The Spanish economy continued to expand during the third quarter, although at below expectations with growth around 0.6% for the quarter. Expansion was once again buttressed by domestic demand. Factors such as the worsening of the international context, with slowdown of growth in the Eurozone affecting exports, the increase in oil prices and the fall in tourism, are leading to reduction in the growth outlook for 2018 which is now 2.6%.

Investor activity during the summer months was particularly dynamic. The volume of direct investment in property assets amounted to 3.75 billion Euros during the third quarter, making it the best quarter of the year to date, and around 84% above the same period last year. Aggregate growth for 2018 amounts to some 7.76 billion Euros, slightly below the volume recorded for the same period in 2017 (-4.2%). The investment market is being held back by lack of product for sale, together with the raised expectations of some vendors that means that some deals do not come to fruition.

Retail continues to garner the greatest market share by asset type. The volume invested in retail assets during the third quarter amounted to 1.14 billion Euros, reaching a market share of 31%. The aggregate volume for the year exceeds 3 billion Euros. The largest deal consisted of a portfolio acquisition of four shopping centres by Vukile for an estimated amount of 490 million Euros from Unibail Rodamco. Also worth emphasising is the sale by El Corte Inglés of two retail premises located in Madrid (C/ Princesa 41) and Bilbao (Gran Vía), for a volume amounting to approximately 100 million Euros. The most significant retail park deal was the sale and leaseback by Makro of three centres located in Madrid for an amount close to 90 million Euros. Prime yields remain unchanged at around 3.00% for high street premises, between 5.00% and 5.25% for shopping centres and 5.75% for retail parks. We envisage activity at the close of the year remaining strong taking into account deals currently in the pipeline and estimate an annual investment volume in retail of more than 4 billion Euros. This would represent an increase of 15% on the figure for 2017 (€3.475 billion).

Housing portfolios continue to be sold, reaching a volume of 980 million Euros during the third quarter of the year. There is a high degree of interest on the part of leading investment opportunity funds in housing portfolios that sit on the balance sheets of financial institutions.

In contrast to the first two months of the year, activity in the office market has been particularly pronounced, with the volume reaching 770 million Euros. Three deals represented more than 50% of the total volume transacted, noteworthy being the acquisition by Blackstone of the Planeta building in Barcelona for 210 million Euros; the sale of the “Pórtico” building in the Campo de las Naciones in Madrid for an estimated 117 million Euros, and the sale of 5 buildings on the Avalon Business Park to Barings. Investor interest in these types of offices is particularly high. There is significant demand from “Value Add” investors, trusting to the strong performance of occupancy and the increase in rents. Both “Core” and “Core +” investors are still present; however the lack of product is leading to their absence from many deals. The prime yield in the office market remains at 3.25% in Madrid and 3.50% in Barcelona.

Direct investment in logistics warehouses bounced back during the third quarter. The investment volume recorded during the summer period reached 475 million Euros. This figure is due mainly to the acquisition by Blackstone of the portfolio of units owned by Grupo Lar for 100 million Euros and the recent purchase by Tritax of the VGP warehouse occupied by Mango in Barcelona for 150 million Euros. Liquidity and the scarcity of product are generating investor pressure which is translating into a slide in prime yields that stand at 5.75% in the logistics market.
AT A GLANCE - INVESTEMENT SPAIN Q3 - October 2018

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

RESIDENTIAL PORTFOLIO
Varias
Madrid, Barcelona, Mallorca, ... etc
Buyer: Testa residencial Socimi
Surface: 1,329 viviendas
Volume: €207 million

Q3 2018 3,750M€
+84% vs Q3 2017
Aggregate 2018
7,760 M€
Investment funds continue to be the leading market players, cornering 65% of the volume transacted over the year to date. The main Socimis continue to be focused on managing their portfolios and ridding themselves of those assets which do not fit within their commercial strategy. International investors continue to be interested in the Spanish market. “Catalonia is back”. What we were seeing during the second quarter has been confirmed over the summer months, namely that normality has returned to the investment market in Catalonia. All international funds have returned and we currently find ourselves at the same level before the “political crisis” in Catalonia started. The volume recorded during the third quarter of the year amounted to 475 million Euros. Furthermore, the scarcity of product and high prices are pushing investment funds to opt for the acquisition of land to develop product in sought-after locations. The voracious appetite for student halls of residence in Barcelona is striking. This is centred on the development of new centres surrounding the universities.

Corporate deals. In addition to direct investment deals for assets in Spain, sale and acquisition deals of companies with an underlying basis in property continue to be recorded. Over recent months the Blackstone - Hipania deal was notable, being valued at almost 2 billion Euros. Some months ago, Colonial took over control of Axiare, a price of around €18.36 per share closing the takeover bid. The closure of one of the leading deals of the year is anticipated during the coming months, namely the sale of the head office of Banco Santander in Boadilla del Monte (Madrid). The outlook for the end of the year is positive. Taking into account the high investment appetite and the current open sales processes, we expect to exceed the 10,500 million euros of investment in the global year.

The outlook for the close of year is positive. Bearing in mind the strong investor appetite and sale processes currently underway, we anticipate overall investment exceeding 10.5 billion Euros for 2018.
6 BUSINESS LINES in Europe
A 360° vision

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Real Estate for a changing world