



Building a better
working world

The Office Property Telescope

Investment & Financing Keys

Spain 2022

Expanded Edition

January 2022

Strategy and Transactions





The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY

1 Macro Overview



Lopsided recovery expected
after COVID impact
2021-2022

- ▶ **GDP expected** growth: + 6.4% in 2022 (vs. 5.74% 2021).
- ▶ **Unemployment rate still high** but decreases 156bps to 14.6% in 2021.
- ▶ **Exports will lead the recovery:** Current imports coverage rate levels off at 95%
- ▶ **Consumer confidence:** Plunges 12 points since October, from 97 to 85 due to the new outbreaks of Covid.
- ▶ **Madrid region steps up** above the rest of the country as young people is moving to the capital due to better labour opportunities.

2

Supply & Demand



- ▶ **Vacancy Rate** in Madrid (9.7%) and Barcelona (8.6%) **increasing** at a higher pace due to the weak demand.
- ▶ **High activity of New Supply & Refurbishments** due to the current weak demand. 500,000 sq.m recently delivered in 2021 in Madrid and Barcelona.
- ▶ **Take-Up** in Madrid and Barcelona stands at **360,000** and **325,000** respectively.
- ▶ **The 26 and 74 projects under construction in Madrid and Barcelona to be delivered from 2022 to 2023** will cause a negative impact on rents expected to be partially compensated by **high inflation**.
- ▶ **Prime submarkets.- Net effective rents leakage keep on widening progressively** given the higher incentives and other allowances provided by landlords.

3

Office Properties Investment Market



- ▶ **EMEA** region represents **33%** of the worldwide Office Investment volume. **International investors are currently overweighting Americas and Asia** against Europe
- ▶ Office **Investment volume increased by 32% in Spain** during 2021 (+€669m YoY Var.) and **accounted for 27% of the total non-residential Real Estate investment**, well below the historical average.
- ▶ 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 the sponsor creditworthiness is high and vacancy risk remains under control
- ▶ and **Borrowing cost** levelling off but still below than 2017.
- ▶ **Alternative capital** providers eager to structure junior / mezzanine financing tranches.

5

Key Performing Indicators



Key Indicators by areas in 2022

		Madrid		Barcelona	
		Rent	Cap. Value	Rent	Cap. Value
Max. ▶	CBD	40 (5%)	15,000 (-1%)	27 (4%)	9,818 (-6%)
Avg. ▶		31 (-6%)	11,625 (-12%)	24 (-4%)	8,727 (-13%)
Min. ▶		26 (-10%)	9,750 (-16%)	20 (0%)	7,273 (-9%)
Max. ▶	DEC	16 (-6%)	3,657 (-1%)	24 (0%)	7,200 (25%)
Avg. ▶		12 (-8%)	2,743 (1%)	22 (-4%)	6,600 (20%)
Min. ▶		9 (-15%)	1,943 (-3%)	16 (0%)	4,800 (25%)

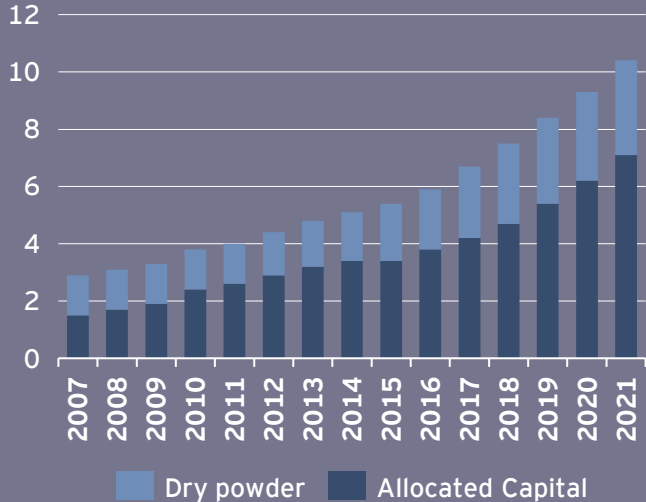
Rent (€/sqm/mth)(YoY Var. %) Cap. Value (€/sqm)(YoY Var. %)



The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY

Global assets under management, ~\$trn



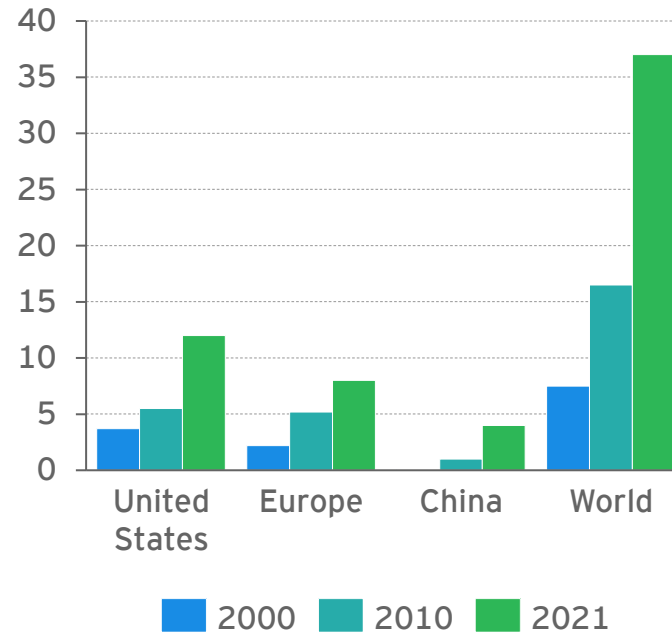
"Dry Powder"
on the rise while investment
managers struggle to allocate
the equity efficiently



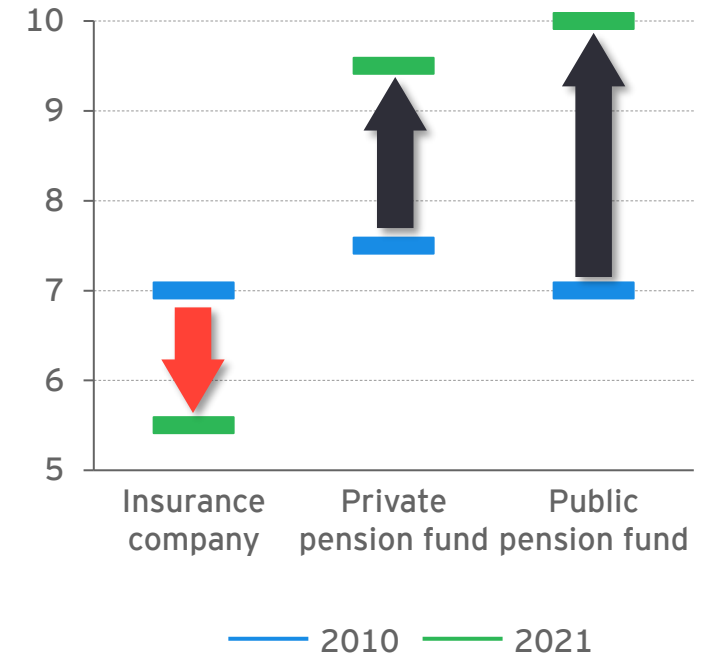
Once capital has been raised... there is a huge pressure to be allocated

Investment allocation from **pension funds** is **growing and growing**

Investible stock of commercial Real Estate (\$trn)



Avg. allocation to Real Estate investments (%)



\$37trn

Global investible commercial stock has quadrupled in the past 21 years



The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY

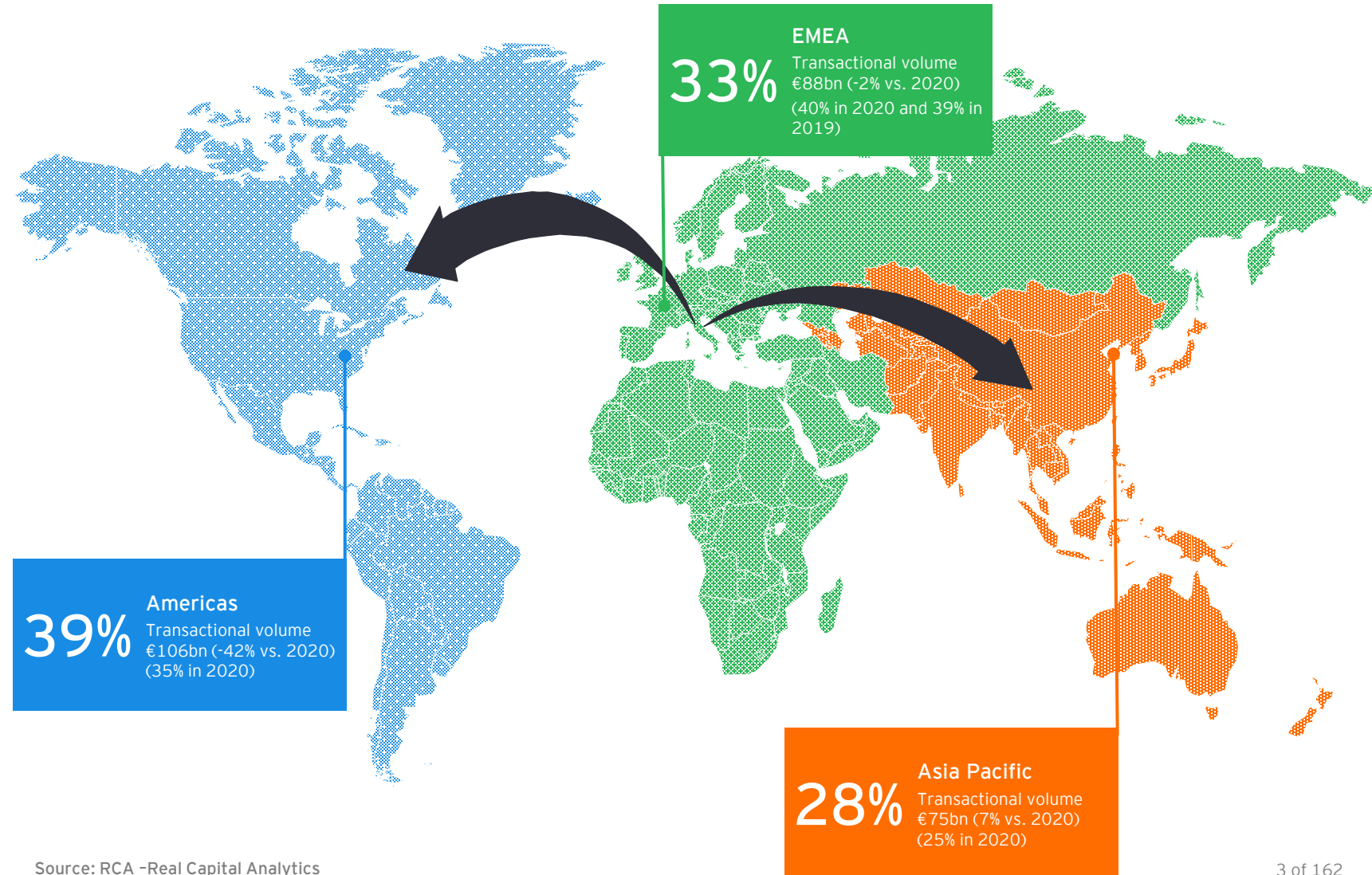


Although it is high time to refurbish most of its office inventory, EMEA region, with €88bn, seems to be losing momentum against other investment destinies



Despite high liquidity, office global investment still cautious in 2021: €269bn

While rapid rental adjustment and valuation haircuts in the US due to COVID have attracted a bunch of avid value added and opportunistic investors. Overall sentiment is that Europe is still “overvalued”

