CISION

VIDAIMOBILIÁRIA

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HOW MUCH IS THE IBERIAN PROPERTY MARKET CURRENTLY WORTH?

Before investing, it is essential to know how much transactional activities in the real estate market are worth. And, in a heterogeneous market like Iberia, it is crucial to be able to compare the fundamentals of every location and sector.

Entreposto Building, Lisbon

Gathering the latest information available, the Iberian Property team analysed and summarised the activity in the first quarter in the transactional sectors of each of the three main Iberian investment destinations: Madrid, Lisbon and Barcelona, offering exclusive insight of how much this property market is worth today.

OFFICES – Annual take-up close to 1 million m²

Altogether, in 2016 the three main Iberian office markets traded 928.800 m², 84% of which in Spanish territory. These estimates are by CBRE, and they confirm that Madrid is the principal location in Iberia chosen by companies, with a total take-up of 454.000 m², in other words, 49% of the total Iberian office market in 2016. Barcelona follows next, with 331.000 m² and, finally, Lisbon with 143.800 m².

In the meantime, and considering the data presented by the consultancies Cushman & Wakefield and JLL, in the first quarter of 2017, office take-up in Iberia has already reached 208.641 m², maintaining the relative share of each regional market.

MADRID: the take-up volume of 87.000 m² in the first quarter of 2017 represents a 13% decrease compared with the same period the previous year, according to Cushman & Wakefield. The greatest share of net take-up in the quarter was by companies in the technology sector. Nonetheless, estimates indicate that total take-up in 2017 will be around 450.000 m².

With the vacancy rate at approximately 13% at the end of the first quarter, 205.800 m² of new supply are expected to be completed until the end of the year, 145.000 m² of which represent regenerated spaces and the remaining 60.800 m² are new build. Although it still carries relatively low weight, the development of new construction projects is now beginning to grow, and there is greater investor interest in turn-key and speculative projects.

The average rent increased 1.6% compared with the previous quarter, now standing at 31 €/m² / month. Forecasting that there will be a reduction in vacancy in 2017, the consultancy estimates that rents will rise between 8% and 10% in the prime segment and 3% to 5% in peripheral areas throughout this year.

According to figures by C&W, investment in office assets increased 58% compared with the first quarter in 2016, rising to 240 million euros, with SOCIMIS standing out once again as the principal investors. Likewise, national investors also led purchases in the first quarter, representing a 70% share of the volume invested. Yields continue to contract, reaching 3.5% at the end of the quarter.

LISBON: reflecting an annual growth of 34% compared with the same period the previous year and 62% above the quarterly average of the past five years (26.932 m²), the 43.641 m² taken up in the first quarter does not reflect the current market demand. This because, like in 2016, although demand continues to grow – driven above all by the strong momentum of the BPO sector – it is heavily restricted by the lack of available offer. A situation that JLL expects will endure for the next couple of years, and which will result in a decrease in the vacancy rate and a rise in rents.

The vacancy rate continues to drop in 2017, reaching 10.1% at the end of the quarter with almost every zone recording a decrease. During that period, prime rents continued to rise in several market zones, currently at 18.5 €/m² for the Prime CBD and 15.5 €/m² in Parque das Nações, where there is virtually no available space.

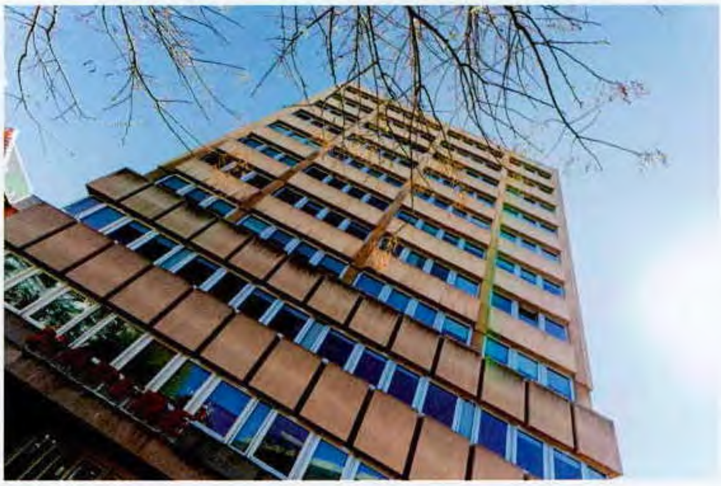
Regarding future supply, JLL estimates that until the end of 2018, 96.600 m² of new stock will enter the market, distributed across eight new buildings, half of which already have guaranteed occupancy.

