INVESTMENT SPAIN Q2 2017
INVESTMENT VOLUME REMAINS HIGH

ECONOMIC CLIMATE
Good news for the Spanish economy continues to appear with the
main macroeconomic indicators showing sustained improvement.
The second quarter of the year closed with an increase in Gross
Domestic Product of 0.9%, above the average for the previous
nine quarters. The upward revision of the growth forecast for the
Spanish economy in 2017 is based on expansion of private sector
demand, driven by consumer spending. The unemployment
figures continue to fall with each successive quarter, the national
average standing at 17.2% at the close of Q2 2017. Forward
indicators like the purchasing managers’ index for the
manufacturing sector point towards an increase in business
activity over the short term.

TRANSACTION INCREASE IS LED BY LARGE DEALS
With investment of 2.2 billion Euros (21% up on Q2 2016), real
estate asset acquisitions in Spain remain strong. The aggregate
figure for the first half of 2017 reached a total of 5.6 billion
Euros, very close to the average annual figure for investment
between 2007-2016 (6.18 billion Euros). This demonstrates that
both national and international investors remain committed to
Spanish commercial property whilst internal demand is
strengthening the occupier market. At the same time, the
strength of demand for real estate assets continues to compress
yields. Office buildings, logistics units and high street premises
are currently showing prime yields of 3.50%, 5.85% and 3.00%
respectively. The fall in yields is not discouraging investors due
to the increasingly lower risk of vacant properties. Buyers are
primarily seeking to position themselves with assets and are not
focusing their attention on yields which, despite having fallen,
remain above those for deposits or government securities. Some
investors are using real estate as a wealth haven and are placing
their trust in a faster recovery in rents. Although this is occurring,
there is still some margin for growth. Although investment levels
were high during the second quarter, it is important to point out
that just five deals cornered almost half of the volume invested:
the closure of the sale of the ‘Edificio España’ building (€272m),
the acquisition of a logistics portfolio on the part of P3 Logistic
(€243m), the sale of the Nueva Condomina shopping centre
(€233m), the change of ownership of the Área Sur shopping
centre (€110m) and the acquisition of the Isla de Chamartin
office building (€103m).
MORE SOCIMIs AND GREATER PORTFOLIO SPECIALISATION

The number of SOCIMIs (Spanish REITs) continues to grow and there are now 37 on the Alternative Investment Market (MAB), in addition to the 36 listed on the continuous market. It is likely over the medium term that those listed on the MAB will consider mergers to gain market strength. The large SOCIMIs remain immersed in a value management and specialisation process in portfolios. Merlin divested itself of its hotel portfolio at the beginning of the year and Hispania is doing the same with its office assets. Foreign funds represented the main buyers during the first half of the year.

CONSUMER SPENDING UNDERPINS RETAIL INVESTMENT

With a total of 2.24 billion Euros, the retail sector represented 40% of investment during the first half of the year, of which almost 1.4 billion was assigned to shopping centres. Consumer spending is the main bulwark of domestic demand, maintaining interest in retail on the part of investors. Hotels have also taken a significant slice of investment, with 567 million Euros during the second quarter, a result of the record numbers of tourists anticipated for this year. The improvement in industrial activity and e-commerce continues to energise the logistics market and these assets offer the greatest yields. Madrid remains the point of entry for foreign capital in Spain; Barcelona positions itself as the second-placed option. Over the last two and a half years investors have focused their acquisitions on assets located in these two cities and this has led to increasing competition between buyers.

OUTLOOK

Over the coming six months it is anticipated that investor activity will remain strong within a market context of continued liquidity. It is very probable that interest in retail assets will remain high, followed somewhat further behind by offices and hotels. The activity of the capital market in Spanish real estate will continue to drive yield compression on tertiary property assets, though somewhat more gently.