**Executive Summary**

**Market Overview**

**Strong growth but some uncertainties remain 2017-2018**

- **GDP growth:** +3.1% 2017 (+2.5% 2018F)
- **Unemployment rate (2017)** decreasing by 11.0% (CAGR) since 2013.
- **Exports growth:** +3.0% YoY Var.
- **Increase in Business Confidence Index:** +3.0% (Q4 16 – Q4 17)
- **Creation of Companies Index:** +1.5% in YoY Var. The performance of the different region-cities has been heterogeneous.

**Office Investment Market**

- **EMEA region represents 35%** of the worldwide Office Investment volume. **Office Investment in Europe grew by 9% in 2017.**

<table>
<thead>
<tr>
<th>Area</th>
<th>Rent (€/sqm/mth)</th>
<th>Cap. Value (€/sqm)</th>
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<tbody>
<tr>
<td>Madrid</td>
<td>36 (+3%)</td>
<td>13,292 (+5%)</td>
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<tr>
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<td>30.5 (+5%)</td>
<td>10,457 (+13%)</td>
</tr>
<tr>
<td>Min.</td>
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**Office Space**

- **Vacancy Rate** in Madrid (10.2%) and Barcelona (7.9%) decreasing at a lower pace than expected.
- **New Supply & Refurbishments continues to increase.** 236,000 sqm recently delivered in 2017 in Madrid and Barcelona.
- **Take-Up** in Madrid and Barcelona **increased by 11% and 7%, respectively.**
- **BCN take-up** in Q4 2017 decreased in YoY var. However, take-up figures in H2 2017 are in line with take-up reached in H2 2016.
- **Thanks to public sector (Government) Madrid take-up grew in 2017.** This segment accounted for 14% of total annual take-up in the city.
- **Prime Rent is experiencing a positive trend** Both face rents and net effective rents improved in CBD.

**Financing Activity**

- **German lenders are back and expect** to take the lead for low LTVs senior loan facilities.
- **Spanish banks forced to move towards value added financing.**
- **More lenders** capable to act as bookrunners in 2018.
- **Borrowing cost reached its lowest point since 2007.**
- **Alternative capital** providers eager to structure junior or mezzanine financing tranches.

**Key Investment Indicators by areas in 2017**

<table>
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Europe has experienced a global yield compression since 2013 and now, which has resulted in significant increases in Capital Values, apart from the effect that other market factors could have had such as the trend in rent.
Executive Summary

4% of the Total Office Investment
of the analysed countries

Spain 4%
Sweden 3%
Norway 3%
Belgium 3%
Russia 2%
Switzerland 2%
Poland 2%
Ireland 2%
France 18%
Netherlands 7%
Italy 6%

Source: Deloitte

European Investment Office Market:
Transactions in Spain have not been relevant within Europe in 2017.

Spain 2018

TORRE GLORGES
(#87 in European Deals Ranking)

Source: Deloitte
EXECUTIVE SUMMARY

European Investment Office Market
Spain (€2,295m) accounted for 4% of total European Office Investment.

Top 5 deals per country (France, UK, Germany) amount to €6,471m (2017).

European Yields (2017):

<table>
<thead>
<tr>
<th>Country</th>
<th>Prime Yield 2017</th>
<th>Minimum last 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>3.15%</td>
<td>3.15%</td>
</tr>
<tr>
<td>Germany</td>
<td>3.75%</td>
<td>3.75%</td>
</tr>
<tr>
<td>UK</td>
<td>3.50%</td>
<td>3.25%</td>
</tr>
<tr>
<td>Belgium</td>
<td>4.75%</td>
<td>4.75%</td>
</tr>
<tr>
<td>Spain</td>
<td>3.50%</td>
<td>3.75%</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.50%</td>
<td>3.50%</td>
</tr>
<tr>
<td>Italy</td>
<td>3.50%</td>
<td>3.50%</td>
</tr>
</tbody>
</table>

Source: Deloitte

For more information see CHAPTER 4 (Key Investment and Financing Drivers) in the full report.

