PN Paribas Real Estate - Research

At a glance

LOGISTICS MADRID 2015

THE NEW LOGISTIC CYCLE IN SPAIN

ECONOMIC BACKGROUND

The improving confidence of both consumers and businesses, has given the market enough dynamism for 2015 to be the year with the highest GDP growth since 2007 (3.8%). The increase in private demand and the improvement of consumption made last year to end with an increase of 3.2% in GDP (0.8% in the fourth quarter, according to the Bank of Spain). The industrial production index grew 3.4% in December with respect to the same month of 2014. Regarding job market, the biggest decline in the rate of unemployment has been during 2015, reaching its lowest level in the last 5 years. Once seasonally adjusting the data, employment grew around 150,000 people. The services sector led the increase with 54,900 new workers. In percentage terms, the unemployment rate dropped 0.3 points in the last quarter to 20.9%.

ELECTRONIC COMMERCE IN CONTINUED GROWTH

E-commerce is growing at an average rate of 20% annually. As online trade increases, so will the demand for logistic spaces in order to support this type of commerce. In 2015, more than 62,000 m² of logistics premises devoted to e-commerce were contracted. Retailers use different facilities for e-business. In Spain, online trade represents a 3% of consumption. There is still room for growth, especially when compared with countries like Germany or the UK where e-commerce represents 10% and 13.5%, respectively.

LOGISTIC TAKE-UP RECORD

During 2015, 400,000 m² of logistic space were contracted. This means an increase of 44.5% with respect to 2014, and marks the beginning of a new cycle of logistics in Madrid. It is important to note that of the total take-up of 2015, 50,000 m² have been pre-lets. This is a clear sign of the confidence that companies have on a positive scenario in the coming years. It is also a consequence of the lack of developments since 2008, which has stopped the stock to modernize. By logistics areas, most of the space take-up occurred in the Regional and National area. They have also been areas where most contracts were closed. Out of the 43 operations signed in 2015, 19 were signed in the National area and 15 in the Regional area. By type of activity, 35% of the area has been occupied by final logistics users and 60% by logistic operators.
CONTINUOUS DECLINE IN VACANCY RATE

The rate of vacant logistic units has been declining since 2011, when it reached its maximum value: 16.8%. At the end of 2015 vacant logistics area in Madrid was 643,500 m². The decline in vacancy rate compared to 2014 was 3.4 points. There is a shortage of large surface warehouses. This has prompted developers to start new schemes. Currently there are 185,000 m² under construction. Other 780,000 m² are under project. Out of the surface that is being constructed, 140,000 m² are developments that already have user (turn key projects) and 45,000 m² are speculative. Land prices are still at low levels, but 2015 was the first year since 2007 that experienced rising prices.

INCREASE IN RENTS

After stabilizing in 2014, prime rent in Madrid has risen from 5 to 5.5 €/m²/month at the end of 2015. There is scarcity in quality product, which has caused this type of rent to increase 10%. It would not be surprising that new developments were located in A-2 and A-4, near the prime area in the forthcoming years. Average rents have stabilized. There is still room for average and prime rents to rise and increases are expected to be observed in the short term.

As for yields, although logistic market is the most profitable, it has experienced a reduction and at the end of the year Madrid’s prime yield stood at 7%. This compression is due to the buyers competition for quality assets on the market. Due to this shortage, which extends to other real estate assets, corporate operations of logistic assets it is likely to continue in the real estate investment market in 2016.

OUTLOOK

Consumption is expected to keep the same inertia and logistic spaces will display an increasing take-up during 2016. Rents will continue to rise and yields will continue their contraction due to the prime product scarcity. E-commerce will continue to grow and with it, the demand for cross-docking warehouses. The main SOCIMIs and funds will continue with their interest in expanding their portfolios with logistic assets. It is expected that logistic developments will also continue with much activity and land value most probably is to increase. It is also forecasted a GDP growth around 2.6% in 2016 and a gradual recovery in the labour market.