

Deloitte.

Financial Advisory | Real Estate

The Office Handbook 5.0 Investment & Financing Keys Spain 2020

February 2020

Executive Summary



1 Main Economic Drivers

“Spain's growth was affected by the activity of the global economy. The country grew at a lower pace than 2018 reaching **2% growth and outperforming the European average**. This was reflected in a **modest employment growth** and a **loss in business confidence index**.

2 KPIs: Europe & Spain

“Most of the **European cities** are experiencing an **upward trend in terms of lease and investment indicators**. The expansionary monetary policy has helped to push yields to minimum levels, excluding UK affected by the Brexit.

3 Lease KPIs: Supply & Demand in Madrid

“**Take-up increased** by 16% YoY var. due to the presence in the market of **unusual large deals**. **Vacancy rate** remains on a **downward trend**, this has increased prelet levels. There is still room for **rental growth** in grade A buildings located in consolidated micromarkets.

4 Lease KPIs: Supply & Demand in Barcelona

“Barcelona is consolidated worldwide as an **European IT hub**, it is getting **robust lease indicators**. Vacancy rate keeps decreasing, standing at 5.2% which is considered technically full occupancy, while take-up has reached one of the highest figures. These facts have led to a **record of investment volume**, standing at €1,700m.

5 Investment & Financing Market

“Despite the lack of attractive product for sale, **investment volume is aligned** with the past two years, without taking into consideration corporate deals. It is expected a slight moderation in the investment volume during 2020. **Active Financing Market** in terms of number of transactions. Financial terms and conditions range remain stable, with sponsors gaining negotiation power.

6 Market Incoming Trends

“**Technology** evolution is changing our lifestyle with a direct **impact on workplace**. Artificial Intelligent will reorganized the space requirements, in this way flexible spaces are gaining momentum.

What is next: Amenities and wellness initiatives are key for attract and retain talent, and improve the efficiency of the employees.

1 Main Economic Drivers



The Spanish economy has been **growing at a faster rate** than the European average for five years reaching **2% growth in 2019**.

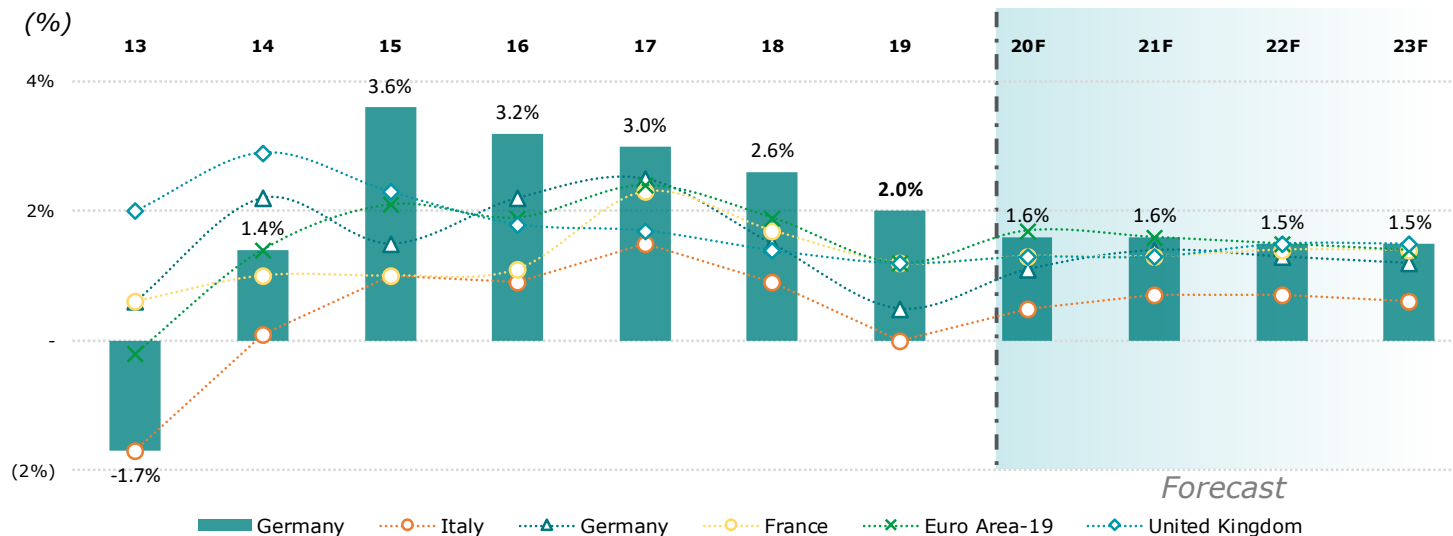
The **global economy** is going through a period of **uncertainty** with the **China-USA trade war** and **Brexit's consequences** as main concerns.

