At a glance

LOGISTICS VALENCIA 2016 — Q1 2017

DYNAMIC DEMAND AND SURFACE SHORTAGE

**ECONOMIC CLIMATE**

At a national level, 2016 closed at 3.2%, the same figure for economic growth as in 2015. The main driver of economic activity is domestic demand and consumer spending specifically. The economy continues to run smoothly and in the first quarter of 2017 Gross Domestic Product grew at 0.8%, unchanged from the previous eight quarters. The Valencia Region has achieved GDP growth exceeding the national average over the last three years and the unemployment rate continues to fall. The three ports, comprising Valenciaport: Valencia, Sagunto and Gandia, broke new records for tonnage handled with an increase of 2% in 2016 (71,464,971 tonnes).

**LOGISTICS SUPPLY SHORTAGE IN VALENCIA**

According Take-up of logistics floorspace in 2016 amounted to 100,540 m². Valencia’s logistics market began recovery early and now finds itself in supply shortage. Last year’s figure for take-up could have been greater, however due to the lack of product it has not been possible to satisfy all requirements. During the first quarter of 2017, 45,000 m² of logistics floorspace was transacted and the majority of requirements sought immediate availability, in other words units already built. At the moment there are enquiries for logistics platforms exceeding 30,000 m² in size due to the need to group properties together. Given the non-existence of this type of product in the Valencia market, many operators are considering the development of turnkey platforms for platforms of this size.

**TURNKEY TAKE-UP EMERGING AS A MARKET FEATURE**

Three turnkey deals came to fruition in the district of Riberroja, consisting of cross-docking units (8,000, 5,000 and 2,600 m²). This represents a change in trend considering that these types of deals have not taken place since 2008. These firms, with parcel and capillary distribution activities, are taking advantage of the fact that the scarcity of logistics warehouses has not impacted the price of land. At the same time, operators are benefiting from easier credit conditions that allow building to be financed.

Of the 30 transactions between 2016 and Q1 2017, 19 were located in the Central zone, of which 12 were in Riberroja. The average area occupied is around 4-5,000 m².
**Vacancy Rate Contracting Further**

The available floorspace continues to diminish, driving the vacancy rate down to 5.7%. Logistics zones capable of energising the occupier market in previous years, such as Ribarroja or Almussafes (close to the Ford factory), now have practically zero available floorspace. Although floorspace is available in some areas, this does not meet the quality requirements sought.

In the Q1 2016 report on logistics in Valencia, BNPPRE identified the need for speculative developments given the climate of growing demand and an ageing logistics stock. One year on from this, construction activity has intensified. A “speculative” logistics platform of 23,000 m² has just been delivered on the Valencia Logistics Park (PLV) in Ribarroja. It is important to point out that no similar platform had been developed since 2006. During the coming 18 months, it is anticipated that more than 130,000 m² of newly built logistics floorspace will be brought to market.

**Rents Rising Across All Bands**

Rental prices continue to rise in the logistics market of Valencia and its area of influence. All zones have seen rises in minimum rents of between €0.50 and €1.00/m²/month over the past year. Maximum rents have also risen, although somewhat more moderately and solely in some sub-markets such as Manises or Pista de Silla. It is likely that the smooth progress of the occupier market will continue alongside the trend in rising prices.

Prime rents remain steady at around €4.25/m²/month.

Yields continue to be compressed. Prime yield stood at around 8% one year ago and have now fallen to 7.5%, with a forecast for a fall to 7% in 2018. This all sits within the context of a severe shortage of quality logistics assets.

**Outlook**

Both at a local and regional level, the outlook for economic expansion and employment creation is favourable. It is anticipated that the demand for floorspace will remain during 2017, although this will probably be limited by the lack of available space. Construction activity will intensify in line with the incorporation of new land into the logistics warehouse market.

It is also anticipated that land acquisition transactions will increase, with a consequent increase in prices which will later be passed on to rental prices.