BARCELONA: in the first quarter of the year, 78.000 m² of offices were taken up in Barcelona, 14% more than in the same period the previous year. Led by companies in the IT & Telecommunications and Services & Professional Services sectors, demand continued to show strong momentum in this period, with activities remaining 10% above the average of the last ten years, reveals Cushman & Wakefield.

Currently, the vacancy rate in the Barcelona market is 8.7%, and it may continue to drop over the next months due to a lack of new stock entering the market, while demand remains robust. It must be noted that no new project was completed in the first quarter, and the consultancy estimates that, except for regeneration projects, no injection of stock generated through new development will take place in Barcelona until 2018. Looking at the pipeline of new offer due to be concluded until 2019, Cushman highlights the entry of 70.000 m² in the @22 zone and an additional 19.500 m² in Zona Franca, namely Torre Marina by Iberdrola.

The market's activity and decrease in vacancy is driving rental values in Barcelona which, particularly in the best buildings, have maintained an upward trajectory since the end of 2014. Currently, the prime rent is at 22 €/m²/ month, 7.3% above the values practiced a year ago.

Regarding investment, and maintaining the trend observed in 2016, the first quarter was marked by the completion of seven investment operations involving offices, totalling a volume of more than 400 million euros. Prime yields reflect the growth in economic activity, reaching 3.5% in the CBD at the end of the quarter, while in the New Business Areas it stood between 4.5% and 5%. A differential that, Cushman concludes, «*is attractive for investors who seek modern spaces in excellent locations, and we expect this trend to remain over upcoming months*». ■



Mapfre Tower, Madrid

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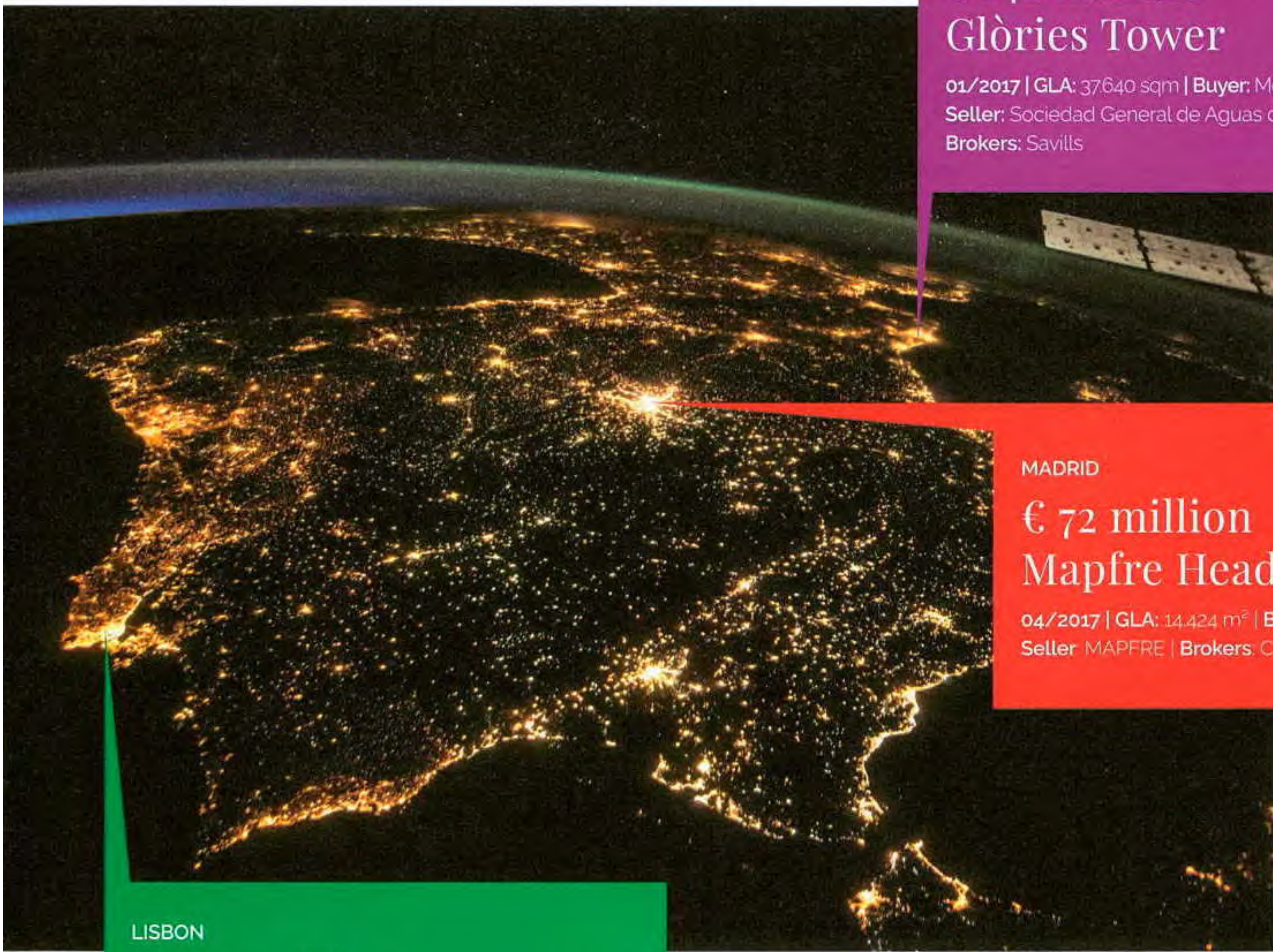


