and Deruy, dedicated to the storage and distribution of drugstore products, has taken up 5800 m², also on the ZAL.

Three significant requirements for relocation are recorded for the metropolitan area of Seville. Two of these represent a decrease in area and the third seeks regrouping and an increase of logistics space. Cost savings are the driving force behind all of these.

However the local market is reviving and this may be interpreted as a positive factor.

Potential occupants are seeking to take advantage of current rent levels. These stand at a record low and occupants wish to prolong these for as long as possible.

In principle, the focal points of attention are the ZAL of the port and the Carretera de la Isla Estate in Dos Hermanas. However, the fringes of the A-92 and the Madrid-bound A-4 always represent attractive locations for operators.

Thanks to the deals already closed and those currently underway, the forecast for the close of 2013 points towards a considerable increase of logistics take-up in Seville. This represents a significant change in trend compared with previous years and should come about by 2014.

Supply

The logistics stock of Seville and its surroundings has remained unchanged over the last three years at around 526,000 m². Its main features include dispersion across a number of sites, the coexistence of logistics and industrial units and a predominance of old facilities over those of the highest quality.

The main zone, the La Isla Industrial Estate in Dos Hermanas represents 71% of the logistics stock constructed, amounting to an available area of 83,000 m² (a rate of 22%) at the close of April, 2013. An available area of some 114,000 m² is recorded for the Seville sphere of influence, representing 22% of the constructed stock.

This supply is sufficient for any logistics operator who wishes to set up in Seville. In general, the ZAL provides operators with the highest quality levels and proximity to the city in return for the highest prices, whereas the Carretera de La Isla Industrial Estate provides numerous options, which are somewhat further away, but have a wide range of specifications at slightly lower prices. Other sites capable of providing quality and low prices, such as the Carmona Logistics Park, should not be discounted.
Due to the current economic situation, the development of new logistics space will remain non-existent. The rents which landlords may expect are insufficient to cover the cost of the investment and, as a result, the logistics stock will not be subject to renewal over the coming two or three years. However, some operators interested in turnkey facilities may encourage developments, although the difficulty in finding a financial partner may limit projects.

In the forecast for 2013, no significant decline in the available supply is envisaged. This is due to the fact that deals underway mainly involve relocations to reduce area currently used and space released from these deals will offset the establishment of new operators.

Rents

The scarcity of transactions does not shed sufficient light to establish average rents. It is however possible to state that the differential between asking and closing rents remains high. This reflects the operators' position of strength compared with landlords due to the numerous alternative locations which are available.

For the highest valued facilities - mainly the ZAL, asking rents of €4.00/m²/month are found. In areas with a greater, more diverse offering – mainly the Carretera de la Isla, there is evidence of closing rents of around €2.50/m²/month. However, in this case significant upward or downward variations of €0.50/m²/month are recorded, depending upon specifications.

In general, an operator may find a high-quality unit on the Carretera de la Isla Estate for a maximum price of €3.00/m²/month. This price will be reduced according to how willing the operator is to accept diminished quality, perhaps even reaching €2.00/m²/month. If, in addition, the operator is willing to accept a certain degree of detachment, the rent may even fall below €2.00/m²/month.

The downward trend in rents may ameliorate over 2013, along with a moderate drop in availability. As take-up increases during 2013 and 2014 it is foreseeable that rents will stabilise, laying out the basis for the recovery of the market.
Málaga

This is the fifth most important logistics market in Spain, supplying the population of the Costa del Sol.

Logistics deals have been scarce here for a number of years. Nevertheless, it is important to point out the relocations of the platforms of Covirán, transferring from Vélez-Málaga to Casabermeja in 2011 and FCC Logística, which moved from the Santa Teresa Estate (Málaga) to the CLA of Antequera. Particularly noteworthy during 2012 were Tiendanimal, one of the most active operators in the online sale of supplies for animals and Agencia Mérida, the leading trading company in the Port of Málaga. Both left the El Viso Estate, the former going to the Guadalhorce Estate and the latter to the CTM. Both were advised by BNP Paribas Real Estate. No significant logistics deal in the market in Málaga has been recorded so far in 2013, although some requirements are in place.