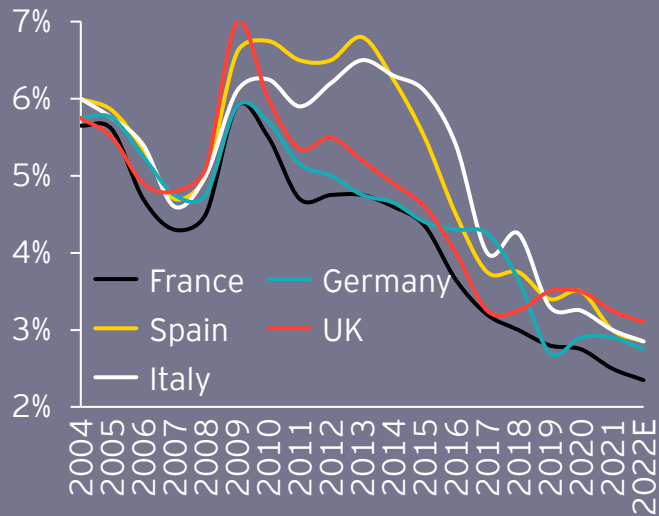




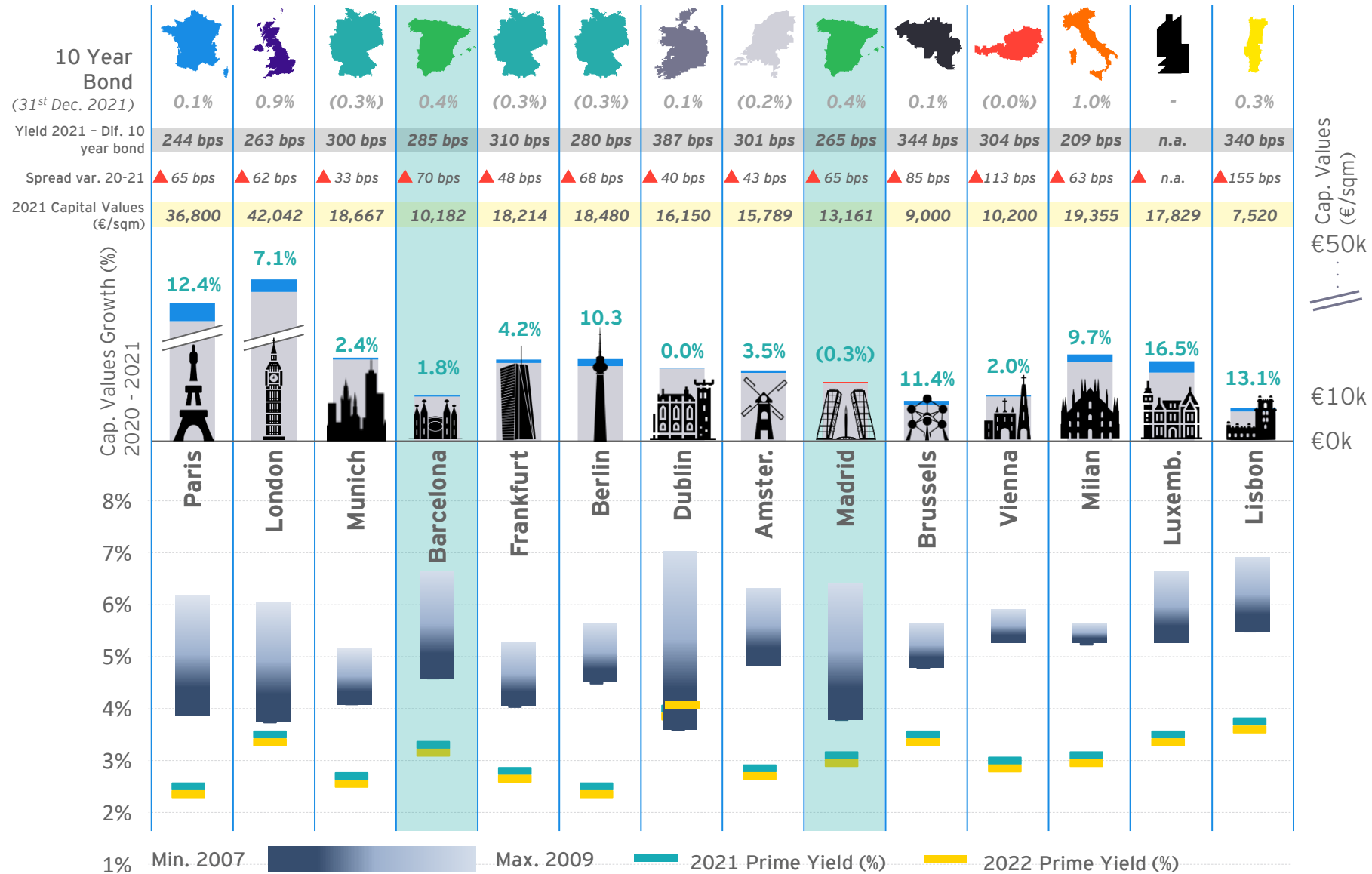
European CBD Offices Valuation "in the paradise"

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

European Yield Chart (04-22E; %)



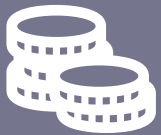
Europe has experienced an **overall yield compression**, that has resulted in a considerable **increase in Capital Values**, while **rents are wearing out**



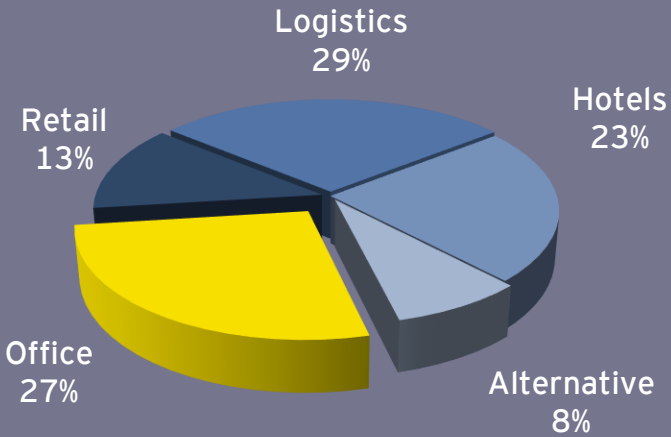


The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY



2021 CRE Investment Breakdown:

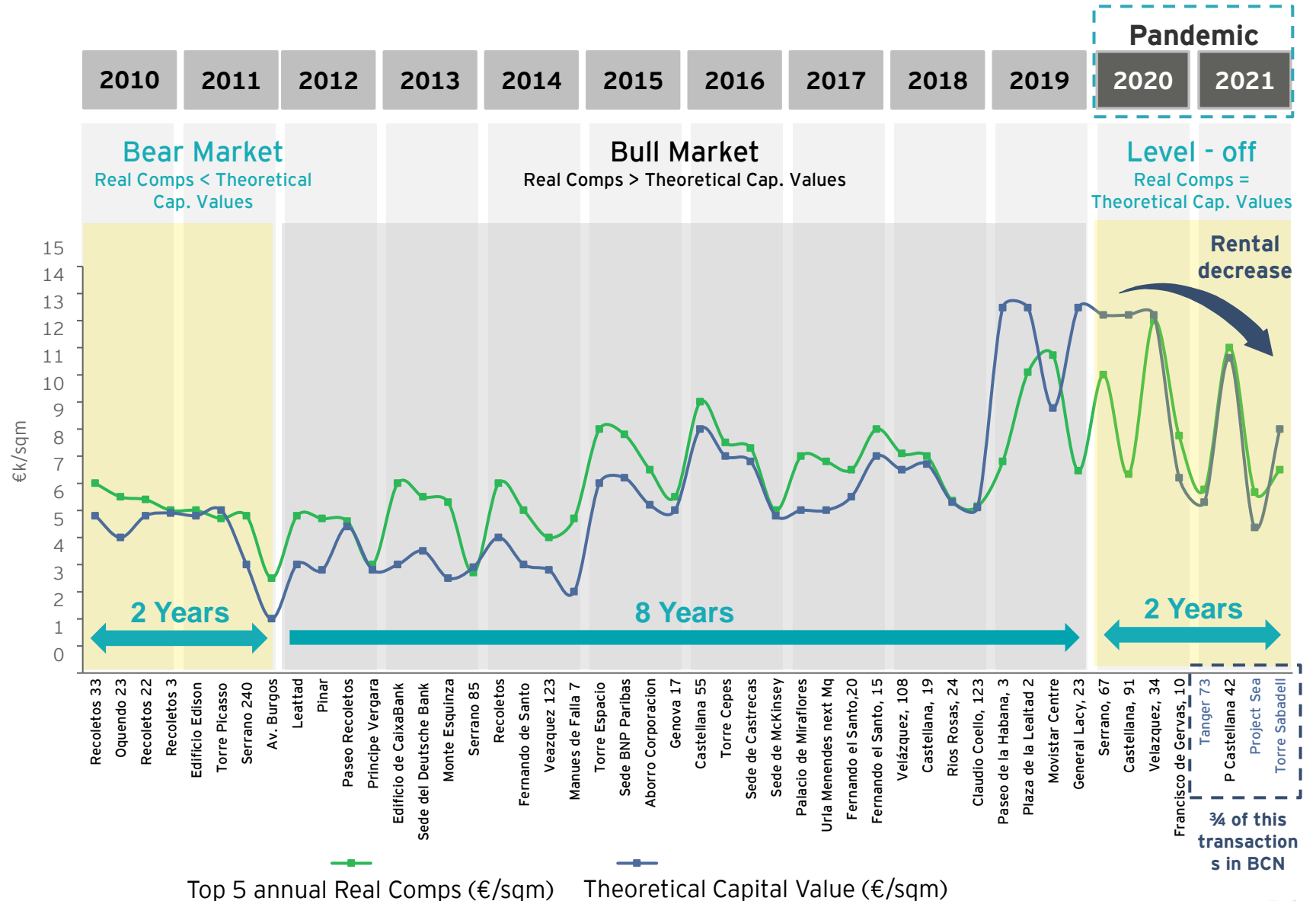


Spanish Office Investment Market in 2021 started to show **high volatility** in transaction values where **only super prime assets** were able to **keep up**



Are office prices in Spain leveling-off?

Investors are still discriminating those who set the new trends against the trailers



