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Investment & Financing Keys

Spain 2021

Executive Summary

January 2021

Strategy and Transactions

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Contents (+150 pages):

1. **Macro economic** overview related to the office segment
2. **European office** market performance
3. **Spanish office** market understanding
4. **Madrid / Barcelona supply and demand analysis**
   - **New supply**
   - **Vacancy**
   - **Rents**
   - **Take-up**
5. **Office investment share** and transactions pipeline in Spain
6. **Office financing market** main drivers
7. **Detail of most active players** and key **financial terms** offered
8. **Emerging trends** within the office segment
9. **Office key investment factors**

To request the expanded edition, **please contact Javier García-Mateo**, email: Javier.Garcia-Mateo.Morales@es.ey.com, telephone number: +34 659 900 215

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1 Macro Overview

Lopsided recovery expected after COVID impact

2020-2021

- **GDP expected** growth: **+5.5%** (-12.8% 2020).
- **Unemployment rate** growing up 120bps **to 17%** in 2021.
- Exports will lead the recovery: **Current Account deficit -58% YoY.**
- **Tax burden peak**: Despite of the lower economic activity, tax income only fell 9%.
- **Lowest consumer confidence Index since 2013:** 60 bps.

2 Supply & Demand

- **Vacancy Rate** in Madrid (9.3%) and Barcelona (7.0%) **increasing** at a higher pace than expected.
- **New Supply & Refurbishments expected to be delayed** due to the current weak demand**.** 193,500 sqm recently delivered in 2020 in Madrid and Barcelona.
- **Take-Up** in Madrid and Barcelona **decreased by 42% and 58%** respectively.
- **The 49 projects under construction in BCN to be delivered between 2021 and 2023** will cause a negative impact on vacancy and average rental prices, mainly in 22@.
- **Prime submarkets.- Net effective rents leakage is widening progressively** despite headline rental prices proved resilient due to the low vacancy.

3 Office Properties Investment Market

- **EMEA** region represents **40%** of the worldwide Office Investment volume. **Office Investment in Europe grew by 38% in 2020 Q1 but shrank by 35% at year end due to global Pandemic.**
- Office Investment volume **decreased by 49% (-€2,100m YoY Var.) in Spain during 2020** and accounted for **28%** of the total non-residential Real Estate investment.
- The overall high valuation of non-prime office properties is the main reason of the lower investment activity from 2017 to 2020. **Value Added and Opportunistic investors still on the chase of price correction** to profit from the gloomy context.

4 Financing Activity

- **Spanish banks** forced to focus on business district transactions but still flexible to compete under the current circumstances.
- For **International banks** location is not a real issue as long as vacancy risk remains under control.
- **Borrowing cost** climbed slightly but no higher than 2017.
- **Alternative capital** providers eager to structure junior / mezzanine financing tranches.

5 Key Performing Indicators

Key Indicators by areas in 2021

		Madrid			Barcelona	
		Rent	Cap. Value		Rent	Cap. Value
CBD	Max. ▶	*38 (+2%)*	*15,200 (+14%)*	**CBD**	*26 (-12%)*	*10,400 (+2%)*
	Avg. ▶	*33 (-10%)*	*13,200 (+0%)*		*25 (-12%)*	*10,000 (+2%)*
	Min. ▶	*29 (-12%)*	*11,600 (-3%)*		*20 (-15%)*	*8,000 (+0%)*
DEC	Max. ▶	*17 (-5%)*	*3,709 (-6%)*	**22@**	*24 (+6%)*	*5,760 (+6%)*
	Avg. ▶	*13 (+4%)*	*2,713 (-15%)*		*23 (+7%)*	*5,520 (+4%)*
	Min. ▶	*10 (+6%)*	*2,000 (+4%)*		*16 (+4%)*	*3,840 (+3%)*

Rent *(€/sqm/mth) (YoY Var. %)* **Cap. Value** *(€/sqm) (YoY Var. %)*

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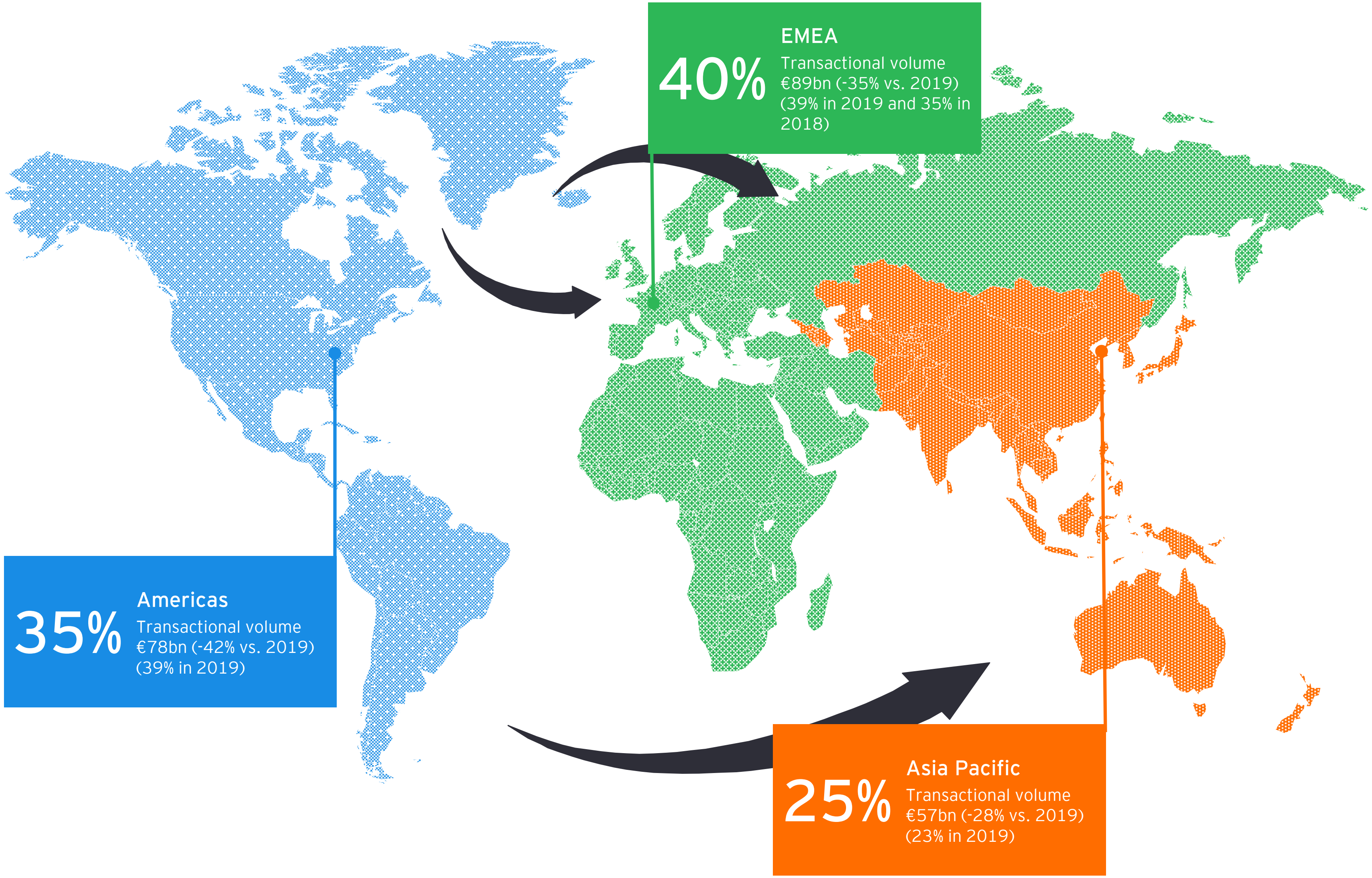
EMEA region, with **€89bn,** registered 40% of total international office investment.

Total **investment weight increased from 35% (2018) given the great refurbishment opportunity** of a highly obsolete stock.

