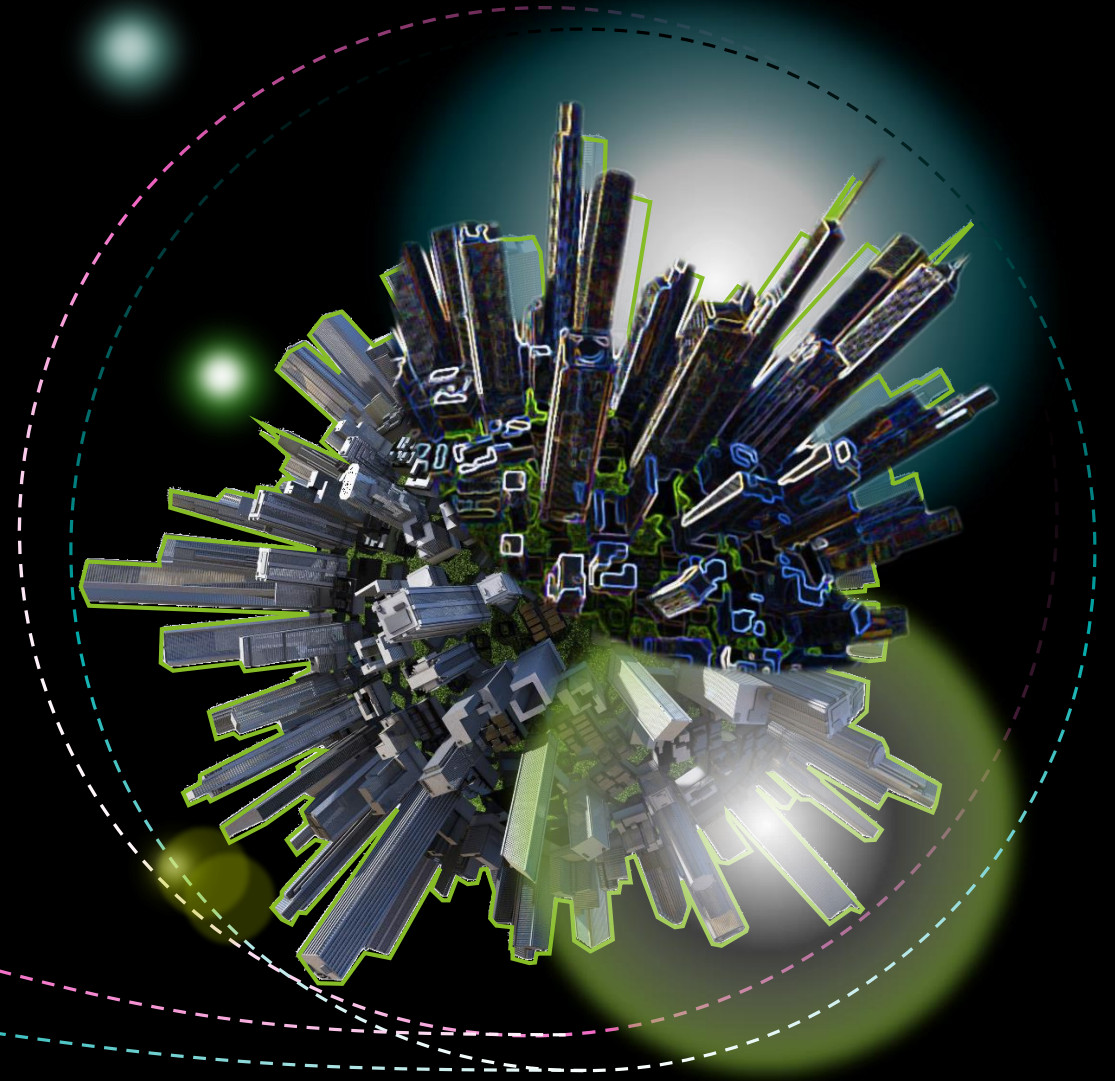




The Office Property Handbook 4.0

Investment & Financing Keys

Spain 2019



February 2019

Financial Advisory | Real Estate

1 Main Economic Drivers

“The **spanish economy keeps growing** and **remains stable** but a lower pace than the recent years. **Spain is leading the growth within the EU** largest economies, standing at around 2% GDP growth for the coming years according to the IMF and BdE Forecast.

4 Lease KPIs: Supply & Demand in Barcelona

“**Upward trend** in Barcelona Office Market **continued to gain momentum** in 2018. Lease KPI's indicators are reaching maximum peaks of recent years, attracting occupant interest and investor appetite. Future growth in rental price is expected for key markets such as 22@ in the short term.

2 KPIs: Europe & Spain

“Madrid and Barcelona office markets are experiencing a **positive trend** as main hotspots in Spain. According to the macro-economic context, **there is still room to grow in Spain in comparison to other European cities.**

5 Investment & Financing Market

“Whereas **Worldwide Real Estate Investment** has **decreased** during 2018, **Spain's** figures have **increased by 40%**, being in the European top 5.

Financial terms and conditions in 2018 have remained **similar** to 2017.

3 Lease KPIs: Supply & Demand in Madrid

“As **vacancy rates continues to decrease** in Madrid, **new developments and refurbishments** are on **upward trend. Take-up remains in high levels while rental level keeps growing**, specially in Business District.

6 Market Incoming Trends

“**Large developments and CapEx strategies** will be **key** in order to attract demand and capture increases on rental levels.

When sustainability certification is a must..
What is next: Thinking of users of the buildings.

1 Main Economic Drivers

“ The **spanish economy keeps growing** and **remains stable** but a lower pace than the recent years. **Spain is leading the growth within the EU** largest economies, forecasting at around 2% GDP growth for the coming years.

Unemployment rate continues to decrease, standing at 14.6% in Q4 2018. Despite the recovery, the figures are still far above the European levels.

