

SPAIN

Industrial Market Snapshot

Third Quarter | 2018



MARKET INDICATORS

Market Outlook

- Prime Rents: Overall headline rents are expected to slightly grow in Madrid and Barcelona
- Prime Yields: Rising investor appetite against a lack of product is seeing yields compress as competition increases
- Supply: Low vacancy rates in Barcelona and a mixture of scarce and above-average supply in Madrid
- Demand: Active requirements are evident but these needs to be converted to actual deals

Prime Industrial Rents – September 2018

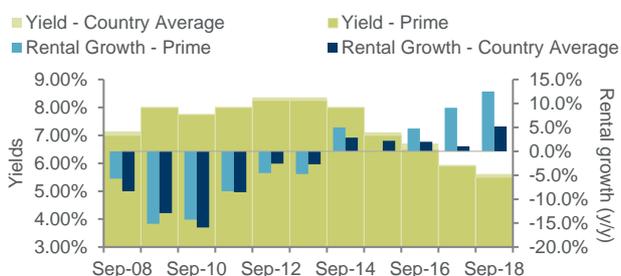
LOGISTICS LOCATIONS	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Madrid	5.25	60.0	6.5	0.0	0.0
Barcelona	6.75	81.0	8.8	12.5	6.2

Prime Industrial Yields – September 2018

LOGISTICS LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Madrid	5.70	5.75	5.90	8.25	5.70
Barcelona	5.50	5.50	6.00	8.50	5.50

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



Overview

Demand for logistics space keeps in great shape in Spain, given the macro fundamentals and online sales growth. Space take-up in the main cities keeps buoyant while new warehouses in the pipeline are answering a demand focused on high spec assets. Investors' demand is also vivid and both built assets, those underdevelopment and development sites are equally sought after.

Occupier focus

Logistics space demand in Barcelona and Madrid keeps a good momentum. Since 2017 the logistics space absorption per quarter in both capitals is between 40% and 45% above the long-term average. Some letting deals are taking place under the built-to-suit format, in which some 3PLs are securing their grade A space supply.

Rental values have different dynamics in Barcelona and Madrid. In the former, prime rent has increased some 9% in the last 12 months, given the scarcity in areas close to the city. In the latter, new supply is well catering added demand, containing rent increases in the last 9 months. Yet, the outlook for 2019 is of slight increases in the two markets.

Investment focus

Investor appetite for logistics warehouses is ample in Spain and similar to one year ago. Most of the activity was focused in Madrid, but regional markets with strong logistics performance stood out such as Valencia and Zaragoza. Demand in Barcelona has reactivated responding to a more stable political landscape, after a quite dry first half of the year. Prime yields are more stable than in 2017 but further contraction may be seen in the second half of the year, given the strong pace of the capital markets.

Outlook

With take-up figures in Q1-Q3 2018 are in similar levels as the full year 2016 and 2015 we will finalise the year with a high register in logistics space let, more than 800,000 sq. m. Vacancy rates in Madrid will decrease in response to this activity but deliveries in 2019 will off-set net absorption and vacancy rates may slightly increase with new modern product.

Investor demand will sustain its momentum with still strong liquidity in Spain. Investors will seek modern product across the main logistics hubs of Spain, on top of Madrid and Barcelona.

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