Office Global Investment: The Big Picture

Despite a superb 1Q, **high uncertainty** resulted from the Covid-19 pandemic has dragged international investment **(€224bn) down by 36%** compared to 2019.



Source: RCA –Real Capital Analytics

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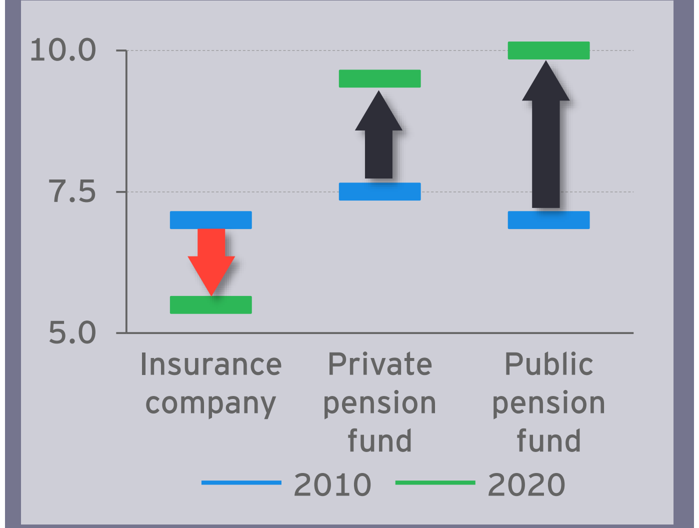
Avg. allocation to Real Estate investments (%)

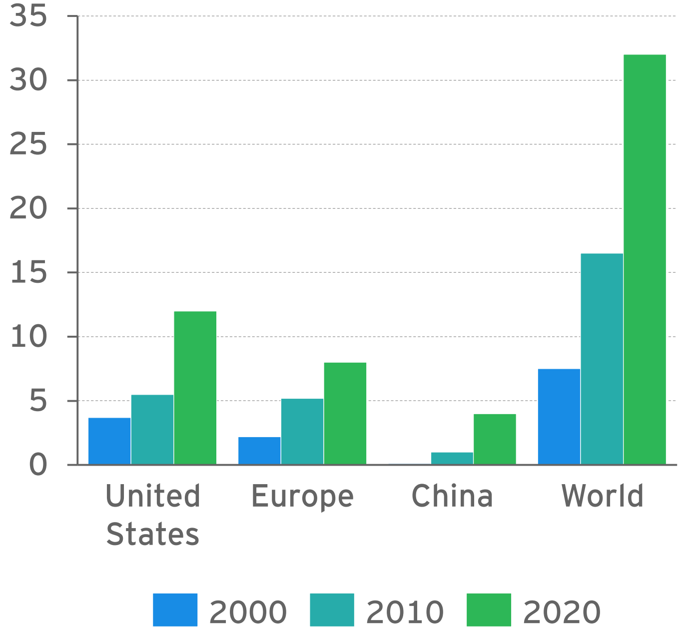


Low interest rates continue to force **low capital-costs players to reallocate their capital** into **real estate investments**

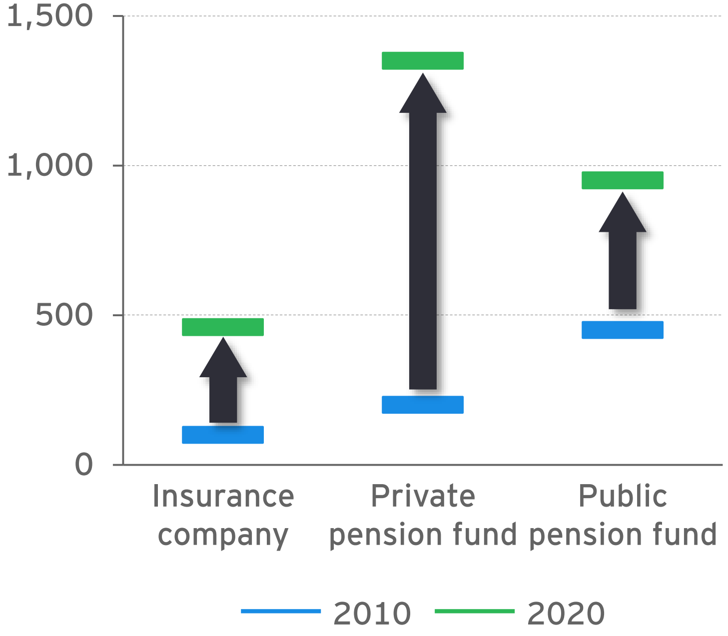
Rent seekers hungrier than ever

Investment allocation from **pension funds** is **gathering momentum**

Investible stock of commercial Real Estate ($trn)



Number of low capital-cost investors globally (#)



$32trn **Global investible commercial stock has quadrupled** in the past 20 years

Source: Prekin, Oxford Economics, third party Real Estate international consultants

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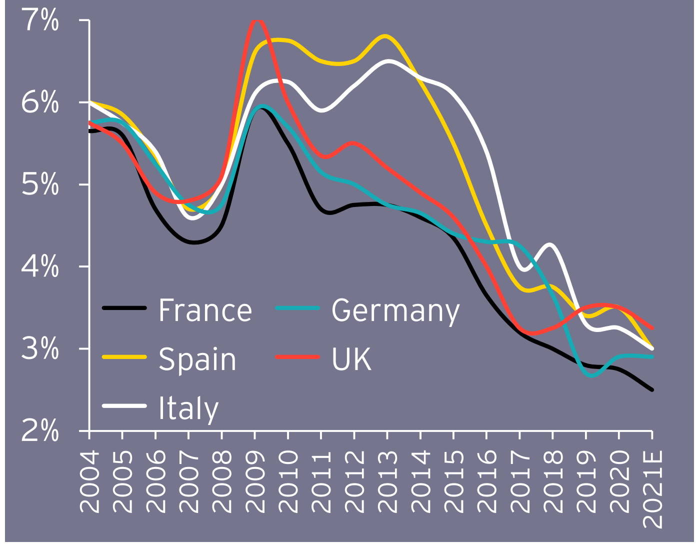
European Yield Chart (04-21E; %)