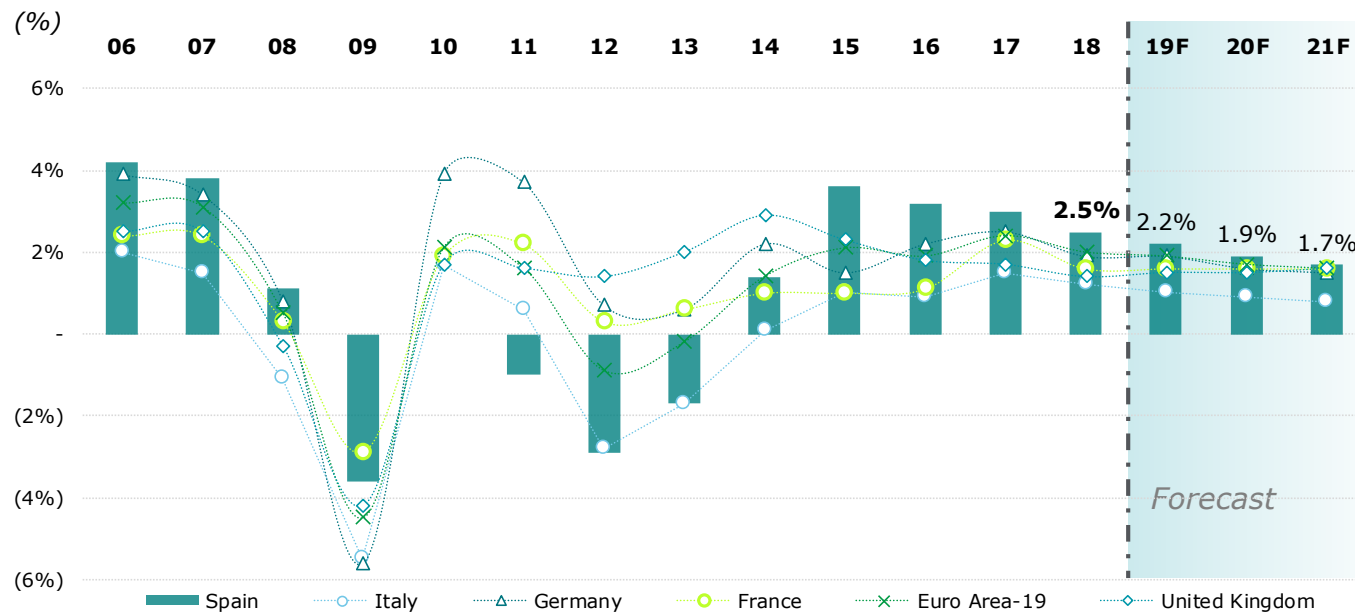
During the recovery period, **36%** of **total new companies created in Spain have been created in Madrid and Barcelona**, amounting to c.79.000 companies.

”



Spanish Economic Fundamentals: GDP

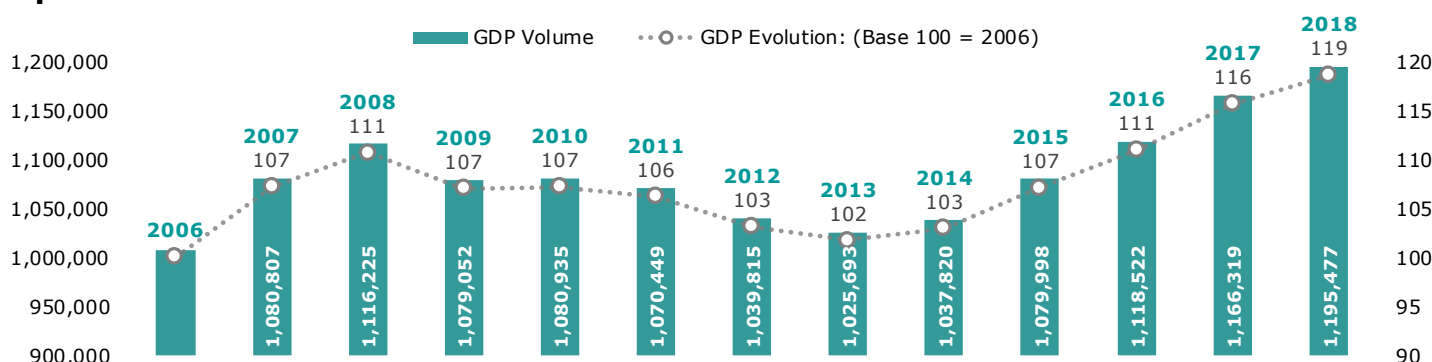
GDP YoY Variation (%)



“ The Spanish economy shows a positive outlook with a slight slowdown, forecasting at around 2% GDP growth for the coming years.

Forecasts place Spain as one of the **leading economy** within EU, although uncertainty due to political situation (Brexit or national uncertainties), US-China trade war or the potential increase on interest rates are likely to have a negative impact on the national market.