BARCELONA

€ 142 million Glòries Tower

01/2017 | GLA: 37.640 sqm **| Buyer:** Merlin Properties
Seller: Sociedad General de Aguas de Barcelona
Brokers: Savills

MADRID

€ 72 million Mapfre Headofices

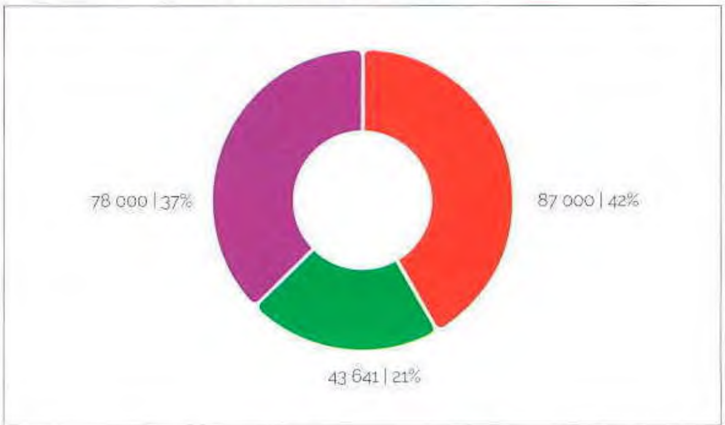
04/2017 | GLA: 14.424 m² | **Buyer:** Gmp
Seller: MAPFRE | **Brokers:** CBRE

LISBON

€ 65,5 million Entreposto Building

01/2017 | GLA: 48.000 m² | **Buyer:** Signal Capital
Seller: Entreposto Gestão Imobiliária
Brokers: JLL, Cushman & Wakefield

Office Take-Up Q1 2017 (sqm)



sources: Savills (Madrid), Cushman & Wakefield (Barcelona) and JLL (Lisboa)

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SHOPPING CENTRES: Another record year?

Both in Spain and Portugal, retail, particularly the shopping centre format, continues to be one of the main focal points of real estate investors in 2017.

Proof of this was the completion in the first quarter of a set of sizeable operations on both sides of the border, totalling more than 1.3 billion euros invested in the sector until March.

Unsurprisingly, the greatest share is concentrated in Spain. The consulting firm Aguirre Newman calculates that more than 1 billion euros were invested in the purchase of shopping centres in Spain in the first quarter. And, in its Estudio de Mercado Centros Comerciales 2016/2017, the company foresees that interest will remain strong throughout the year, although they consider it unlikely that 2017 will achieve the historic level of investment in shopping centres reached in 2016: 3.5 billion euros. The reason for this is the decrease in product available for sale.

Forum Coimbra

Diagonal Mar, Barcelona

Following Barcelona, now Madrid has the most expensive mall

In August 2016, a new Iberian record was set regarding the value invested to purchase a shopping centre, approximately 490 million euros, for the Centro Comercial y de Ocio Diagonal Mar, with 87,500 m² of GLA in the Barcelona area, by Deutsche Asset Management from Northwood Investors.

However, less than six months later, in March 2017 a new record was reached, this time in Madrid, with the purchase agreement by Intu Properties from Ivanhoe Cambridge for the Xanadú Shopping Centre, for the historic amount of 530 million euros and an initial yield of 4.3%. Totalling a GLA of 153,695 m², ownership of this shopping centre continued to be disputed by investors until May when, on behalf of the fund European Cities, TH Real Estate reached an agreement with Intu to purchase a 50% share of this asset, a deal which was closed for 264 million euros.