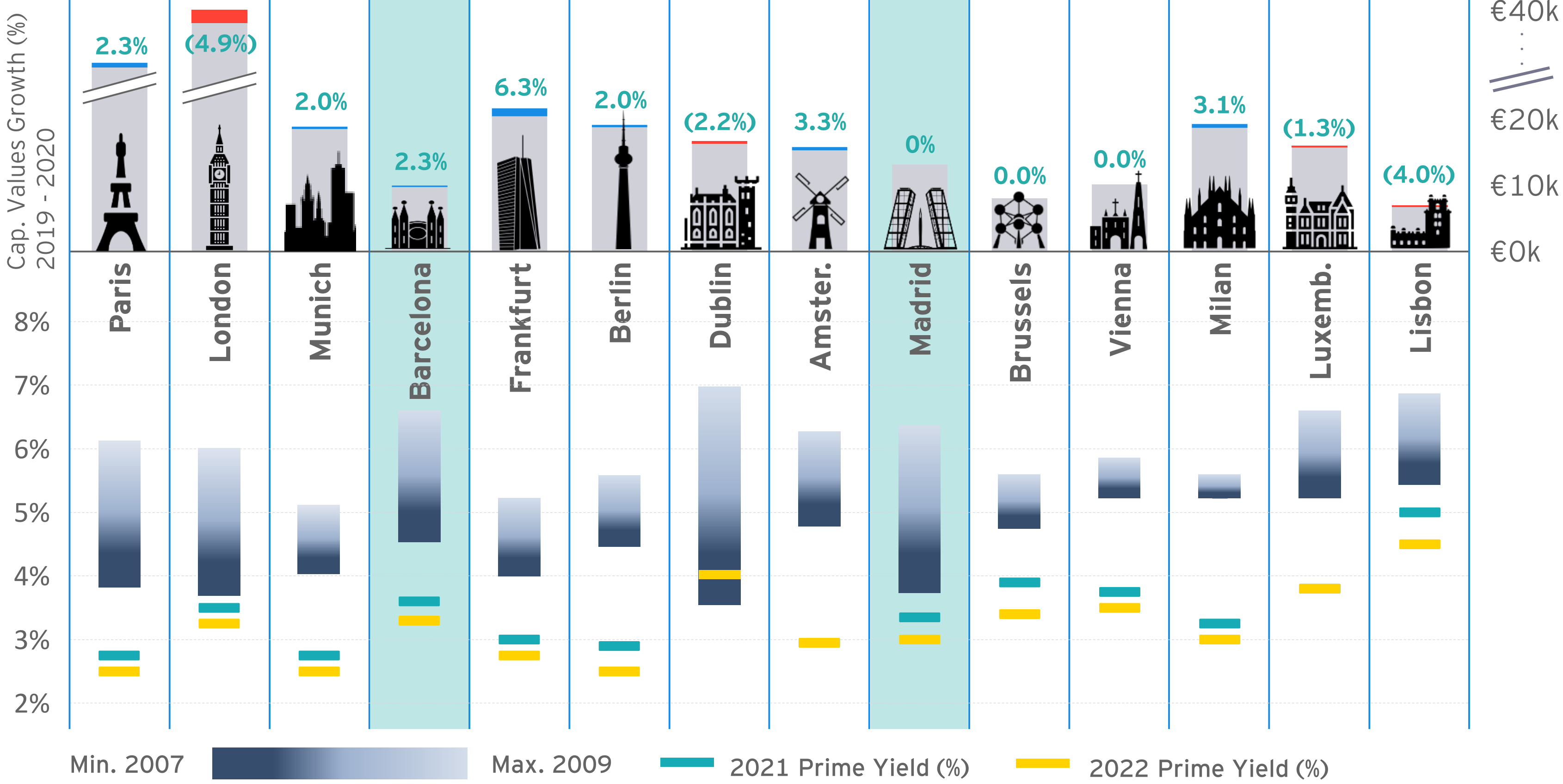


Europe has experienced an **overall yield decrease**, that has resulted in a considerable **increase in Capital Values**, while **rents start to wear out**

European Office Market Snapshot:

Capital values in MAD and BCN are still climbing since 2013.

	Paris	London	Munich	Barcelona	Frankfurt	Berlin	Dublin	Amster.	Madrid	Brussels	Vienna	Milan	Luxemb.	Lisbon
10 Year Bond (31st Dec. 2020)	(0.34%)	0.25%	(0.59%)	0.05%	(0.59%)	(0.59%)	(0.28%)	(0.49%)	0.05%	(0.39%)	(0.42%)	0.54%	n.a.	0.05%
Yield 2020 - Dif. 10 year bond	309 bps	325 bps	334 bps	295 bps	359 bps	349 bps	428 bps	344 bps	295 bps	429 bps	417 bps	271 bps	n.a	495 bps
Spread var. 19-20	▲ 41 bps	▲ 62 bps	▲ 54 bps	▼ 9 bps	▲ 59 bps	▲ 69 bps	▼ (18) bps	▲ 27 bps	▼ 9 bps	▲ 48 bps	▲ 148 bps	▲ 86 bps	n.a.	▲ 39 bps
2020 Capital Values (€/sqm)	32,143	38,229	18,588	10,000	20,509	18,824	16,375	15,333	13,200	8,077	10,200	18,750	15,789	6,776



Source: EY, Bloomberg

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European Top Buyers and Sellers
Last 24 months

Top 5 Buyers	Acq (€m)	Props.
Swiss Life AM	€ 4,770	59
Aroundtown	€ 4,246	312
Deka	€ 3,645	29
Commerz Real	€ 3,146	34
Allianz	€ 3,009	21

Top 5 Sellers	Acq (€m)	Props.
BNP Paribas	€ 3,518	34
TLG Immobilien AG	€ 3,298	305
Dream Global REIT	€ 3,275	127
UniCredit	€ 3,024	42
Tishman Speyer	€ 2,892	8

Source: RCA –Real Capital Analytics (excl. The Blackstone Group)

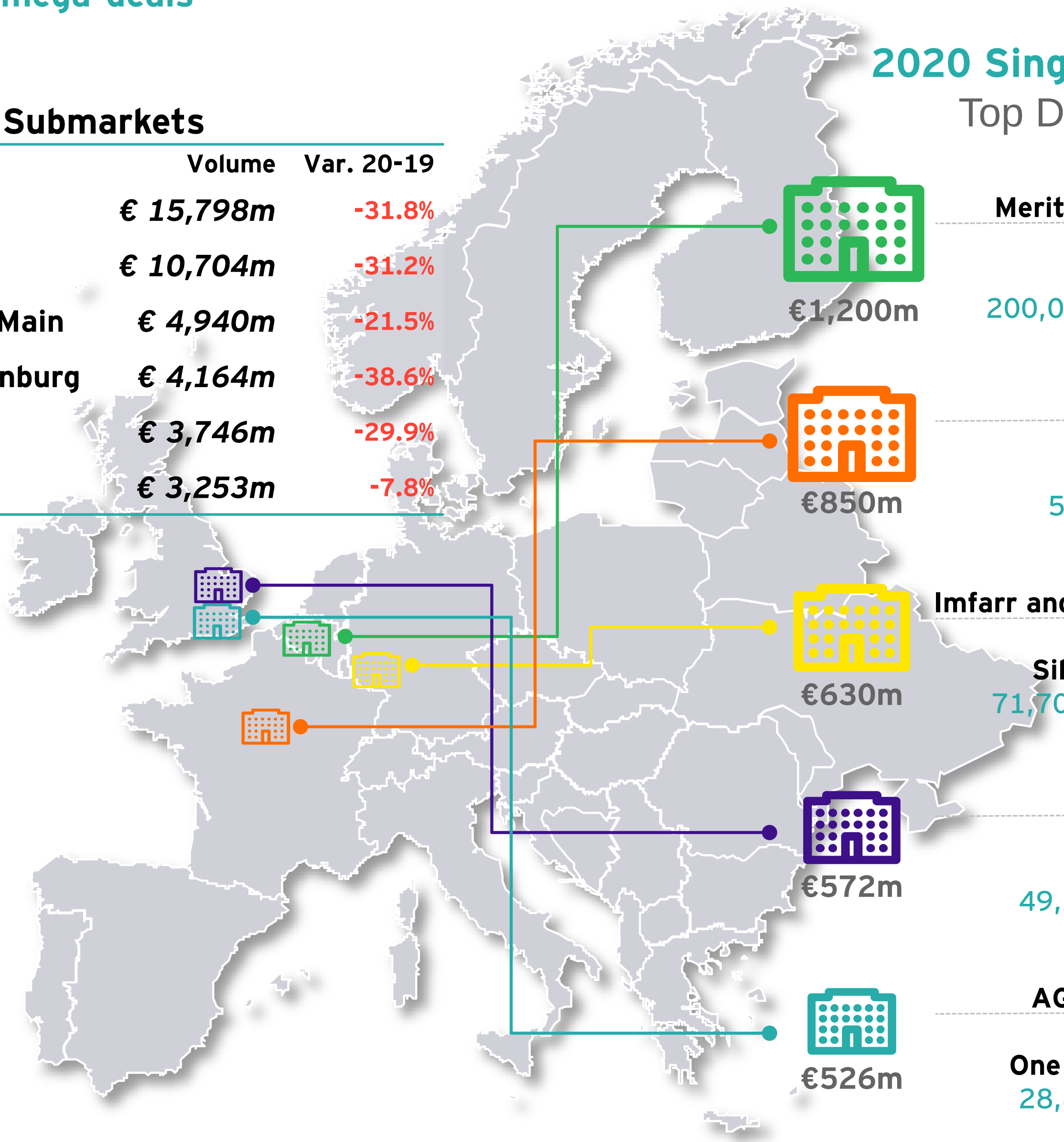
Investment activity in **European Office Properties** was **cut down to €89bn in 2020** (-35% compared to 2019) mostly driven by the high uncertainty resulting from Covid-19