Spanish GDP YoY Variation



Source: IMF, BdE

Main Economic Drivers

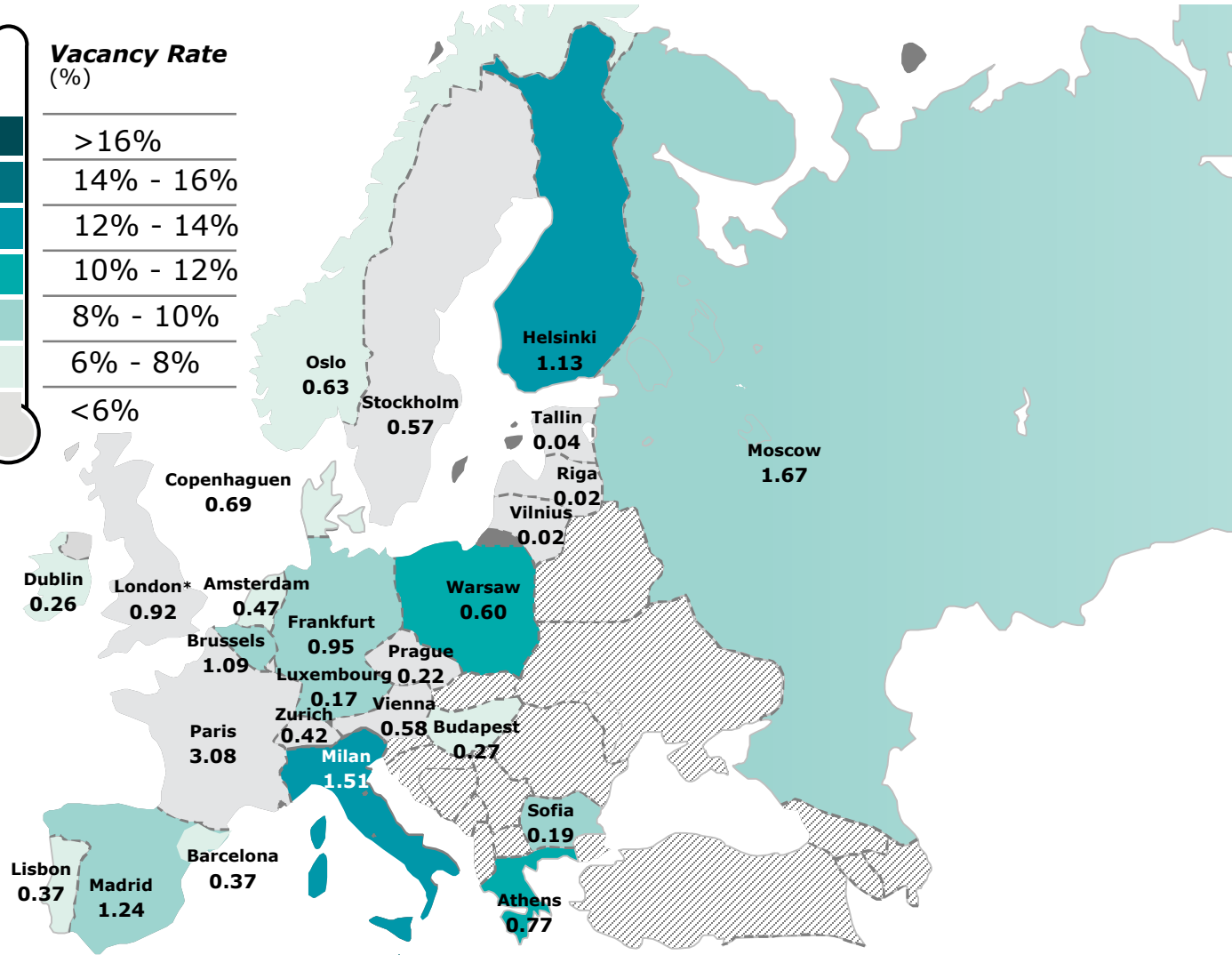
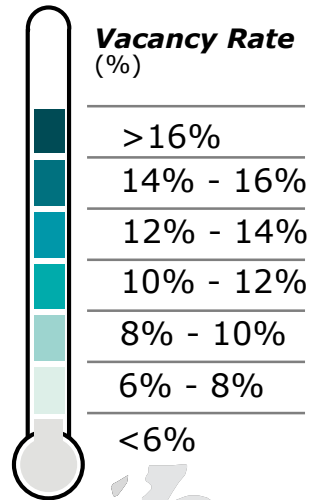
2 KPIs: Europe & Spain

“Madrid and Barcelona office markets are experiencing a **positive trend** as main hotspots in Spain. According to the macro-economic context, **Mad & Bcn will performance better** than other European cities.”



European Office Vacancy Snapshot

Vacancy Rate (%) and Vacant Space (million sqm)



Source: Deloitte

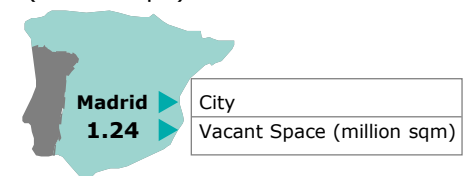
*London including City and WE

“

While average Vacancy Rate in Europe stands at 7%, **Madrid and Barcelona's vacancy rate is being reduced:** 9.5% and 6.1%, respectively. Vacant space in both cities amounts to 1,61 million sqm.

It is expected that the vacant space continues to reduce in both cities, given the high levels of take-up forecasted for the 2 coming years.

Vacant Space (million sqm)