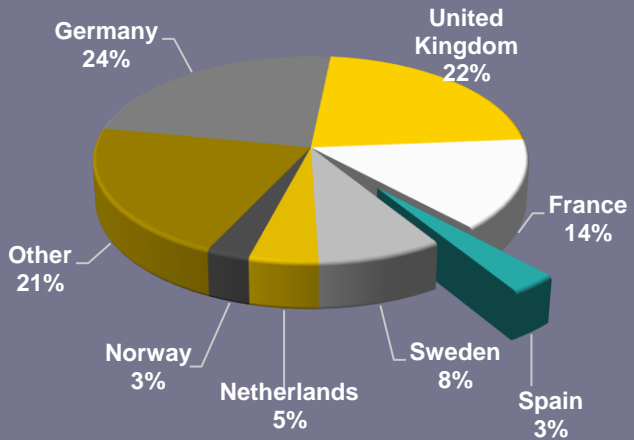


The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY



Spain accounted for 3% of the Total Office Investment in Europe



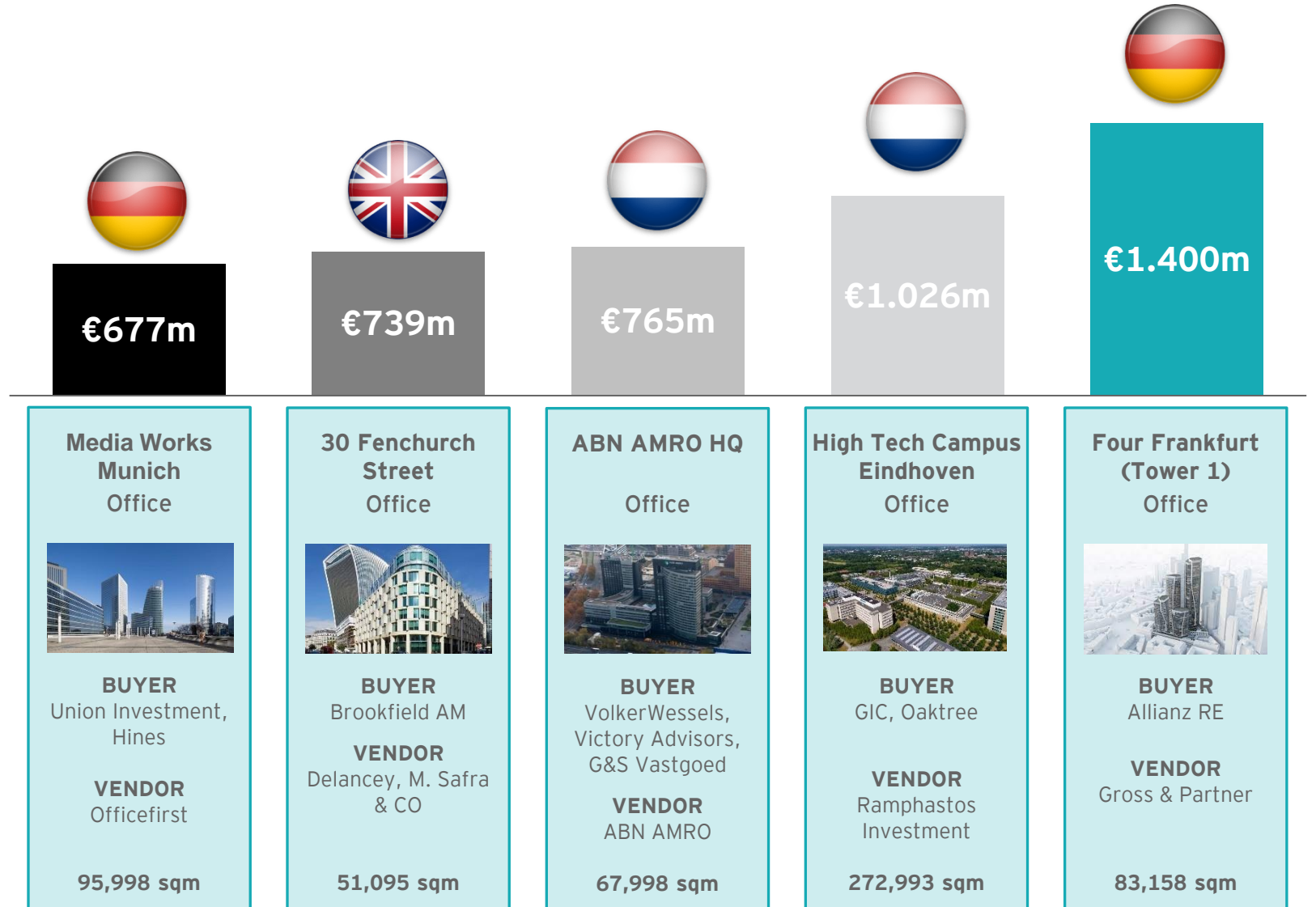
Pentagon Portfolio

(#21 in European Deals Ranking)



European Investment Office Market:

Transactions in Spain have not been material in Europe in 2021.



Media Works
Munich
Office



BUYER
Union Investment,
Hines

VENDOR
Officefirst

95,998 sqm

30 Fenchurch
Street
Office



BUYER
Brookfield AM

VENDOR
Delancey, M. Safra
& CO

51,095 sqm

ABN AMRO HQ
Office



BUYER
VolkerWessels,
Victory Advisors,
G&S Vastgoed

VENDOR
ABN AMRO

67,998 sqm

High Tech Campus
Eindhoven
Office



BUYER
GIC, Oaktree

VENDOR
Ramphastos
Investment

272,993 sqm

Four Frankfurt
(Tower 1)
Office



BUYER
Allianz RE

VENDOR
Gross & Partner

83,158 sqm



The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY

European Initial Yields 2021

Country	Prime Yield 2021	Maximum last 10 years
France	2.50%	4.75%
Germany	2.90%	5.15%
UK	3.25%	5.50%
Spain	3.00%	6.80%
Italy	3.00%	6.50%

For further information, please see Chapter 3 (Key Investments and Financing Drivers) in the full report

Top 5 deals occurred in 2021 amounted to **€4,607m**, being the most relevant in terms of Purchase Price the acquisition of **1 of the Four Frankfurt Tower**



European Investment Office Market:
Spain (€2,773m) accounted for 3% of total European Office Investment in 2021.

#	Country	Asset	GLA (Sqm)	Purchase Price (€m)	Buyer	Vendor
1	Germany	Four Frankfurt (Tower 1)	83,158	1,400	Allianz RE Germany, BVK	Gross & Partner
2	Netherlands	High Tech Campus Eindhoven	272,993	1,026	GIC, Oaktree	Ramphastos Investments
3	Netherlands	ABN AMRO HQ	67,998	765	VolkerWessels, Victory Advisors, G&S Vastgoed	ABN AMRO
4	UK	30 Fenchurch Street	51,095	739	Brookfield AM	Delancey, M. Safra & Co
5	Germany	Media Works Munich	95,998	677	Union Investment, Hines	OfficeFirst
6	France	Shift	45,999	626	Epargne Fonciere, Primonial REIM, La Francaise, EDF Energy	Unibail-Rodamco-Westfield
7	Germany	Pandion Officehome (Soul)	44,699	600	Union Investment	Pandion
8	Switzerland	Crown	37,999	566	Deka Immobilien	Pictet Group
9	Germany	Skyper	53,899	550	HDI Versicherung	Allianz RE Germany
10	UK	One Braham	30,193	538	Union Investment	KHI Holdings, Aldgate Developments
11	UK	Times Square	34,466	533	Generali Group	Blackstone
12	UK	2-3 Bankside	35,116	511	Omnicom	grundbesitz europa (DWS)
13	France	Window	44,199	505	Primonial REIM, Societe Generale SA	Oxford Properties Group, Hines
14	Germany	Victoriastadt Lofts	68,498	425	Signa Group	Ilmarinen, Immobilien Europa Direkt, Schroder RE Invst Trust
15	UK	Minster Building	27,406	411	Suntec REIT	FREO Group, Ivanhoe Cambridge
16	France	Influence	32,780	332	Samsung SRA, SCPI Primopierre, Primonial REIM, EDF Energy	Tishman Speyer
17	Italy	Libeskind Tower	33,499	320	ENPAIA	Generali Immobiliare Italy
18	France	Les Portes d Arcueil	44,734	300	SCPI PF Grand Paris - Perial	Gecina
19	France	Keiko	25,999	300	Macif	AXA IM - Real Assets
20	UK	Athene Place	13,775	300	Great Eagle Hldg Ltd	Henderson Park, Endurance Land Ltd
21	Spain	Pentagon Portfolio	50,218	280	KanAM	Axa
36	Spain	Hermanos Revilla	121,131	189	Realia Business	Hermanos Revilla
40	Spain	Project Sea - Everis HQ	27,000	180	Allianz	Meridia
78	Spain	One Parc Central	21,000	120	DWS Group	Varde Partners
79	Spain	Plaza de les Glories	21,499	120	IBA Capital Partners	Hispania SA (Blackstone)



The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY

European Top Buyers and Sellers

Last 24 months

Top 5 Buyers	Acq (€m)	Props.
Union Investment	€ 5,007	39
DekaBank	€ 4,594	34
Allianz	€ 3,691	15
Corem Prop. Group	€ 3,582	132
SBB i Norden	€ 3,379	252

Top 5 Sellers	Acq (€m)	Props.
Blackstone	€ 5,365	69
Klovern AB	€ 3,592	133
BNP Paribas	€ 3,343	27
TLG Immobilien AG	€ 3,259	301
Hemfosa Fastigheter	€ 2,627	210

Source: RCA - Real Capital Analytics

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 "helping" private equity to make their investment returns

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

2021

Most Active Submarkets

	Volume	Var. 21-20
London	€ 8,272m	-22.7%
Paris	€ 7,631m	-51.7%
Munich	€ 4,242m	-34.3%
Frankfurt am Main	€ 3,671m	-25.7%
Berlin-Brandenburg	€ 3,019m	-27.5%
Stockholm	€ 1,713m	+14.2%

2021 Single Asset

Top Deals

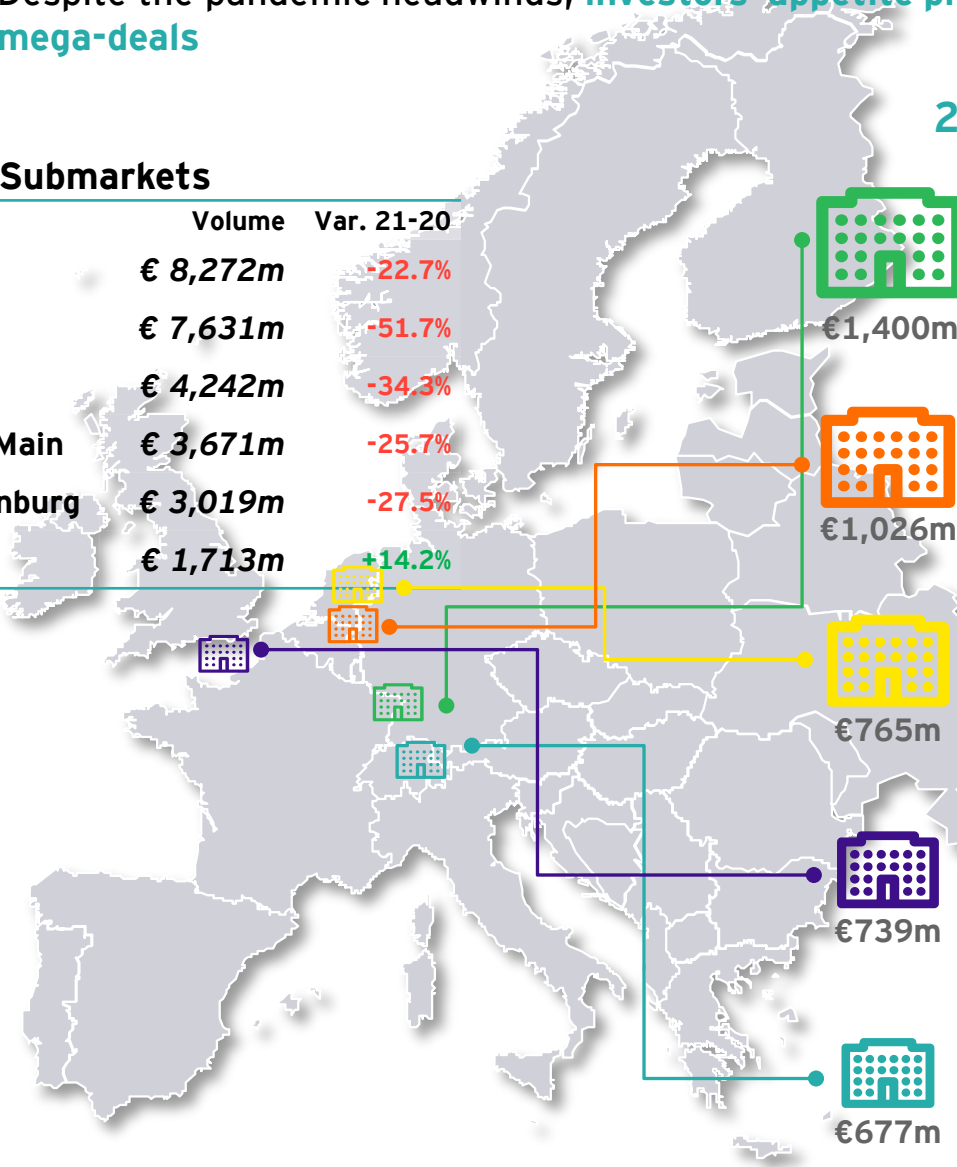
Allianz RE acquired
Four Frankfurt (Tower 1)
83,200 sqm in Frankfurt

