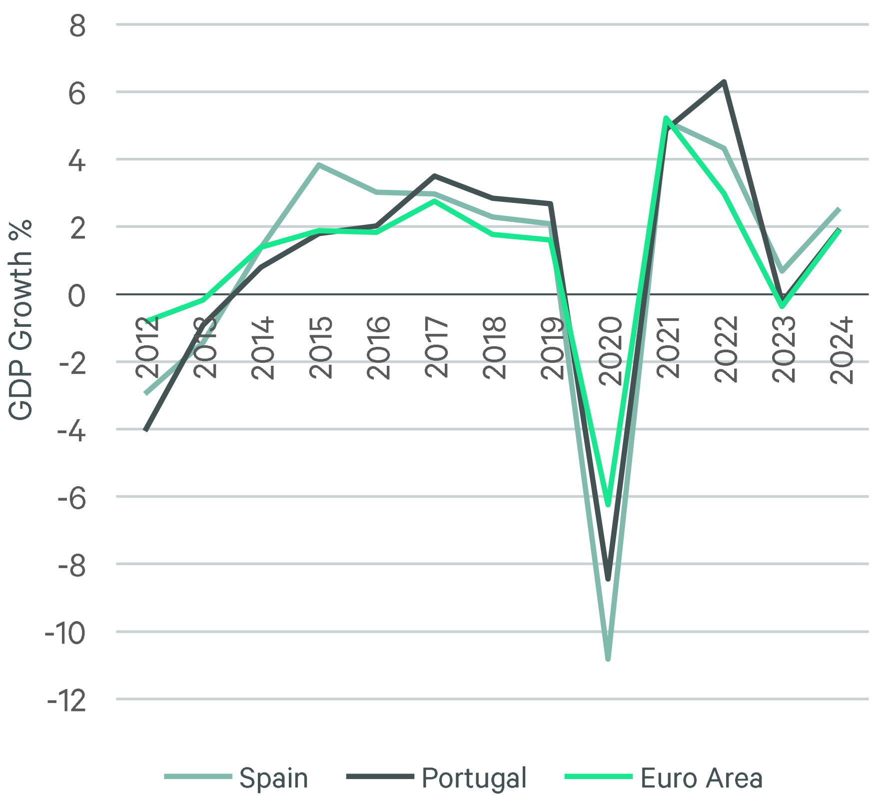
Iberian Real Estate Market

2022

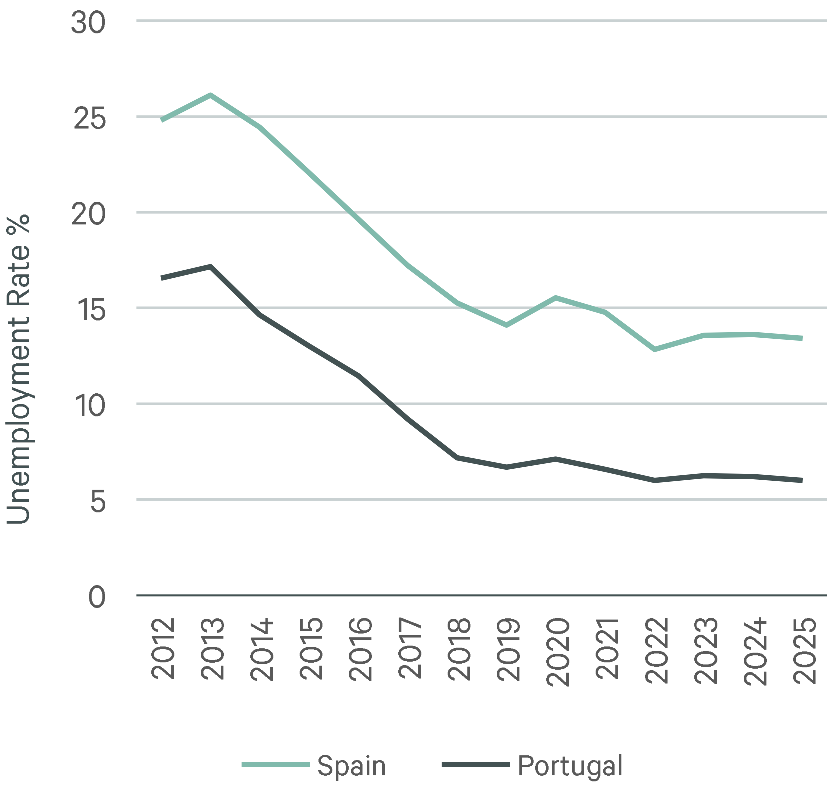
The macroeconomic context is marked by high inflation and the response of central banks.

Slight slowdown in employment in 2023, but still significantly below pre-pandemic levels

Inflation (%)