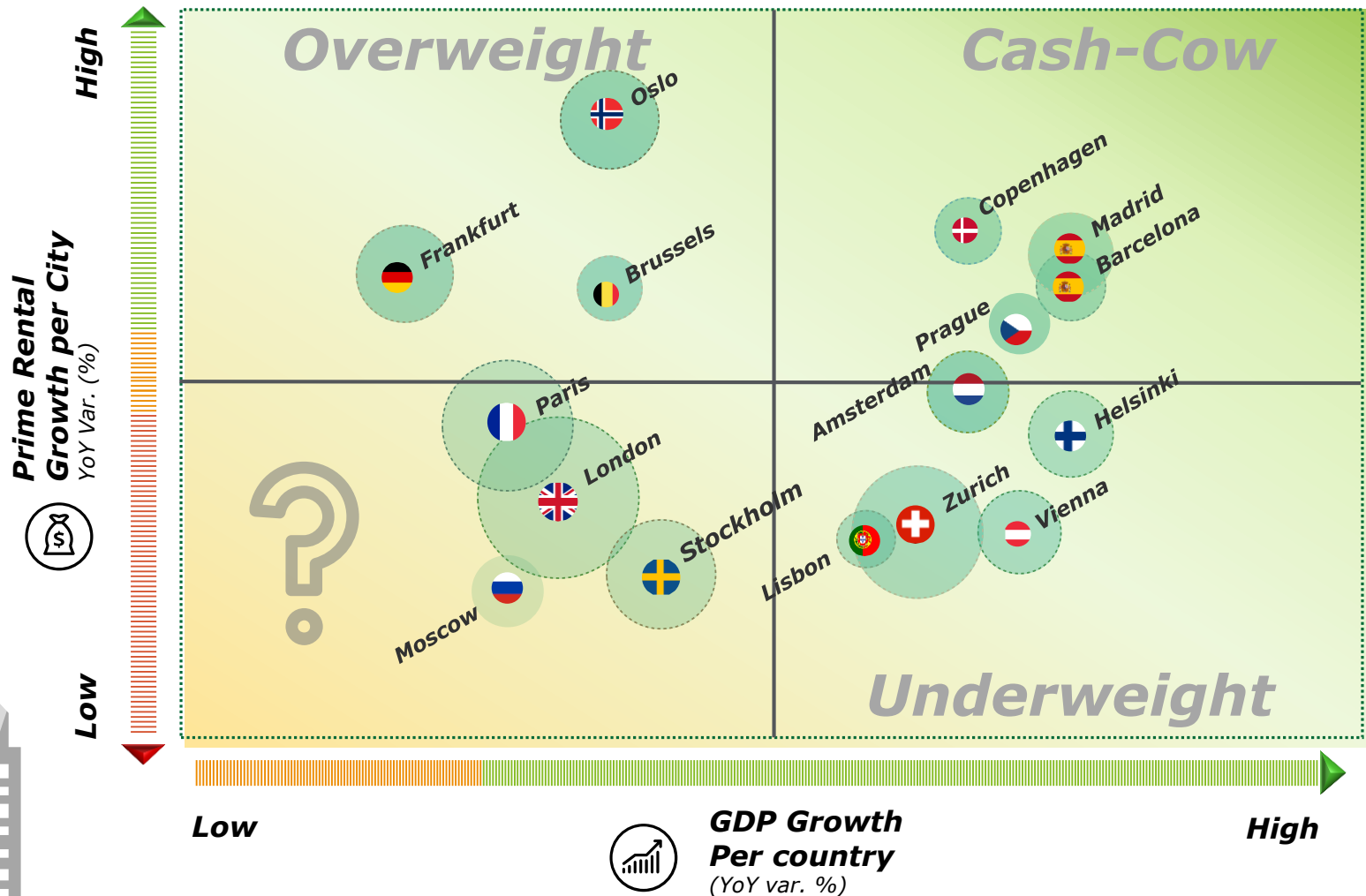


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KPIs: Europe and Spain



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



The Capital Allocation Matrix

estimates the city trend taking into account GDP growth together with Office Prime Rental growth YoY.

Madrid and BCN

are located in the “cash-cow” quadrant given their **good performance** in the last year in terms of GDP growth and Rental growth.



Prime Capital Value
(€/sqm)

Source: Deloitte

3 Lease KPIs: Supply & Demand in Madrid

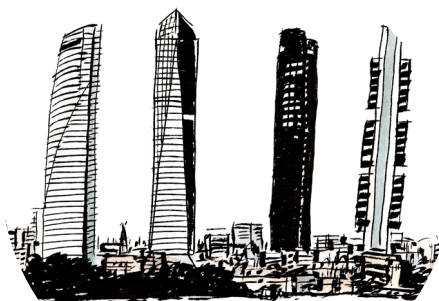
“ As **vacancy rate continues to decrease** in Madrid, new developments and refurbishments are on upward trend. **Take-up figures** remain in **high levels** while **rental level keeps growing**, specially in Business District. ”






Key Performance Indicators Madrid

MADRID | 2018

Average Madrid Office Market **vacancy rate has decrease 390 bps from 2014 to 2018** due to the active demand during the recent years. **Prime rental values have increased by 35% since 2014.**



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

Office Madrid key factors

TOTAL STOCK
13,010,000 sqm

VACANT STOCK (sqm | %)
1,235,000 sqm | 9.5%

€33/sqm/month
Average CBD rent
2018

Investment
volume 2018 in
Madrid
€3,145 m
New Offer 2018*
75,600 sqm

Source: Deloitte

(*) New developments excluding refurbishment

4 Lease KPIs: Supply & Demand in Barcelona

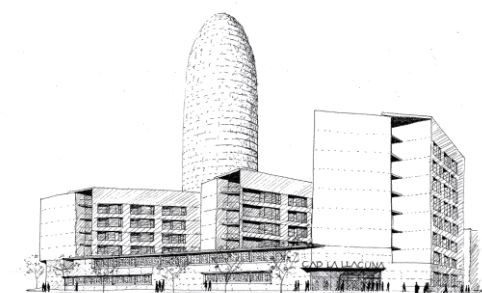
“ Despite the political uncertainty, **Barcelona** Office Market has displayed **excellent fundamental indicators**. Robust demand and lack of grade A supply are pushing rental prices up. Due to the positive performance, investors have increased by 29% the investment volume in Barcelona Office Market in 2018. ”






Key Performance Indicators Barcelona

BARCELONA | 2018

Barcelona Office Market has achieved excellent performance in term of lease and investment indicators, driven by the **robust demand that has allowed to decrease the vacancy rate -811 bps (2014-2018)**.



