At a glance - Q1 2019

INVESTMENT SPAIN Q1 2019

ENERGETIC ACTIVITY IN THE OFFICE MARKET

The Spanish economy continued to expand vigorously during the first quarter of 2019. Growth with respect to the previous quarter amounted to 0.7% and the outlook for 2019 points towards annual growth of around 2.6%. Despite the uncertainty in the Eurozone, consumer spending and a recovery in housing construction investment have been key to the strength of domestic demand that is supporting growth in the Spanish economy. For its part, the labour market continues to show signs of strength, with a rise in the number of national insurance registrations and a fall in the level of unemployment recorded during the first three months of the year.

Activity in the investment market has remained dynamic during the first few months of 2019, having broken all-time records the previous year (2018). Leading funds continue to acquire investment properties in Spain, attracted by the strength of market fundamentals of good demand, vacancy levels at an all-time low and the upward trend in rents. If to these factors we add favourable credit conditions and the fairly unattractive yields currently offered by competing financial assets, we find ourselves at a point of maximum investor appetite for Spanish real estate.

The volume of direct investment in property assets (offices, logistics warehouses, hotels, retail and residential portfolios) amounted to a total of 2.02 billion euros during the first quarter of the year. If we compare the first quarter of 2019 with the same period last year, a slight fall of 5% is noted. This is mainly due to the absence of large-scale deals that characterised the first quarter of 2018.

The office sector has been the leading market segment during the first three months of the year, recording an investment volume amounting to 900 million euros. This represents some 47% of the total amount invested. The most striking deal consisted of Blackstone’s sale of the “Ilunion” portfolio to Zürich for an estimated 163 million euros. Also noteworthy were Starwood Capital’s acquisition of an office portfolio in Alcobendas and District 22@ in Barcelona from Autonomy for 125 million euros, along with Invesco’s 37 million euros acquisition of the Torre Spínola from Grupo Lar. The absence of product for sale in the centre of Madrid is driving value-add and core+ investors towards decentralised zones and the outskirts, such as Julián Camarillo, Manoteras, the A2-M30 junction and Alcobendas. Meanwhile in Barcelona, the most active areas from an investment point of view are District 22@ and the Paseo de la Zona Franca - Plaza Europa. One of the star deals of the year will be closed here in the coming weeks, namely the sale of the Torre Auditori. Prime yields in this sector continue to hover around 3.25% in Madrid and 3.50% for Barcelona, whereas growth markets in the decentralised zone have seen yields falling to 4.95% in Madrid and 4.00% in Barcelona.

Investment in the Retail segment during the first quarter amounted to 410 million euros, representing 20% of the total. The scarcity of offerings on the market has culminated in a fall in investment in these types of assets. The largest deals consisted of the acquisition of the retail floorspace in the España building in Madrid for approximately 160 million euros, the purchase by the fund MDSR of 21 Eroski supermarkets and the 42 million euros acquisition of the Las Terrazas shopping centre in Las Palmas de Gran Canarias by General de Galerías Comerciales. High street premises located on the main retail thoroughfares remain highly sought-after by investors. Nevertheless, the scarcity of supply means that few transactions are coming to fruition. Prime yields are at 3.00% for high street premises, 5.00% for shopping centres and 5.75% for retail parks. The retail sector will remain active over the next few months with sales of significant properties in the pipeline. What to watch here includes Intu’s portfolio of shopping centres in Spain and the sale of the Torrecárdenas shopping centre in Almeria.

With investment of 305 million euros during the first quarter of the year, alternative investments continue to have a strong presence. Particularly in student halls of residence and senior citizens residences. The Q1 total is already at half of the amount transacted for this sector in 2018 as a whole. Professionalism in the management of student and senior citizen accommodation, plus growth in demand as Spain is highly attractive to students and as a retirement destination, means that investors are increasingly drawn to these types of assets.
DIRECT INVESTMENT VOLUME EVOLUTION (MILLION €)

INVESTOR’S ORIGIN (MILLION €)

INVESTMENT BY TYPE OF BUYER (MILLION €)

MAIN INVESTMENT DEALS Q1 2019

PORTFOLIO ILUNION
Several locations
Office
Buyer: Zurich
Surface: 184,100 sqm
Volume: €163 million

CC LAS TERRAZAS
Las Palmas de Gran Canaria
Retail
Buyer: GGC
Surface: 121,000 sqm
Volume: €42 million

LIBERBANK
Fuente de la Mora 5, Madrid
Office
Buyer: Private
Surface: 13,500 sqm
Volume: €45 million

21 EROSKI SUPERMARKETS
Several locations
Retail
Buyer: MDSR Investments
Surface: -
Volume: €50 million

Q1 2019
€2,015M
-5% vs Q1 2018
The logistics sector remains on the radar of every investment fund. Investment recorded during the first few months of the year amounted to 206 million euros. The growth of e-commerce and consumer spending continues to drive the logistics market. The most striking deals during the first quarter consisted of the acquisition of a portfolio of logistics platforms in Guadalajara, Barcelona and Vitoria by Prologis and Blackstone for 57 million euros, the purchase of three assets in La Bisbal del Penedès and Constantí, Barcelona and the acquisition of a logistics platform in Granollers.

The outlook for the remainder of the year is positive, with the possibility of a new record for investment being set in 2019. A large number of sale processes are currently underway, particularly noteworthy being the sale of the El Corte Inglés logistics portfolio (valued at 200 million euros) and that of the Colonial portfolio, with a target price of approximately 400 million euros. Investor appetite continues to exert downward pressure on yields, the prime yield reaching 5.25% in Madrid and Barcelona at the close of the first quarter.

Having been present in 50% of deals transacted during the period analysed, investment funds continue to dominate the market on the buyer side. These are followed by the SOCIMIs, with 18% of the total. Private and family office investors have become more active in recent months in deals below 50 million euros. The presence of insurance firms in value-add transactions is also worth mentioning. This is the case with the acquisition by Zürich of an office portfolio from Blackstone and the recent acquisition by Axa of a housing development for rental in Méndez Álvaro, Madrid.

The outlook for 2019 is very positive. Investors consider Spain to be one of the main markets for investment. The leading American, Asian, German, French and British funds judge Spain to be a strategic market. The current strength of demand, together with the potential for rent growth and the attractive yields offered in comparison with other countries mean that Spanish property remains within the crosshairs of investors.