GIC, Oaktree acquired
High Tech Campus Eindhoven
272,993 sqm in Eindhoven

VolkerWessels, Victory Adv. & G&S Vastgoed acquired
ABN AMRO HQ
67,998 sqm in Netherland

Brookfield AM acquired
30 Fenchurch St.
51,095 sqm in London

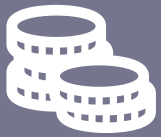
Union Investment, Hines acquired
Media Works Munich
95,998 sqm in Munich



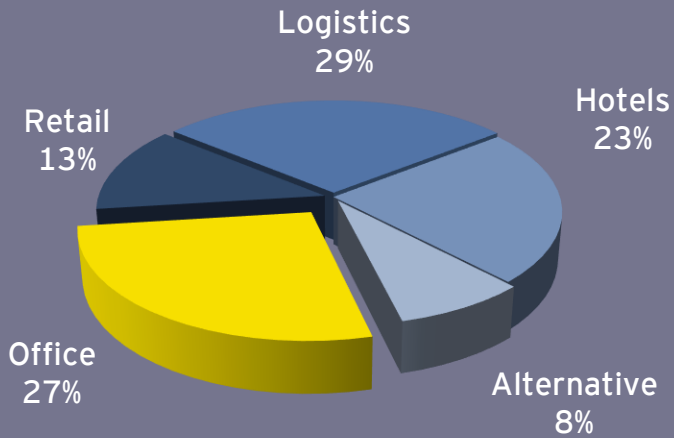


The Office Property Telescope
Spain 2022

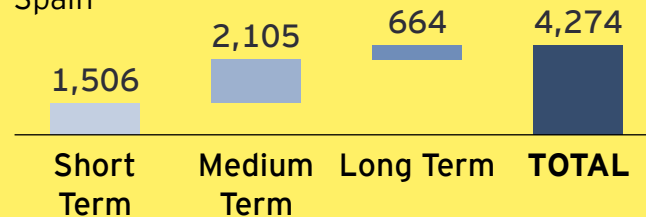
EXECUTIVE SUMMARY



2021 CRE Investment Breakdown:



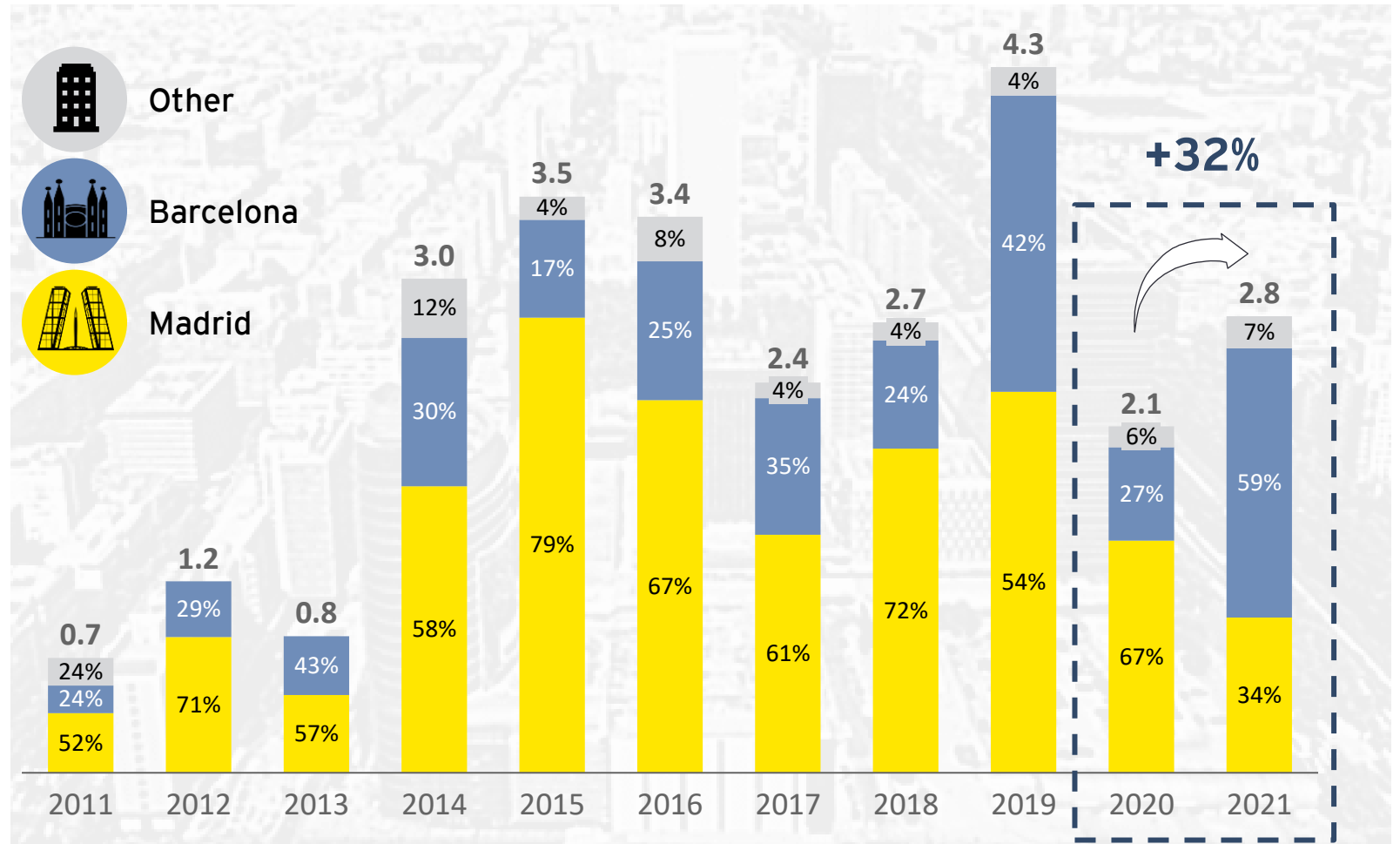
A total office pipeline investment volume of **€4,274m** expected to be transacted in Spain



2021 Spanish investment "on decade average"

Investment volume in Office segment **increased by +32% YoY** due to the partial pandemic recovery suffered during the year.

Total Office Investment Volume by Location (€bn)





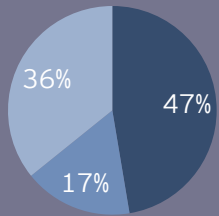
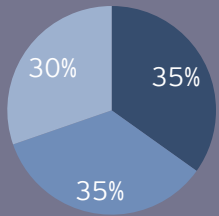
The Office Property Telescope Spain 2022

EXECUTIVE SUMMARY

Investment by typology in 2021:

Madrid

Barcelona



	€m		€m
Core	324	Core	774
Core+	324	Core+	275
Value Add	282	Value Add	585

Core Core+ Value Add

Financing shortage has dragged higher risk transactions (**Value Add / Opportunistic**), representing less than **40% of total transacted volume**



Who is playing the "office" game in Spain:

More **room** for **value added** strategies in 2022?

Equity Out



Equity In



Debt

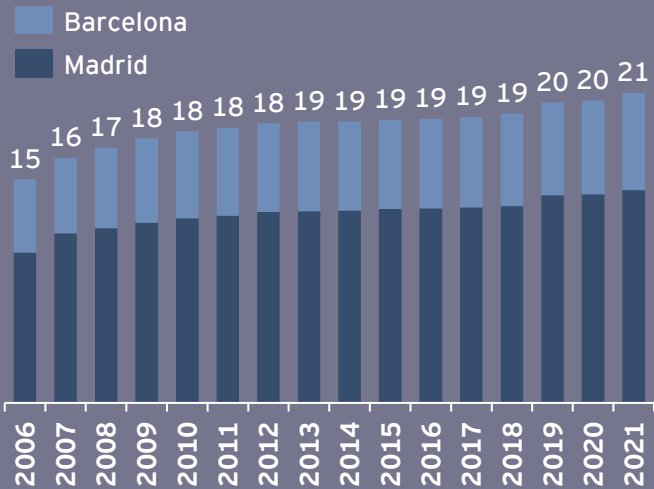




The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY

Madrid & Barcelona office inventory (m sqm)

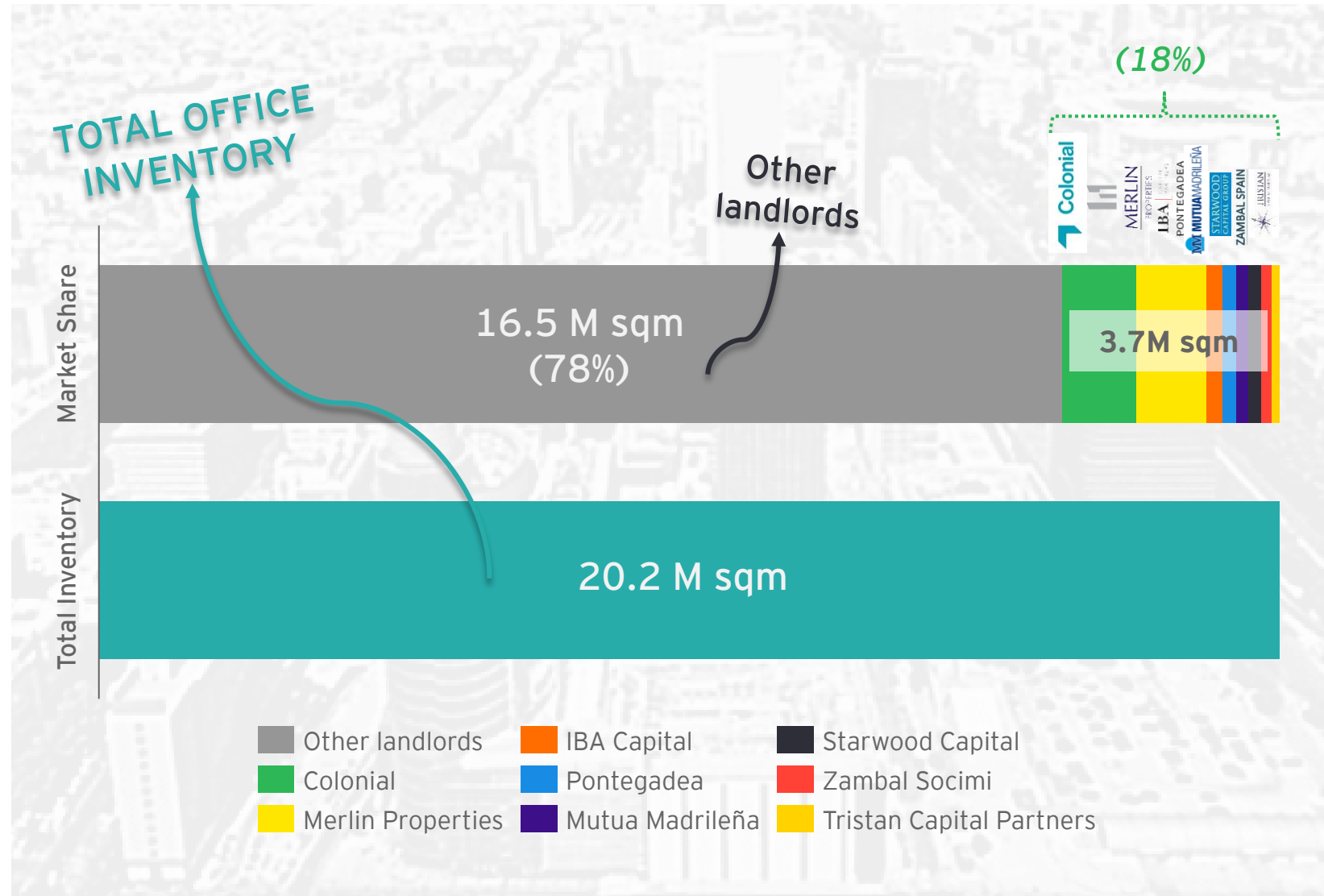


Spanish office market is highly fragmented, key players own **18%** of GLA of the total inventory.



