At a glance

INVESTMENT SPAIN Q2 2016

INVESTMENT VOLUME IN LINE WITH BNP PRE FORECASTS

► ECONOMIC CLIMATE

The Spanish economy continued its expansion during the second quarter of the year. The forecasts of the Bank of Spain put GDP growth at 0.7% between April-June. For the moment, Spanish markets have not been affected by international turbulence and it is anticipated that the impact will be tempered over the coming two years. Internal demand continues to represent the main driver of recovery. The good performance of domestic spending is stimulating business activity. With a value above 50, the purchasing managers index (PMI) for the service sector shows a view of expansion in sales (optimistic outlooks prevailing over pessimistic). At the same time, the service sector is becoming the main job creator. Although still at a high level, the unemployment rate continues to fall and is now below 20%.

► THE NUMBER OF SOCIMIs RISES

During the second quarter of the year, the Spanish property market recorded investment of 1.461 billion Euro. Aggregate spending in the first half of 2016 amounted to 4.003 billion. This performance in terms of investment activity is in line with the forecasts made at the beginning of the year by BNP Paribas Real Estate, placing total investment for 2016 at 8.0 billion Euro. Leaving aside the record investment of 2015, the annual average invested in property assets during the period 2007-2014 amounted to 5 billion Euro. This amount is very close to the volume for the first half of 2016, demonstrating that the Spanish property market remains attractive for investors. The amount invested in 2016 was 78% higher than that of the first half of 2014. Confidence in this market is also reinforced by the increase in the number of SOCIMIs (Spanish REITs). There are now 25 companies of this type listed on the stock market, 21 in the alternative investment market (MAB) and 4 in the continuous market.

► AMERICAN FUNDS SEEKING SPANISH PROPERTY

The relative decline in acquisition activity during the first half of the year is due in part to the scarcity of product on offer. The high levels of activity during 2015 has put pressure on pricing, increasing current vendors “expectations”. The USA continues to show the greatest level of activity in the Spanish market and, in the year to date, accounting for 39% of the total amount in 20 deals. European investors lost the position of leading role during the first half of the year.
**Funds Occupied the Spotlight in Terms of Acquisitions**

A number of the most significant deals have featured North American funds, such as Blackstone (Proyecto Empire - €600m), Invesco (Eroski Portfolio - €358m) and GreenOak (Las Mercedes Business Park - €129m). Although there are new players in the investment market (funds), SÓCIMIs will remain the main buyers of assets but will be more selective when making new acquisitions due to lack of product. They sell some assets, but not on a massive scale.

**Downward Pressure on Yields**

Institutional investors remain present, interested in a variety of assets ranging from core to value added. Prime yields for offices (4.25%) and retail highstreet (3.50%) remained steady during the second quarter, but are forecast to contract even further in the short term. The yield on logistics assets is coming under greater pressure and fell by half a percentage point (7% → 6.5%) thanks to buyer activity relating to these assets. Investors are beginning to channel their investments towards areas such as Valencia or the Basque Country due to the fact that traditional destinations such as Madrid or Barcelona are suffering from a scarcity of products.

**Outlook**

The market occupation of office space is evolving favorably and incomes from rents are increasing both in Madrid and Barcelona. Demand is expected to continue rising surfaces and prices will gradually upward. The labour market continues to recover and the unemployment rate is falling. The Spanish economy continues to show signs of strength and the GDP growth forecast for 2016 stands at 2.7%.