Europe: Permanent capital leading the way

Despite the pandemic headwinds, **investors' appetite prevails** with several **mega-deals**

2020
Most Active Submarkets

	Volume	Var. 20-19
Paris	*€ 15,798m*	-31.8%
London	*€ 10,704m*	-31.2%
Frankfurt am Main	*€ 4,940m*	-21.5%
Berlin-Brandenburg	*€ 4,164m*	-38.6%
Rhine-Ruhr	*€ 3,746m*	-29.9%
Milan	*€ 3,253m*	-7.8%



2020 Single Asset
Top Deals

€1,200m
Meritz Securities Group acquired **Finance Tower**
200,000 sqm in Brussels

€850m
AFD Group acquired **Future AFD HQ**
50,000 sqm in Paris

€630m
Imfarr and SN Beteiligungen acquired **Silberturm Frankfurt**
71,706 sqm in Frankfurt

€572m
UniImmo acquired **Watermark Place**
49,236 sqm in London

€526m
AGC Equity Partners acquired **One London Wall Place**
28,800 sqm in London

Source: RCA –Real Capital Analytics

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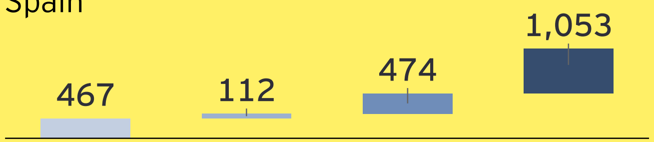
Top 10 Spanish investment deals:

#	Asset	Price (€m)	GLA (sqm)	Zones
1	Helios	185	34,999	OUT
2	Huawei	127	44,068	OUT
3	Carrer de Sancho de Avila	100	17,400	CBD
4	Future Ciudad de la Justicia	78	99,998	n.a.
5	Torre Ombú	70	13,141	CBD
6	WTC Almeda Park Phase II Bldg 7	60	24,999	OUT
7	SA65	57	8,300	CBD
8	Príncipe de Vergara, 108	52	7,324	CBD
9	Calle de Fray Luis de Leon 11	45	15,000	CBD
10	Manoteras 28	39	12,000	OUT

Total Office Investment Volume in Spain in 2020:
€2,150m

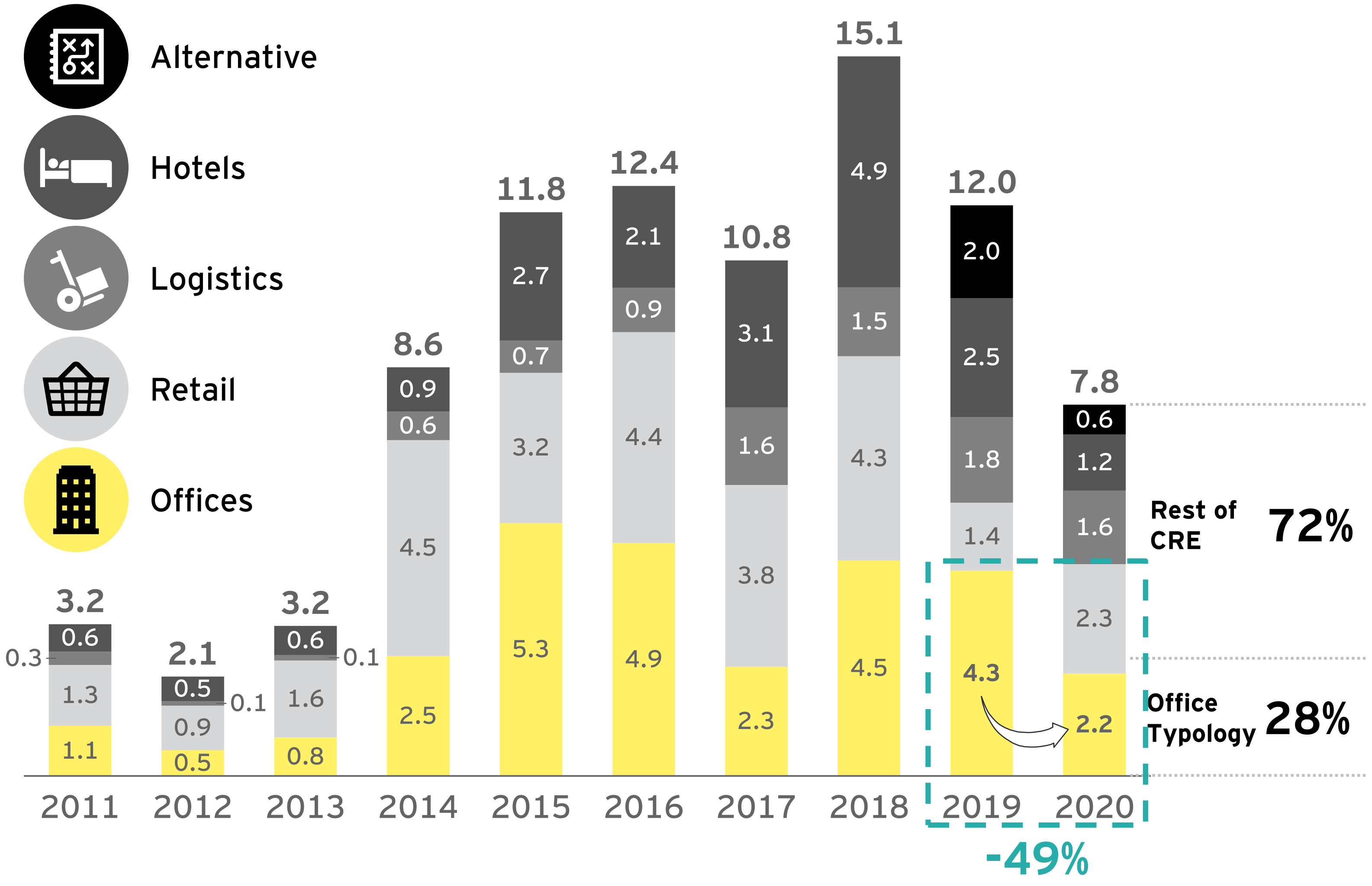
A total office pipeline investment volume of **€1,053m** expected to be transacted in Spain



Spanish Investment Market (CRE)

Investment volume in Office segment **decreased by 49%** due to the pandemic situation suffered during the year.

Total Investment Volume by Commercial Real Estate Asset Class (€bn)



Source: EY

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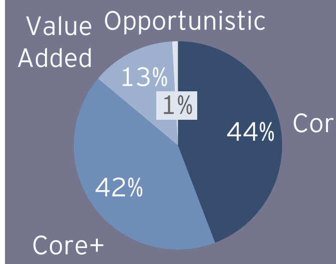
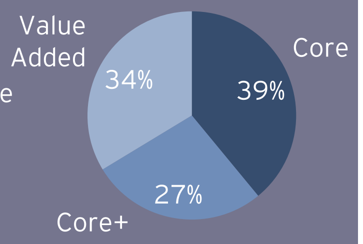
Investment by typology in 2020:

Madrid



	€m
Core	648
Core+	614
Value Added	191
Opportunistic	13

Barcelona



	€m
Core	226
Core+	158
Value Added	195
Opportunistic	0

Financing shortage has dragged higher risk transactions (**Value Add / Opportunistic**), representing less than **20% of total transacted volume**

Main Players:

More **room** for **value added** strategies.

