ECONOMIC CLIMATE

During the first quarter of the year, the Spanish economy sustained the momentum of 2015 and achieved estimated GDP growth of 0.7% (according to advance data from the Bank of Spain). This quarterly increase rests on household spending, supported by the increase in employment, and on the increase in business spending, where companies have better access to financing and optimism for the coming quarters. The domestic industrial production index grew by 3.4% per annum in December reflecting order improvement arising out of the economic growth. The unemployment rate in the Valencia Region fell throughout 2015, going from 24.3% in the first quarter to 21.5% at the close of the year, above the national average of 20.9%.

ECONOMIC IMPROVEMENTS DRIVE TAKE-UP IN 2015

According to data provided by the Valencia Port Authority, the three enclaves comprising Valencia port (Valencia, Sagunto and Gandia) exceeded the historic record for the traffic of tonnage, going from 66 million tonnes in 2014 to almost 71 million in 2015. This puts the Port of Valencia in the leading position in Spain and the Mediterranean in terms of containers for 2015.

During 2015, 124,150 m² of logistics floor space was transacted in Valencia and its metropolitan area. This volume is at a level close to the total transacted for 2014, when 144,000 m² of units were occupied. By zones, the South and Centre cornered 94% of occupancy. Ford is turning the Almussafes factory into its main production plant in Europe. This led to dynamic take-up in the area surrounding the factory during 2015, accounting for 25,000 of the 68,000 m² floor space transacted in the Southern zone. Around 49,000 m² were transacted in the Centre, of which 75% was located in Ribarroja. In the Northern zone, BNP Paribas Real Estate recorded three transactions, representing some 6% of the annual take-up.

In terms of tenant profile, 60% consist of final users and 40% are logistics operators. The average floor area transacted stood at around 4,500 m² and although increasing at national level, e-commerce deals were less significant in the Valencia Region, occupying 11,500 m² over the last year.

During the first four months of 2016 more than 30,000 m² were transacted meaning take-up is in line with the beginning of 2014 and 2015. The most significant deal being the letting of 15,000 m² taken by Improving Logistic in a deal mediated by BNP Paribas Real Estate.
The vacancy rate remains at a historic low (6.1%). The prominent logistics zone of Valencia, Ribarroja, is severely affected by the scarcity of logistics product. Energetic take-up activity in the estates of this area during the last year drove the vacancy rate down from 5.4% at the beginning of the year to 4.8% at the close. This climate has incentivised deals away from the traditional prime zones. Tenants and owners have had to convert their obsolete or industrial properties to logistics activity to meet needs. Over the last year, large space requirements have not been met due to the lack of product. The lack of quality floor space now represents an obstacle to development of the market so speculative and turnkey projects are under construction. Nevertheless, expanding development of more speculative logistics projects is now considered necessary given the high probability that all existing developments will be let before they are delivered to market.

Following years of falls, average rents increased during 2015. The towns experiencing more dynamic take-up have seen greater increases in rents, such as the zones of Ribarroja, Paterna and Almassafes. To a lesser extent rents are increasing, in Picaña and the Mediterráneo Industrial Estate.

The prime rent has also increased to around € 4.25/m²/month (€ 3.50/m²/month in Q1 2015). There is still room for upward movement in average and prime rents, and it is anticipated that increases will be seen throughout the year.

The difficulties that investors face in acquiring products is encouraging yield compression. Consequently there has been a fall from the position of 2014 (8.5%) to 2015 with the prime yield closing the year at 8%.

An increase in GDP of around 2.6% is forecast for 2016 and the labour market will continue its steady recovery. For this year it is anticipated that consumer spending will maintain its momentum and that the take-up of logistics spaces will continue to grow.

Yields will continue to contract due to the scarcity of prime product and buyer activity. Rents and turnkey take-up will continue to rise during 2016 and activity in speculative projects will also grow.