---

# Country  | Asset                | GLA (sqm) | Purchase Price (€M) | Buyer                                         | Vendor                      |
1    France | Coeur Defense        | 175,362   | 1,800               | Primonial REIM, Predica CA Assurance             | Lone Star                   |
2    United Kingdom | 20 Fenchurch Street | 62,336    | 1,433               | Lee Kum Kee                                    | Morgan Stanley, Landsec, Brookfield A |
3    United Kingdom | Leadenhall Building | 56,669    | 1,363               | C C Land Hidgs                                 | British Land, Oxford Properties Group |
4    Germany | Sony Center          | 132,496   | 1,100               | Madison International, Oxford Prop.             | Hines, NPS                  |
5    Germany | Tower 185            | 100,410   | 775                 | Deka Immobilien                                 | WPV, CA Immo Deutschland     |
6    Germany | Commemerzbank Tower  | 85,501    | 730                 | EDF, Credit Agricole Assurances                 | Beni Stabili SpA            |
7    Italy    | Telecom              | 1,099.73  | 617                 | Patrizia, Samsung SRA                          | Commerz Real                |
8    United Kingdom | Cannon Place | 38,851    | 571                 | Deka Immobilien                                 | Candar Finance SARL, Hines   |
9    France  | Duo - Office & Retail | 69,998   | 571                 | Natixis                                        | Hines, Ivanhoe Cambridge     |
10   France  | Window               | 44,199    | 500                 | Hines, Oxford Properties Group                 | Groupama Gan REIM           |
11   France  | So Ouest Plaza       | 40,999    | 474                 | Hyundai M&F Insurance, Vesas Inv.              | Unibail-Rodamco             |
12   United Kingdom | 20 Canada Square | 51,560    | 469                 | Cheung Kei Group                               | Brscan RE Opportunity Fund  |
13   United Kingdom | Principal Place      | 57,691    | 447                 | ENPAM, Antrion                                 | Brookfield Prop Prtnrs       |
14   France  | In/Out               | 34,999    | 445                 | Primonial REIM, Primopierre SCPI               | Societe Fonciere Lyonnaise  |
15   United Kingdom | One Rathbone Square | 24,897    | 436                 | DekaBank                                       | Great Portland Estates       |
16   Germany | German Commercial Portfolio | 23,499  | 430                 | Confidential                                   | Confidential                 |
17   Germany | Axel-Springer-Campus | 52,199    | 425                 | Norges Bank (NBIM)                             | Axel Springer                |
18   United Kingdom | Winnersh Triangle   | 139,350   | 397                 | Frasers Centrepoint                            | Patrizia, Oaktree            |
19   France  | Vivacity             | 24,499    | 365                 | Amundi                                         | Blackstone                   |
20   United Kingdom | 2-3 Bankside         | 35,116    | 355                 | grundbesitz europa (RREEF)                      | M&G Real Estate              |

| #  | Country | Asset            | GLA (sqm) | Purchase Price (€M) | Buyer                                              | Vendor                       |
79 | Spain   | Boston Portfolio BBVA (14.a) | 116,000  | 159                 | Oaktree and Free                                  | BBVA                         |
83 | Spain   | Fifth Tower (Caleido Tower) | 69,998   | 150                 | Megaworld Corporation                             | Grupo Villar Mir             |
87 | Spain   | Glories Tower     | 29,999   | 142                 | MERLIN Properties                                 | Agbar Group                  |
129 | Spain  | Isla de Chamatrin | 38,133   | 103                 | Tristan Capital Partners, Zaphir GrouLone Star    | Sharpe Group                 |
149 | Spain   | Luxa Barcelona   | 16,414   | 90                  | Grupo Catalana Occidente                          | 1810 Capital Investments, Castellvi |

Source: Deloitte
EXECUTIVE SUMMARY

European Investment Office Market: Capital Allocation Matrix: The “Classics” are not anymore attractive as long as “cash on cash” approach is the goal still...

### Representative Sample

<table>
<thead>
<tr>
<th>City</th>
<th>Prime Rent 2017</th>
<th>Capital Value 2017</th>
<th>GDP Growth 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Madrid</td>
<td>30.5</td>
<td>10,457</td>
<td>3.1%</td>
</tr>
<tr>
<td>Barcelona</td>
<td>22.5</td>
<td>7,200</td>
<td>3.1%</td>
</tr>
<tr>
<td>Oslo</td>
<td>40</td>
<td>12,800</td>
<td>3.5%</td>
</tr>
<tr>
<td>Stockholm</td>
<td>57</td>
<td>19,600</td>
<td>2.9%</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>34.5</td>
<td>10,350</td>
<td>3.2%</td>
</tr>
<tr>
<td>Lisbon</td>
<td>20.5</td>
<td>4,932</td>
<td>2.5%</td>
</tr>
<tr>
<td>Vienna</td>
<td>28</td>
<td>8,615</td>
<td>3.5%</td>
</tr>
<tr>
<td>Helsinki</td>
<td>35.5</td>
<td>10,400</td>
<td>3.0%</td>
</tr>
<tr>
<td>Zurich</td>
<td>62.5</td>
<td>21,500</td>
<td>1.1%</td>
</tr>
<tr>
<td>Milan</td>
<td>42.5</td>
<td>14,570</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

