



Real Estate Investment Spain 2022

2022 was set to be the year of post-pandemic and post-lockdown reopening. But it quickly became the year marked by the war in Russia and Ukraine, high inflation and energy disputes, which has set what appears to be a change of cycle in the real estate market. Despite this macroeconomic environment, 2022 has set a historical record in Spain with a volume of €16,400 M transacted in the Real Estate sector, 1/3 more than the year before. A significant volume was transacted before the summer, after which the slowdown in market activity anticipated the trend for 2023. The key interest rates, which will certainly continue to rise until June, basically explain this restraint. Also, Real estate price corrections are expected to continue as a result of yield increases. The S1-2023 will be marked by uncertainty, increased volatility in financial markets and a depreciation of the Euro. It is still too early to assume a strong dynamic for the first half of the year, nevertheless we see many investors who are waiting for a favorable re-entry point. Investors with strong capital will be the first to get the transaction activity going again.

ECONOMIC OUTLOOK

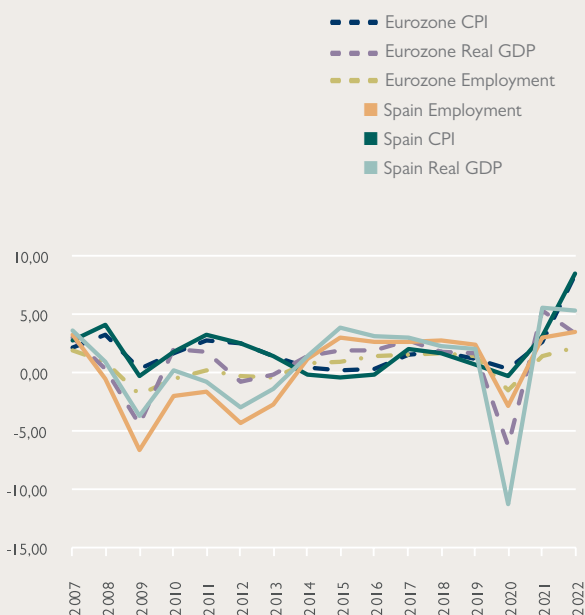
The dynamism of private consumption resulting from pent-up demand, together with headwinds related to the pandemic and supply bottlenecks, caused inflation to rapidly spike by the end of 2021. This trend only worsened in S1-2022 and by August inflation stood at 10.5% (its highest level since the 1980s). The last quarter of the year showed lower increases ending the year at 5.8%, which would indicate that the monetary measures taken by the ECB are having the intended effect and that the peak of inflation is passing.

Many central banks around the world changed their monetary policies and started to rapidly increase interest rates during 2022 - e.g., since mid-June, the Fed has increased interest rates by 2.75%.

For its part, the ECB took almost four months longer to do the same, increasing interest rates by 2.00% between July and November. To continue tackling this prolonged period of high inflation, additional rate increases might be necessary, although they are expected to be of lower magnitude, as the ECB tries to minimize the risks of recession.

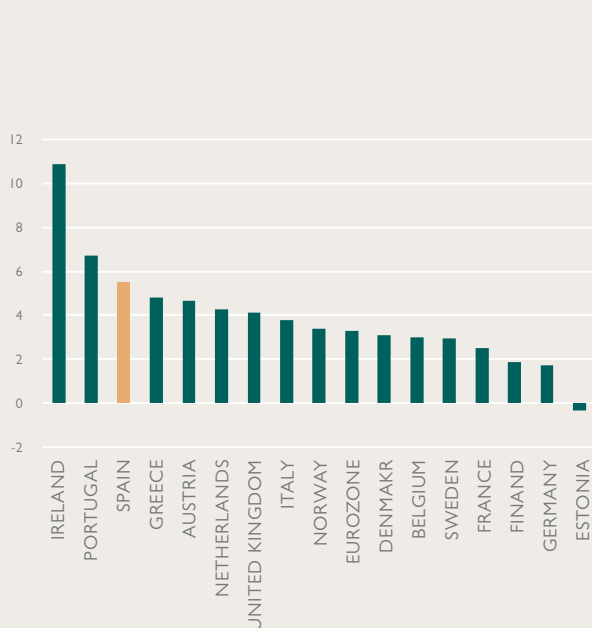
GDP growth has remained the same as in 2021, returning to a YoY growth of 5.5%, still higher than the EA projected average of 3.3%, as growth in other countries (like Germany, France and Italy) seems to be declining faster. Because of this prolonged rise in inflation levels, fears of stagflation, and even recession, have started to emerge.

