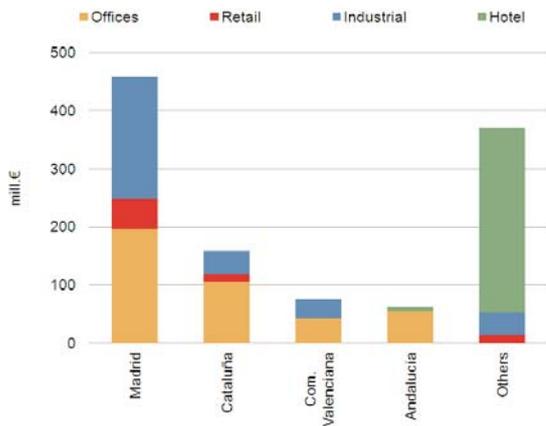


# Spanish Investment Market

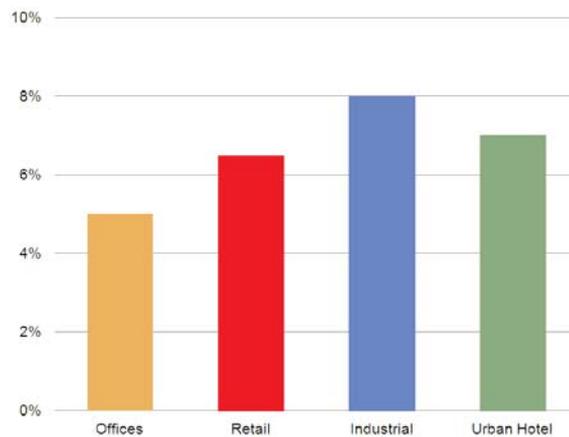
October 2011

Investment by region&sectors - 2011(Jan-Sept)



Source: Savills Research/\*excluding Santander Financial City

Prime yields (gross) by sector - Q3 11



Source: Savills Research

«The turmoil in the global economy is holding back investment activity in southern Europe and Spain. In 2011 the national market will record its lowest investment volume in a decade. Although there is product available, investors are increasingly conservative and continue to wait for the perfect investment. The increase in the cost of financing and growing problems in gaining access to credit are slowing down sales processes.»



Danny Kinnoch - International Investment Director

- The Spanish economy has been severely affected by tension in the financial markets and the volatility of stock market indexes, which for the moment has meant that forecasts for 2011 and 2012 have had to be adjusted.
- The real estate market remains on stand-by to see how economic performance will develop, both nationally and locally. Decision-making is taking longer, which means that the time it takes to sell a property is ever more protracted.
- The cumulative volume of the investment market over the first three quarters of 2011 totalled almost 1.25 billion euros, which represents a fall of almost 52% compared to the same period last year.
- The difficulty of acquiring financing will give the upper hand to equity only buyers. Private national investors dominate the market segment for lot sizes of up to 40 million euros .
- A new feature was that the retail sector showed less of an influence in terms of distribution by retail market segment, although this sector has been distorted over recent years by the large number of bank branch transactions.
- Large-scale transactions are the reserve of large investment funds and listed property companies aided by finance at corporate level and only those with liquidity will be able to participate. A few days ago Unibail-Rodamco bought the Splau! shopping centre for over 180 million euros (this is not included in our figures) .

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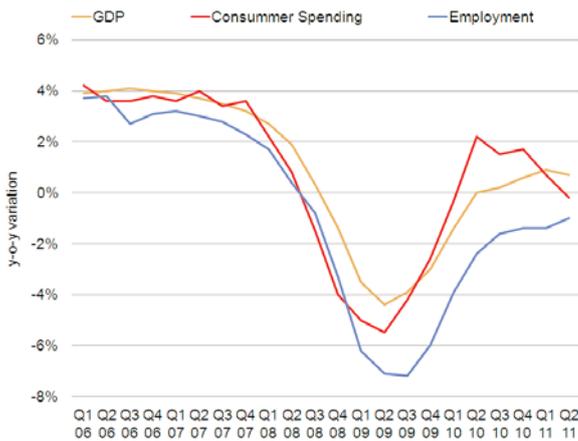


# Economy and Investment market overview

## Spanish economic situation

After the beginning of a weak recovery last year, Spain is now undergoing a period of stagnation that will probably be followed by renewed growth in the medium term. However, the periodic threats related to sovereign debt in peripheral countries persist, which are especially grave in Spain and Italy after the worsening of the Greek crisis, as well as the possibility of worse than expected performances by the most developed economies, which would drag down the most positive sectors in Spain in recent months: exports and tourism. In view of the far from encouraging current demand and consumption figures and with an employment market that is still seriously deteriorated, it will take several quarters for Spain to begin to see another noticeable improvement in its economy.

