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JLL

# REITs

## Solidity and value for recovery

October 2020

*Prepared with the assistance of Uría Menéndez

# Contents

We are proud to present the second edition of the report on the Spanish REITs market, updated using the financial statements for the 2019 financial year of each of the real estate vehicles operating in our country. These vehicles, born out of the 2009 legislation and its subsequent relaxing in 2012 as a way to reactivate the sector in the midst of the crisis, were a novel concept for the Spanish market. These companies specialise in the collective investment in rental property, are listed on the stock markets, and have an obligation to distribute dividends from the profits obtained from income. They are subject to a tax scheme, but one that is similar to those already existing in European countries, and which has over the years developed in a solid and constant manner.

In the first report last year, "REITs, stability and investment in the real estate market" we highlighted some key aspects which, throughout this year marked by the global pandemic affecting all world economies, have been shown to be true. In this sense, their degree of specialisation, the professionalism in their management, the transparency required by the stock market, as well as the search for efficiency through economies of scale, are helping our real estate sector. With a high weight in the generation of national wealth and historically dependent on the volatility and cyclicality of the housing construction and sale segment, they can come through the health and economic crisis that we are experiencing with better tools and from a much more consistent and solid position. However, from March onwards, and like other sectors, the equity market as a whole -fundamentally in those continuous market vehicles with greater liquidity and market depth- has been significantly affected by the falls in the stock markets, having lost part of its accumulated value and currently trading at lower multiples and with significant discounts to the net asset value (NAV) of its real estate. This is an unprecedented situation and economic crisis, characterised by unheard of parameters, in turn creating a great deal of uncertainty.

However, some factors have not changed over the last year. As a consequence of its relative infancy and the speed of its growth, we continue to see a very heterogeneous and fragmented market. Its ecosystem contains vehicles with high market capitalisations, significant assets in terms of market value and strong management structures, along with others of a smaller size and capitalisation, with reduced individual average sizes. These differ greatly from those in more mature markets and the volume of its portfolio, economies of scale and efficiency continue to be indispensable elements with regard to management. In this regard, and in order to contextualise our REITs market with those of neighbouring countries, this year's report includes for the first time a comparison of the main ratios of our vehicles compared to the European ones, distributed and ordered by real estate segments. In short, as we concluded in the previous report, it is a market that continues to be attractive for national, private and institutional investors, and where significant acquisition operations have been carried out.

At the end of June 2020, the capitalisation of REITs admitted to trading on the Spanish stock market was 21,050 million euros, representing a 19% loss in value for this sector on the Stock Exchange compared to the end of the 2019 financial year. The gross value of the equity assets managed by the 79 active real estate vehicles analysed at that date amounted to around 51,000 million euros.

On the positive side, of particular note is the growth in the number of vehicles, the decrease in indebtedness in relative terms, a strong generation of rental income, an operating and net profit higher than in previous years, as well as a solid position in the generation of cash flow and dividend distribution, where portfolio turnover begins to play a major role.

All this despite the difficult context, not only because of the economic situation we are facing, but also because of the information pollution emanating from some sources that are closer to populism than to the actual economic reality. These stakeholders say that REITs are investment vehicles for high net worth clients exempt from paying taxes. These statements from agents close to power circles only contribute to destabilising the legal and fiscal security that managers, investors and savers need to grow and create value, both for shareholders and for the economy in general despite the data demonstrating that since the creation of these figures the Spanish real estate sector has gained stability and weight in the Spanish economy, all the while competing on equal terms with its European counterparts. This is one of the reasons why we have included in the report presented below, -with the assistance of the Uría Menéndez Abogados law firm- a special chapter on taxation and legislation for REITs in different jurisdictions and to shed the necessary light on the matter to accurately understand that not only do REITs vehicles meet their tax obligations, both their obligations and their tax structure are similar to those in force for similar entities existing in neighbouring countries.

Due to the importance and the contribution of the REITs sector is making and will make in years to come as a stability mechanism in the real estate sector, the same group of professionals from BME and JLL, specialising in the financial and real estate sectors respectively, have once more joined forces in the preparation of this second market monitoring report, which is presented below. Again we consider that "REITs: Solidity and value for recovery" is an analytical and descriptive compendium of the situation of the sector, offering a vast amount of data and attractive information so that the reader, investor, saver or professional in the real estate and financial sector can reach their own conclusions.