FIG. 1: ECONOMIC OVERVIEW



Source: Oxford Economics

FIG. 2: EU ECONOMIC GROWTH 2022 (GDP, REAL IN %)

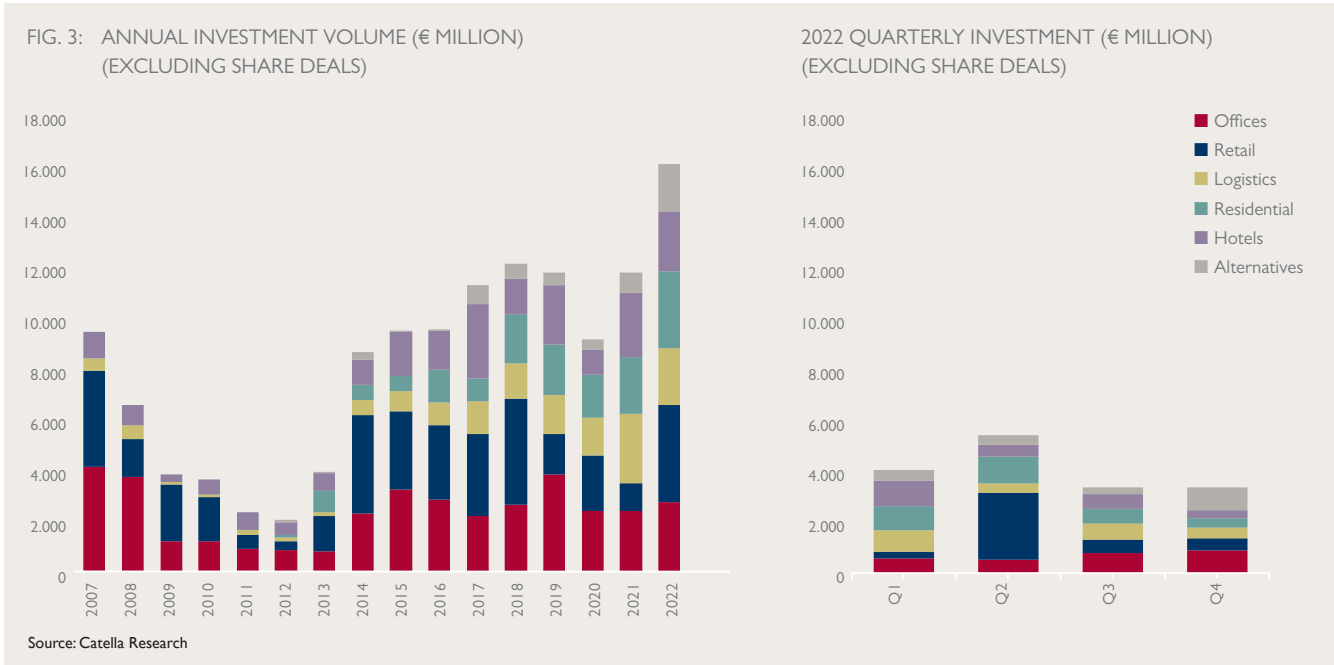


Source: Oxford Economics