### Quadrant Explanation

| Overweight (Lack of product) | Cash-Cow (To yield) | Underweight (Structural Oversupply) |

### Source
Source: Deloitte RE, Bloomberg
EXECUTIVE SUMMARY

Top 10 Spanish deals:

<table>
<thead>
<tr>
<th>#</th>
<th>ASSET</th>
<th>PRICE (€m)</th>
<th>GLA (sqm)</th>
<th>ZONES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Boston Portfolio BBVA</td>
<td>159</td>
<td>116,000</td>
<td>n.a.</td>
</tr>
<tr>
<td>2</td>
<td>Torre Caleido (5ª Torre)</td>
<td>150</td>
<td>69,998</td>
<td>CBD</td>
</tr>
<tr>
<td>3</td>
<td>Torre Glories</td>
<td>142</td>
<td>29,999</td>
<td>DEC</td>
</tr>
<tr>
<td>4</td>
<td>Isla Charmartin</td>
<td>103</td>
<td>36,133</td>
<td>DEC</td>
</tr>
<tr>
<td>5</td>
<td>Luxa Barcelona</td>
<td>90</td>
<td>16,414</td>
<td>DEC</td>
</tr>
<tr>
<td>6</td>
<td>Banco Popular</td>
<td>80</td>
<td>4,000</td>
<td>CBD</td>
</tr>
<tr>
<td>7</td>
<td>Mapfre</td>
<td>72</td>
<td>14,424</td>
<td>RBD</td>
</tr>
<tr>
<td>8</td>
<td>Agencia Tributaria de Cataluña</td>
<td>65</td>
<td>8,126</td>
<td>RBD</td>
</tr>
<tr>
<td>9</td>
<td>Palacio de Miraflores</td>
<td>60</td>
<td>7,132</td>
<td>RBD</td>
</tr>
<tr>
<td>10</td>
<td>Bank Offices</td>
<td>56</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Total office investment volume in Spain at 2017: €2,295m

Spanish Investment Market (CRE)
Investment volume in Office segment decreased by 53% due to the higher prices requested by Sellers.

- A total office pipeline investment volume of €3,588m is expected to be transacted in Spain.
Office market behaviour in 2017 is still considered as Bull Market, where prices paid by investors are above the theoretical Capital Values. This trend has been specially seen in buildings with long-term lease agreements and high end tenants.
EXECUTIVE SUMMARY

Recovery of Business Confidence indicators is having a progressive, but limited impact on average rental.

As take-up increased, vacant space reduced and as a consequence, Rent has increased during the recent years, specially in CBD.

For more information see CHAPTER 2 (Supply & Demand) with the full rental market analysis based on Deloitte Database.

Source: Deloitte
The lease contracts have responded positively to the market momentum, particularly in CBD, where the vacant space in quality buildings strongly decreased during the recent years.