Ownership understanding

How to grow? There is a huge opportunity to take advantage of the obsolete stock as long as prices adjust





The Office Property Telescope
Spain 2022

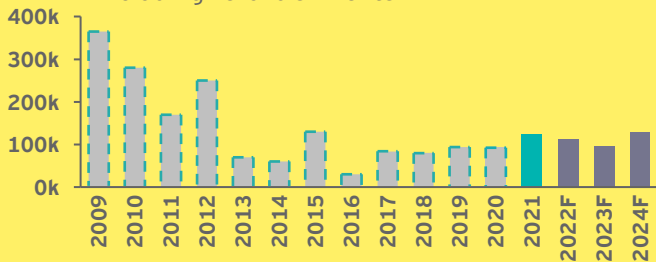
EXECUTIVE SUMMARY

Vacant space in Madrid (k sqm)

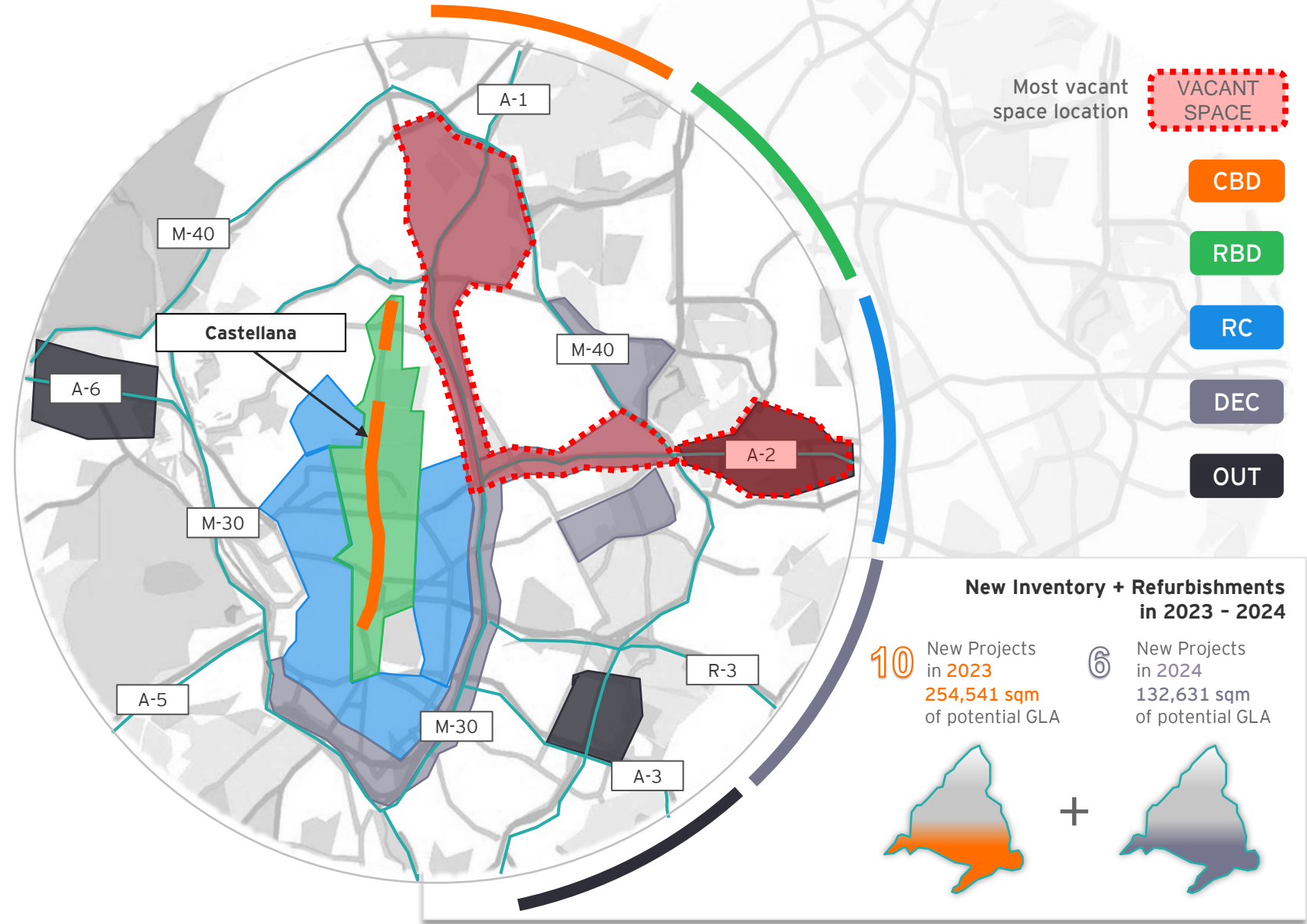
Zone	Total stock	Vacant space	Vacancy rate %
Within Calle - 30	5,439	321	5.9%
Outside Calle - 30	8,635	1,016	11.8%
TOTAL	14,074	1,338	9.5%

New Inventory trend 2009 - 2024 (sqm)*

*Excluding refurbishments



Madrid's most of vacant space is located between A1 and A2



New Inventory + Refurbishments in 2023 - 2024

10 New Projects in 2023
254,541 sqm of potential GLA

6 New Projects in 2024
132,631 sqm of potential GLA



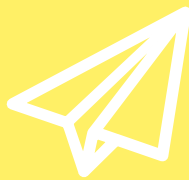


The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY



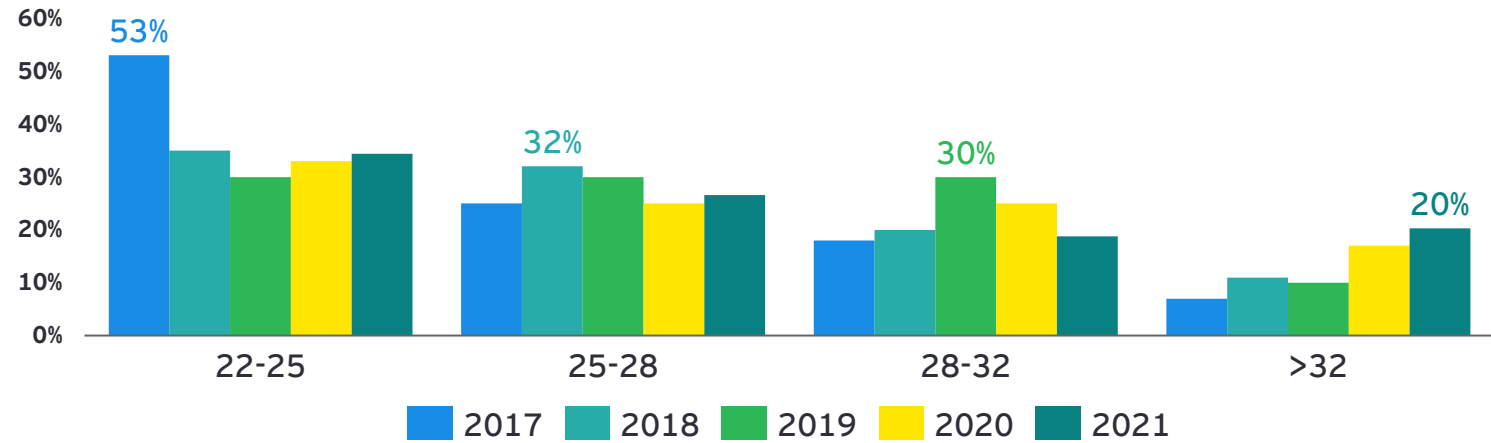
During 2021, **prime rents (>32)** have been the **top beneficiaries** representing **20% of total letting deals**



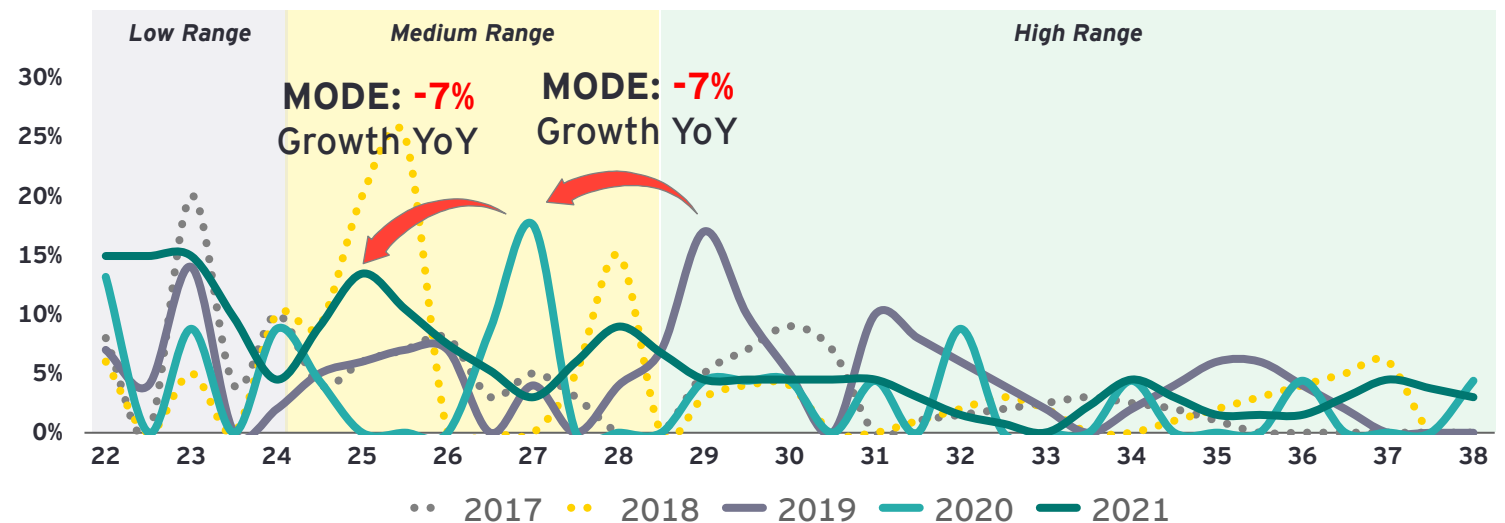
Madrid Letting Deals: Histogram 2017-2021

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

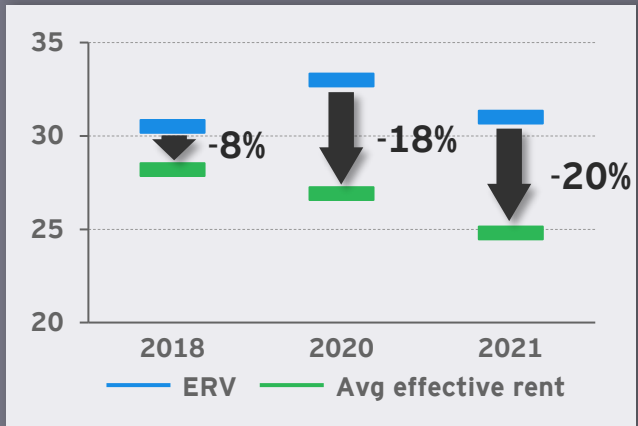




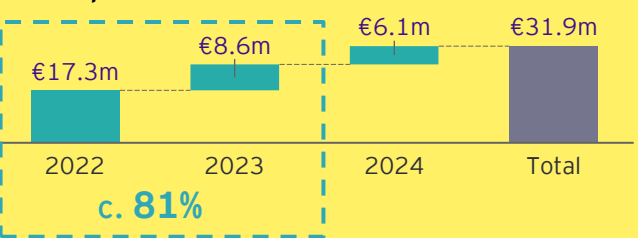
The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY

ERV vs. average passing effective rents GAP has increased from: **-8%** in 2018 to **-18%** in 2020 and **-20%** in 2021



c. **81%** of the current passing rent will optioned to break before 2024



Madrid CBD Leakage Analysis: 2018 vs 2021

ERV vs. Passing Effective Rents "GAP" has significantly expanded from 2018 to 2021 as landlords are struggling to defend occupancy