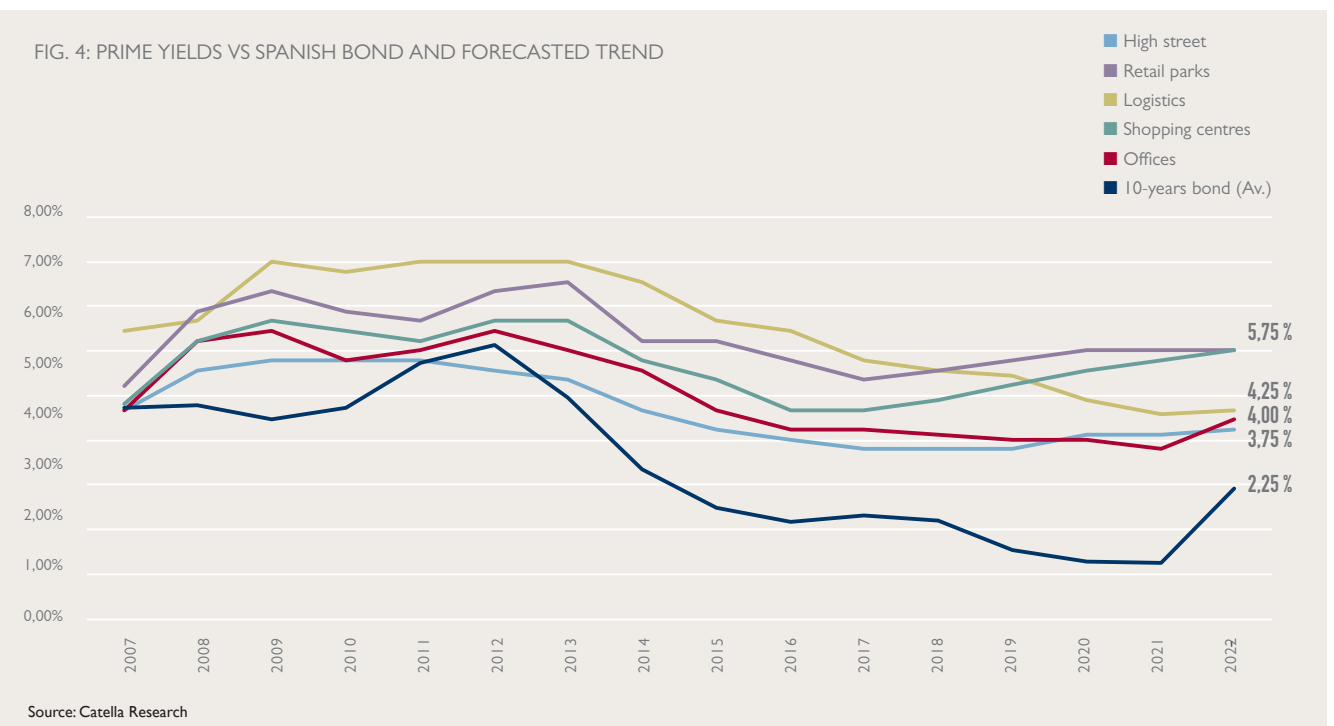


INVESTMENT MARKET

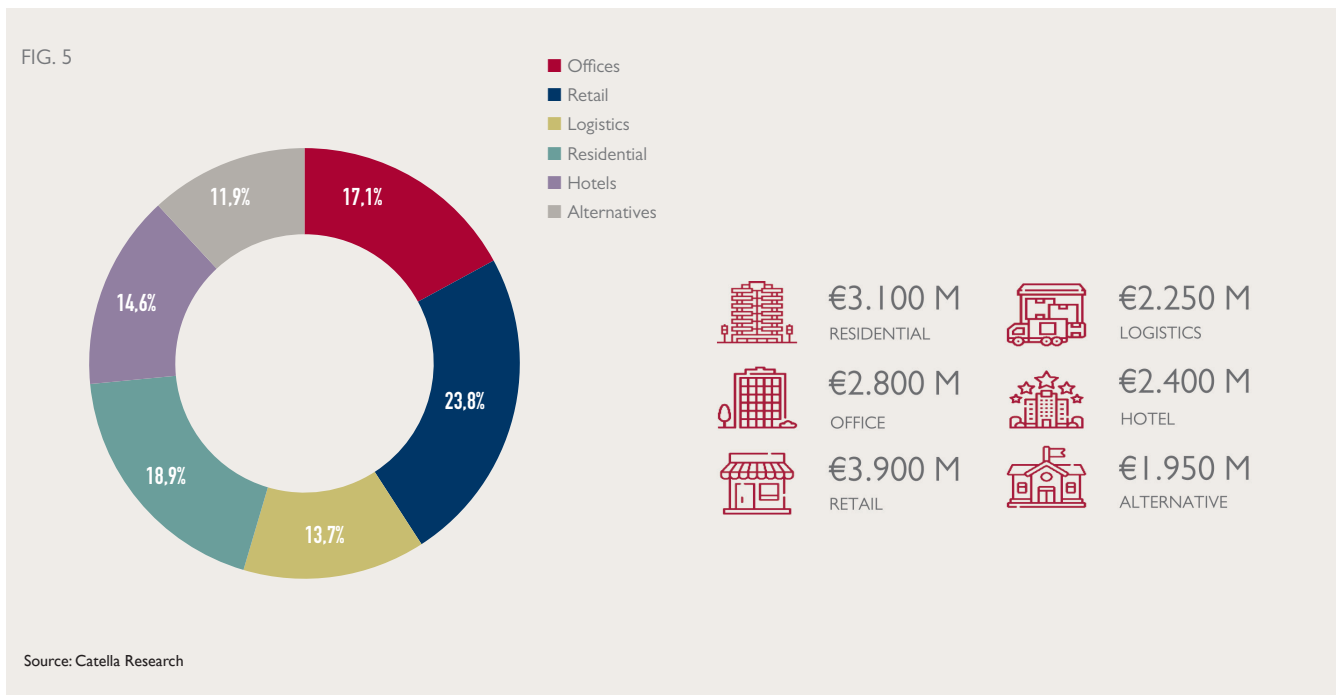
Record year in terms of investment with almost €16.5 billion invested.



