INVESTMENT SPAIN Q3 2017

INCREASE IN INVESTMENT VOLUME

Purchasing Managers’ Index, PMI—Spain

ECONOMIC CLIMATE

The Spanish economy has continued to follow the path of growth during the third quarter. According to the latest indicators, GDP will have recorded growth of 0.7%, 2 basis points below the figure for the preceding quarter. Fuelled by consumer spending, domestic demand remains one of the economy’s growth drivers. For its part, external demand continues to contribute moderately and the labour market has become less dynamic with the passage of time through the quarter as a consequence of the expiry of summer contracts. All in all, annual growth of around 3.2% is predicted.

INVESTMENT ACTIVITY IS STRONG ACROSS ALL SECTORS

Investors continue to view the Spanish property market as one of the most attractive for their investment plans. During the first three quarters of 2017, the total volume invested reached 8.1 billion Euros, 600 million more the same period in 2016. This figure includes investments in tertiary assets and residential portfolios.

The investment volume for the third quarter of the year reached 2 billion Euros, slightly lower than the figure for the previous quarter (2.2 billion). By sector, retail remained strong and cornered 40% of the total quarterly volume (665 million Euros). Second place was taken by the hotel sector, with 30% of acquisitions (500 million Euros). This was followed up by offices, with 27% (455 million Euros).

Aside from direct investment in property, company deals related to real estate were recorded; China Investment Corp acquired Logicor for 12.25 billion Euros, of which 668 million Euros corresponded to assets located in Spain. CBRE and AXA IM acquired the students residential accommodation group Resa for 450 million Euros. Lastly, a total of 1.3 billion have been transacted over the year to date in company mergers, the creation of joint-ventures and acquisitions of shares in real estate assets.
MORE SOCIMIs AND GREATER PORTFOLIO SPECIALISATION

The number of SOCIMIs is rising, reaching the figure of 41 on the Alternative Investment Market at the close of the third quarter, in addition to the big five listed on the main stock market. It is likely over the medium term that those listed on the AIM will consider mergers in order to gain market share. The large SOCIMIs remain immersed in asset management activities and portfolio specialisation. Key examples here include Merlin relinquishing its hotel portfolio and Hispania undertaking the divestment of its office assets.

MARKET PLAYERS

In terms of the players within the market, funds represented the main buyers during the third quarter, with almost half of the acquisitions (47%). Of the total of 8.1 billion Euros, funds were responsible for 41% of acquisitions and the SOCIMIs for 11%. Funds were also the leading players on the vendor side along with, to a lesser extent, insurance companies, family offices and real estate firms. The divestment processes undertaken by the Socimis are also noteworthy and these are beginning to rotate product, such as in the case of Hispania’s office portfolio.

The high level of investor demand continues to push yields downwards, despite the fact that in some areas these were already low. The low returns offered by deposits and government securities are leading many investors to opt for Spanish property.

OUTLOOK

The favourable economic outlook for the close of 2017, with estimated growth of 3.2% is likely to support the investment market. There is buoyancy of demand throughout all market sectors underpinned by good fundamentals: the increase in the number of tourists, rise in business activity and the steady fall in the unemployment rate. BNP PARIBAS RE think these will lead to the investment volume reached in 2016 being exceeded.

The activity of the capital market in Spanish real estate will continue to drive yield compression even on tertiary property assets, though somewhat more gently.