At a glance - Q2 2018

INVESTMENT SPAIN

INVESTORS STILL BETTING ON SPAIN

Investors are competing strongly for the assets coming onto the market in Spain. Lying behind this strength of demand is a healthy Spanish economy, together with good market fundamentals. Increasing levels of occupancy, rising rental prices and the positive reception towards new projects entering the market are good support for the investment market.

The volume of direct investment in all property amounted to 2.4 billion Euros during the second quarter of the year. This figure mirrors the strong start to the year (Q1) and represents an increase of 10% over Q2 2017. The aggregate for the first half of 2018 amounts to 4.85 billion Euros, 13% less than the volume recorded during the same period in 2017. This fall does not indicate less investor interest as the desire to become involved in Spain remaining very strong. The lack of product for sale, together with raised expectations on the vendor side, mean that many deals did not come to fruition.

Retail continues to be the dish whom all investors wish to taste. During the first half of the year, a total of 1 billion Euros in retail assets has been transacted. The most noteworthy deals consisted of the acquisition of a portfolio of six shopping centres for 182 million Euros, the sale of the L’Aljub shopping centre in Elche for approximately 150 million Euros and the acquisition of Parc Vallés for 85.5 million Euros. In terms of high street retail, the sale of Gran Vía 30 and Gran Vía 68 in Madrid are particularly notable, along with the sale of a Stradivarius portfolio for 12.5 million Euros and the sale of the premises located at no. 6 on the Gran Vía in Bilbao for 6.7 million Euros. Moreover, a number of sales processes involving significant volumes remain open, such as the Sonae portfolio (£500m), the Unibail portfolio (£500m) and the rotation of the Inditex premises portfolio on the part of Deka. The foregoing point towards retail remaining a cornerstone of the investment market. Following a drastic fall, yields have tended to stabilise at around 3.00% for prime high street, at between 5.00% and 5.50% for prime shopping centres and between 5.75% and 6.00% for prime retail parks.

Also, on the menu for investors are residential portfolios, having reached 870 million Euros during the second quarter of the year. Testa’s acquisition of a portfolio of 1,329 residential units from Caixa Bank for 207 million Euros is a stand out investment.

The level of activity recorded in the office market has been minimal, mainly as a consequence of the scarcity of product. The most significant deals consisted of the sale of the San Fernando Business Park for 121 million Euros, the acquisition on the part of a Luxembourg fund of no.24, Rios Rosas for an approximate amount of 23 million Euros and the recent transaction regarding the head office of Mediapro in district 22@ in Barcelona for 94 million Euros. The prime yield in the Madrid market remains steady at 3.25%, whereas that in Barcelona stood at around 3.50% at the close of the second quarter, the occasional deal being struck at below these levels.

Direct investment in logistics warehouses has not proved particularly dynamic during the second quarter. Faced with the supply scarcity of finished product, investors are committing to the development of projects... E-commerce is acting as a driver in the development of speculative products within a market in which yields continue to fall with expectations of growth in rents because of the supply/demand imbalance. The prime yield stands at around 5.85% in Madrid and Barcelona.

Investment funds continue to be the leading players in terms of buyers, cornering 57% of the total volume transacted during the second quarter. Although the leading Sociimis remain focused on managing their assets, their presence in the sale and acquisition of residential portfolios is noteworthy. Eight new Sociimis have joined the AIM during 2018.

Little by little, investor activity is returning to Catalonia. During the second-quarter, a number of deals amounting to a total of 340 million Euros have been struck. Notable among these is the recent sale of the head office of Mediapro in 22@ for 94 million Euros, the sale of the Parc Vallés shopping centre for 82.5 million Euros and the sale of residential portfolio for 60.3 million Euros.
DIRECT INVESTMENT VOLUME EVOLUTION (MILLION €)

INVESTOR’S ORIGIN (MILLION €)

INVESTMENT BY TYPE OF BUYER (MILLION €)

MAIN INVESTMENT OPERATIONS Q2 2018

SAN FERNANDO BP
Avenida Castilla, 2 San Fernando
Outskirts
Buyer: Starwood Capital
Surface: 86,000 sqm
Volume: €120 million

CC L’ALJUB
c/ La jarilla
Elche — Alicante
Buyer: Deutsche Bank
Surface: 43,800 sqm de SBA
Volume: €150 million

CC PARC VALLÉS
Terrassa
Barcelona
Buyer: Frey Capital
Surface: 42,000 sqm de SBA
Volume: €85.5 million

PORTFOLIO RESIDENCIAL
Varias
Madrid, Barcelona, Mallorca, ...etc
Buyer: Testa residencial Socimi
Surface: 1,329 viviendas
Volume: €207 million
Looking towards the second half of the year, it is anticipated that investors will remain active within a market context where there continues to be abundant capital, considerable appetite for assets in Spain and a scarcity of product.

The retail sector will remain the leading protagonist due to the strong performance of consumer spending in Spain with increases in retail sales. The latest figures published by the National Statistics Institute show annual growth of 7.3% in turnover. In addition, sales processes involving retail asset portfolios valued at 1.2 billion Euro remain open.

The pressure being exerted by various ECB overseers on Spanish financial institutions to free up the property assets on their balance sheets will lead to further housing portfolio deals. Major investment funds and Socimis specialised in the housing market will be the main buyers of these types of assets.

Despite the fact that the total volume of investment in offices has not been particularly high to date, deals amounting to a total volume of 600 million Euros having been recorded, there are currently deals in the pipeline, the closures of which are anticipated over the coming months for an amount exceeding 1.3 billion Euro.

In general, institutional investment funds will remain very much evident in the market. The demand to enter the Spanish market is particularly strong and they have significant amounts of capital in order to enter into potential deals. Nevertheless, the scarcity of product for sale and the high expectations of buyers seeking ever more aggressive yields may ultimately lead them to opting for other markets.

In general terms, prime yields will tend more towards stability due to the fact that they now stand at historic levels. With the expectation of rent growth due to the equilibrium of supply and demand expectations, record yields are currently being reached.
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