Unemployment rate decreased to **13.8% in 2019**. Figures are still above the European levels standing at 6.3% on average.



Spanish Economic Fundamentals: GDP

GDP YoY Variation (%)

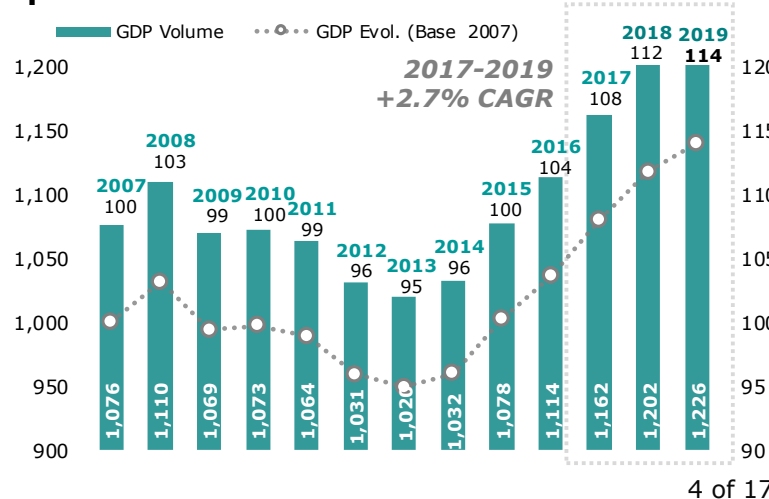


“ The slow down of the global economic is already affecting Spain's growth. The country grew at lower pace than 2018 reaching 2% growth.

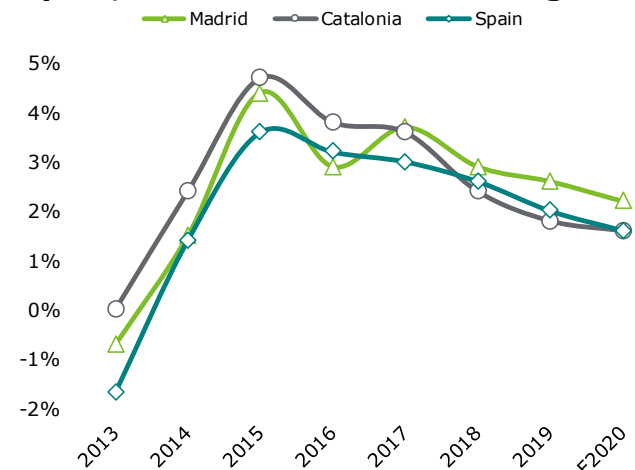
In a context of European slowdown economy, **Spain** remains as one of the **leading economies.**

The lower GDP growth was due to a **decrease in private consumption, partially offset by increase in exports** that reduced the trade balance deficit

Spanish GDP YoY Variation



Spain, Madrid & Catalonia GDP growth



Main Economic Drivers

2 KPIs: Europe & Spain

“ **Barcelona outperform** the European average **vacancy rate**, while Madrid’s level is slightly above the average due to obsolescence of part of the stock.

Rents will increase in both cities although will remain far for hubs such as: London, Paris or Frankfurt. ”



European Office CBD Rent and Cap. Values Snapshot

CBD Rents (€/sqm/month) and Capital Values (€/sqm)