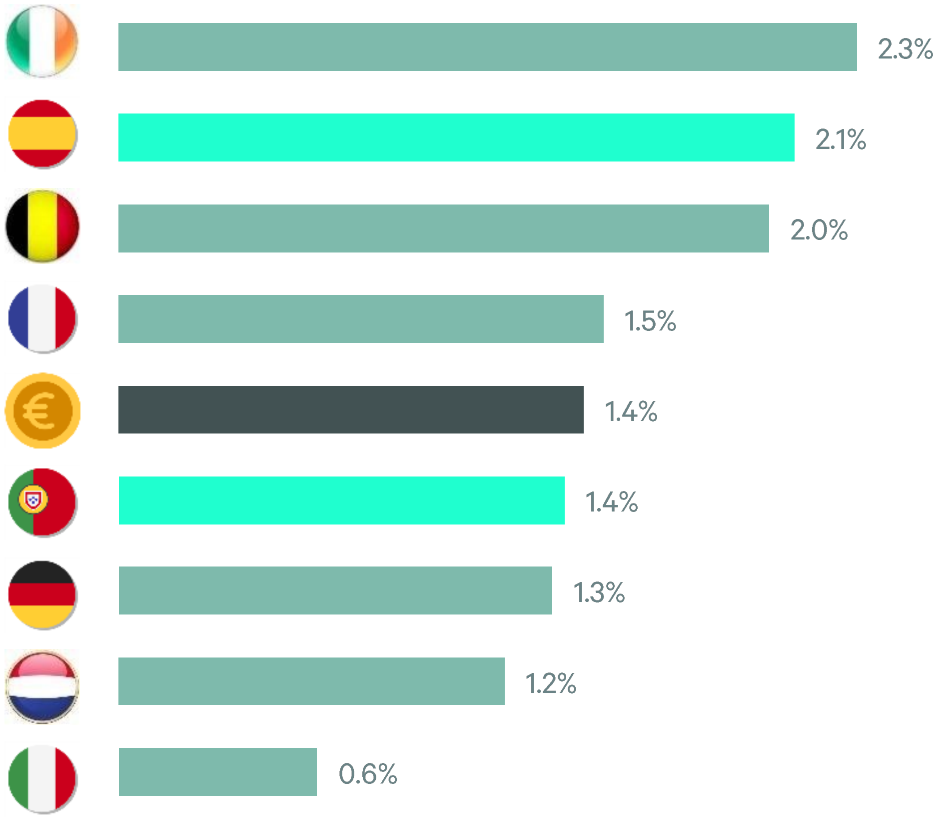
Evolution of employment



Source: CBRE House View (October 22, Preliminary)

Spain and Portugal have good growth forecasts, Spain outperforming the main European economies

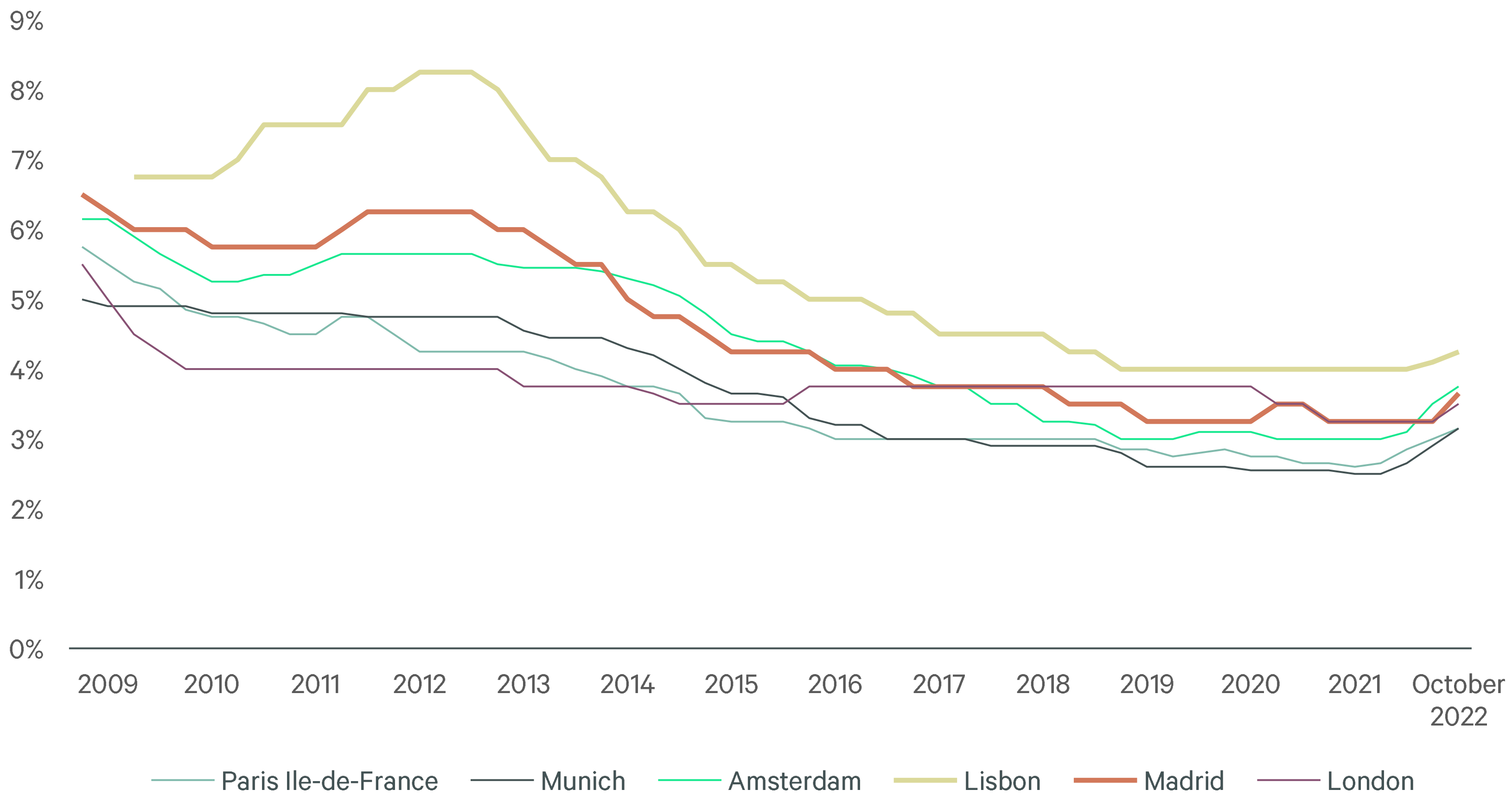
GDP growth (2023 - 2026)
(CAGR; %)