Also a hot year for Portugal

Meanwhile, the Portuguese market is also expected to have a «hot» year in this sector, which is already off to a dynamic start with the announcement of the purchase, among other deals, of a portfolio of two shopping centres – Fórum Viseu and Fórum Coimbra – from CBRE Global Investors by a consortium of South African investors that is making its début in the country, the joint-venture Greenbay / Resilient. Closed for 219.25 million euros and anticipating a yield of 6%, this operation illustrates the positive climate in the Portuguese market, with investors originating from increasingly distant sources and willing to invest in the purchase of secondary product, as is the case with these centres, with a GLA of 51,489 m² and 18,705 m², respectively, and which are located outside the country's major urban centres.

According to calculations by the consultancy JLL, retail represented 61% of the volume invested in commercial real estate purchases in the Portuguese market in the first quarter of 2017.

And several market sources estimate that, as was the case in Spain, Portugal may also start to register a new record for the purchase price of a shopping centre, with one of the largest operations ever to take place in the sector in the pipeline. This because, at the beginning of the year, the opportunistic North-American fund Baupost placed on the market its 90% share of Dolce Vita Tejo, located beside Lisbon and one of the largest shopping centres in Europe, with a GLA of 104,000 m² and 300 shops. The goal of the operation is to sell for approximately 300 million euros, in other words, almost double the 170 million euros spent to acquire the share little more than two years ago.

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Opportunistic investors start to leave the stage

This operation arises in the wake of the divestment process the fund is also executing in Spain, where it is selling, individually, the eight shopping centres in the Alicante, Malaga, Barcelona and Madrid areas, which were part of the portfolio purchased from the Dutch fund Vastned less than three years ago, for 160 million euros. Indeed, this was the case in the deal closed with Lar España Real Estate last August, who purchased the shopping centre Vistahermosa in Alicante for approximately 42.5 million euros.

Baupost's strategy exemplifies a trend that is taking place in the Iberian shopping centre market, where international funds with an opportunistic profile are now starting to exit the stage, divesting assets they purchased at sale prices during the crisis, for a good profit margin.

Another well-known example is Lone Star Funds which, after taking over the property portfolio of the bankrupt Chamartin Imobiliária in Portugal in 2015 for about 500 million euros, sold three of the shopping centres that same year (Vila Real, Coimbra and Porto) to Deustche AM.

> In the first quarter of 2017 the investment in shopping centres totalled more than 1.3 billion euros in Iberia

Yields drop to record lows

Last year registered a slight yield compression in retail across virtually all of Iberia. In Spain, and in the case of «*gold*» shopping centres, Aguirre Newman reported that in 2016, a number of operations were closed with initial yields below 4%, a new record low. However, forecasts indicate that these rates shall generally remain between 4 and 4.5% throughout this year. Meanwhile, in Portugal, retail yields are also on a downward trajectory, reaching 5% at the end of 2016, according to Cushman & Wakefield.

Metromar Shopping Center, Seville

Slight growth in supply

The Iberian shopping centre market has reached maturity, which is why the growth in supply has been moderate and, in 2017, is not expected to surpass 330.400 m² of new GLA.

In Spain, approximately 235.000 m² of new stock is expected, 80% of which is part of new projects, while the remaining 20% represents projects to expand existing shopping centres, estimates Aguirre Newman. However, data by AECC – Associação Espanhola de Centros Comerciais indicates that, between 2017 and 2019, 27 new projects are due to launch, namely openings and expansions, adding more than 1.3 billion m² to the national stock.

These numbers differ greatly from the pipeline for Portugal where, until the end of the year, only 95.400 m² of new GLA is due to open, most of which (83.000 m²) belongs to Mar Shopping, the second shopping centre developed by Interlkea Centres in the country and due to open in the Algarve on September 27. Here, over the next few years, growth in supply is expected to remain slow and will take place through expansions, namely of shopping centres such as NorteShopping, Oeiras Parque and Centro Colombo.

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INDUSTRIAL & LOGISTICS: Barcelona has the fourth largest capital growth in Europe

Assuming itself has the main Iberian logistics center, the rhythm of the annual capital growth of Barcelona's market should be the fourth largest at European level up to 2021.

The estimate is from JLL, which in the «*Industrial & Logistics Fundamental – Spain Q1 2017*» report suggests that the capital value from logistics assets in Barcelona's market should grow an annual average of 2.2% between 2017 and 2021, with Catalonia standing out as the fourth market with the higher annual valuation of all Europe.

