At a Glance

Investment in Spain

Q4 2013

ECONOMIC BACKDROP

With acceleration in, confidence, competitiveness and exports, the Spanish economy is heading down the road to moderate recovery. Capital investment has grown once again and employment generation in some sectors is consistent. The last step to consolidating improvement in the economy will be private consumption growth that, however meagre, is envisaged towards the close of 2014. Nevertheless, indicators such as the stock market and sovereign debt point towards renewed appetite for risk by investors. The maximum acceleration of real estate investment in Spain will take place during 2014, a year in which it is likely that a good proportion of the opportunities currently on offer in the market will come to fruition.

TAKE OFF IN 2013...

All of the investment market segments saw recovery last year and annual volume, reached 3800 million Euro, more than double the figure recorded in 2012 (112% annual growth). This increase stemmed from three main sources: 1. The demand for distressed assets arising from repossessions or unresolved debt. 2. Sales of residential portfolios in the hands of banks, official bodies and the SAREB. 3. The perception on the part of investors that asset prices (capital values) have reached rock bottom. Following years of dominance of the investment landscape by private investors, the composition of demand is now international. Noteworthy among European investors are those hailing from the UK, France and Germany. Activity by North American investors was notable for residential portfolios, whereas Latin American investors sought prime assets in Madrid and Barcelona. New investors from India and the Middle East also made acquisitions in Spain.

...AND CLIMBING IN 2014

The outlook for 2014 points towards greater increases in investment volume compared with 2013. Any guarantee of reaching ‘cruising speed’ will depend upon improvements to the macro-economy through greater private consumption and more active occupancy markets. The outlook for capital value growth over the coming years will also generate new purchase decisions. Additional impetus may arise from new releases of real estate from the banking and public sectors.
INSTITUTIONAL FUNDS OPERATING AGAIN IN SPAIN

Real estate and institutional funds led the field in 2013 (47% share of annual volume), joining private players in the recovery of real estate investment in Spain. These were accompanied by real estate asset management companies, REITS, and by private investors (each recording a 20% share). Yet greater activity by institutional investors is anticipated for 2014, specifically pension and insurance funds. Latin American private investors are still knocking on the doors of the Spanish market, looking for prime office and residential assets with good location.

RETAIL: ONE OF THE KEYS TO THE RESURGENCE

Retail assets cornered 43% of investment volume in 2013 due to reactivation of all categories. In particular, the contribution of shopping centres stood out due to three transactions: Parque Principado (Oviedo), Diagonal Mar Shopping Centre (Barcelona) and Puerto Venecia Shopping Centre (Zaragoza), which together amounted to 456.5 million Euro. The most notable transactions relating to high street premises included the Apple Shop in Barcelona (€96 million), plus El Corte Inglés building on the street Calle Preciados in Madrid (€47 million) - both acquired by IBA Capital Partners. Other deals for retail premises occurred on the so-called Golden Mile in Madrid (the streets Serrano and José Ortega y Gasset). Sales of residential portfolios have had a significant impact on real estate investment in 2013, contributing some 22% with the volume slightly exceeding 800 million Euro; divestments principally originated from public bodies and the SAREB. For its part, investment in offices reached 667 million Euro, focused on prime or representative assets within the most central zones of Madrid and Barcelona.

YIELDS MOVING TOWARD COMPRESSION

In addition to the scarcity of prime product, current transaction activity in the CBDs of Madrid and Barcelona is generating competition for the best office buildings. Yields are beginning to give ground as a result and reductions have been recorded in Madrid during Q1 (from 6.2% to 5.9%).