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

Office key factors BCN

TOTAL STOCK
6,118,900 sqm

VACANT STOCK
376,800 sqm | 6.1%

€25/sqm/month
Average CBD rent
2018



Investment
volume 2018
€1,049 m



New Offer 2018*
153,900 sqm

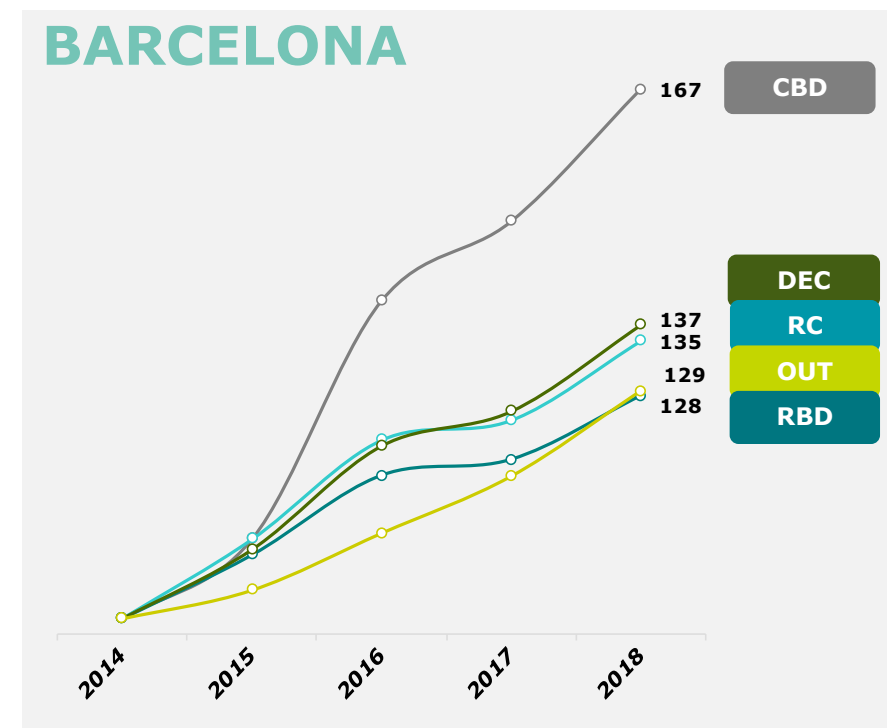
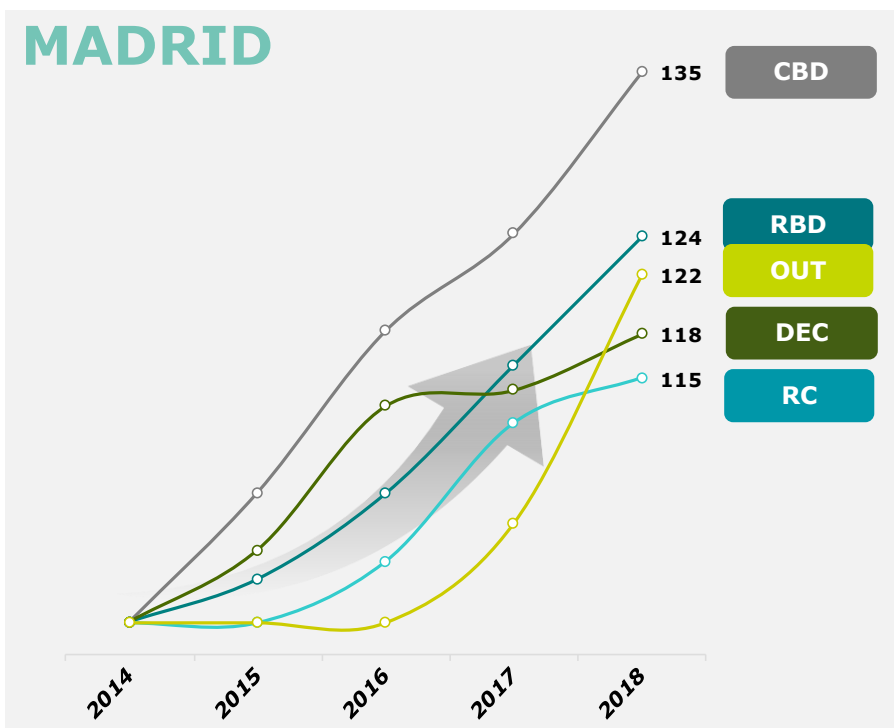
Source: Deloitte



Rental trend by Market: MADRID & BARCELONA

Barcelona had a stronger rental growth than Madrid due to the lack of space. Vacancy rate reached 6.1% in Barcelona vs 9.5% in Madrid.

Rental Trend (Base 100 = 2014)



CBD

Central Business District

RBD

Rest of Business District

RC

Rest of city

DEC

Decentralized

OUT

Out of the City

Source: Deloitte

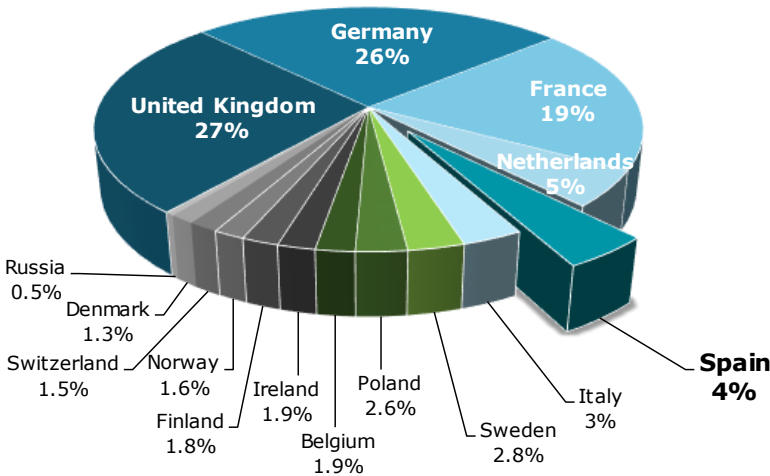
5 Investment & Financing Market

“ Worldwide Commercial Real Estate investment volume has decreased by 3% during 2018. In Spain, the CRE investment volume has **increased** by 40% during the same period. That increase has been possible due to the **Corporate deals**. ”



