At a Glance

Investment in Spain

Q3 2013

ECONOMIC BACKDROP

The third quarter closed with an improvement in the various economic sentiment surveys. These soft indicators show that both companies and consumers are looking towards better economic performance over the coming months. Nevertheless, the so-called hard indicators still do not show significant improvement in measures such as industrial production, GDP and net job creation. Going into the last quarter of the year, the economic indicators for Spain give an insight to the stagnation in consumption and production whilst cuts in public spending persist. The foreign sector continues to contribute positively towards production thanks to the performance in exports of goods and services.

THE RIGHT TIME TO INVEST IN SPAIN

Many institutional investors find the current situation favourable for taking positions in commercial real estate, primarily in Madrid and Barcelona. The expectations for recovery during 2014 are the trigger for the generation of added value through the revaluation of capital values. There is an a priori perception of available assets with prices below market levels which may offer high internal rates of return (though not necessarily high initial yields). Among the winds of change blowing through the investment market, acquisitions of distressed assets and assets with medium to low occupancy have been witnessed.

GOOD RESULTS IN TERMS OF VOLUME

With an aggregate volume of around 2 billion euros, Q1-Q3 2013 is setting a positive tone for real estate investment in Spain. The main share belongs to retail assets, driven by the acquisition of a portfolio of 278 bank branches from Banco Sabadell by the Mexican fund Fibra Uno, for €300 million in Q3. Also notable during this period was the sale of the retail facilities of El Corte Inglés on Plaza Catalunya in Barcelona to IBA Capital Partners (France/Switzerland) for €96 million. The second largest share belongs to the office sector where the largest transaction of a portfolio of 13 office buildings belonging to the Catalonia Regional Council for €172 million, occurred during Q2. Transactions have been focused on Madrid and Barcelona, the average value thereof varying between €20 million and €40 million. Hotels enjoy a significant market share, primarily due to the sale of the Hotel W in Barcelona to a Qatari fund for €200 million.

Capital values are triggering the appetite of both domestic and foreign investors

Aggregate volume up to Q3 2013 already far exceeds that of 2012

EC’s Economic Sentiment Index (0-100)

Evolution of investment volume (million €)

Investment volume by type of buyer (million €)
INTERNATIONAL FUNDS AGAIN ACTIVE IN PORTFOLIO SALES

Large international funds have set themselves up in Spain on the lookout for real estate opportunities originating from public institutions, banks repossessions and the SAREB. The sales of housing portfolios have finally come to life, the notable ones during 2013 being:

- 1800 residential units belonging to the Madrid Municipal Housing and Land Corporation (Empresa Municipal de la Vivienda y el Suelo de Madrid - EMVS) for €128.5 million, sold to Blackstone (USA)
- 3000 units belonging to the young person’s housing plan of the Madrid Regional Council for €170 million, sold to Goldman Sachs-Azora (USA/Spain)
- 1000 units belonging to BBVA, sold to Baupost Group (USA) for €100 million

The principal housing transactions of the SAREB to date consist of the Teide and Bull portfolios.

Unlike previous years, where real estate investment rested in the hands of private national investors, American, French, British and German funds are prominent in 2013. Latin American private equity and investment funds have also taken positions.

STABLE PRIME YIELDS

The increased investment activity has not affected prime yields, in part due to the weakness in occupancy. The best offices in Madrid offer initial yields of around 6.2%, compared to 6.4% in Barcelona. The prime yield in the retail segment amounts to 5.5% in both cities. Although logistics investment transactions remain frozen in 2013, the initial yield is around 8%. Despite the improved outlook for public sector debt and the economy in general, yield compression is not anticipated until the recovery of the occupational market becomes evident, forecast towards the second half of 2014.

OUTLOOK

The improving climate for real estate investment will remain for the final stretch of 2013 and during 2014. There is room for varying investment strategies within the market, as witnessed during 2013. Bank portfolios and the SAREB will continue to foster opportunistic strategies. The bottoming-out of capital values will open the door to value-added strategies, and the retail and business thoroughfares of Madrid and Barcelona are capable of accommodating core investors. Nonetheless, access to credit for real estate investment will remain restricted during the coming quarters and as a result, cash buyers will continue to represent the main players within the Spanish market.