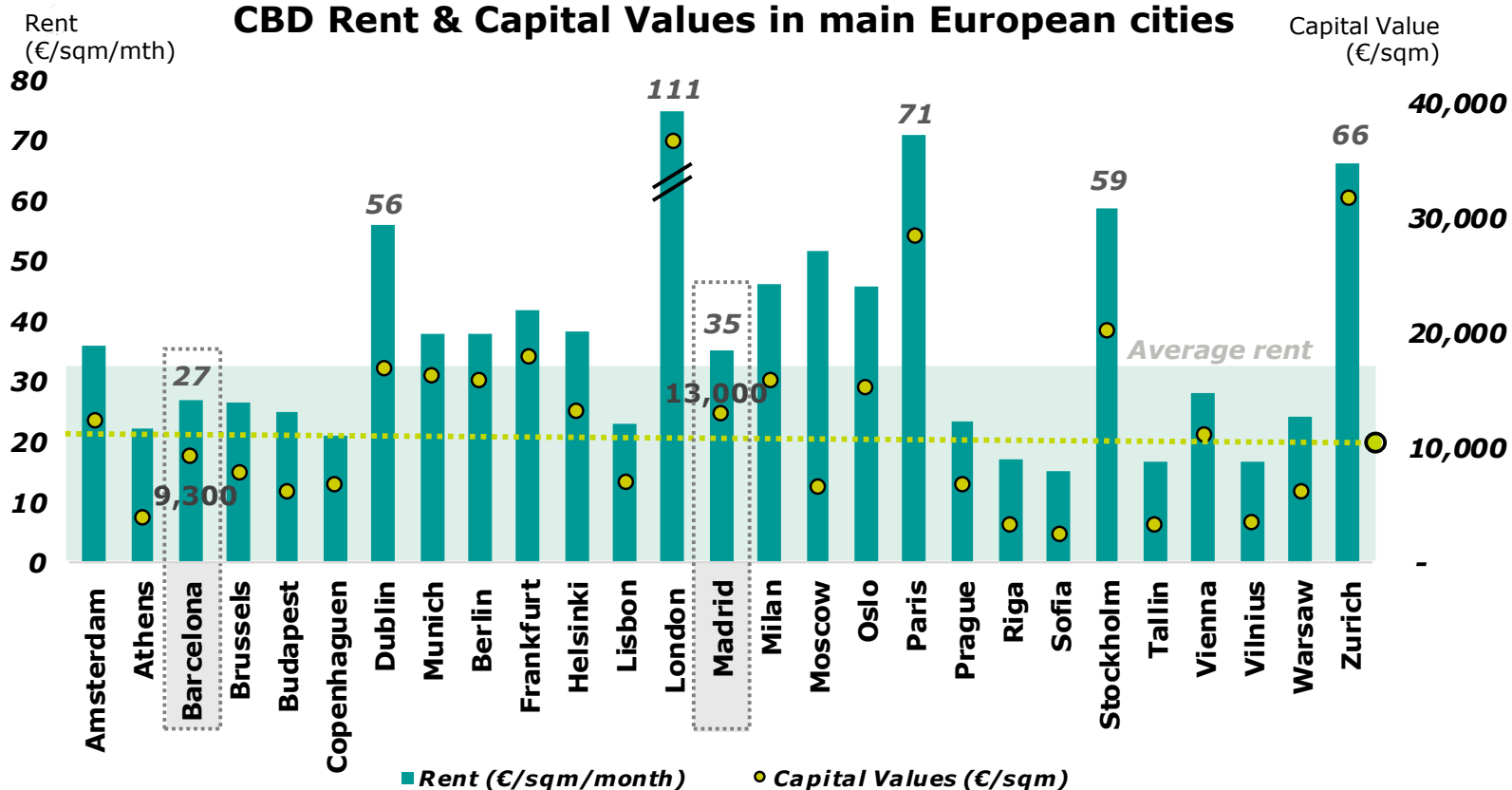


European Average Prime Rent & Cap.Value

33.7 (€/sqm/mth)
 10,479 (€/sqm)

Madrid's office rent is above European average (€33.7 sqm/mth). office rent, while BCN's office rent is below.

CBD Rent & Capital Values in main European cities



London is still the city with the highest capital value, although has decreased by 12% last year.

Affordable rents and infrastructures have boost Frankfurt as one of the main benefited hubs by the Brexit.

2
 KPIs: Europe and Spain

Source: Deloitte

3 Lease KPIs: Supply & Demand in Madrid

“ Madrid is experiencing a buoyant market momentum.

Take-up is reaching the maximum level of the last decade, while vacancy remains on a downward trend.