European Office Investment: Volume

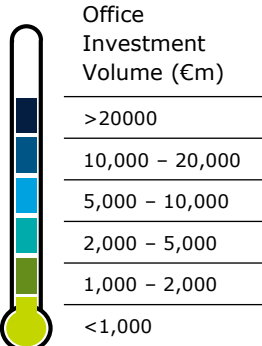
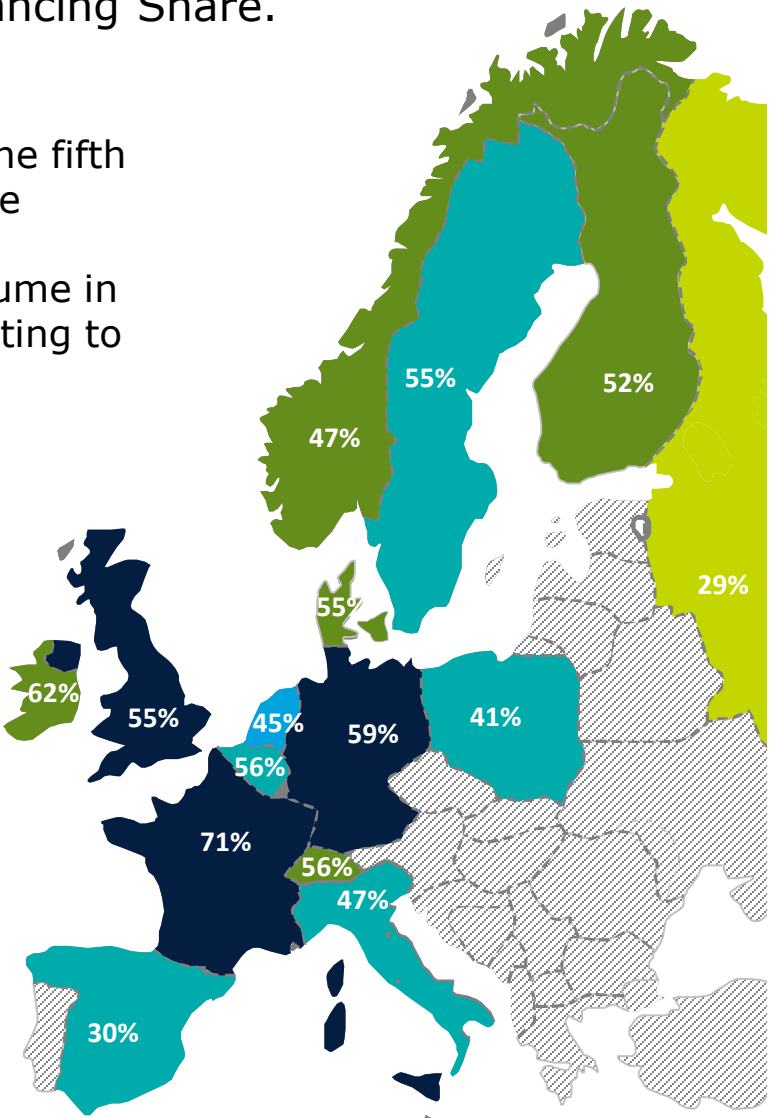
European and Spanish Office Investment & Financing Share.



“ Spain is the fifth country with the highest office investment volume in Europe, amounting to **€4,527m**

Country	Total Investment Volume (€m)	Office (%) over total	Office Investment Volume (€m) per country (Sales transactions, Refinancing and Corporate trans.)	
United Kingdom	50,513	55%	27,965	
Germany	46,660	59%	27,328	
France	28,694	71%	20,383	
Netherlands	11,322	45%	5,061	
Spain	15,118	30%	4,527	
Italy	6,847	47%	3,189	
Sweden	5,427	55%	2,964	
Poland	6,517	41%	2,680	
Belgium	3,671	56%	2,048	
Ireland	3,186	62%	1,982	
Finland	3,697	52%	1,938	
Norway	3,493	47%	1,640	
Switzerland	2,827	56%	1,592	
Denmark	2,387	55%	1,323	
Russia	1,640	29%	480	
TOTAL	191,998		105,100	

