At a Glance

Investment in Spain
Q3 2015

**ECONOMIC CONTEXT**

The Spanish economy continued to expand in the third quarter, although at a more moderate rate in comparison with the first half of the year. Data from the Bank of Spain estimates that GDP growth for the period July-September amounted to 0.8%, making nine consecutive quarters of growth, and 3.4% annually. This strong trend is based primarily on domestic demand. According to the flash estimate of the Spanish Office for National Statistics (INE), underlying inflation (excluding electricity and fuel) rose from 0.7% to 0.8% thanks to the strength of consumer spending. The number of persons in work during the third quarter grew by 182,200 (INE) when compared to the second quarter. The unemployment rate has seen 10 consecutive quarters of falls and stands at 21.7%.

**RECORD YEAR FOR INVESTMENT**

During the first three quarters of the year, the volume invested in the property market in Spain exceeded €10 billion. With only one quarter remaining to close 2015, it is now possible to talk of a record year for investment of around €12 billion. The intensity of tertiary building acquisitions is the result of investor return expectations from lower vacancy rates and rising rents. This trend within the property market will carry on into 2016, although well located, quality product is becoming scarce.

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

As well as direct investment, a number of buyers are opting to buy companies with real estate assets to buy a readymade portfolio. Mergers and Acquisitions, represent more than €3 billion or over 30% of total investment for the year-to-date. This figure barely reached €860m in 2014. 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 consisted of the creation of a REIT between Hispania and Barceló Hoteles (€340m) and the acquisition of Realia on the part of Carlos Slim (€178m).
REITS REMAIN PROMINENT

There are now 14 REITs (Sociedades de Inversión Inmobiliaria - SOCIMIs) listed on the stock market. Following successive share capital increases and significant transactions undertaken in the property market (€5.5 billion from their beginnings up to Q3 2015), it is likely that they will reach cruising speed during the coming year. It is anticipated that institutional and private buyers will increase their investments and, consequently, their share of total volume. Nevertheless, the appearance of new REIT investment vehicles within the market may lead to them remaining the talking point over the coming months.

PRESSURE ON YIELDS

The scarcity of product and intensity of investor activity have led to price increase for the best assets buildings. It is estimated that at the close of 2015 the annual increase of capital value will amount to 17% in Madrid and 15% in Barcelona. On the other hand, the growth in office lettings has been somewhat less pronounced. Nonetheless this is leading to a reduction in prime yields: from 5.5% in 2014 to 4.5% in 2015 in Madrid, and from 6% to 5.5% in Barcelona within the same tranche.

OUTLOOK

Spain continues to be an attractive market for investors and it is anticipated that 2015 will close with more than €12 billion in real estate investment. A highly active investment market will also be seen in 2016, this time accompanied by greater levels of occupancy, footfall and spending. The fundamentals of the economy will continue to improve (production and employment generation), however a high level of unemployment will remain. The end of 2015 will be marked by the electoral timetable and the challenges faced by the slowing Chinese and Eurozone economies. Although the weakening in China will not have a direct impact on the Spanish economy, there is potential for indirect impact through Spain’s export relationship with Germany that is directly linked to China. Such as the slowdown in global trade.