Equity Out

Apollo, Blackstone, FREO, DWS, Gmp, CBRE Global Investors, Colonial, Shaftesbury, UBS, Merlin Properties, Tristan Capital Partners, Meridia Capital, Partners Group, Cain International, Liberbank, Naropa Capital, Grupo Rosales, Zurich

Debt

CaixaBank, BBVA, Santander, Crédit Agricole, Bank of America, Natixis, Deutsche Bank, ING

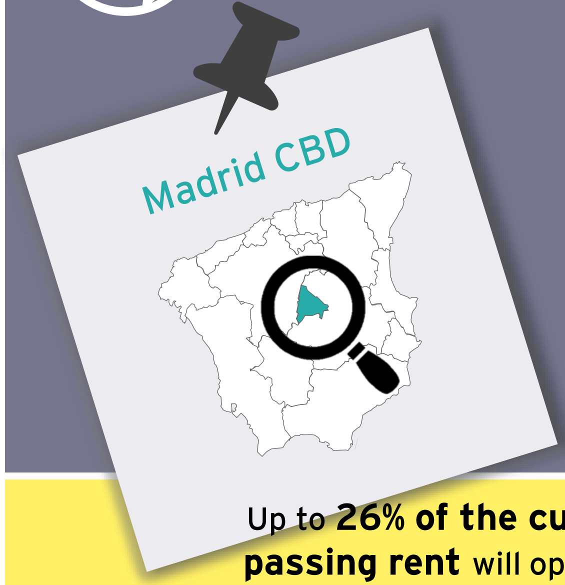
Equity In

UBS, Amundi Asset Management, Catella, Grosvenor, Aberdeen Standard Investments, gpf capital, mazabi, InmoCaixa, Tristan Capital Partners, Allianz, IBA Capital Partners, Zurich, Árima, AEW, Real I.S., Perial Asset Management, Partners Group, Swiss Life, Patrizia, Resource Capital Partners

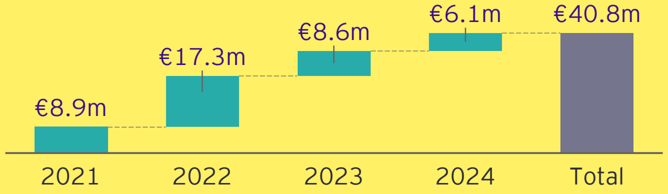
NPL / DPO

Lone Star Funds, cerberus, Waterfall Asset Management, Apollo, Bain Capital Credit, Värde, TildenPark, Fortress

Sample size corresponds to **6%** of total **CBD core inventory**



Up to **26% of the current passing rent** will optioned to break before 2023



ERV vs. Passing Rents *"GAP"* analysis: Madrid CBD: 2020 Q4

The difference between ERV and average passing rent in Madrid is **18%.**

Sample size:

202 Observations

314,197 sqm

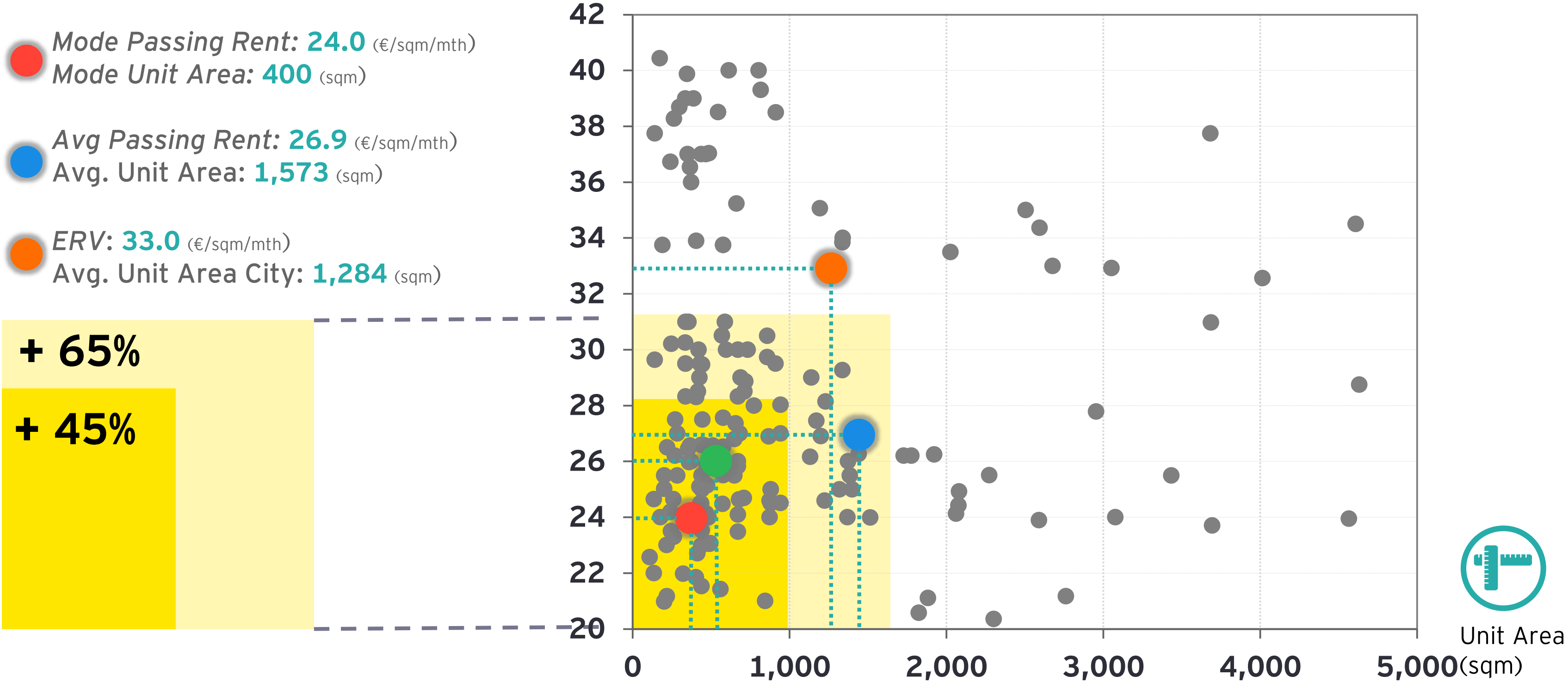
Average Weighted Passing Rent in Madrid is 26.9 €/sqm/mth while the ERV amounts to 33.0 €/sqm/mth

Median Passing Rent: **26.0** (€/sqm/mth)
Median Unit Area: **593** (sqm)

Mode Passing Rent: **24.0** (€/sqm/mth)
Mode Unit Area: **400** (sqm)

Avg Passing Rent: **26.9** (€/sqm/mth)
Avg. Unit Area: **1,573** (sqm)

ERV: **33.0** (€/sqm/mth)
Avg. Unit Area City: **1,284** (sqm)



Rent (€/sqm/mth) and Unit size (sqm) based on lease agreements in force signed in Madrid City

Source: EY

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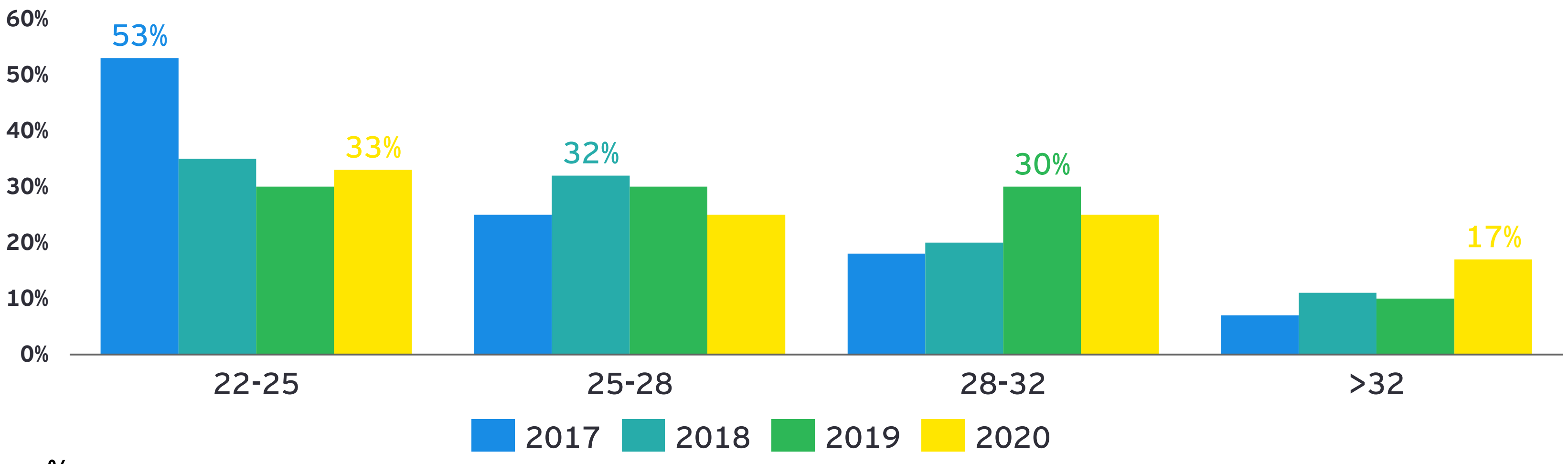
During 2020, **prime rents** (>32) have been the **biggest beneficiaries** representing **17% of total letting deals**