Source: CBRE Data Science from the House View

EUROPE

Office Prime Yields across Europe
by quarter (%) Up to October 2022



Prime Yield October 2022

- Paris Ille-de France: **3.15%** (+50bp vs Q3 2021)
- Munich: **3.15%** (+50bp vs Q3 2021)
- Amsterdam: **3.75%** (+75bp vs Q3 2021)
- Madrid: **3.65%** (+40bp vs Q3 2021)
- London: **3.50%** (+25bp vs Q3 2021)
- Lisbon: **4.25%** (+25bp vs Q3 2021)

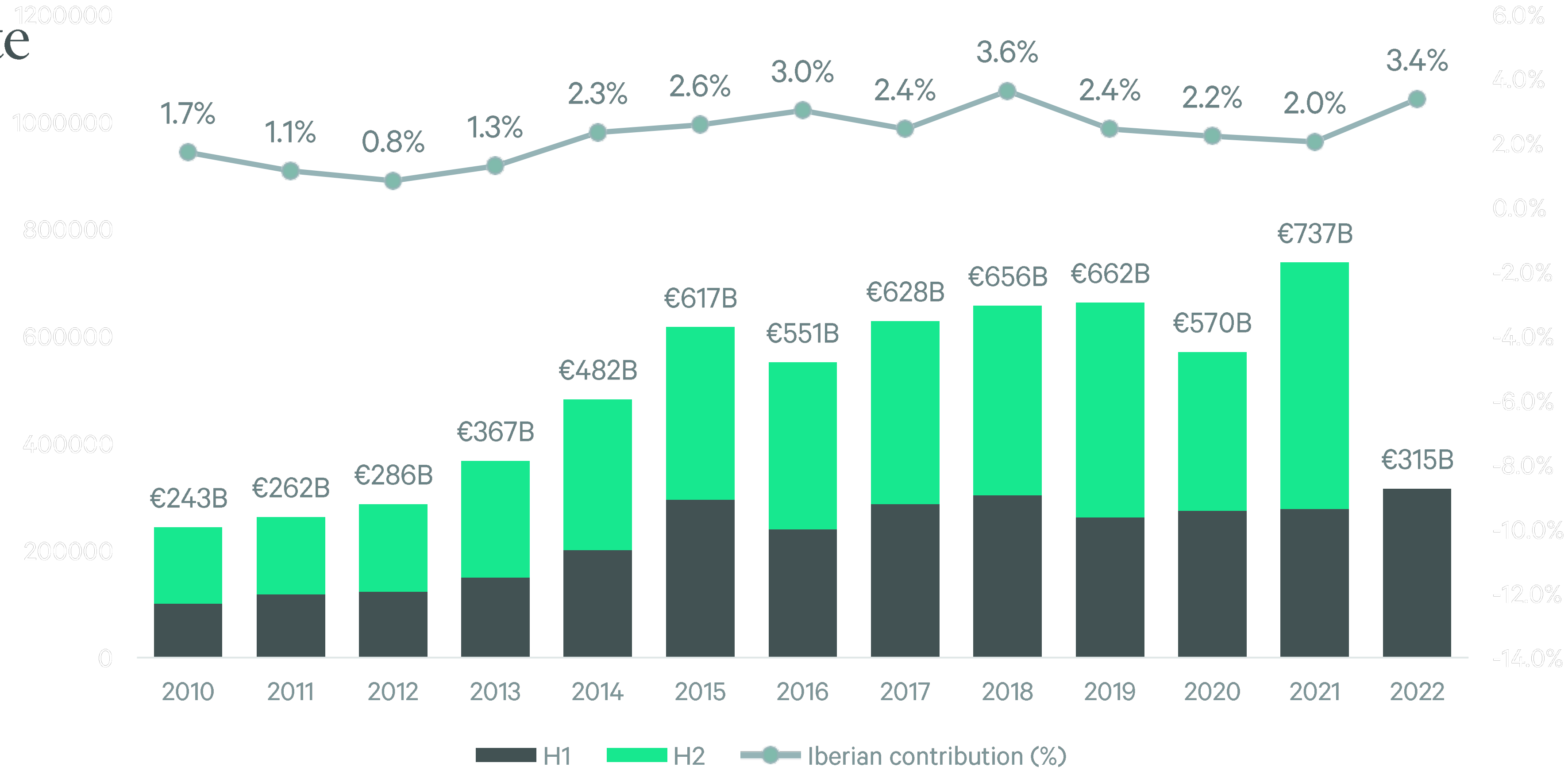
Investment Market

CAPITAL MARKETS

Record first half for European Real Estate Investment

Total investment volume in Europe & Iberian contribution

by semester (€ Million; %)