## GDP, consumer spending and employment



Source: INE

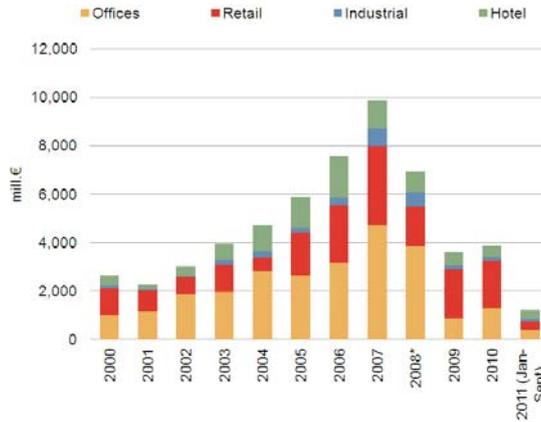
## The Spanish investment market overview

Between January and September the cumulative volume of the investment market in Spain verged on 1.25 billion euros. This calculation only includes the commercial sector (office, retail, industrial and hotel markets) and only for transactions where a real estate asset changed ownership, in other words all operations related to the acquisition of shares, the complete transfer of a business or the sale of debt associated with real estate products are excluded. However, in the hotel sector there are some transactions that we have considered, despite the fact that, according to some sources in the sector, they would be considered as debt swap transactions.

There is a difference of -52%, compared to the same period last year. Some of the reasons that have led to this situation would also include the instability in the economic sector, which has a direct effect on investor confidence in the country, the difficulty in gaining

access to financing and the lack of quality properties at market prices.

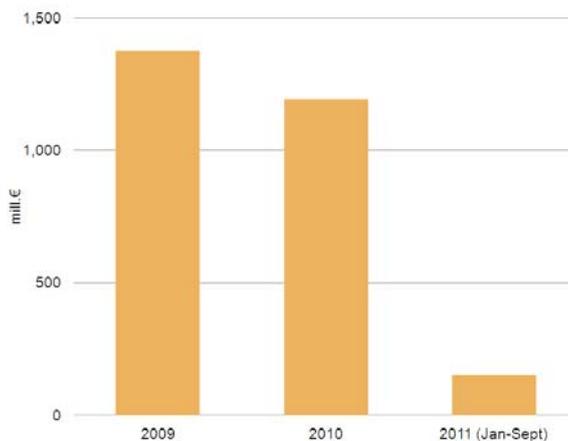
## Investment volume by real estate segment



Source: Savills Research / \*excluding Santander Financial City

The distribution of the volume registered between January and September showed a very unusual situation, to say the least, as traditionally office and retail markets register the highest percentages. The fact is that only the hotel market showed signs of continued growth, perhaps boosted by the good results in the tourism sector. Therefore, up until September 2011 and contrary to historic figures, hotel investment volume within the real estate sector reached a similar level to the office and retail market.

## Bank branches investment volume



Source: Savills Research

It should also be noted that the large volume recorded over the last two years in the retail market has been severely distorted by the sale of numerous bank branch portfolios. There is still an active market for the sale of batches of bank branches, and not only by banks themselves, but some funds that acquired large portfolios have also put some up for sale in smaller lot

# Main transactions and Investor types

sizes that require a lower investment, which are aimed at private investors. In this sense, this type of product is already starting to show signs of becoming exhausted and packages that the banks themselves are offering their private banking clients are more successful.

## Investment volume - portfolio acquisitions



Source: Savills Research / \*excluding Santander Financial City

In terms of portfolio sales, and considering the fact that bank branches have not been the only transactions carried out in batches, since 2007 portfolios have comprised a large part of investment volume. In many cases portfolio sales have used the sale and

leaseback format and aside from bank branch or bank headquarters transactions, we should highlight Eroski's divestment strategy of all types of properties: including supermarkets and hypermarkets, logistics warehouses and even petrol stations.