**THE KEY FOR SUCCESS**

- **CONNECTION TO THE ASSET MANAGEMENT**
- **DESIGN**
- **SUSTAINABILITY**
- **CONNECTION TO THE END USER**

**EXECUTIVE SUMMARY**

**Standard lease terms generally accepted**

Landlords decrease incentives overall

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract Duration (years)</td>
<td>5 (Break option 3rd Year) (1)</td>
<td>5 (Break option 3rd Year) (1)</td>
<td>5 (Break option 3rd Year) (1)</td>
<td>5 (Break option 3rd Year) (1)</td>
</tr>
<tr>
<td>Space leased by companies per employee (sqm/employee)</td>
<td>13-14 (sqm/employee)</td>
<td>12 (sqm/employee)</td>
<td>10 (sqm/employee)</td>
<td>10 (sqm/employee)</td>
</tr>
<tr>
<td>Average space leased by companies (sqm)</td>
<td>912/638 (sqm) (2)</td>
<td>919/748 (sqm) (2)</td>
<td>853/560 (sqm) (2)</td>
<td>978/857 (sqm) (2)</td>
</tr>
<tr>
<td>Average Rent Free Period (months)</td>
<td>4 (months)</td>
<td>4 (months)</td>
<td>3 (months)</td>
<td>2-3 (months)</td>
</tr>
<tr>
<td>Transfer of Property Tax and Community Charges to the tenant</td>
<td>80-100 %</td>
<td>100 %</td>
<td>100 %</td>
<td>100 %</td>
</tr>
</tbody>
</table>

(1) Break option Year depending on the size of the company. For Companies >1,000 – 1,500 sqm, the regular mandatory period is 5 years.
(2) Average Space leased by companies in MADRID / BARCELONA

Source: Deloitte
EXECUTIVE SUMMARY

MAIN DRIVERS FOR THE INCREASING LENDER APPETITE

MACROECONOMIC ENVIRONMENT
- Fundamentals improvement
- Monetary Policy: QE, low funding costs, etc.

FINANCIAL SECTOR
- Restructuring of the Financial Sector
- P&L reconstruction

REAL ESTATE INVESTMENT MARKET
- Excess of Liquidity: Increase in transactions
- Entry of new sponsors
- Alternative to the fixed income / bond yields

FINANCING MARKET

Yielding assets: General improvement of the basic terms

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTV</td>
<td>&lt;40%&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>30%-40%</td>
<td>30%-50%</td>
<td>30-55%</td>
<td>40-55%</td>
</tr>
<tr>
<td>Spread</td>
<td>250-300pbs</td>
<td>200-250pbs</td>
<td>150-200pbs</td>
<td>100-175pbs</td>
<td>100-175pbs</td>
</tr>
<tr>
<td>Upfront Fee</td>
<td>200-250pbs</td>
<td>150-200pbs</td>
<td>75-150pbs</td>
<td>50-100pbs</td>
<td>70-150pbs</td>
</tr>
<tr>
<td>Upfront Fee</td>
<td>200-250pbs</td>
<td>150-200pbs</td>
<td>75-150pbs</td>
<td>50-100pbs</td>
<td>70-150pbs</td>
</tr>
<tr>
<td>LTV</td>
<td>70%&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>60%</td>
<td>80%-100%</td>
<td>80%-100%</td>
<td>60%-100%</td>
</tr>
</tbody>
</table>

Development loans: Regular lenders are returning to the market
Senior Debt Yielding assets: 2018 more and more competitive

Source: Deloitte

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

“Core” topologies still accounted for 77% in 2017:

Main Players:
More room for Value added strategies

Equity

Debt

Debt NPL

Source: Deloitte

The Office Property Handbook 3.0
Spain 2018
A more defensive tax environment

**EXECUTIVE SUMMARY**

- **Drivers of the increase in cross-border investment:**
  1. Yielding Real Estate is still more attractive than Investment Grade Bonds
  2. Yield compression in most of the countries led to a significant growth of capital values
  3. Accessibility to credit and more attractive financing conditions
  4. Political and financial uncertainty in certain regions of Europe, but markets still responding well.

**Withholding taxes**
Reinforced substance at platforms as to facilitate dividend WHT. Back-to-back borrowing to be avoided

**Funding structure**
More conservative funding structures with SHLs duly supported by complete TP documentation

**Business rationale**
Ongoing monitoring and support of tax benefits being proportionate to business reasons deriving from the structure

**Substance concentration**
Simplification of holding structures as a way to concentrate substance. Creation of investment platforms with qualified personnel and substance
WHAT IS NEXT?
EXECUTIVE SUMMARY

The office market incoming trends have created the term office 3.0 which consider all the following points:

HOW MUCH COST TO BE UPDATED?

Change of layout and installations
- HIGH STANDARDS – 850€/sqm
- AVERAGE STANDARDS– 625€/sqm
- LOW STANDARDS – 400€/sqm

Furniture and office equipment
- 150-250€/sqm

IT / Audiovisual / Security Systems
- 150-300€/sqm

Professional fees
- 13-18%

Apart from the physical component of the offices technology and particularly “apps” are disrupting the way we work improving the productivity of employees and reducing the enterprises costs.

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