	Median rent	Mode rent	Avg. effective rent	ERV	Leakage
2018	24.6 €/sqm/month	30.0 €/sqm/month	28.2 €/sqm/month	30.5 €/sqm/month	-8%
2020	26.0 €/sqm/month	24.0 €/sqm/month	26.9 €/sqm/month	33.0 €/sqm/month	-18%
2021	26.0 €/sqm/month	24.5 €/sqm/month	24.8 €/sqm/month	31.0 €/sqm/month	-20%

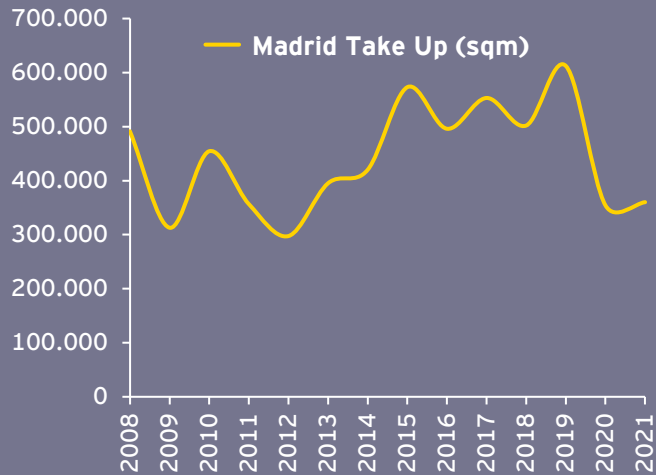
Sample Size: **202** Observations ----- **314,197** sqm



The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY

Madrid take-up evolution (sqm):

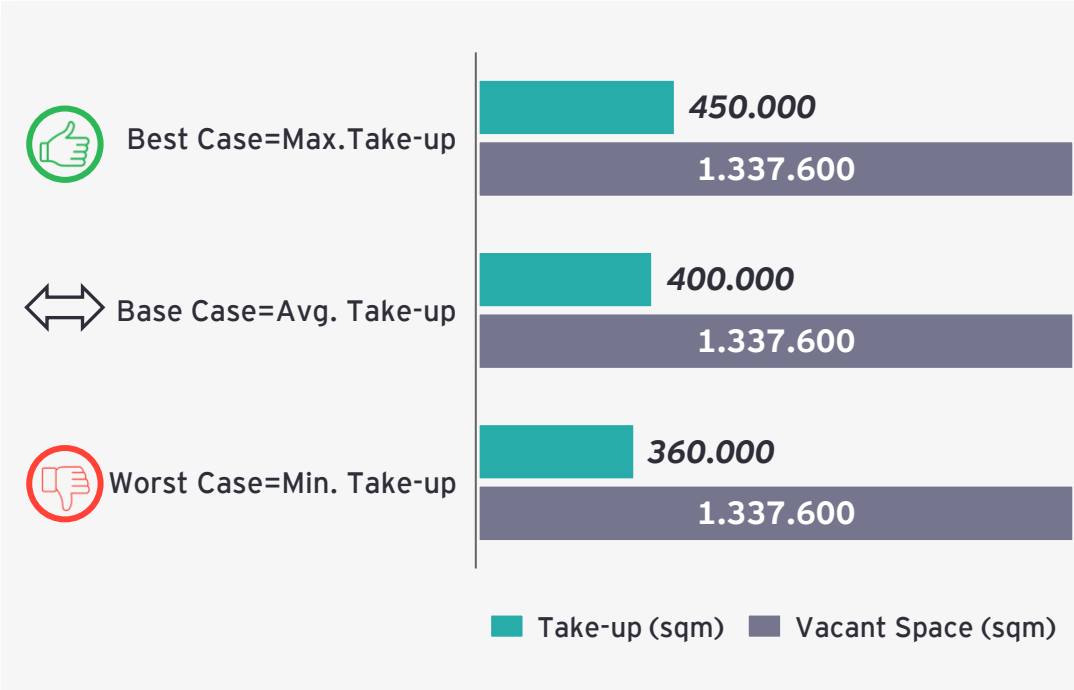


Current **vacancy** in Madrid stands at **c. 1.3m** sqm, which would take **between 6 and 17 years to absorb** at an average take-up rate



Madrid Vacancy - Chronic vacant inventory to be repositioned (even with positive net take up)

In the **Base Case**, the office space in Madrid would be occupied in **5.6 years** (if considering 60% of net take-up). On the other hand, in the Base Case, **Madrid office Market** would need **16.7 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*



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

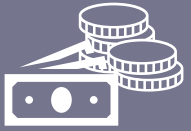


The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY



Citizens



Investors



Companies



Workers

Spanish "mileurista" employee has not already succeeded as a "worker" from home

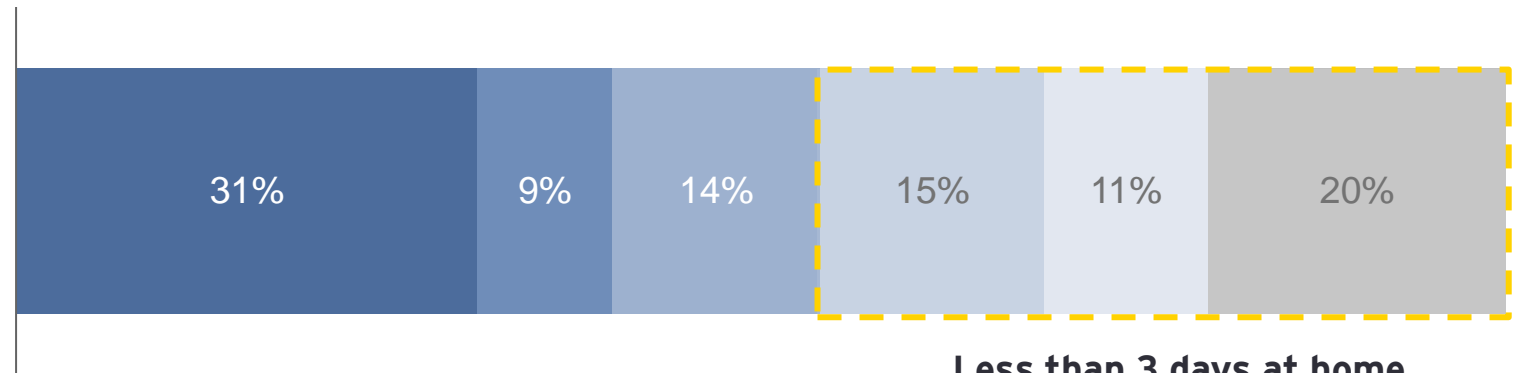


The arrival of hybrid worker is here... to stay?

It is still to be seen **how offices will challenge the current context**

US, after covid-19, how often would you like to have paid **workdays at home?**

■ Five ■ Four ■ Three ■ Two ■ One ■ Rarely



Less than 3 days at home

People prefer going back to the office.

The coworking spaces are too expensive for both the average freelance individual and also Spanish companies.

Therefore, there is a real market for companies that cannot afford an average CBD rental payment

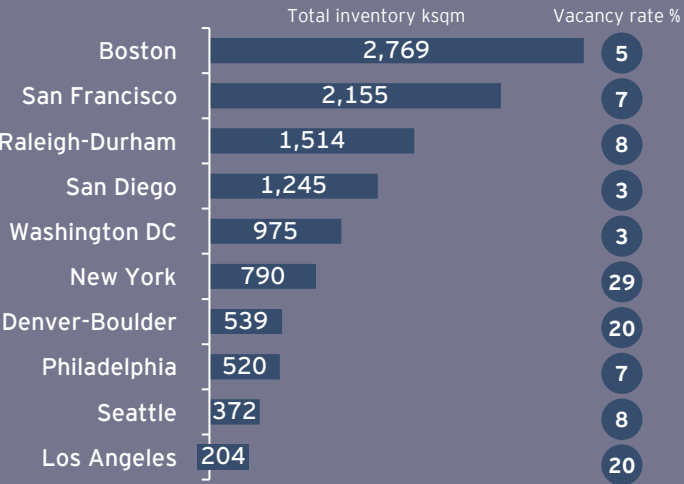
+45% of workers prefer office



The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY

US, investors-owned laboratories, total inventory (Q3 2021, ksqm and vacancy rate)



Source: JLL and EY Analysis

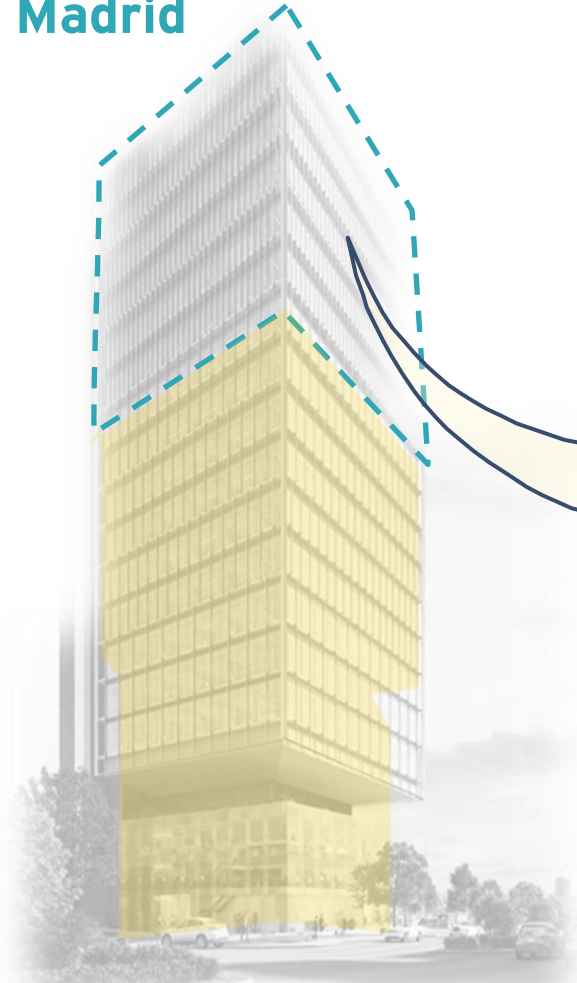
\$87bn lab industry investment will not take Real Estate for granted



What can be done with the high vacancy?

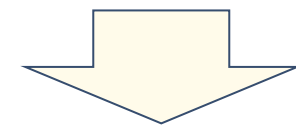
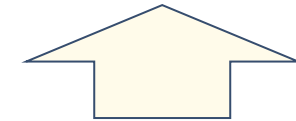
Its time to think **out of the box**

1,338k vacant sqm in Madrid



VACANT OFFICE STOCK

Universities?



Life Science?