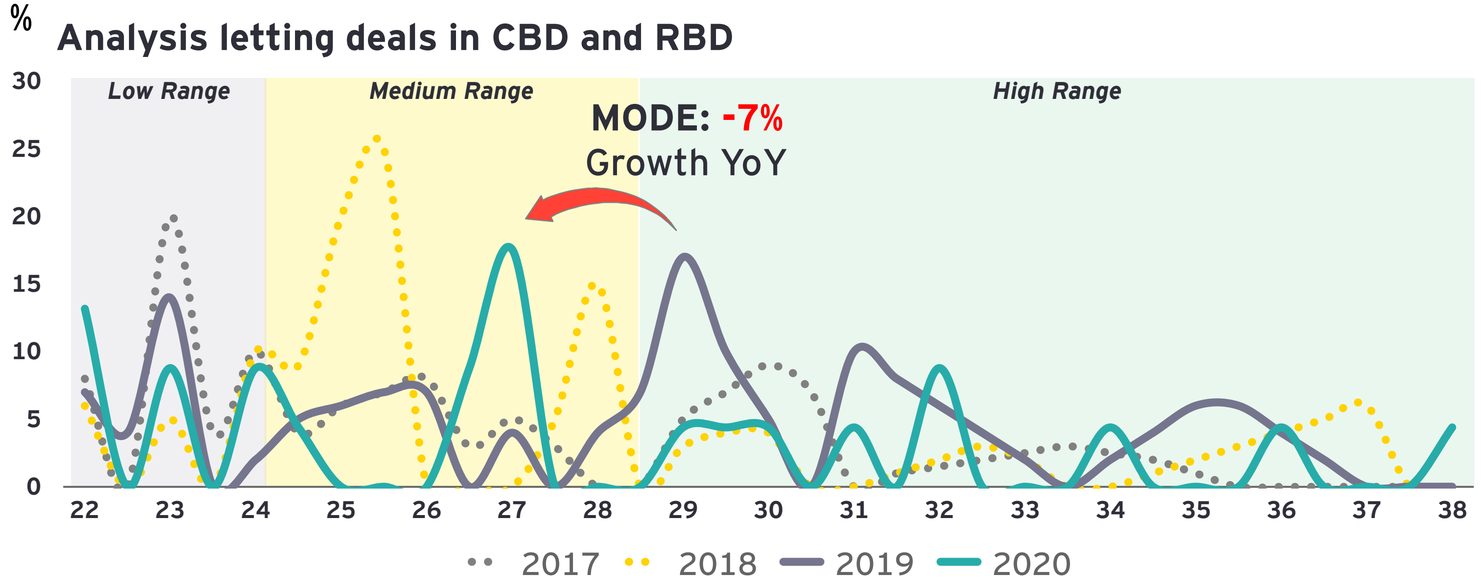
Madrid Letting Deals: Histogram 2017-2020

Number of letting deals according to the Rental Price interval

Analysis letting deals in CBD and RBD by rental ranges (%)



Analysis letting deals in CBD and RBD



Source: EY Analysis

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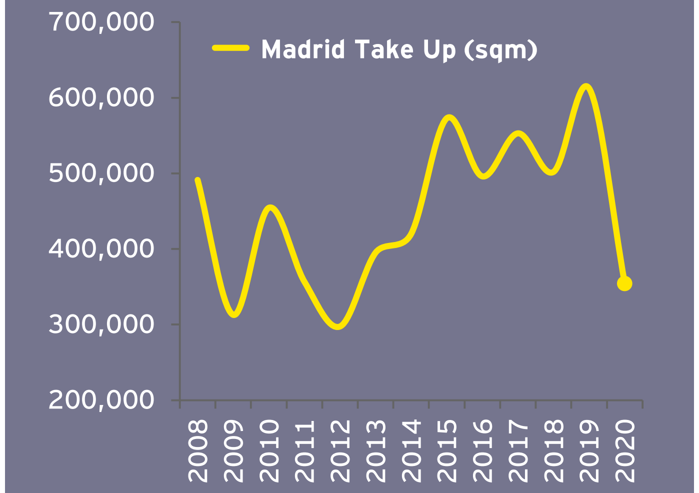
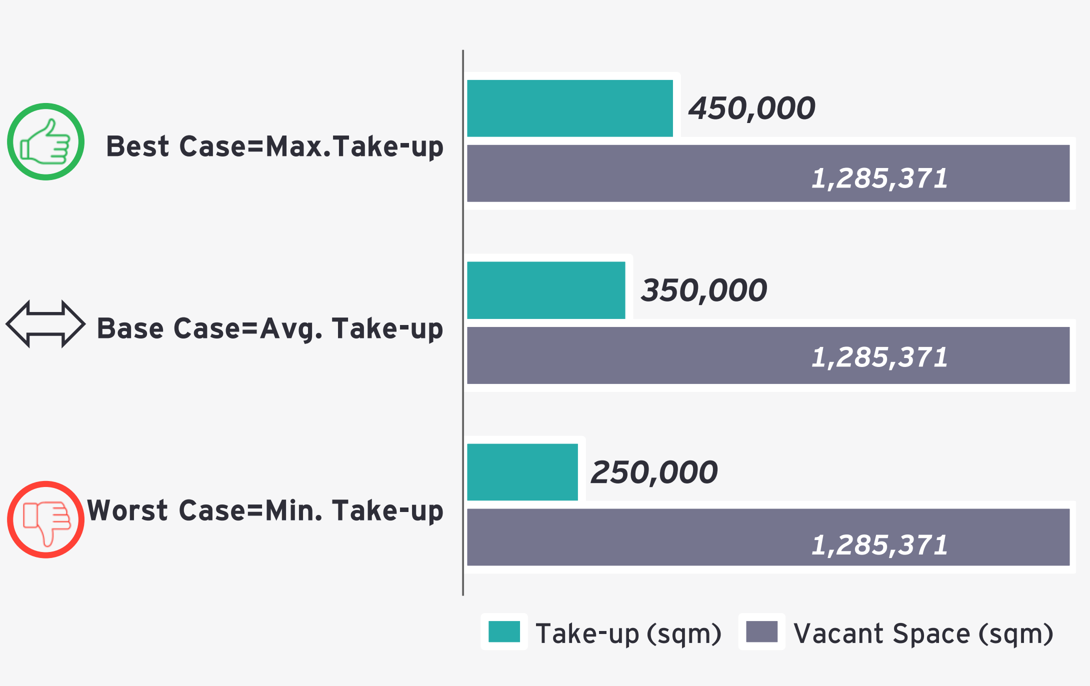
Madrid take-up evolution (sqm):



Current **vacancy** in Madrid stands at **c. 1.3m** sqm, which would take **between 6 and 18 years to absorb** at an average take-up rate

Madrid Vacancy – Chronic vacancy inventory to be repositioned (even with positive net take up)

In the **Base Case,** the office space in Madrid would be occupied in **6.1 years** (if considering 60% of net take-up). On the other hand, in the Base Case, **Madrid office Market** would need **18.4 years to take-up the vacant space**, considering as net, the 20% of the total take-up space.