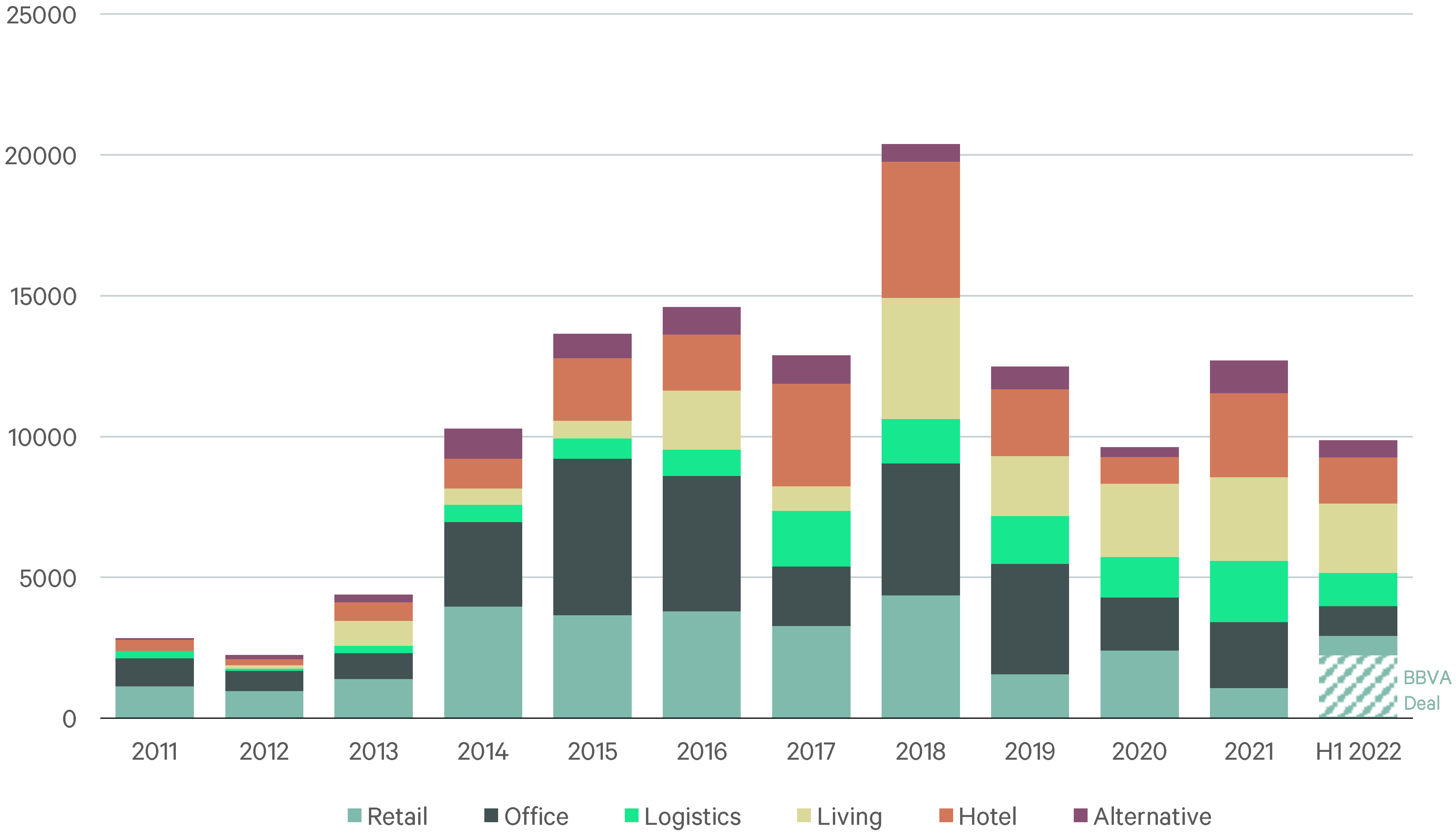


Source: CBRE Research

SPAIN

Different investment trends between sectors

Investment volume in Spain
by sector (€ Million)

