At a glance
INVESTMENT SPAIN Q4 2016
2016 PRODUCES SECOND-HIGHEST INVESTMENT VOLUME EVER

ECONOMIC CLIMATE

Last year the Spanish economy recorded growth in Gross Domestic Product of 3.2%. The main driver of economic activity during 2016 was private sector demand, buttressed by household spending. Meanwhile, deficit control limited the contribution to spending by government. Unemployment figures continue to improve and 2016 closed with a rate for Spain of 18.6%, far removed from the 27% recorded at the beginning of 2013. The Purchasing Managers Index (PMI) for the service sector continues to point towards an expansion in sales. At an international level, it is still too early to estimate the effect on Spanish markets of the U.K.'s “vote to leave” and the change of government in the US. Policies are only just emerging and time is needed before the impact on the Spanish economy can be evaluated.

STRONG INVESTOR APPETITE

There remains abundant liquidity in the capital markets and the rock-bottom yields offered on German and Spanish bonds are leading investors seeking better returns to direct their attention towards real estate. The last quarter of the year recorded investment volume of 2.45 billion Euros which gives us a total volume of 10.4 billion Euros. If the Merlin-Metrovacesa corporate deal is added to this, the total volume reaches 14.12 billion Euros. The figure of 10.4 billion makes this the second-highest year for investment, behind the figures for 2015 (11.9 billion Euros). Appetite from domestic and international investors continues to rise meaning that yields continue to compress, reaching 4% for offices, 3.5% for high street retail and 6.2% for logistics warehouses.

FOREIGN INVESTORS ARE THE ENGINE OF GROWTH

The amount of money arriving directly from abroad represented half of the volume invested during 2016. Foreign investors are also participating in Spanish investment vehicles, as a result of which it is estimated that the volume of foreign money invested in Spanish real estate amounts to around 70-75% of the total. Foreign businesses have focused there acquisitions over the past year on the hotel sector (€1.056 billion) and retail (€2.5 billion) of which 71% was assigned to the acquisition of shopping centres. In contrast, Spanish investment vehicles continue to focus on the office segment.
Investment funds were the most active investors during 2016, with almost 41% of the €10.4 billion. This is a consequence of the market becoming more core-based and that funds are more closely aligned to this profile. The SOICIMIs, the leading players in property investment in Spain during 2015 with 4.16 billion invested, reduced their acquisitions to 3.4 billion during 2016. These investment vehicles currently find themselves in an asset management phase. Although they will continue to have an appetite for acquisitions, these will be more selective and it is probable that they will try to unwind positions in non-strategic assets.

Offices took the greatest chunk of investment, at almost 3.4 billion Euros. The improved outlook for the Spanish economy and the fall in the unemployment figures are key factors why investors are opting for this asset type. The second-placed segment was retail, with 3.245 billion invested throughout 2016. With 29 consecutive months of increases, the continuing improvement in retail sales makes the sector attractive to investors. The hotel market sat in third place, with total investment of 1.75 billion Euros. In 2016, Spain once more broke records for tourism: 75.6 million overseas tourists, some 10.3% more than during 2015. This new record surpasses that of the previous year and demonstrates that the Spanish tourism industry is enjoying robust health. Logistics assets also broke investment records with almost 1 billion Euros in acquisitions.

It is anticipated that appetite to buy will remain strong throughout 2017, by both domestic and foreign investors and that yields will fall, although somewhat more gently. Liquidity will remain abundant in the capital markets during 2017, favouring the flow of finance towards the Spanish property market. It is anticipated that the momentum in office and logistics occupancy will persist throughout the year.