Source: Real Capital Analytics



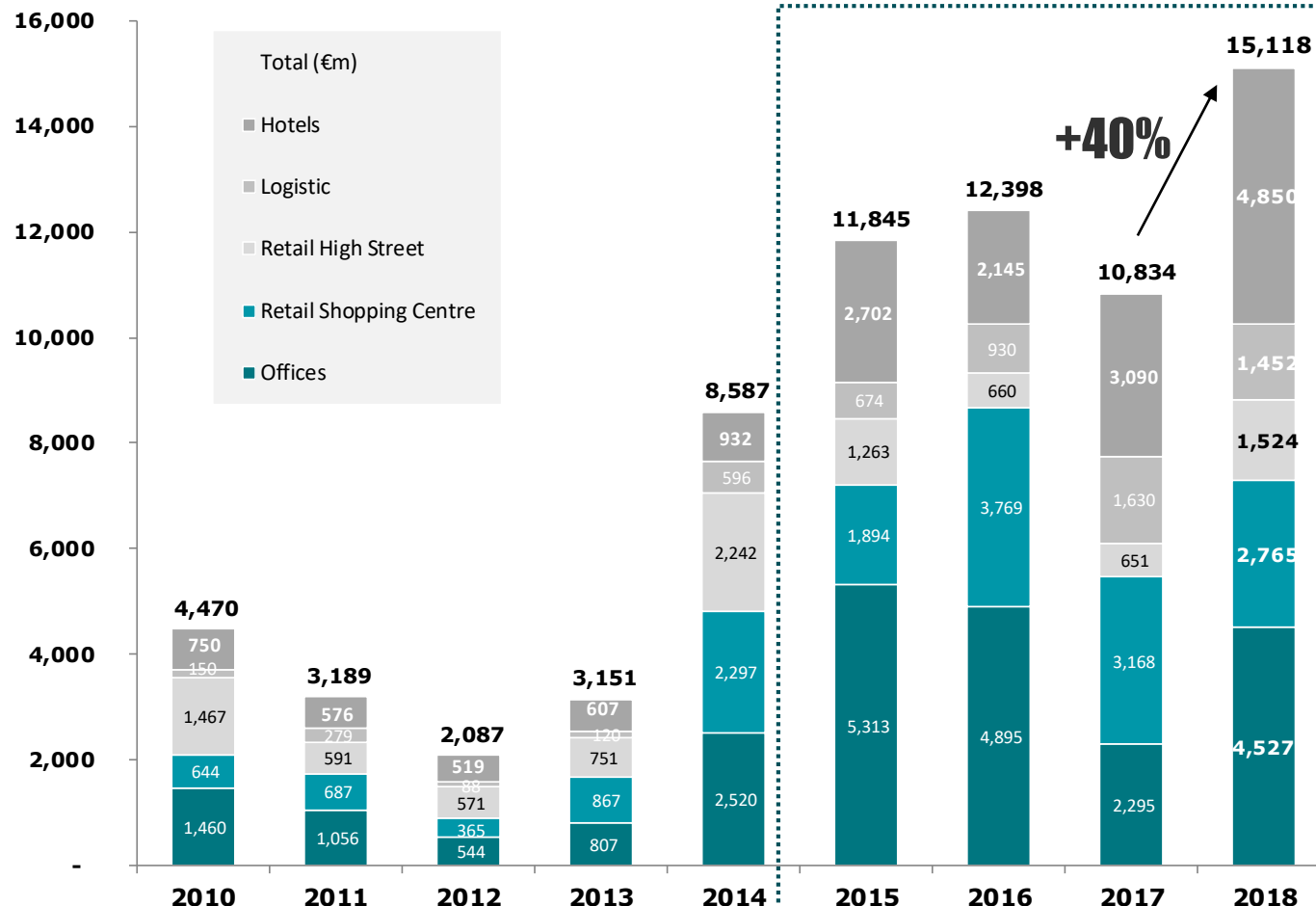
(*) Office investment over total Commercial Real Estate investment in each country.



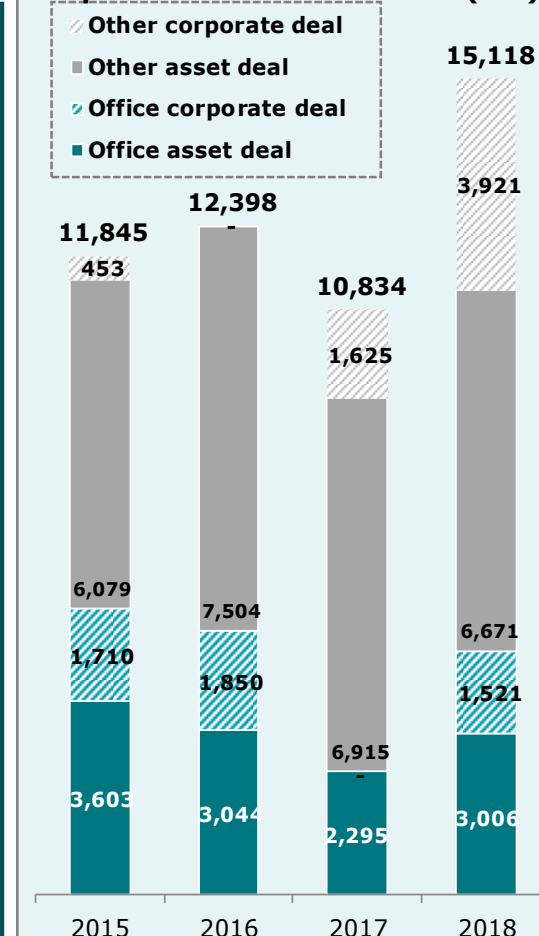
Office Investment Volume in Spain

Commercial Real Estate **investment volume increased by 40%** over the last year. Corporate Deals returned in 2018, amounting to €1,521m in 2018, which account for 34% of the total office investment volume (€4,527m).

Total Investment volume by Asset Class (€m)



Breakdown Corporate deal vs Asset deal (€m)



Source: Deloitte

5.2 Financing Market

When talking about **yielding assets**, **LTV** range **increases slightly**, whereas upfront fees and spreads remain stable.

On the other side, for **new developments**, an essential condition is to have reached **important pre-let levels**, above 60%.












Financing Market

Senior Debt – Yielding Assets

Lower costs with lower LTV at the Sponsor's requirement

Main Conditions

	2013-14	2015	2016	2017	2018
 Framework	Credit Access Constraints			Financing Upturn	
 Upfront Fee	150-200pbs	75-150pbs	50-100pbs	50-100pbs	50-100pbs
 Spread	200-250pbs	150-200pbs	125-200pbs	125-175pbs	125-175pbs
 LTV	30%-40% ⁽¹⁾	30%-50%	30%-55%	40-55%	40-60%
 Balloon	60% ⁽²⁾	60%-100%	60%-100%	60%-100%	60%-100%