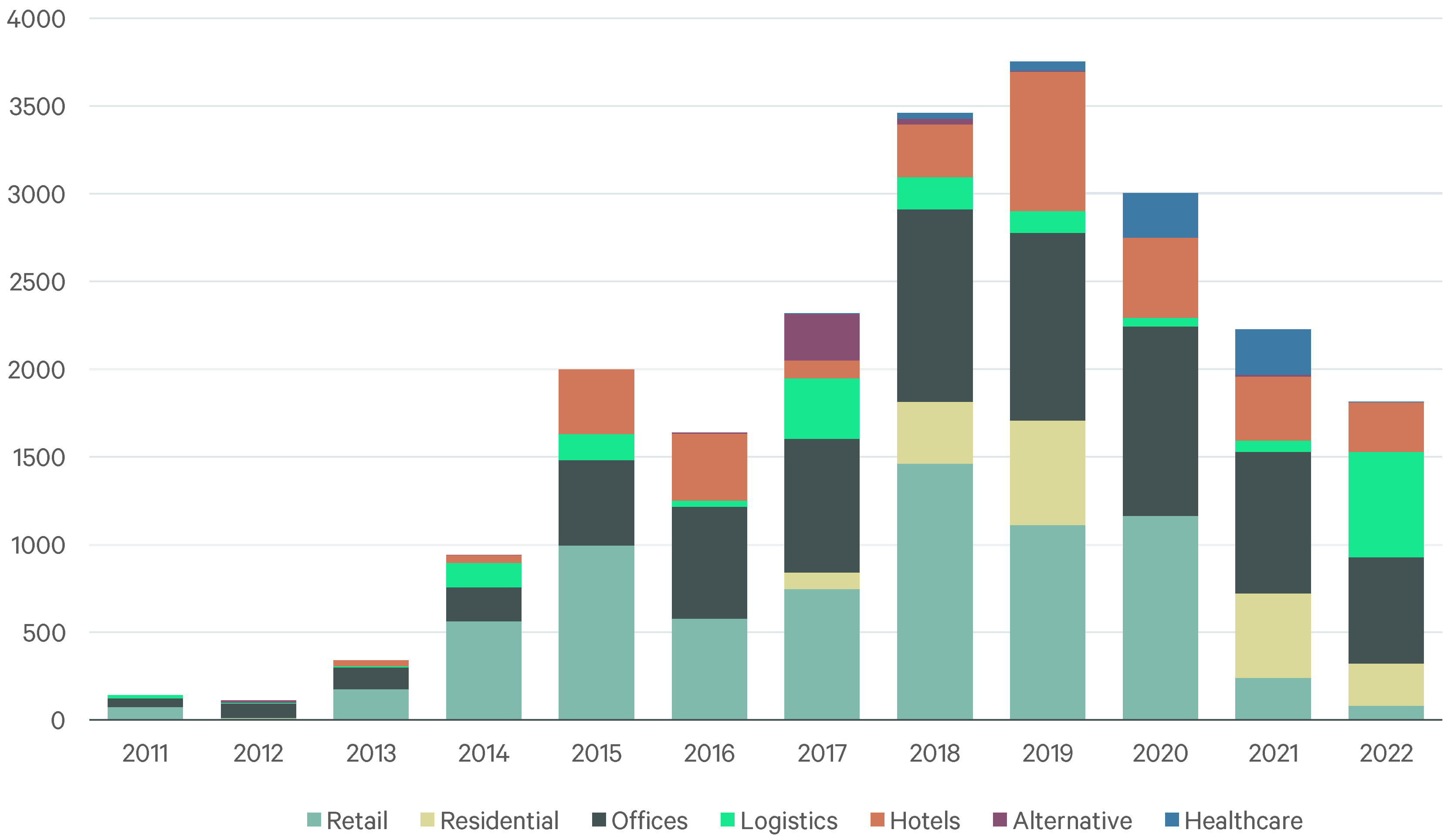


Source: CBRE Research

PORTUGAL

Different investment trends between sectors

Investment volume in Portugal
by sector (€ Million)



Source: CBRE Research

SPAIN

▲ **Offices 3.65%** (+40 bp)

▲ **I&L 4.35%** (+45 bp)

▲ **High Street 4.00%** (+75 bp)

▲ **Shopping Centres 6.10%** (+60 bp)

▲ **Multifamily 3.35%** (+35 bp)
* Barcelona +25pb compared to Madrid

PBSA 4.50% (0 bp)
* Barcelona +25pb compared to Madrid

▲ **Hotels 4.75%** (25 bp)

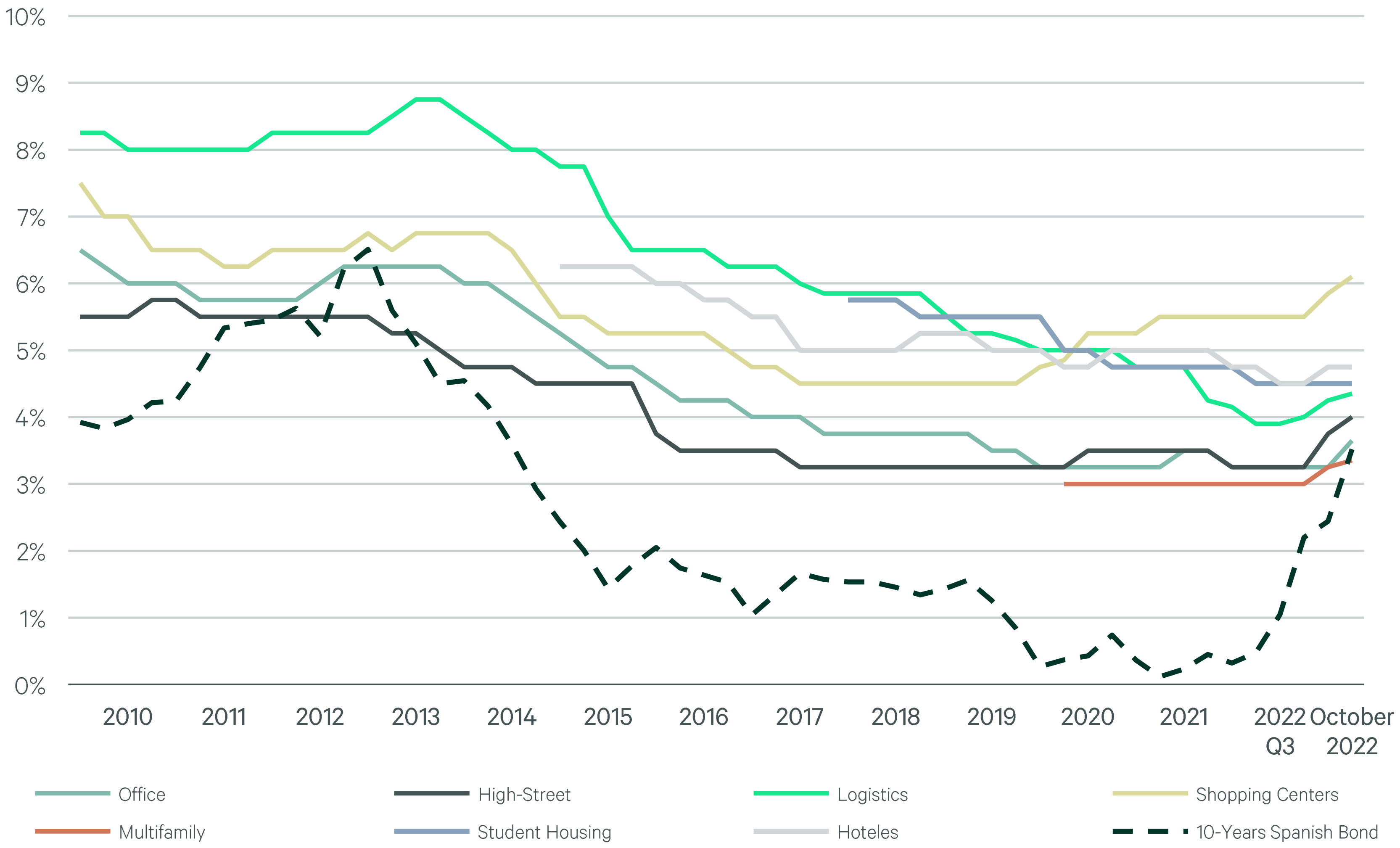
Prime yield data as of October 14th 2022 (and variation vs. January 2022)