- 2022 has set a historical record (excluding share deals) with a volume of €16,400 M transacted in the Real Estate sector, 1/3 more than the year before. Including Share Deals, investment volume in 2022 reached €17,500 million.
- Yields rise again in all asset classes driven by uncertainty, increased cost of financing and high inflation panorama. In this sense, it will be difficult to see transactions below the 4% mark in the short-medium term.
- Slowdown of market activity after the 2022 summer, anticipating the trend for S1 2023. In general terms, price corrections are expected to continue as a result of yield increases.



INVESTMENT BY SEGMENT



- The **Residential** sector remains as one of the most sought-after segments, with circa **€3,100 M** invested in 2022. BTR represents around 60% of the residential investment in 2022. A slowdown in the volume of mortgage transactions for the purchase of housing is expected in 2023, drawing a new paradigm in the coming months with a greater role for the rental market.
- With circa **€2,800 M** invested in 2022, the **Office** sector continues to be strategic and investor interest in prime locations and assets remains high. In this sense, demand is focused on core properties with high ESG standards due to their security and liquidity in the market.
- The **Hotel** sector experienced a very positive first 3 quarters of the year, and the pipeline for the 4th quarter was promising. Nevertheless, and despite the impressive performance of main touristic destinations on the 2022 summer, hotel investment sharply declined in Q4. Yet, **€2,400 M** were invested, increasing to circa €3,300M if we take into account the GIC and Sancus share deals.
- With a record investment of **€3,900 M**, the **Retail** sector ranks as the first asset class, leading the real estate investment. The main retail transaction has been the BBVA's repurchase from Merlin Properties of 659 bank branches and 3 office buildings for a total amount of 1,987 M€. This deal alone represents more than 50% of the total retail investment. Also noticeable is the timid come back of shopping centre transactions, after a 2021 with no relevant transactions of this type.
- Despite the decline in terms of investment volume, **Logistics** remain as one of the preferred asset classes, reaching a total investment of **€2,250 M** in 2022 (vs. circa €2,800 M invested in 2021). The sector has witnessed a stronger price correction due to the increased cost of capital and because 2021 transactions were taking place at extremely low yields.
- The interest in **Alternatives** has increased sharply during 2022, reaching an investment volume of circa **€1,950 M**, more than the double of the previous year's investment. Student and Senior housing and, in general, any asset class related to living are amongst the most attractive asset classes at the moment.
- **The real estate year 2023 is started more quietly than in the comparable quarters of previous years. The key interest rates, which will certainly continue to rise until June, basically explain this restraint. It is still too early to assume a strong dynamic for the first half of the year, nevertheless we see many investors who are waiting for a favorable re-entry point. Investors with strong capital will be the first to get the transaction activity going again.**

TOP TRANSACTIONS AND BUYERS

TOP 5 TRANSACTIONS BY VOLUME (2022, € MILLION) (*)

ASSET	SEGMENT	REGION	VOLUME	BUYER	PERIOD
659 BBVA bank branches + 3 office buildings	Retail	Various	1987.4	BBVA	Q2 2022
Resa Portfolio	Alternative	Various	820.0	PGGM	Q4 2022
BeCorp BTR Portfolio 2022	Residential	Barcelona	600.0	Patrizia	Q1 2022
King Street Serviced Apartments Portfolio	Residential	Madrid	310.0	Greystar	Q2 2022
381 Banco Santander Bank Branches	Retail	Various	297	Banco Santander	Q3 2022

Source: Catella Research.

(*) Share deal of GIC's purchase of a majority stake in the Sani/Ikos hotel group excluded

TOP 3 BUYERS BY VOLUME (2022, € MILLION)

BUYER	TYPE OF BUYER	ORIGIN OF BUYER	VOLUME	TRANSACTIONS
BBVA	Bank	Spain	1987.4	1
PGGM	Pension Fund	Netherlands	820.0	1
Patrizia	Fund	Germany	739.0	3

Source: Catella Research

CONTACTS

RESEARCH

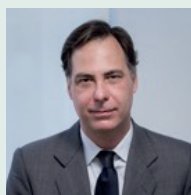


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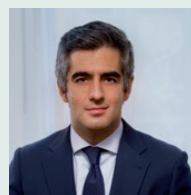


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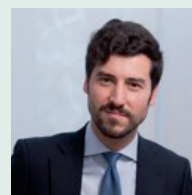
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