At a glance

INVESTMENT SPAIN Q3 2016

INVESTMENT CLIMBS IN THE THIRD QUARTER

ECONOMIC CLIMATE

Having weathered the turbulence caused by the UK’s vote to leave the EU, it appears that economic activity is returning to normal levels whilst awaiting the formalisation of Brexit. The Spanish economy continues to show signs of strength with GDP growth of 0.7% during the third quarter of the year (Source: Bank of Spain). The rise in household spending is the main driver of economic activity. The Purchasing Managers Index (PMI) for the service sector continues to provide an optimistic view of sales. The service sector is consequently becoming a major job creator: the population employed in this sector increased by 3% in annual terms, making a total at the close of September of 14,145,200 employees. At a national level, the unemployment rate has fallen to 18.9% from the 21.2% of one year ago.

INVESTMENT VOLUMES BOUNCES BACK

The current capital market situation, with abundant liquidity and low interest rates, is transforming the real estate market into an alternative to other financial assets such as sovereign and corporate bonds. Real estate sits within a context in which German bonds are in negative territory and the returns on Spanish bonds are meagre. This is leading to the maintenance of downward pressure on property yields.

The third quarter of the year closed with 2.8 billion Euros invested in the property sector and the aggregate volume for the three quarters stands at 7.4 billion Euros. This figure is noteworthy because there have been no major corporate deals since the beginning of the year. Direct investment (excluding corporate deals) is at a level similar to the same period last year (7.09 billion Euros).

OVERSEAS CAPITAL DOMINATES INVESTMENT IN SPAIN

During 2016, interest from international investors remained firm at almost 70% of total investment, through both foreign investment vehicles and holdings in Spanish SOCIMIs. Capital originating from the US has grown in comparison with 2015 and represents 25% of total investment in the year to date. The two most significant deals of the quarter consisted of the acquisition of the Diagonal Mar shopping centre on the part of the German fund Grundbesitz Europa (Deutsche Bank) for 492 million Euros, and that of the Cepsa Tower by Pontegadea, with a volume amounting to 490 million Euros.
AT A GLANCE - INVESTMENT SPAIN Q3 2016

Investment volume according to buyer type (€ million)

Investment share out according to asset type — Q3 2016

Investment in Madrid and Barcelona (€ million)

Funds occupy the acquisition spotlight

Turning to investor profile, with 50% of the total invested the most active players were funds. The leading SOICIMs during 2015 have scaled back their activity and have so far been responsible for 14% of total investment since the beginning of the year. The major acquisitions made in the past by these investors will not come onto the market within the near future. They are currently immersed in the asset management phase of their investments, although SOICIMs will continue to be key players in property acquisitions in the coming years.

Continuing prominence of the retail sector

As per last year, the retail sector has the greatest share of total investment during the year to date (37%, some 2.54 billion Euro). Given that the main driver of economic activity is domestic spending and subsequently increases in retail sales is occurring, it is understandable that investors are interested in these types of assets. At 1.9 billion Euros (some 27% of the total), the office sector has taken second place with investors drawn by reductions in vacancy rates and the upward trend in rental prices for new contracts. Office yields remain under downward pressure and are now close to around 4%, a level similar to that of 2007. Investment in the hotel market continues to climb and now amounts to 1 billion Euros for the year to date. This trend is based on the improvement in tourism indicators (visits, occupancy, overnight stays, increased expenditure per visitor) and in hotel performance (average daily rate and revenue per available room).

Outlook

Given the strength of occupancy markets, the appetite of European investors for Spain will continue during 2017. Office vacancy rates continue to fall, giving rise to growth in rental prices even in more decentralised zones. Value-added strategies will continue to be the most frequently used whereas deals for core product will be less frequent, this owing more to supply-side constraints than investor demand.