Trend:
▲ Stronger ▼ Weaker Stable

Source: CBRE Research & Oxford Economics

Impact on yields by sector and increase in Spanish bond

10-years Spanish bond vs Prime yields by sector



PORTUGAL

▲ **Offices 4.25%** (+25 bp)

I&L 4.75% (0 bp)

▲ **High Street 4.50%** (+25 bp)

▲ **Shopping Centres 5.75%** (+25 bp)

▲ **Multifamily 4.25%** (+25 bp)

▲ **Hotels 5.25%** (+25 bp)

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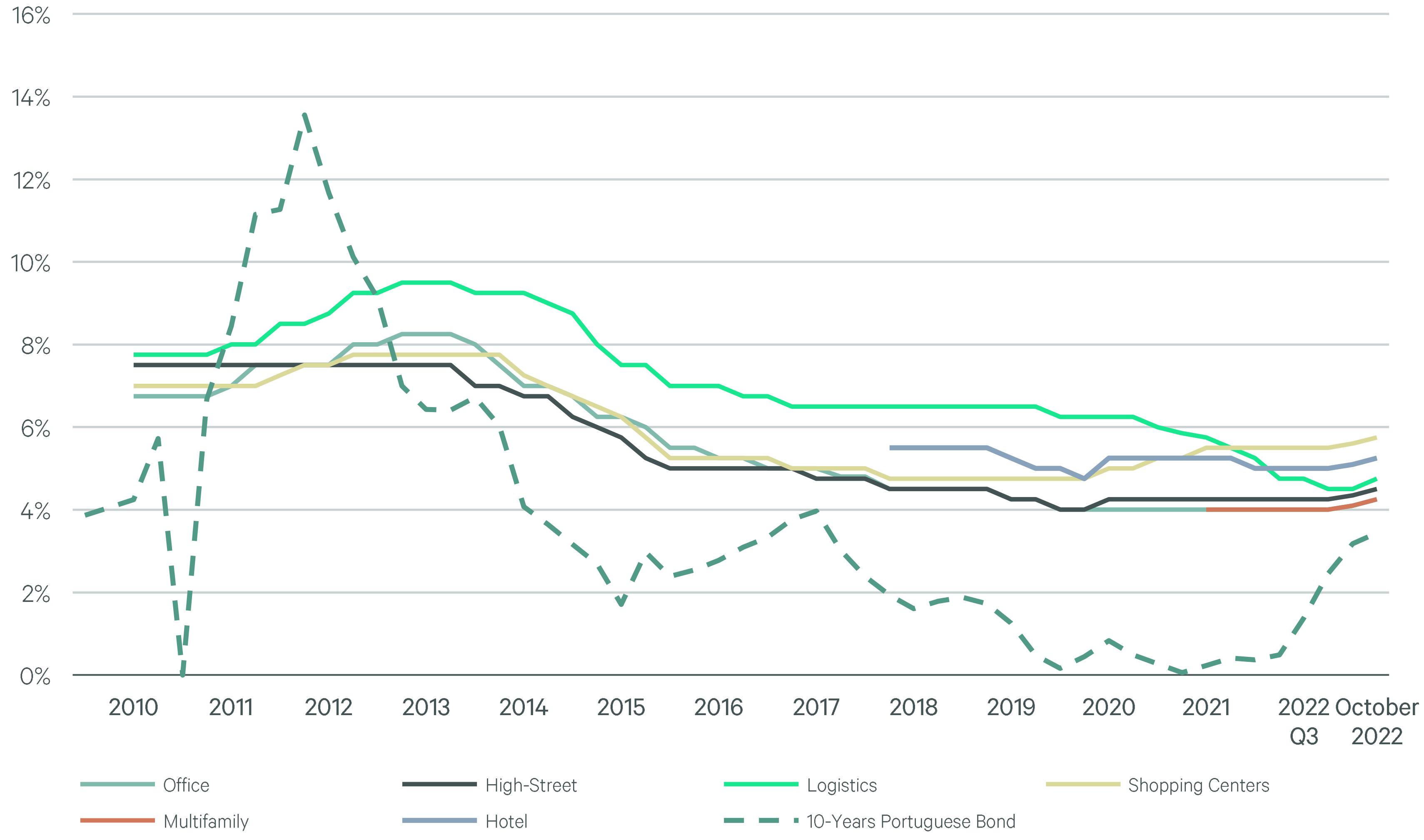