Number of Years

Required to take-up the total vacant space*

4.8	7.1	14.3
6.1	9.2	18.4
8.6	12.9	25.7
60%	40%	20%*

Conversion ratio from gross Take-up to net Take-up

*Years that Market would need to occupy the total vacant space according to the take-up in the best, worst and average case of the last years, considering 60%, 40% and 20% of Net Take-Up

Source: EY Analysis

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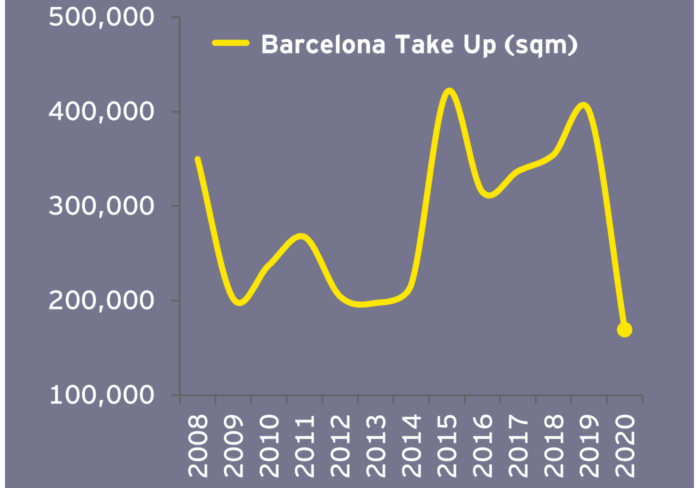
Barcelona take-up evolution (sqm):

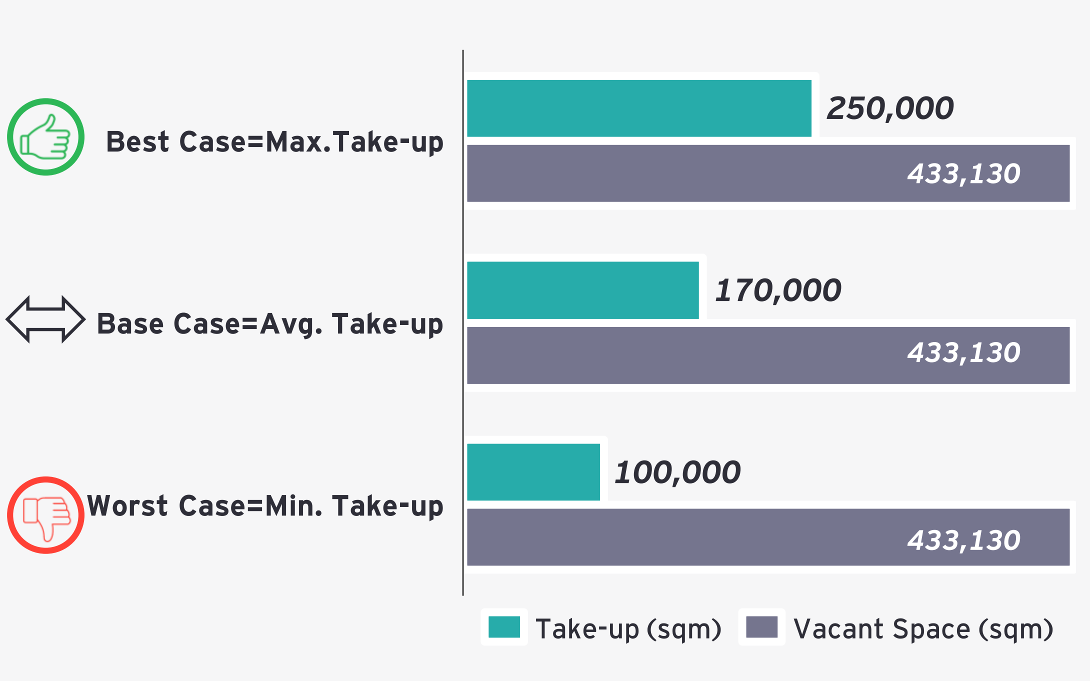


Current **vacancy** in Barcelona stands at **c. 0.4m** sqm, which would take **between 4 and 13 years to absorb** at an average take-up rate

Barcelona Vacancy- Same story

Barcelona maintains the sharp decline of take-up that occurred in Madrid in 2020 to just 170,000 sqm

In the **Base Case,** the office space in Barcelona would be occupied in **4.2 years** (if considering 60% of net take-up). On the other hand, in the Base Case, **Barcelona office Market** would need **12.7 years to take-up the vacant space,** considering as net, the 20% of the total take-up space.



Number of Years

Required to take-up the total vacant space*

2.9	4.3	8.7
4.2	6.4	12.7
7.2	10.8	21.7
60%	40%	20%

Conversion ratio from gross Take-up to net Take-up

*Years that Market would need to occupy the total vacant space according to the take-up in the best, worst and average case of the last years, considering 60%, 40% and 20% of Net Take-Up

Source: EY Analysis

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New Inventory 22 @ (2021 - 2023)

Building	GLA (sqm)	Delivery (year)
Selva de Mar 125	31,107	2021
Diagrame 22@	15,000	2021
Cristobal de Moura, 66	16,410	2021
Avda. Icaria, 213	32,000	2021
Álava, 111	17,294	2021
Almogavers	17,352	2022
Cristóbal de Moura	11,500	2022
Calle Almogavers, 162	9,000	2022
22 @ Mile Business Campus	30,160	2022
Balius	14,795	2022
Badajoz, 97	18,000	2022
Selva de Mar	30,958	2022
Calle Tánger	18,000	2023
Cristobal de Moura	30,770	2023
Parc Central (I & II)	43,930	2023

22@ concentrates **more than 20 projects** of new construction and refurbishments **in the next 3 years**

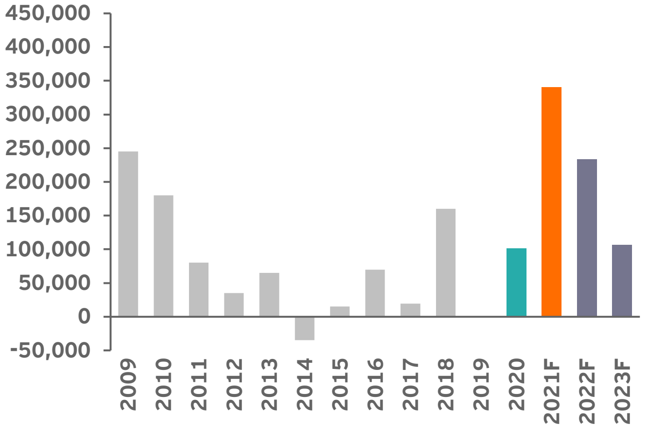
Barcelona - New inventory & Refurbishments Pipeline 2020-2023

New projects expected to be delay given the lack of pre-lets and financing shortfall for speculative developments.

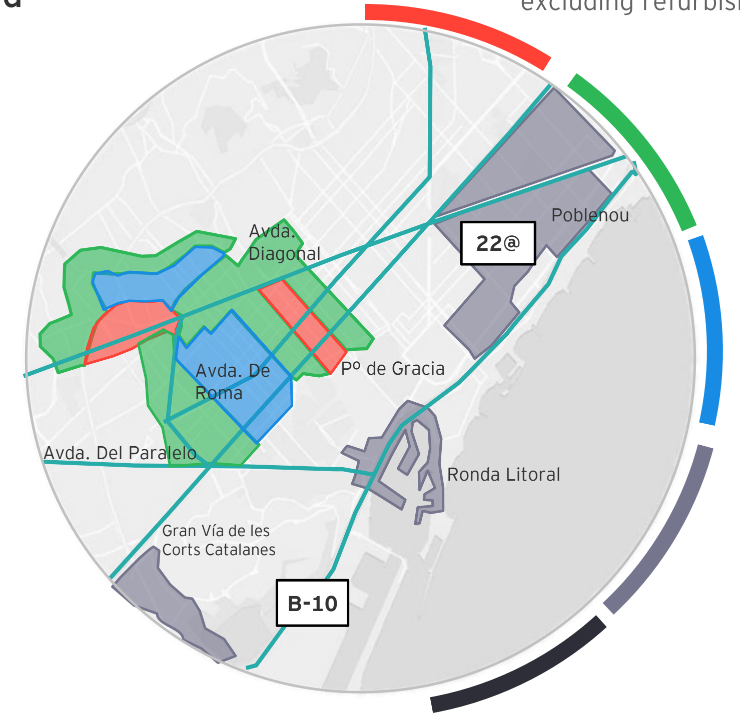
688,244 sqm GLA will be introduced within the next 3 years (2021 - 2023).