Likewise, and although the growth of the rents is not yet transversal to all market zones, the prediction is that over the next four years the market values in Catalonia grow at an annual average of 2.7%, the fifth largest at European level.

At the basis of this prediction it is the strong dynamism that the market has experienced over the last months, showing a vacancy-rate of 3.66%. Logistics take-up in the Q1 of this year, in Barcelona, was of 124,160 m², 40% more than in the same period last year, reaffirmed Aguirre Newman, the real estate consultant. Currently are under construction 246,470 m² of the new logistics GLA in the region, of which 85% already with tenant, given that this year only 18,000 m² should be completed, estimates JLL.

Investors keep strengthen the focus in the industrial and logistics Spanish market, in which they invested about €230 million during the first quarter

Saba Parques

Supply shortages available «*hinders*» further growth in Spain

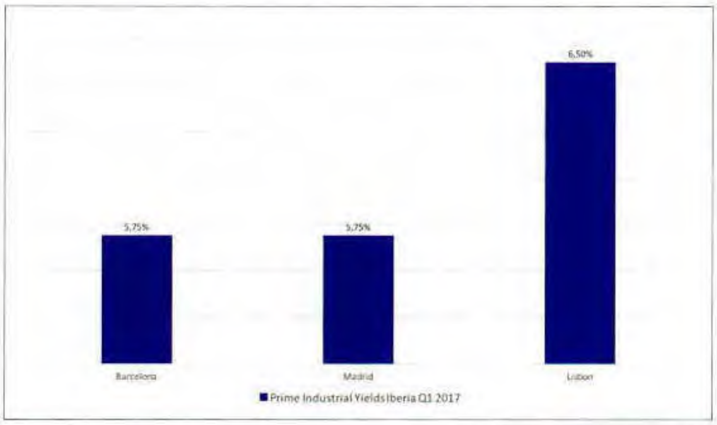
However, Madrid closed the Q1 with a total take-up of 127,700 m², been this the region with the record of the highest rent to be applied in this period: 6 €/m² month, to a specific transaction in the CMT area, states Aguirre Newman. In any case, JLL's prediction is that the industrial rents over the Spanish capital follow the course of growth, at an annual average of 2.3%, between 2017 and 2021, that is to say the 6º largest growth at European level.

CBRE estimates that the level of activity regarding take-up in Madrid, in the first quarter of 2017, was 13% below than in the same period. According to the consultant the main reason is not the decelerating of demand, but yet the supply shortages available in line with the requirements of the take-up. JLL estimates that Madrid's market shows a vacancy rate of 4.29%, being currently under construction 206.623 m² of the new GLA, 26% already with tenant, expecting that by the end of the year 107.826 m² to be completed.

Investment grew 70.4% up to March

Taking this scenario into consideration, the investors keep strengthen the focus in the industrial and logistics Spanish market, in which they invested about €230 million during the first quarter. This figure, determined by Aguirre Newman, in its *"Q1 Monitor Mercado Logistico de Madrid y Barcelona"*, represents an annual growth of 70.4% in view of the €135 million assigned to the sector in the same period of 2016, and assume yields by 5.75%. ■

Prime Industrial Yields Iberia Q1 2017



SOURCES: Cushman & Wakefield, JLL

The other side of the coin: the Portuguese case

On the other side of the border, the industrial market is the one that has taken longer to recover, with the take-up of sites on the market of Lisbon somewhere around 140,000 m² in 2016. This figure, indicated by CBRE, already unfolds a 5% growth regarding 2015, but still 16% below the average of last decade.

This take-up also reflects a market where over the last four years does not exist new construction, where the entry of new operators is not significant, and where large distribution companies have been settling their expansion needs into the places they already occupied, due to the lack of available qualified warehouses.

Nevertheless, after five years of residual encouragement in greater Lisbon area, it was launched in 2016, in Alverca, the first speculative construction project. Taking into account the business growth of the distribution companies, the CBRE expects more movements in this sector this year, anticipating the launch of new buildings.

One of those projects concerns the construction of the first naves in the Logistics Platform Lisbon-North, in Castanheira do Ribatejo. With a development potential of 430,000 m² of Gross Floor Area, this platform would gain a fresh impetus after its acquisition last September, by Merlin.

This asset was one of the five included in the *"done deal"* by Spanish socimi with SABA, acquiring by €115 million SABA Parques Logisticos and its assets, namely the parks in Cim Vallès (Barcelona) and Lisboa-Norte (Portugal), as well as equities in Parc Logistic de la Zona Franca (Barcelona), Sevisur (ZAL Puerto de Sevilla) and Arasus (Álava).