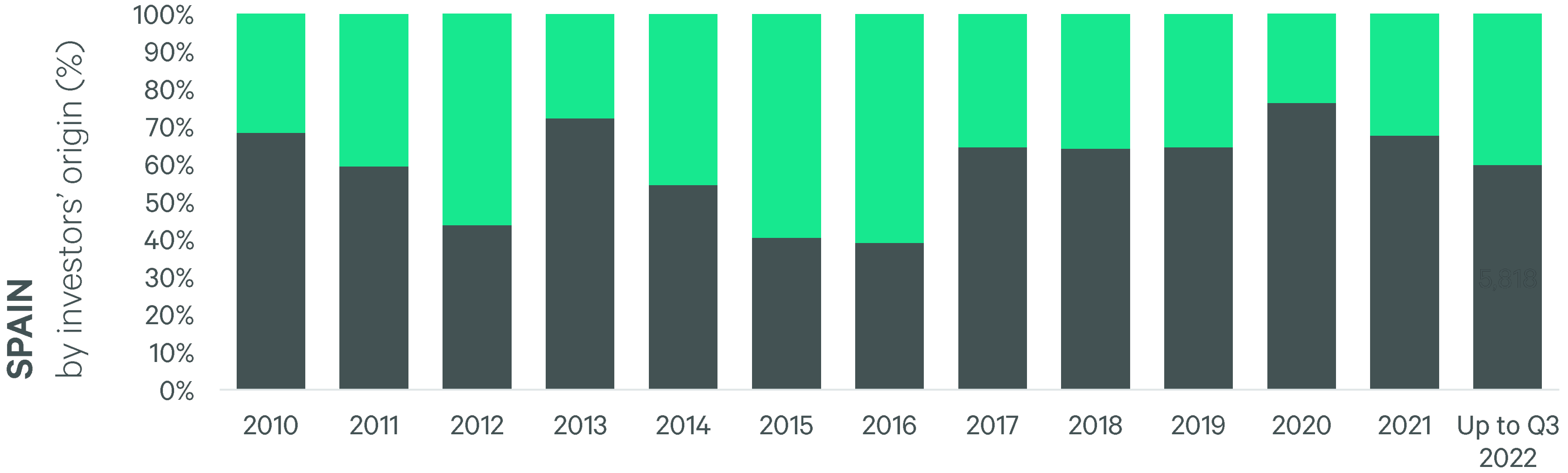
Investment volume per investors' origin

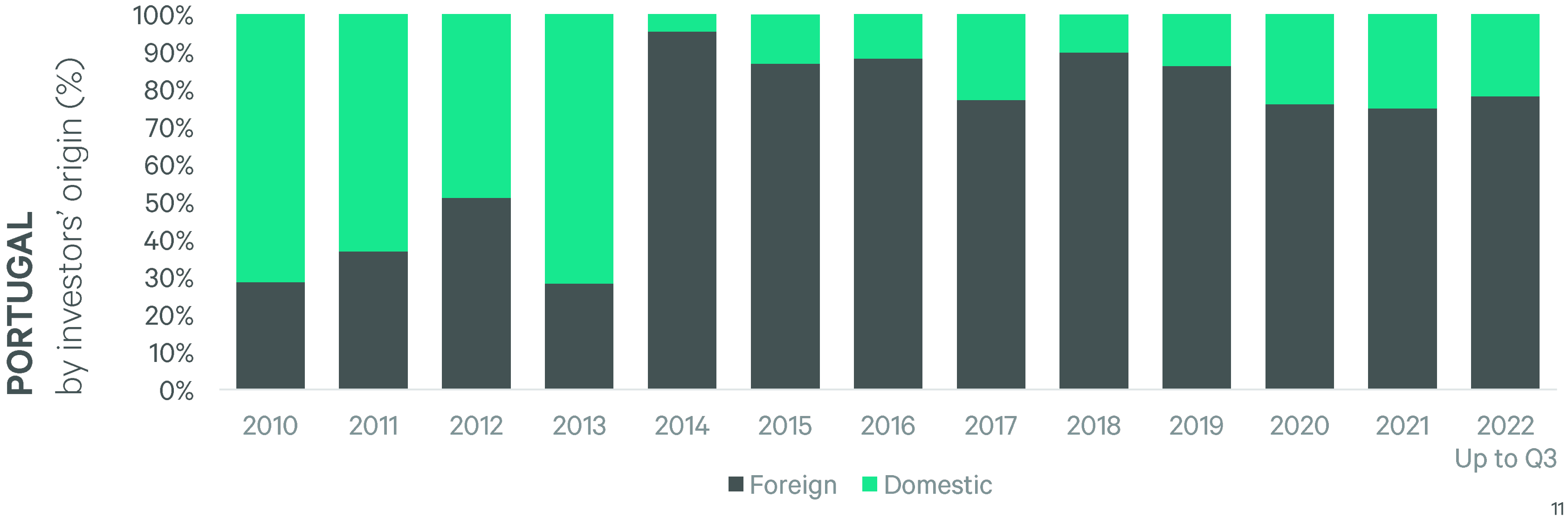
60%

Foreign investment in Spain

78%

Foreign investment in Portugal





Main Market Trends

OFFICE

	Market Fundamentals	What drives investment	Opportunities	Threats
SPAIN	- Market polarization - Oversupply in some submarkets but Grade A remains limited - Medium-large demand subdued - Prime yields resilient	- Core and core plus opportunities - Repositioning in central urban areas - Sustainable cash flows in the medium term	- Repositioning obsolete buildings or new development in non-central but well stablished locations	- Slow-down of demand - WFH disruption - Reduction of mandatory lease periods
PORTUGAL	- Supply & Demand imbalance (take-up record figures) - Obsolete and non-compliant standing stock - Limited new Grade-A pipeline	- Demand for Core and Value-add opportunities - Central urban areas -Top international covenants -Rent increase potential	- ESG certification - Repositioning of current stock - Rental gap vs other European markets	- Construction cost increase - Service charges increase due to energy costs