These facts are **pushing rental price up**, in Grade A buildings within consolidate office submarkets

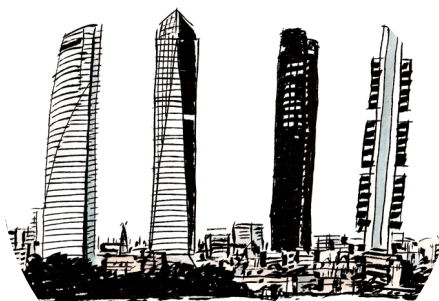
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Key Performance Indicators Madrid

MADRID | 2019

Madrid Office reached excellent lease indicators. **Take-up increased by 16% in 2019**, this is the highest level since 2007. Due to the high demand, **vacancy rate decreased 437 bps from 2014 to 2019**.



| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------|---------|---------|---------|---------|---------|----------------|
| Vacancy Rate | 13.4% | 11.8% | 11.4% | 10.2% | 9.5% | 9.0% |
| CBD Rent (€/sqm) | 24.5 | 26.5 | 29.0 | 30.5 | 33.0 | 35.0 |
| Take-up (sqm) | 420,000 | 573,000 | 496,000 | 553,000 | 502,000 | 582,000 |

Office Madrid key factors

TOTAL STOCK
13,143,700 sqm

VACANT STOCK (sqm | %)
1,183,000 sqm | **9.0%**

€19.75/sqm/month
Average rent
2019

Investment
volume 2019 in
Madrid
€2,700 m
New Offer 2019
91,200 sqm

Source: Deloitte

3
Lease KPIs
in Madrid

4 Lease KPIs: Supply & Demand in Barcelona

“ **Limited supply and robust demand.**

Excellent lease market fundamentals and investment volume that increased by c.60% in 2019.

Highlighting 22@ as a worldwide well-known office hub for international innovation profile companies, reaching 94% of prelet in the new developments.

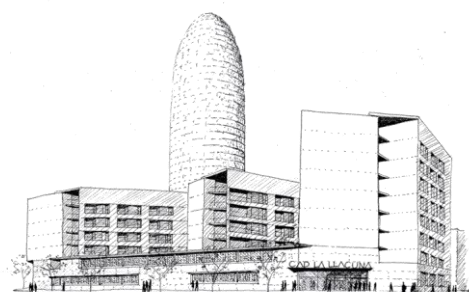
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Key Performance Indicators Barcelona

BARCELONA | 2019

Barcelona Office Market is in a buoyant market momentum. Excluding 2015, **take-up has achieved the highest level** since 2005 **this has led the vacancy rate to decrease by 902 bps (2014-2019).**



| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------|---------|---------|---------|---------|---------|---------|
| Vacancy Rate | 14.3% | 11.5% | 10.0% | 7.9% | 6.1% | 5.2% |
| CBD Rent (€/sqm) | 15.0 | 16.5 | 21.0 | 22.5 | 25.0 | 27.0 |
| Take-up (sqm) | 217,000 | 420,600 | 315,000 | 337,000 | 385,000 | 395,000 |

Office key factors BCN

TOTAL STOCK
6,235,500 sqm

VACANT STOCK
326,000 sqm – 5.2%

€17/sqm/month
Average rent
2019

Investment volume 2019
€1,650m

New Supply 2019
116,700 sqm

Source: Deloitte



Supply



Demand

4

Lease KPIs
in BCN

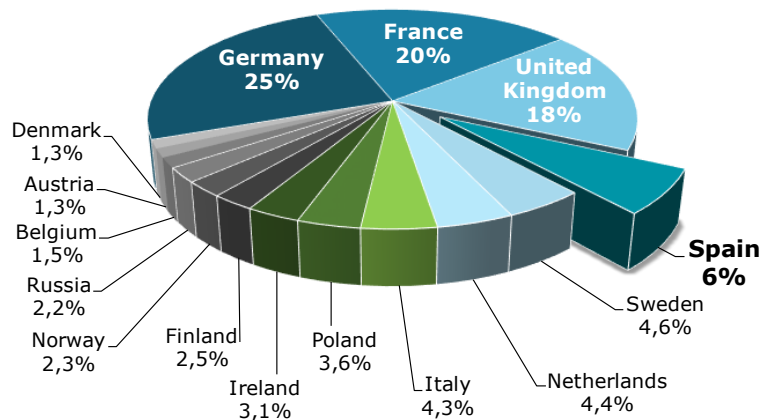
5 Investment & Financing Market

“ Worldwide Commercial Real Estate investment volume has increased by 5% during 2019. In Spain, **the CRE investment volume has decreased by 27%** during the same period. This decrease is due to the lack of Corporate deals. On the other hand, 2018 was an unusual year in terms of investment volume ”