CUNEF Campus



CUNEF Campus



Madrid Challenges





The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY

Zoom out of Madrid city centre



The challenge is to make the most of Calle 30 and M-40 synergies



It is high time to open Madrid beyond Calle 30



Cuatro Torres



Azca



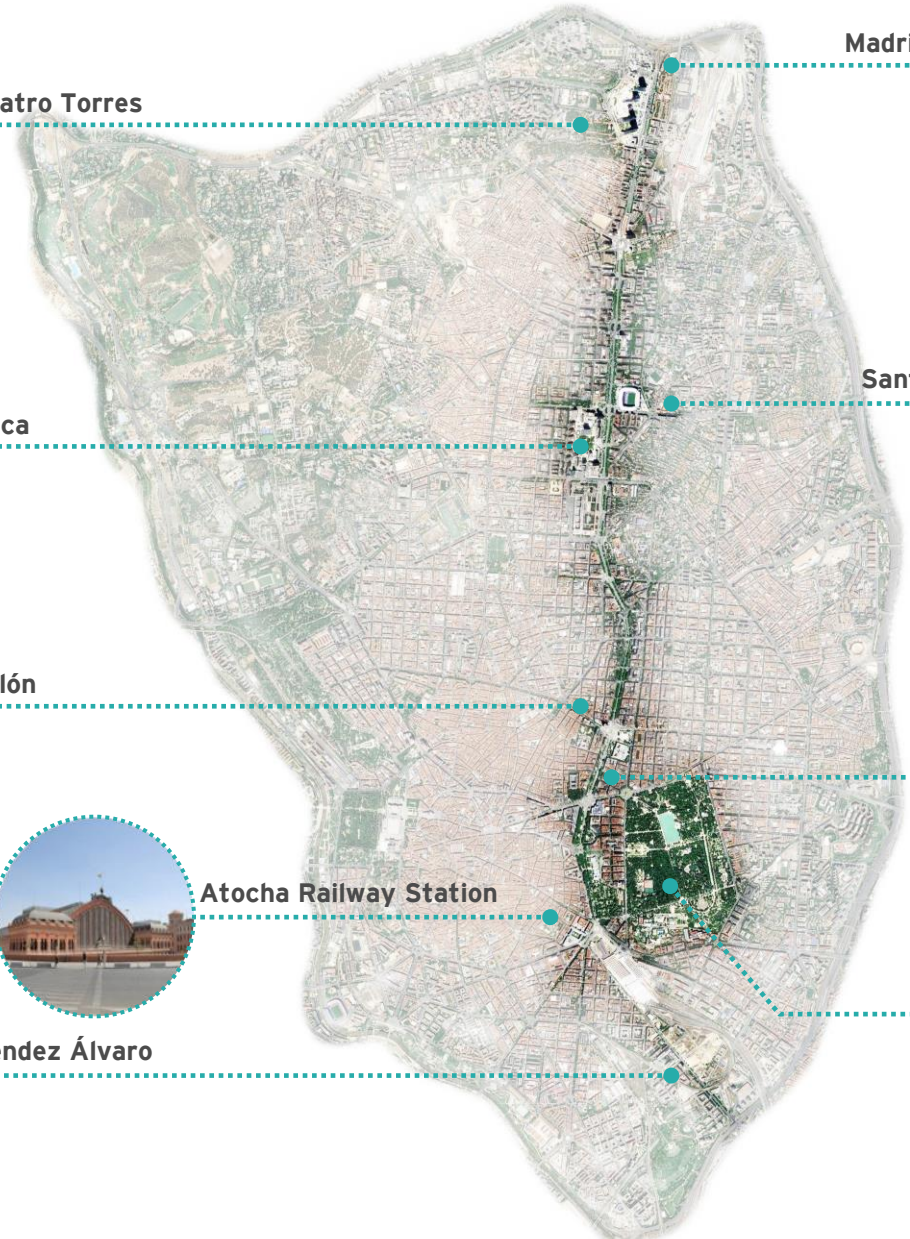
Colón



Atocha Railway Station



Méndez Álvaro



Madrid Nuevo Norte



Santiago Bernabeu



Cibeles square



Retiro Park



Area Méndez Álvaro

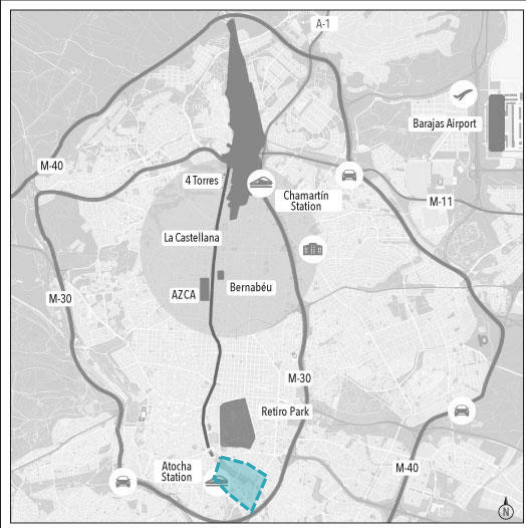




The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY

Méndez Álvaro Location



A mixed-use concept with an excellent connection to take an outdated area to the next level.



New opportunity for mixed uses in the southeast of Madrid



- Residential
- Commercial
- Railway infrastructure
- Green spaces
- Tertiary use
- Cultural facilities
- Sports facilities

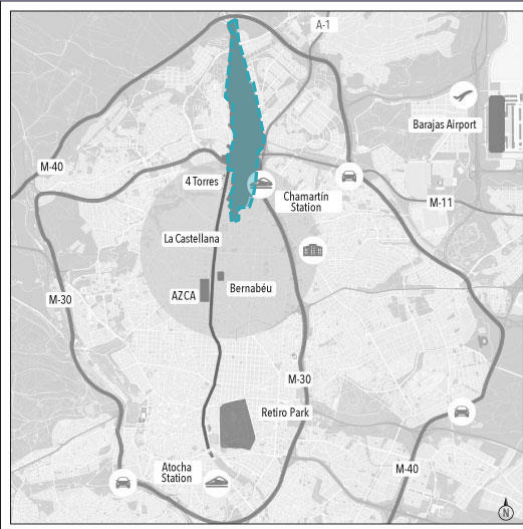




The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY

Madrid Nuevo Norte Location



The project which had been delayed for 30 years is **gathering momentum**



Madrid will host the most relevant mixed used project in southern Europe





The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY

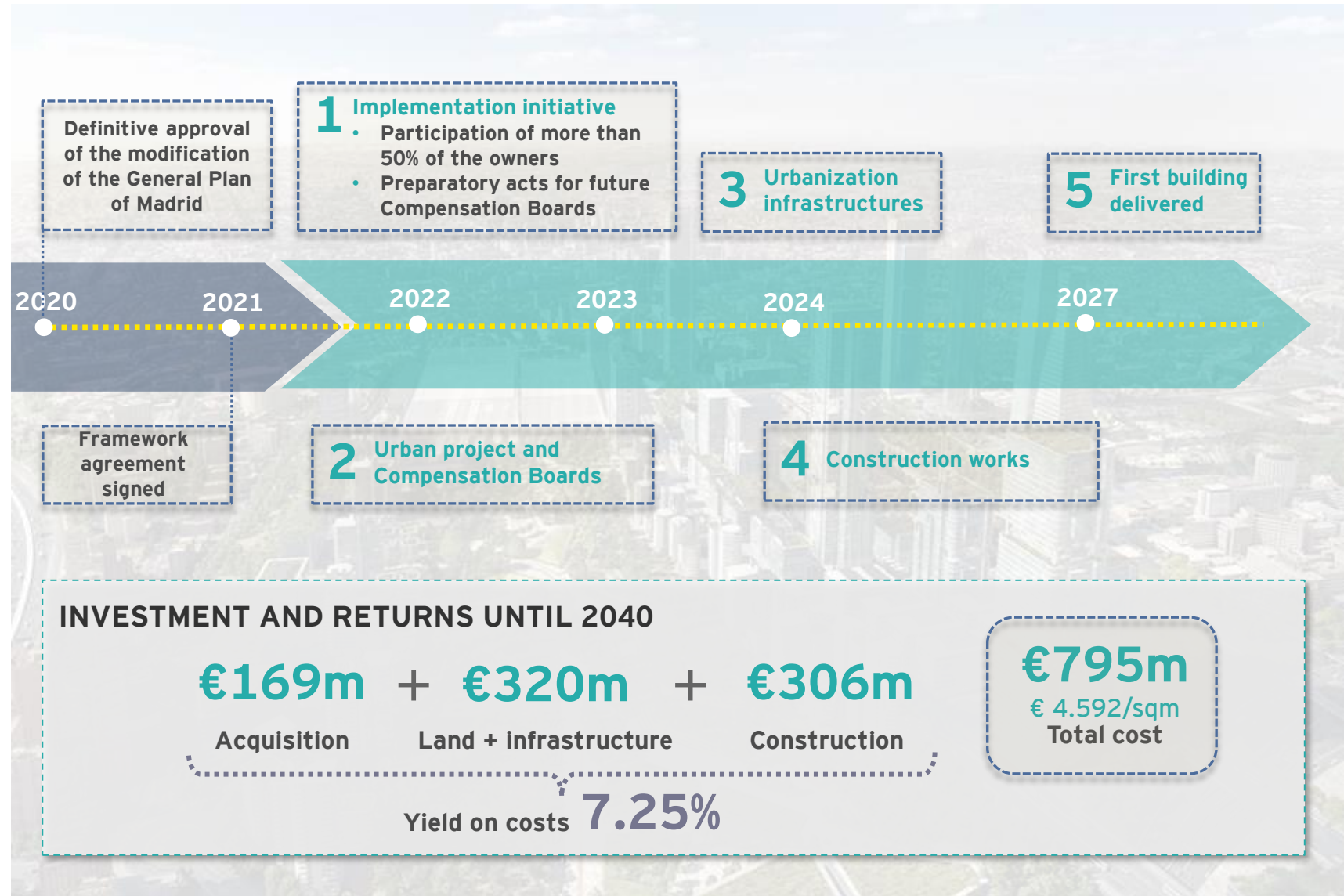
Main objectives

- ❖ Strategic **location**
- ❖ **Big scale** of the project (5.6km)
- ❖ Variety of **uses**
- ❖ Best **connections** by railway and public transport
- ❖ Extend **green areas** and public facilities
- ❖ New **Central Business District**