RETAIL

	Market Fundamentals	What drives investment	Opportunities	Threats
SPAIN	- Low e-commerce penetration in Spain - Tenant portfolio consolidation - Retail sales volume increase	- Shopping Centres has lead Retail Investment in H1 2022 - Long-term leased assets, with solvent tenants and sustainable rents. - Essential goods & adaptation to omnichannel.	- Still high activity in Fastmoving consumer goods market. - Retail Parks and High Street (Prime & Good secondary).	- E-commerce growth. High Inflations - Tenant balance sheets & supply chain challenges.
PORTUGAL	- Low e-commerce penetration also in Portugal - Positive sentiment amongst retailers with several new store openings	- Strong appetite for Supermarkets, Retail Parks and High Street units. - Long-term leased assets, with solvent tenants and sustainable rents.	- Value-Add investment opportunities in Shopping Centres and Retail Parks (repositioning and high-CAPEX programs) - Distressed sellers	- E-commerce growth and increasing interest rates - Tenant balance sheets & supply chain challenges. - Legal framework around inflation (caps)

LOGISTICS

	Market Fundamentals	What drives investment	Opportunities	Threats
SPAIN	- Low e-commerce penetration in Spain - Demand in record levels - Lack of supply in some cities - Prime yields in record low	- E-commerce growth potential - Rental growth in selected markets	- New spec and built to suit automated and sustainable premises - Urban, last-mile logistics - Tier 2 cities - Cold-chain, food logistics	- Labor shortages - Relatively high spec construction vs European average - Increase in land prices
PORTUGAL	- Very Low vacancy (<2%) & difficulty for large players to enter the market or reallocate in the territory - Lack of available modern stock	- Low investment sector historically (last 10 years) - Low rental market values vs. other European countries - Penetration and consolidation of e-commerce habits	- Need for new stock with updated characteristics - Investment in new logistics areas - Yield spread vs. other European countries	- Market dominance by a few players/landlords - Time and issues for licensing of new construction - Increase of energy costs and construction costs

RESIDENTIAL

	Market Fundamentals	What drives investment	Opportunities	Threats
SPAIN	- Demographic and Socio-cultural changes - Increasing demand - Rental housing: difficult access to home ownership - Obsolete stock	- Defensive asset class - Diversification portfolio strategy - Joint Ventures local developers & institutional investors	- New urban develop. & land in an early planning stage in metro areas - Building process acceleration - Affordable housing Public-Private developments - Advantageous financial conditions (PRS)	- New regulation - Shortage of land ready to be developed - Increase of construction costs
PORTUGAL	- Market traditionally driven by home ownership - Low stock available New construction curtailed for the past 10 years (since financial crisis) - Affordability is becoming a critical issue	- Refurbishment of residential assets in main city center - Stable and resilient investment market - Low rental and cap values vs. other European countries	- Upcoming affordable housing programs supported by local municipalities - Lack of quality stock - Increase in mortgage interest rates will strengthen rental market	- Government legislation for rental market - Time and constraints for licensing of new construction

HOTELS

	Market Fundamentals	What drives investment	Opportunities	Threats
SPAIN	- Spain is the 2nd most visited country in the world - Consolidated urban and resort destinations are experiencing speedy recovery post COVID-19 - Strong atomization of the industry	- Confidence in sector recovery - High liquidity in the market with pressure to deploy capital in the near-term - Higher returns vs other asset classes	- Development of new lodging products and formulas such as flex space, coworking, workation… - Hotel operators are seeking liquidity by means of asset divestment or corporate deals involving equity raising and JVs	- Lack of bank financing - Lack of structured sales processes in the market
PORTUGAL	- Similar drivers as Spain (culture, weather, geography, etc.) - Established leisure destinations (i.e. Algarve, Madeira) - Growth of attractiveness to digital / remote workers - Growth of touristic residential RE appeal	- Confidence in sector recovery & historical outperformance - Ability to develop premium/luxury offers through development but also repositioning - Hotel investment can be complemented with touristic residential real estate - Golden Visa programs	- Development of branded residences and touristic residential RE, and luxury product - Hotel operators are seeking liquidity by means of asset divestment or corporate deals involving equity raising and JVs	- Lack of structured sales processes in the market - Reliance on international financial markets conditions

SPAIN CONCLUSIONS

	Market Fundamentals	Opportunities
OFFICES	Market polarization	- Repositioning obsolete buildings or new development in well stablished locations
RETAIL	What has survived is bullet proof and it offers higher returns	Resilient SC & Long-term leased assets, with solvent tenants and sustainable rents
LOGISTICS	Demand in record levels and rental growth	- New automated and sustainable premises - Urban, last-mile; Cold-chain food logistics
RESIDENTIAL	Demographic and Socio-cultural changes Access to home ownership & Obsolete stock	Joint Ventures local developers & institutional investors
HOTEL	Spain is the 2nd most visited country in the world Recovery of consolidated destinations	Hotel operators are seeking liquidity and this sector offers higher returns

PORTUGAL CONCLUSIONS

	Market Fundamentals	Opportunities
OFFICES	Low vacancy, high demand and constrained new supply	Repositioning of obsolete buildings, construction of modern ESG compliant buildings. Secondary cities
RETAIL	Strong recovery and performance despite headwinds.	Resilient SC & Long-term leased assets, with solvent tenants and sustainable rents
LOGISTICS	Significantly undersupplied sector. Near shoring and e-commerce providing solid expansion basis	Development of new modern assets, last mile, cold storage New logistic hubs (secondary cities and connexions to Spain)
RESIDENTIAL	Demographic and Socio-cultural changes Access to home ownership & Obsolete stock	Strongly under-supplied market governmental and municipal affordable rental programs
HOTEL	Resilient sector, benefiting from increasing notoriety and popularity in international markets	Repositioning of older assets New operators with new operating models are providing significant rental growth possibilities

CBRE

Thank You