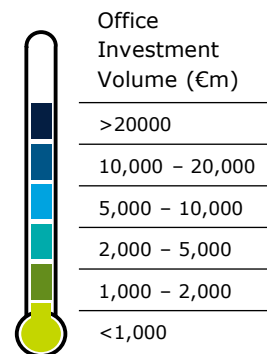
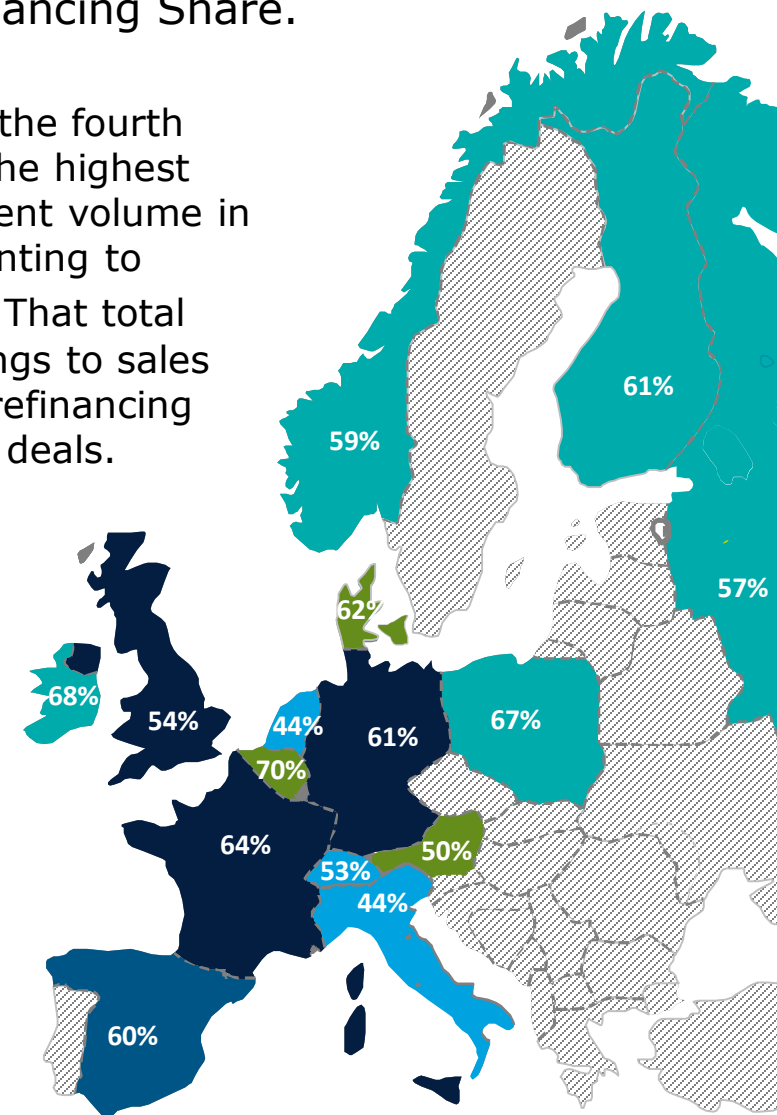
European Office Investment: Volume

European and Spanish Office Investment & Financing Share.