The real estate sector, like all other economic activities, is going to suffer during this current period of crisis and stock prices are indicative of this. But the solidity and value of the real estate of all REITs vehicles based on their core values, their growth in number and their attractiveness to national and foreign investors, attest to the value added to the economy.

We hope that the effort and passion gone into developing the report will pay off with its usefulness and appeal to the community.

Thank you very much.

**BME**
Javier Hernani
CEO

**JLL**
Enrique Losantos
CEO

# 1 Economic scenario and performance of the real estate market

## Economic context: Sharp fall in activity in 2020 to rebound in 2021

The fallout from the Covid-19 pandemic in Spain has led to an unprecedented contraction of economic activity in the first half of 2020, with the Services sector being the hardest hit. During the second quarter of the year, GDP fell 18.5% compared to the first quarter, the largest recorded drop since records began. However, monthly figures continue to show a rebound in activity after the easing of the lockdown measures taken in response to the health crisis since mid-March.

A rebound in GDP is expected in the third quarter, although the recovery from then on will be more gradual and dependent on the evolution of the pandemic. By the end of 2020, GDP will be well below pre-health crisis levels. The forecasts by Oxford Economics point to a 10.6% fall in GDP for this year and a subsequent increase of 7.9% in 2021. Similarly, the European Commission forecasts a 10.8% drop for 2020 and a rebound of 7.6% in 2021. Less optimistic are the forecasts of the IMF and the Bank of Spain, which expect the Spanish economy to contract, respectively, by 12.8% and 11.6% this year; but grow 6.3% and 9.1% respectively, into 2021.

The labour market has continued to recover some of the massive losses suffered in March and April, although there were still more than 800,000 workers on furlough at the end of August, who are not included on the official unemployment figures. Forecasts point to a 3.7% contraction in employment during 2020 and a 0.9% increase in 2021, according to Oxford Economics.

The unemployment rate increased to 15.3% at the end of the second quarter, forecast to reach 18.5% by the end of 2020, but below the levels of the financial crisis. An increase in unemployment is the main risk in the long-term, once public support measures are withdrawn. Deflation is likely in 2020, but will likely be temporary.

Consumption and investment fell drastically in the second quarter as expected, but the impact on exports was greater than anticipated (-33%). The restrictions on the mobility of travellers hit the tourism sector hard, which represents around 12% of Spain's GDP, with the consequent negative impact on service exports this year.

The fall in tourism was 97% year-on-year in the second quarter, although Spain was the country with the most hotel reservations for the summer in the world. Despite the efforts to revitalise the tourism sector, it will take time to reach a full recovery, especially given the recent increase in infections, which will have negative repercussions for related sectors. This, combined with the sharp drop in world trade volume, will lead to a contraction in exports of around 20% this year, and a subsequent rebound of around 12% into 2021.

The economic downturn in the second quarter was mainly due to the collapse of activity in April. The monthly data shows that activity and confidence began to recover as the second quarter progressed. The manufacturing PMI rose sharply in July for the third consecutive month and is now above the 50 point threshold. The CIS Consumer Confidence Index (CCI) for the month of July stood at 53.1 points, -7.6 points below the previous month's figure, after two months of slight increases.