A unique
mixed-use
hub in Europe



Madrid Nuevo Norte first building will be delivered in 2027



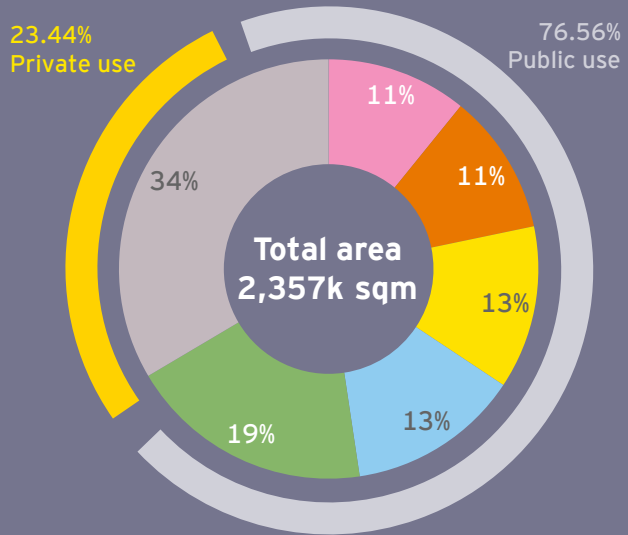




The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY

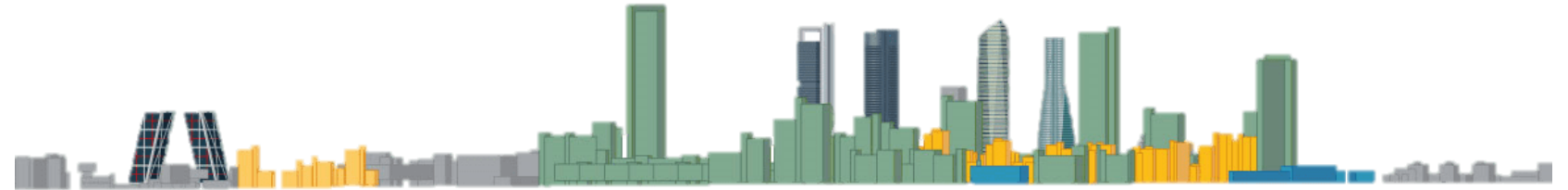
Distribution of uses



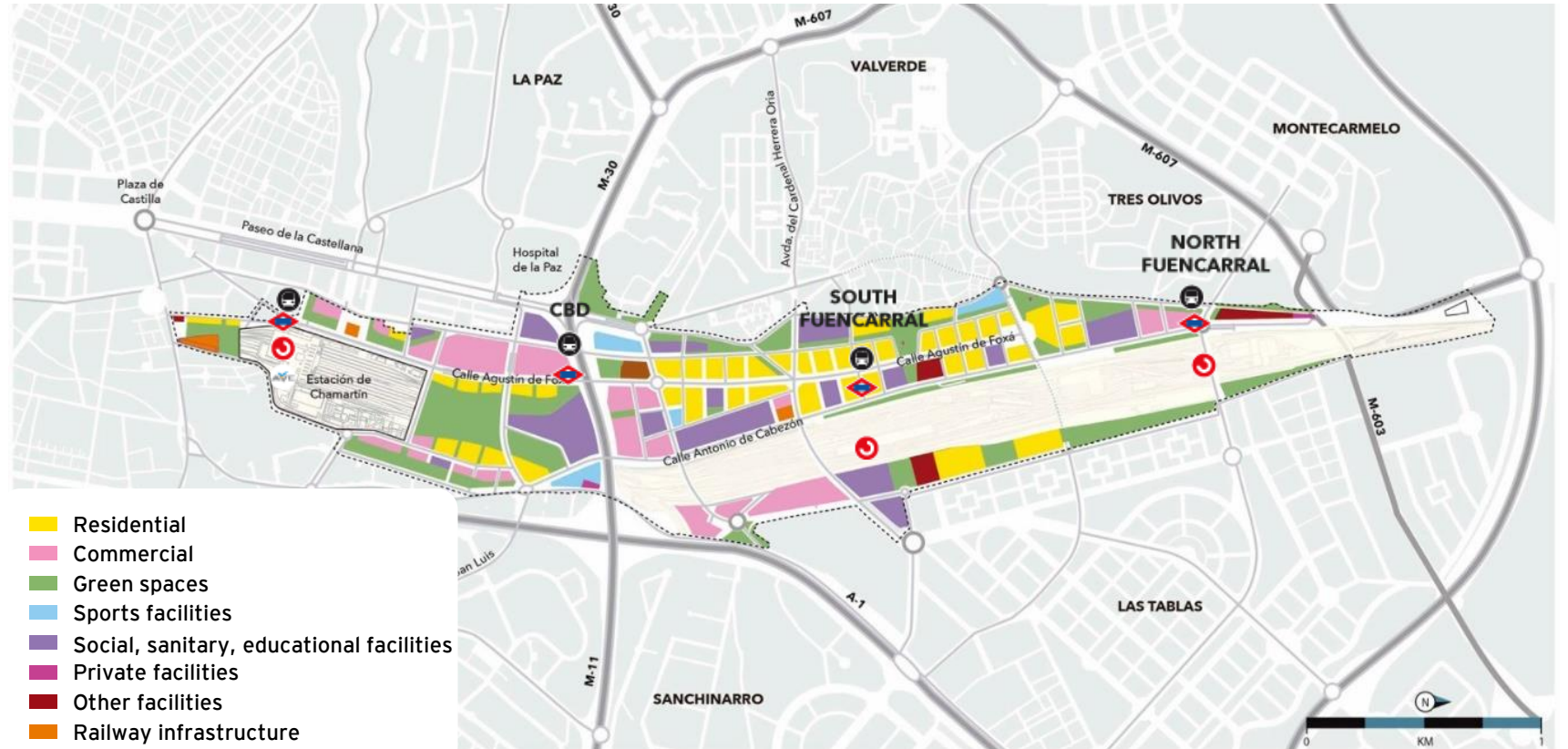
The project opts for **mixed uses** and aims to create a city that is bursting with life. The variety of uses will complement each other creating a **24/7 activity**. This will prevent it from becoming a commuter town.



New 5.6 km from north to south that represent a great opportunity for Madrid



Residential Offices Facilities



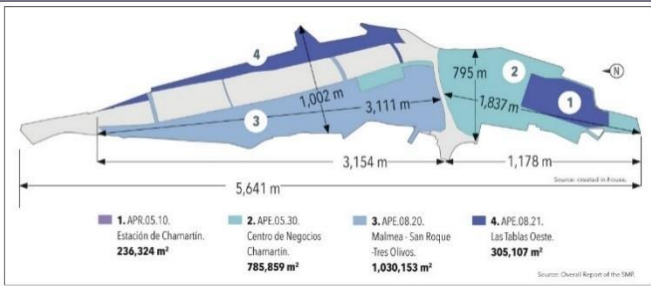




The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY

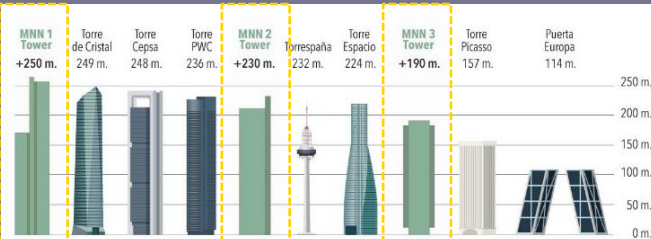
Four domains



Green areas



Skyline including Madrid Nuevo Norte towers



Madrid Nuevo Norte is being built through a social engagement framework

WHY?

The **main goals** pursued by this area are:

- 1 To **integrate the neighbourhoods adjacent** to the Madrid Nuevo Norte project appropriately.
- 2 To **generate added social value** for the neighbourhoods connected to the project and for the entire city of Madrid

HOW?

The Social Engagement Area allows to **exploit the potential** of the project in two ways:

- 1 To **implement a strategy** to adapt to social changes.
- 2 To **minimise the negative consequences** of uncertainty.

SOCIAL ENGAGEMENT AREA PURPOSES

WHAT?

The **five pillars** underpinning Social Engagement Area action are:

- 1 Becoming familiar with **understanding the social dynamics of the neighbourhoods.**
- 2 Creating permanent **two-way channels of communication.**
- 3 Enhancing the **involvement of residents.**
- 4 Finding **common values.**
- 5 Incorporating the **real need of the neighbourhoods** into the Madrid Nuevo Norte project.

WHO?

DCN (Distrito Castellana Norte) is the first Spanish company to create a Social Engagement Area to **capitalise on inclusive and participatory urban planning.** The Social Engagement is an area:

- 1 **Structured.**
- 2 **Coherent**
- 3 **Permanent.**
- 4 **Integrated in the company.**



The Office Property Telescope
Spain 2020

WHAT IS NEXT?



The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY



Offices 5.0

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

COVID PUSHING TRANSFORMATION

The surge 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**



- OPENNESS
- INCUSIVENESS
- SUSTAINABLE
- DIGITAL
- PRO - MOBILITY
- CYBER SECURE
- HYBRID
- AUTONOMOUS CARS

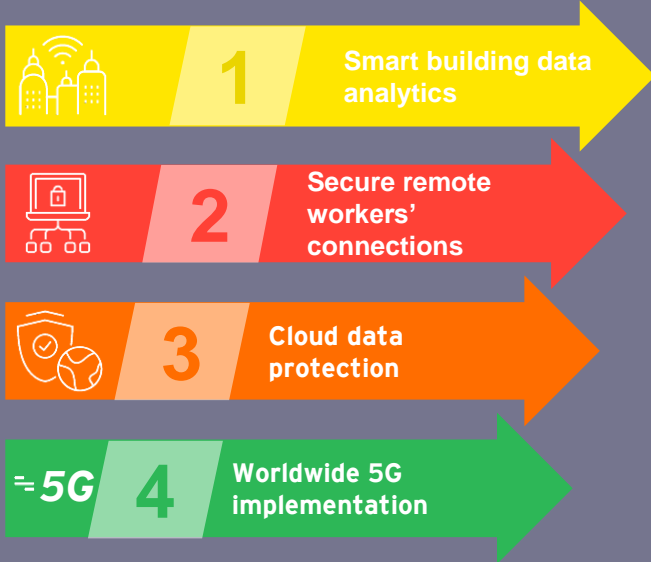




The Office Property Telescope
Spain 2022

EXECUTIVE SUMMARY

Key cybersecurity trends

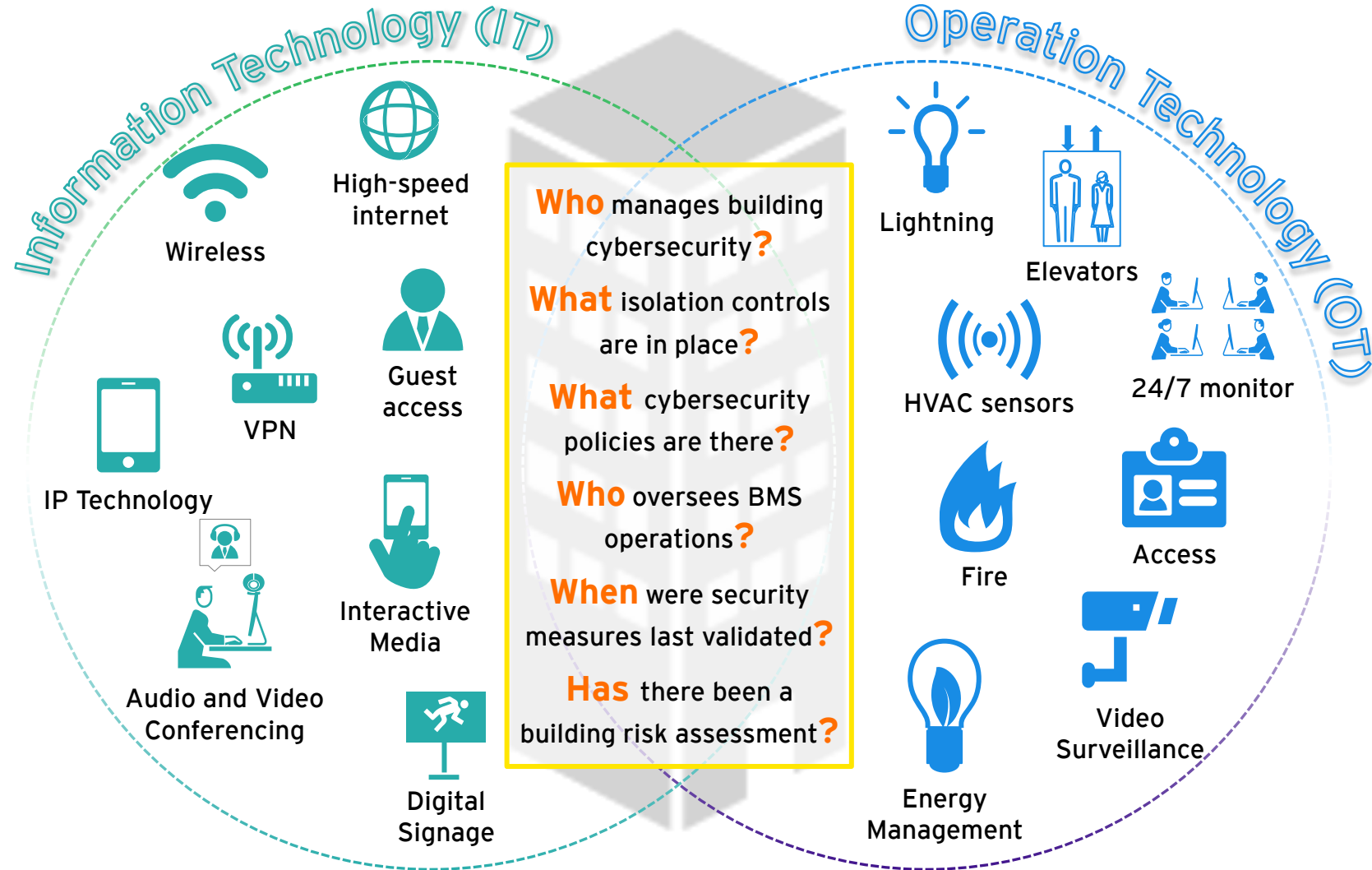


The increase of cyber attacks in recent years has led companies to **pay more attention to the cybersecurity**, with a special focus on **those unsecure connections used by their employees** on and off side their HQs.



Cybersecurity:

One building, two networks: IT and OT, **two different environments**





Building a better
working world

The Office Property Telescope

Investment & Financing Keys
Spain 2022

#TheOfficePropertyTelescope

For further information...

Request the Expanded Edition

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