“ Spain is the fourth country with the highest office investment volume in Europe, amounting to **€8,009m**. That total amounts belongs to sales transactions, refinancing and corporate deals.

| Country | Total Investment Volume (€m) | Office (%) over total | Office Investment Volume (€m) per country (Sales transactions, Refinancing and Corporate trans.) |
|----------------|------------------------------|-----------------------|--|
| Germany | 50.002 | 61% | 30.451 |
| France | 38.207 | 64% | 24.521 |
| United Kingdom | 41.653 | 54% | 22.325 |
| Spain | 13.267 | 60% | 8.009(*) |
| Sweden | 10.646 | 53% | 5.661 |
| Netherlands | 12.290 | 44% | 5.391 |
| Italy | 11.892 | 44% | 5.253 |
| Poland | 6.610 | 67% | 4.445 |
| Ireland | 5.584 | 68% | 3.789 |
| Finland | 5.017 | 61% | 3.043 |
| Norway | 4.833 | 59% | 2.840 |
| Russia | 4.742 | 57% | 2.682 |
| Belgium | 2.668 | 70% | 1.879 |
| Austria | 3.225 | 50% | 1.600 |
| Denmark | 2.506 | 62% | 1.550 |
| TOTAL | 213.143 | | 123.440 |



(*) Office investment over total Commercial Real Estate investment in each country.

(*) Sales transactions, Refinancing and Corporate trans.

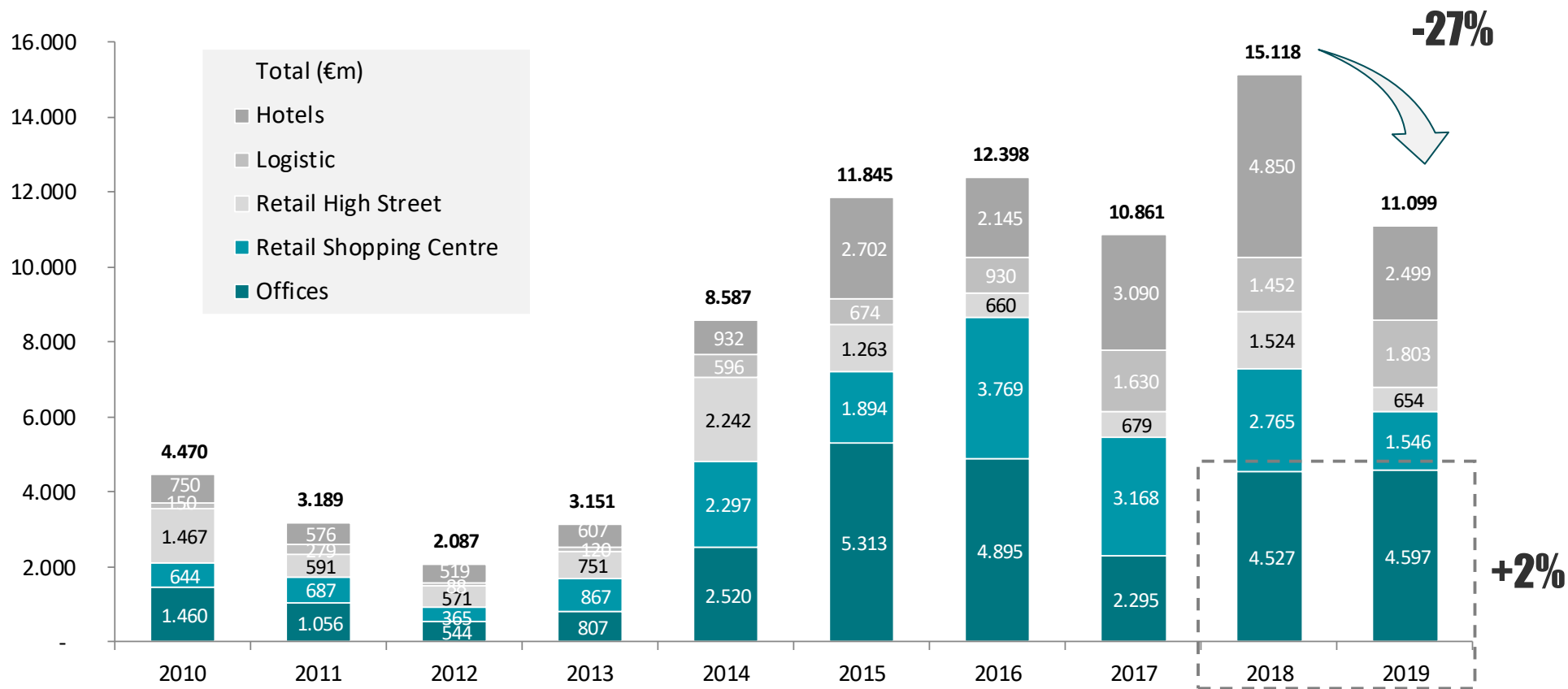




Office Investment Volume in Spain

Commercial Real Estate **investment volume** has **decreased by 27%** over the last year, due to the lack of corporate deals. Despite this decline, office investment remains stable and has lead the investment market.