New Inventory trend 2009 - 2023 (sqm)*

*Excluding refurbishments



New Inventory trend 2020 - 2023
excluding refurbishments by areas:



New Inventory + Refurbishments in 2020 - 2023

14 New Projects in 2020
101,258 sqm delivered

\+

26 New Projects in 2021
400,811 sqm of potential GLA

\+

23 New Projects in 2022-2023
388,152 sqm of potential GLA

Source: EY Analysis

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MAIN DRIVERS FOR THE DECREASING LENDER APPETITE

MACROECONOMIC ENVIRONMENT:

- Strong GDP decrease.
- High uncertainty despite extended QE policy and low funding costs.

FINANCIAL SECTOR:

- Consolidation of main players.
- Stronger risk assessment from risk committees.

REAL ESTATE INVESTMENT MARKET

- Sustained low fixed rental income security yields imply a further compression of prime yields.

Financing constrains already starting to appear as the health crisis is impacting on the economy

Office Financing Market: Senior Loan Facilities

Yielding assets: Spanish banks more flexible to keep on competition

Main Conditions

	2016	2017	2018	2019	2020	2021
Framework	Financing Upturn				Financing Downturn	
Main Players	Banking / Insurance companies			+	Alternative lenders	
Upfront Fee	50-100 bps.	50-100 bps.	50-100 bps.	40-80 bps.	60-90 bps.	Prime 70-100 bps. Standard 100-115 bps.
Spread	125-200 bps.	125-175 bps.	105-175 bps.	100-150 bps.	105-170 bps.	Prime 115-170 bps. Standard 190-225 bps.
LTV(1)	30%-55%	40%-55%	40%-60%	50%-70%	40%-60%	Prime 40% Standard 55%
Balloon(2)	60%-100%	60%-100%	60%-100%	80%-100%	70%-100%	Prime 90%-100% Standard 45%-75%

(1) Sustainable LTV to face the debt service with high funding costs (A higher LTV will result in a larger debt service)
(2) Balloon need to cover the high funding costs during the loan's duration (a smaller balloon will result in a larger annual debt service).

Source: EY

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Other Financing Considerations

JUNIOR LOANS:

- Senior lenders open to blend with junior financing as long as most of debt service is picked.
- Cost: From 6% (all in) and above

BRIDGE LOANS:

- Terms - 8 months maximum
- Cost - Up to 200 Bps
- Corporate Guarantee / Share Pledge

Development loans:

- Sponsor Qualified
- Commercialization risk mitigated

Financing Market Trend.
How to make the most of the Bond Market?

Secured backed loans

Corporate financing

Corporate bonds

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Drivers of the increase in cross-border investment:

1 > Yielding Real Estate remains more attractive than Investment Grade Bonds

2 > Yield compressions expected to hold capital values despite rent decrease

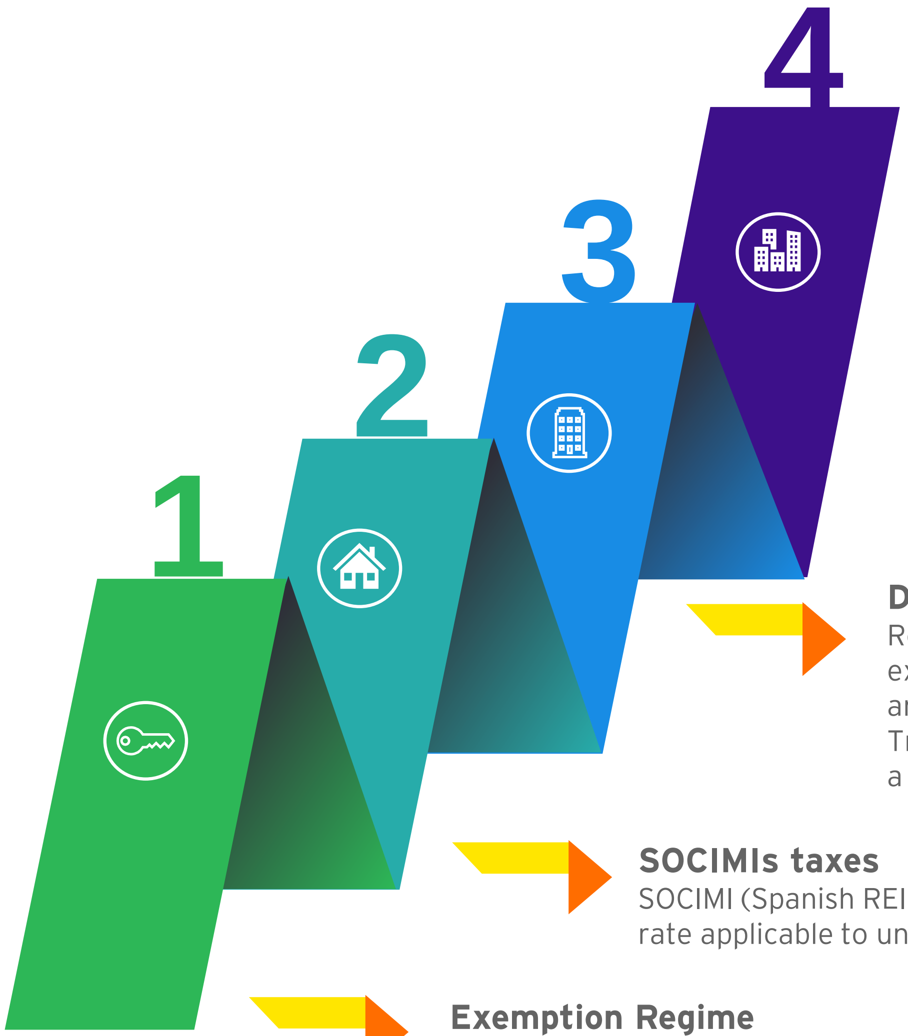
3 > Excess liquidity from institutional players vs. few market opportunities

4 > Fear to new restricting regulations motivates closing of transactions

Tax advisory **is key** to be **successful at exit**

A more defensive TAX environment:

BEPS are making an impact on **tax structuring strategies.**



Employees requirements
A full-time employee is recommended to ensure exemption on capital gains obtained in the sale of real estate entities devoted to leasing activities.

Double taxation
Rejection of (i) the domestic withholding tax exemption for dividend and interest payments, and (ii) the application of the relevant Double Tax Treaty ("DTT") to dividends and interests paid by a Spanish company to another EU Non-Resident.

SOCIMIs taxes
SOCIMI (Spanish REIT) will be taxed at a 15% (currently 0%) rate applicable to undistributed dividends.

Exemption Regime
The participation exemption regime for dividends and capital gains will be limited to 95% (currently 100%).

Source: EY

The Office Property Telescope

Spain 2020

WHAT IS NEXT?

The Office Property Telescope
Spain 2021

EXECUTIVE SUMMARY

COVID PUSHING TRANSFORMATION

The arrival of Covid-19 has accelerated digitalization of the office environment in order to adapt to:

Working from home

Virtual meetings

E-commerce

The **increasing reliance** on **"apps"** and other **technological platforms** in office buildings present a potential **gateway** for **cybersecurity breaches**

Offices 5.0

The office market incoming trends have created the term Office 5.0 which consider all the following points:

- DIGITAL TRANSFORMATION
- INNOVATION IN DESIGN
- FLEXIBILITY
- CO-WORKING
- RESTING AREAS
- WORK APPS
- HOME OFFICE
- CYBER SECURITY

Building a better working world

The Office Property Telescope

Investment & Financing Keys

Spain 2021

Executive Summary

January 2021

Strategy and Transactions