## Key players in the market

Generally speaking, we can talk about national and international investors. All of them focus their interest on well-located properties, high-quality buildings with a high occupancy rate, solvent tenants, with long-term contracts and market rents. However, there is a shortage of prime product in all of the segments analysed, which is drawing their attention towards consolidated secondary markets.

**National investors** are in their element in their local markets. They are aware of the idiosyncrasies of their own markets and can take advantage of opportunities and generally speaking, rarely require much financing.

There are various different international investor profiles. On the one hand there are **German funds**, which are following the evolution of the market very closely. They have a very expectant attitude and are very selective. At the moment they have not been very active. To name a few, RREEF, IVG and GLL have signed deals in various market segments.

## Main investment transactions - 2011 (until Q3)

Segment	Asset	City	Inv. vol.(mill €)	Vendor	Purchaser
Retail	El Rosal	Ponferrada	120	Sonae Sierra	Doughty Hanson
	Plaza Éboli	Pinto			
Hotel	Hesperia Madrid	Madrid	80	Hesperia	Grupo Millenium
Hotel	Intercontinental Madrid	Madrid	68 (*)	Morgan Stanley	Mansion Services
Retail	22 super Eroski	several locations	45	Eroski	Rockspring
Hotel	Hilton Valencia	Valencia	42	NA	CPI
Hotel	Hilton Barcelona	Barcelona	40	Morgan Stanley	Westmont Hospitality
Offices	Repsol HQ	Madrid	38	Aliseda(Banco Popular)	Cerquia
Offices	Oracle HQ	Las Rozas	31	Pramerica	Private Investor
Hotel	Tryp Centro Norte	Madrid	30	Colonial	Grupo Millenium
Industrial	CEVA logistics	Ontígola	29 (*)	Gazeley	GLL

Source: Savills Research / \* volume estimated

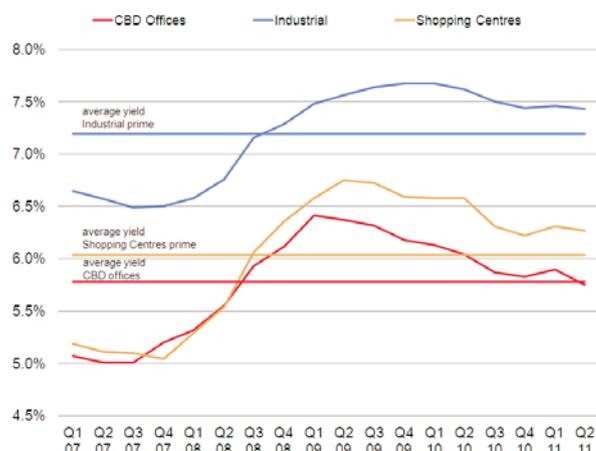
# Yields and Forecasts

**Opportunistic funds** continue to wait for there to be a balance between quality, price and return. The criteria are increasingly closer to being met, but this will not comprise the main part of transactional volume.

Finally, **large funds** are especially active and interested in large property portfolios of properties in any condition (residential, land etc.), which generally come from banks.

Their lack of need for financing and their ability to make major investments, enable them to obtain major discounts.

## Average prime yields - European Market



Source: Savills Research

Yields for prime properties in the various segments remain stable, mainly due to the lack of transactions. In comparison with average European market levels, Spain exceeds yields in industrial/logistics markets (8%) and shopping centres (6.5%), but offices in Madrid or Barcelona (the two main business hubs) stand at between 5% and 5.25% and remain a long way off the last recorded prime European office average (5.75%).

In the European market, the volume recorded in the first half of the year touched 47 billion euros, with Spain making up only 1.5% of this figure. The United Kingdom, Germany and France lead the rankings, representing over 68% of the total.

## Forecasts

The recent turmoil in the financial markets will leave its mark on the real estate sector. A major increase in the time it takes to sell a property has already been noted and this can take up to 12 months or more. Other sales processes have not even been concluded, due to owner's high expectations. Everything is for sale in the current market, as long as the price is right. Some national investors will sell non-strategic assets in order to gain liquidity.

Another factor to be considered is financing, the increase in the cost of financing is hindering or stopping many transactions being closed.

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