Volumes for the first half of the year exceed 2007 total

Merger and acquisition of firms with real estate assets make up more than 36% of investment

**ECONOMIC CLIMATE**

Moving beyond the halfway point of the year, little doubt remains as to the macroeconomic improvement in Spain. An increase of 3.1% in GDP in Q2 2015 in comparison with Q2 2014 was recorded, making eight consecutive quarters of positive growth. The latest unemployment figures show a fall in the rate from 24.7% in Q2 2014 to 22.5. These figures are the result of reforms plus the positive impact of low interest rates, oil price falls, tax cuts and the return of extraordinary payments to public servants. Although the progress of the economy has consolidated, a number of issues remain to be solved. These include the high unemployment rate and an excessively low inflation rate (0.0% July 2015 - National Statistics Institute), which may lead to the postponement of spending/investment decisions.

**INVESTMENT VOLUME EXCEEDS THAT OF 2007**

Adding together all investment transactions, direct acquisitions and takeovers acquisitions, a figure of almost €10 billion was reached during the first half of the year. This figure exceeds that for 2007, the period of greatest intensity in the Spanish property market. With this volume Spain has become the new focus for investment in key European countries, illustrating its attractiveness for both national and international investors. In comparison with the first half of 2014, the volume of funds invested (€2.3 billion) has multiplied by 4. There is extensive demand for property assets and buyers are seeking alternative formulas in order to acquire them.

**MERGERS AND ACQUISITIONS (M&A)**

Given the scarcity of quality product, buyers are opting for the acquisition of companies with property assets. Mergers and acquisitions represented more than 36% of total investment, a quadrupling of the figure for 2014. It makes it possible to acquire an entire portfolio rather than entering the market and bidding for individual assets. The most significant transaction was undertaken by the REIT Merlin, which acquired Testa for approximately €1.8 billion. Klepierre merged with Corio N.V. and acquired its assets throughout Europe, of which some 15% (£1.085 billion) are found in Spain. Other M&A deals included the creation of a REIT between Hispania and Barceló Hoteles (€340m) and the acquisition of Realia on the part of Carlos Slim (€178m).
SECTIONS

- **LEADING ROLE OF THE SOCIMIS** (SPANISH REITs)
  - The Sociedades de Inversión Inmobiliaria (SOCIMis - Spanish REITs) have drawn the greatest attention to themselves due to their leading role in the stock market with capital expansion and asset acquisition. Their share of acquisitions during the first half of the year amounted to 63%. Investment funds and private investors have each put in the same amount of around 13.7%.
  - Private investors acquired assets worth €1 billion, representing significant growth bearing in mind that they invested €850m during the whole of 2014. It is most likely that the leading role of the SOCIMIs will diminish and that institutional and private investors will increase their buying.

- **VALUE-ADDED STRATEGIES ARE THE PRINCIPLE THRUST OF INVESTMENT**
  - Madrid and Barcelona continued to record the greatest levels of activity. Value-added strategies predominated among investors: the acquisition of assets to be refurbished and actively managed within a timescale of three to five years. Cities such as Valencia, Bilbao and Seville attracted investors with Core+ strategies including prime assets for refurbishment. Excluding the Merlin-Testa transaction, the three asset types preferred by investors were, firstly, shopping centres (34%), followed by offices (32.5%) and then hotels (with 15% of total investment).

- **OUTLOOK**
  - 2015 will be a record year for property investment. Between M&A and direct acquisitions it is forecast that investment will exceed €12 billion. Active SOCIMI participation in the property market will feature throughout the rest of 2015 and they will continue to attract international capital. It is anticipated that both spending and employment will continue to grow during the second half of the year, although at a slightly slower pace than during the first. The GDP growth forecast for 2015 stands at 3.2%. Macroeconomic forecasts back up expectations of reduced vacancy rates and a consequent slight increase in rents. This will offset the risks assumed by investors.

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**Investment volume according to buyer type (€ million)**

**Investment share out according to asset type* — H1 2015**

**Investment in Madrid and Barcelona* (€ million)**

**Initial yields vs. Sovereign bonds vs. Euribor**