Total Investment volume by Asset Class (€m)



Source: Deloitte





Financing Market

Senior Debt – Yielding Assets

Higher LTVs and Balloons at the Sponsor's requirement

Main Conditions

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|------|------|------|------|------|
| Framework Credit Access Constraints Financing Upturn | | | | | |
| Upfront Fee 75-150bps 50-100bps 50-100bps 50-100bps 50-100bps | | | | | |
| Spread 150-200bps 125-200bps 125-175bps 125-175bps 125-175bps | | | | | |
| LTV 30%-50% 30%-55% 40-55% 40-60% 45-65% | | | | | |
| Balloon 60%-100% 60%-100% 60%-100% 60%-100% 80%-100% | | | | | |

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Investment & Financing Drivers

6 Market Incoming Trends

“ **Technology** evolution is changing our lifestyle with a direct **impact on workplace**. Artificial Intelligent is reorganizing the space needs, in this way flexible spaces are gaining momentum.

Amenities and wellness initiatives are key for attract and retain **talent** and improve the **efficiency** of the employees.

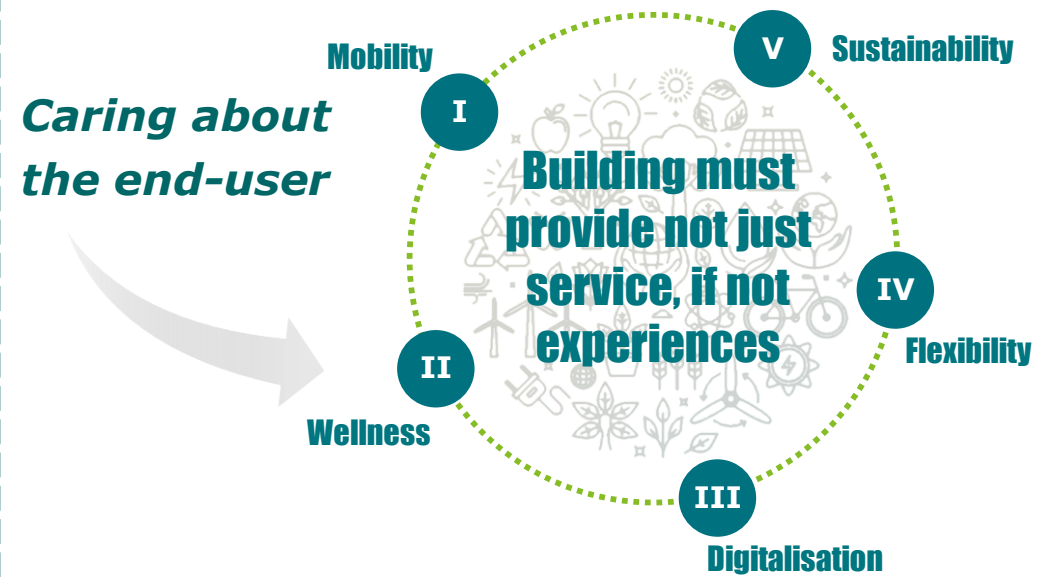
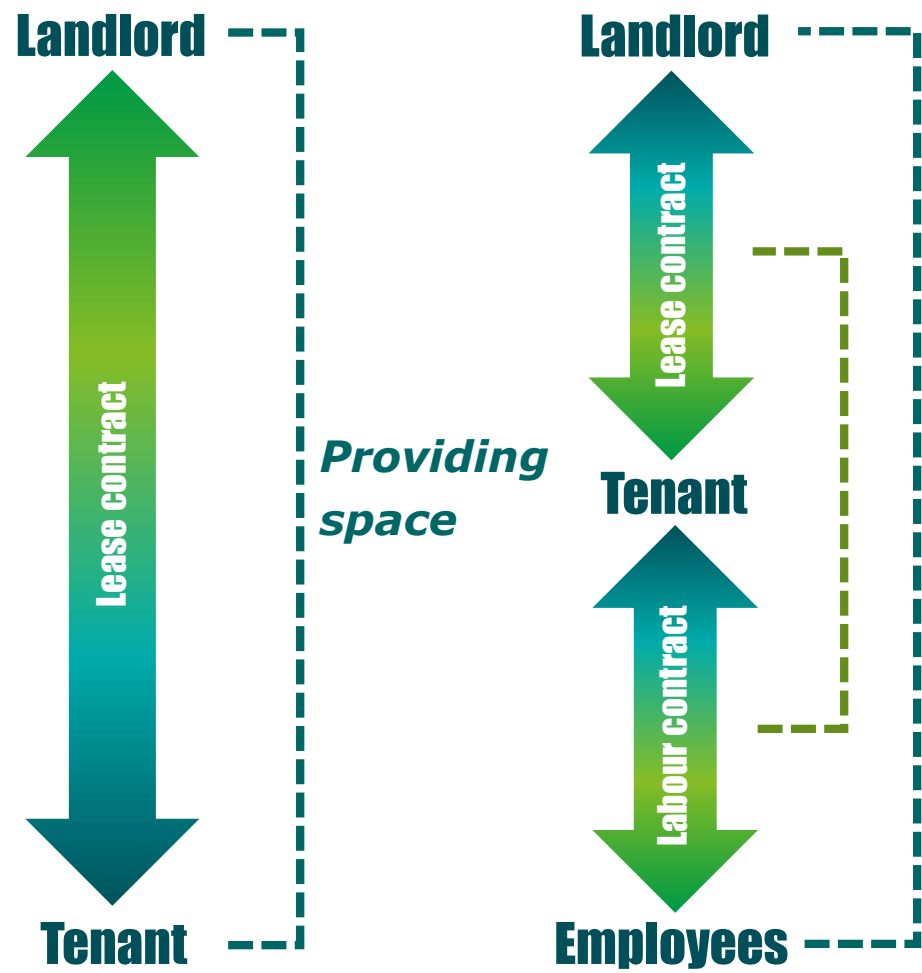
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Managing people instead of managing assets