The latent demand recorded in preceding years, originating from major logistics operators, has historically come up against a lack of options, either in terms of location or pricing where suitable sites do exist. Having occurred for such a long period of time now, this situation has led to searches in other locations by operators.

It was hoped that the new Málaga General Urban Plan, finally approved in 2012, would place new industrial land on the market. This, however, has not occurred to a sufficient degree. The current market situation has led to the flowering of some opportunities for new locations. More importantly, it has led to rents reaching more reasonable levels of around €2.50-€3.00/ m²/month, where previously it was necessary to pay double that amount. The continuance of rents at low levels has enabled demand to flourish once again, livening up the logistics market in Málaga.
The prospect of poor performance in terms of consumption, the main driver of the logistics market, continues to affect investor confidence. Investors, particularly international ones, continue to await clear signs of recovery. They are keeping their sights on markets which are less profitable, but also less risky, such as Germany, the UK and France. Some European investors have even recently directed their attention towards emerging real estate markets such as those of Latin America.

Six deals relating to investment property were undertaken in 2012 and only two of these were significant, one in Madrid and the other in Barcelona (areas preferred by investors). The deal in Madrid related to a unit which is currently occupied by the online distributor Amazon España. Here the Dutch logistics developer Redevco (advised by BNP Paribas Real Estate) sold to a private investor. In Barcelona, Prologis purchased three logistics platforms belonging to MORGAN STANLEY, amounting to a total area in excess of 60,000 m². The two deals barely amounted to an area of 100,000 m² and the sum of €50 million. The yield of the assets exceeded an average of 8.75%.

In contrast to what happened in 2012, where the investment market was very inactive, deals are being prepared in 2013 which have a high probability of coming to fruition towards the close of the year or during 2014. Two different investor profiles exist in these types of transactions:

- Opportunistic, relating to large volume portfolios and yields in excess of 10%, on the part of institutional investors and value-added funds
- Family offices, relating to lower volume assets (up to €20 million) and lower yields (in a range between 8% and 8.75%) in prime zones of Madrid and Barcelona

Credit is still not flowing towards real estate investment. Interest rates charged on investment deals remain high, despite the measures implemented by the ECB to maintain the interest rates of the Eurosystem at record lows (reaching 0.5% in May, 2013). As a result, the yields from logistics acquisitions do not meet the demands of investors and their financial partners. Deals closed in recent years have almost entirely been undertaken using the buyer’s own equity. Investors willing to carry out these kinds of unleveraged operations are few and far between (mainly ‘private’ and investing below €80 million). This determines the diminished size of the Spanish market.

International institutional investors require yields of close to 10% to acquire logistics assets in Spain. The explanation starts back in 2009 when lease contracts began to be renegotiated downwards, this being offset by a reduction the duration of contracts. As a result, contracts have seen a reduction both in rent and term, increasing the risk to investors who wish to be compensated accordingly.

A turnkey product is fairly attractive for future investors by bringing together long-term contracts, new quality product and rents in line with market conditions. Land prices are currently very low, thus reinforcing the attractiveness of this type of investment. For their part, second-hand units are beginning to become obsolete and, as a result of the crisis, no speculative developments have been undertaken over the last 5 years. All constructions of new buildings have been ad-hoc for end users.
A secondary market exists, with assets originating from bankruptcy proceedings. First-class buildings in the hands of companies in difficulties and located in distribution areas close to Madrid and Barcelona are highly attractive to investors - particularly when it is possible to negotiate low prices which would drive the yield towards the aforementioned levels.

Changes are envisaged for the second half of 2013 and 2014. The most significant could be the following:

- Requirements for large volumes
- Regrouping of operations in large-scale, multi-client platforms
- Greater market penetration by online business
- Progressive scarcity of large volume units
- New overseas players, from markets which were previously healthy but lack prospects for investment property
- Increase in the competitiveness of Spain and its export products

These new trends augur an interesting scenario over the coming 24 months for opportunistic and value-added investors, with the possibility of generating significant capital gains in 5-7 years.
GLOSSARY

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.

Definitions

**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 businesses 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 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 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
- Private Investors and Family Office
- Shareholders
- Public Sector
- Corporations
- Others
- Property Companies
- Consortia

**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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