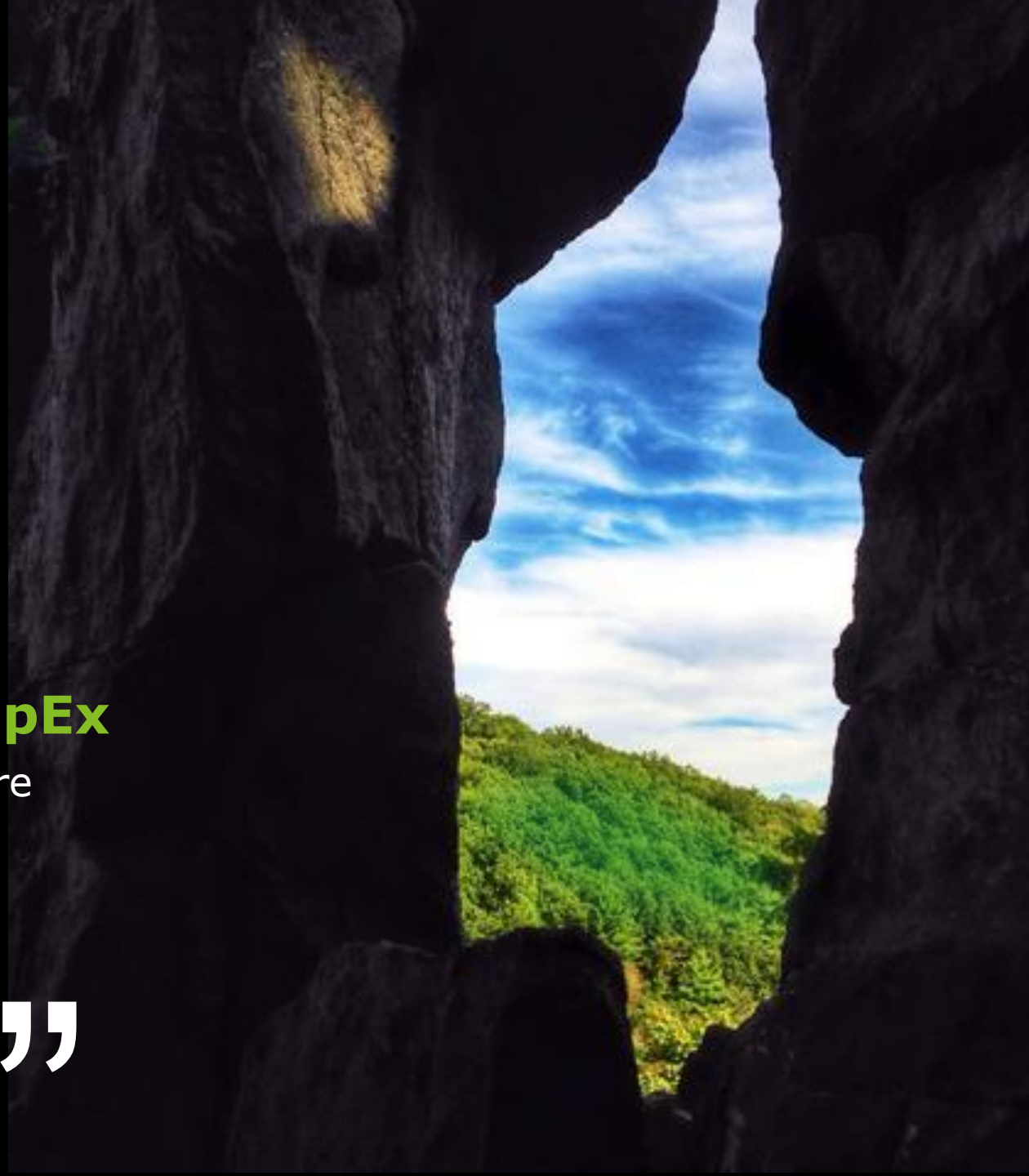
(1) Sustainable LTV to face the debt service with high funding costs (A higher LTV will result in a larger debt service)

(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)

6 Market Incoming Trends

“ **Large developments and CapEx strategies** will be **key** in order to capture demand and increase rental levels.
When sustainability certification is a must..
What is next: **Thinking of users of the buildings.**

”





Certification Values...

Access to
financing

6

1

Less Structural
Vacancy

2

Comfort and
Health of its
Occupants

CSR

5

Less operating
expenses

4

3

Shorter Void
Period



6

Market
Incoming
Trends



What is next when sustainability is a must..



What's next?
From the building to the user



Smart Buildings

- Full control in your phone
 - Collaborative work areas
 - Free address and flexible workstations
 - Parking spaces and car sharing management
 - Live asset and security management
 - Services focus on user
-

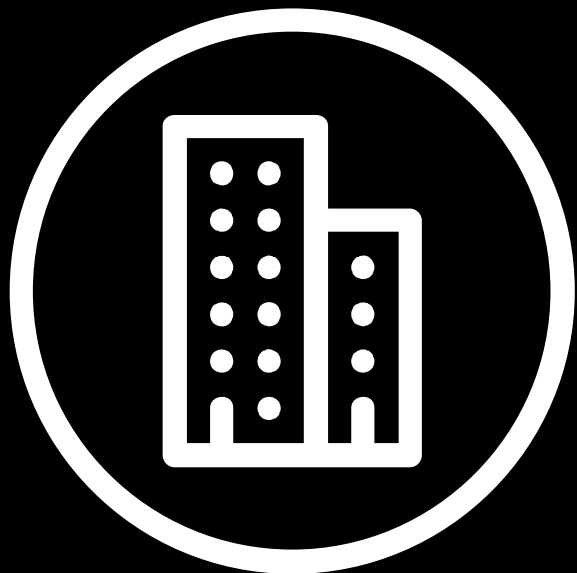


Well Certified

- Indoor air quality
- Nourishment
- Fitness and movement
- Thermal comfort
- Acoustic comfort
- Natural light and views
- Community



6 Market
Incoming Trends



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#TheOfficePropertyHandbook4.0

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