“ Relationship among **landlord and tenant** is changing towards providing services for the **benefit of tenants and employees** to improve customer experience and to **enhance employees' work-life**. Initiatives with a clear objective: **reinforcing end-user loyalty**.



6 Market Incoming Trends

Source: Deloitte



V. Sustainability

Well Certification

From landlord to both tenant and employee



“ A sustainable building must be energy efficient and able to optimise the energy it uses.

Green strategies



- Urban community energy
- Urban farm
- Responsible consumption
- Led lighting



Sustainable certification



- Indoor air quality
- Nourishment
- Thermal comfort
- Natural light and views

Sustainable buildings use less energy and less materials. They are also healthier and have more comfortable spaces for occupants.

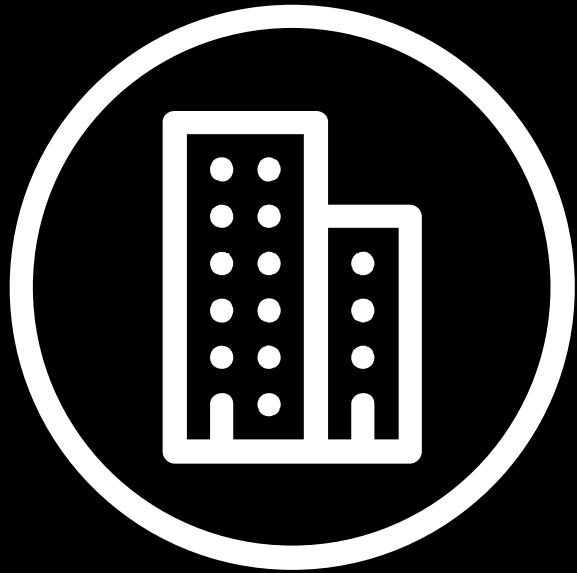
Employees are starting to demand working in “green” offices.



Source: Deloitte

6 Market: Incoming Trends

Deloitte.



The Office Property Handbook 5.0

Investment & Financing Keys

Spain 2020

#TheOfficePropertyHandbook5.0

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