At a glance

INVESTMENT SPAIN Q4 2017

SPAIN CLOSES ANOTHER YEAR WITH INVESTMENT ON THE RISE

ECONOMIC CLIMATE

Economic activity in Spain continued to expand and the growth in Gross Domestic Product is expected to approach 3.2% in 2017. Inflation remains at a level which is of little concern to the authorities and monetary policy, driven by the ECB, continues to be expansionary. The unemployment rate stood at 16.5% at the close of 2017 thanks to the creation of 490,300 new jobs during the year.

The rise in economic activity should gradually begin to show up in salary increases.

STRONG APPETITES FOR SPANISH PROPERTY

2017 closed with a total volume of direct investment in commercial property amounting to 10.7 billion Euro. This figure brings together direct investment in offices, hotels, logistics warehouses, retail premises and residential portfolios. If corporate deals are added to this sum, the total real estate investment volume for 2017 reaches 13.85 billion Euro. Corporate deals underpinned by real estate have been gaining in weight over the last two years, driven by the lack of product and the pressure to invest. Among the most significant corporate deals during 2017 were the acquisition of HI Partners by Blackstone for a total of 630 million Euro, that of Logico by China Investment Corp for 668 million Euro (this amount corresponds to the assets located in Spain, although the total volume of the transaction at a European level amounts to 12.25 billion Euro) and the acquisition of the largest student’s residence firm in continental Europe, Resa, by AXA and CBRE GI for 450 million Euro.

If we compare the investment volumes for the last three years, it is noted that the acquisition of leased properties has held its momentum during 2017. This is within the context of a market in which the yields on prime products have been compressing to the point at which they have reached all-time lows. Despite the reduced returns, investors have continued to commit to the Spanish market thanks to the sweet spot in which real estate finds itself and the room for growth shown by all of the constituent segments.

The unforeseen political events which unfolded in Catalonia at the end of the year did not prevent total investment for Spain as a whole reaching a very respectable figure. Although a number of deals did not come to fruition, investors still have an appetite for Spanish property.

Spanish-based investment vehicles were the main buyers during 2017, followed by those of the US and UK. It is estimated that 70% of the amount invested consisted of foreign capital.
Funds as the Leading Buyers

Acquisition activity on the part of Spanish REITS (SOCIMIS) has tailed off over the last 2 years whilst the degree of activity in the management of the assets acquired in 2014 and 2015 has grown. The SOCIMIs have passed the baton of leading buyers to the funds and it is anticipated that the latter will be the main acquirers of the assets churned by the SOCIMIs. These firms have come to the end of the three year time frame (which regulations stipulate for exemption from corporation tax) with regard to many of their assets and the market anticipates that there will be some turnover during 2018. It is most likely that non-strategic assets and those mature assets which the SOCIMIs have been refurbishing and in which they have raised occupancy levels with quality tenants will be those that go on sale.

Retail, Hotels and Offices, in That Order

The most sought-after assets (for direct acquisition) during 2017 were retail, with a total of €3.472 billion, followed closely by hotels (€3.04 billion). The office market wound up in third place, amounting to €2.6 billion.

2017 is notable as the best ever year for hotel investment, cornering 40% of all investment made during the fourth quarter of 2017. The fundamentals of the hotel market drove buyers to focus on this type of asset given that, for another year running and as is now becoming commonplace, the record for the arrival of tourists was broken once again.

Outlook

It is anticipated that the strong momentum of the Spanish investment market will continue during 2018. Analysing the investor type, “Value-added and Core+” will be more prominent in our sector. On the seller side, the market will remain highly dynamic thanks to international funds and the SOCIMIs. There will be a rise in the number of investors who may consider the acquisition of land for the development of new projects. Prime yields will remain stable at the same levels seen in 2017. We anticipate slight compression of yields in secondary and decentralised zones for quality assets with tenants.

Initial Yields vs. Sovereign Bonds vs. Euribor

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