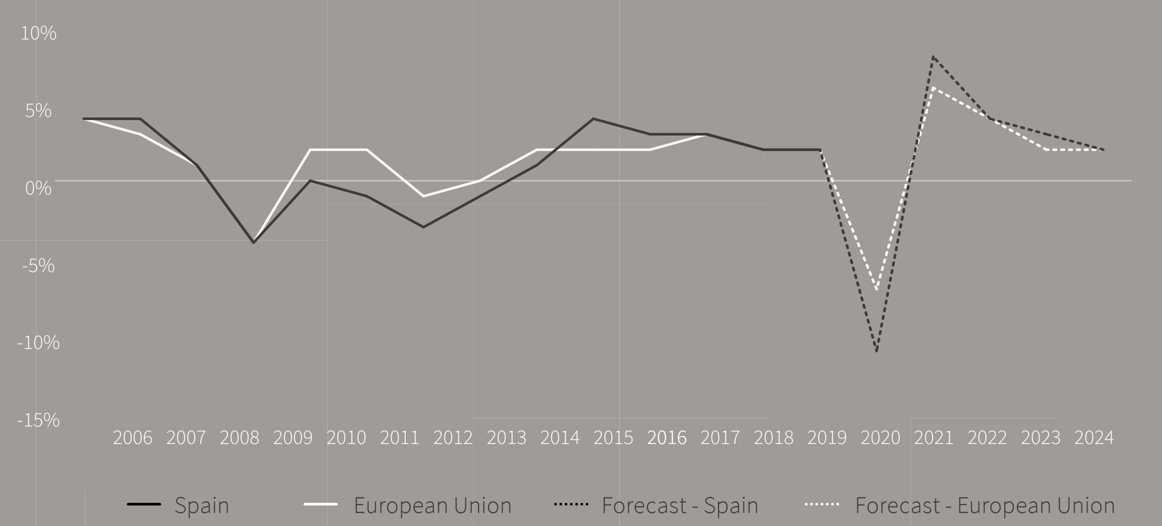
Consumer spending plummeted in the first half of the year, but is now on the mend. The lockdown and social distancing measures caused a sharp drop in consumer spending during the first half of the year, although the rebound was solid after the de-escalation. Oxford Economics forecasts point to consumer spending falling by 12.1% in 2020, and then increasing by 7.8% in 2021.

The boom in online sales has driven the penetration of e-commerce in Spain. According to the latest data from UNO, the employers' association of logistics operators, there has been a five-fold increase in e-commerce in supermarkets and food stores. The pandemic has driven a change in consumer habits that requires brands to have an efficient omnichannel model.

Investment has also fallen drastically due to the impact of the economic recession and the uncertainty caused by the pandemic. The construction sector was heavily affected by the lockdown, with a slump in activity, which has influenced the fall in total investment. Investment will decline by 16.3% this year and grow by 11.7% in 2021, according to forecasts by Oxford Economics. In addition, the expectation of a deep recession would lead international companies to reconsider new projects, declared UNCTAD.

Economic performance will continue to be linked to the evolution of the pandemic and the need to once again impose lockdown measures. Some sectors such as hospitality, leisure and commerce will remain weakened for longer due to the severe impact of the restrictions. Whereas, sectors such as healthcare, pharmaceuticals and technology will continue to see an increase in demand. From the real estate point of view, the hotel and retail sectors have been the most affected, while others such as logistics -thanks to the boost in online sales- and build to rent (BTR), have shown themselves to be the most resilient.

Real annual GDP growth in Spain and the EU




Source: Oxford Economics, August 2020
Note: EU excludes the UK

Main economic data for Spain

| Economic indicators | 2019 | 2020 (F) | 2021 (F) |
| --- | --- | --- | --- |
| GDP (%) | 2.0 | -10.6 | 7.9 |
| GDP - EU(%) | 1.5 | -7.4 | 6.1 |
| Employment (%) | 2.3 | -3.7 | 0.9 |
| Unemployment rate, end of 4Q (%) | 13.8 | 18.5 | 16.7 |
| Consumer spending (%) | 1.1 | -12.1 | 7.8 |
| Average inflation (%) | 0.7 | -0.1 | 1.2 |
| 10-year bond, average (%) | 0.7 | 0.5 | 0.6 |

Source: Oxford Economics, August 2020
(F) Forecast
Note: EU excludes the UK

**Real-estate market: the impact of Covid-19 differs by sector**

The impact of the pandemic, as already seen with its initial effects, has short- and long-term implications for economic growth, business activity and individual behaviour. From a real estate perspective, Covid-19 has led to an increase in the number of facility closures (offices, factories, retail premises, hotels, public buildings). The most affected sectors are hospitality, retail, aviation and automotive, while other industries are experiencing an increase in demand, such as pharmaceuticals and biotechnology.

On a business level, the severe slowdown and delays in business flow will continue to cause short-term disruption for consumers and businesses. Regarding the workforce, remote work is becoming the 'new norm' and working from home as a way of escaping the threat of the virus will drive the conception of offices as spaces, becoming increasingly focused on collaboration and interaction with clients and colleagues.

It should not be forgotten that the threat of the coronavirus is global and is affecting the health of every individual around the world. Covid-19 has had an unprecedented social impact, as it knows no bounds to penetrate into our life and environment.

## Occupancy Market

The short-term effects for users are significant as their business activity is affected by the changes occurring on a daily basis. The most immediate impact of the outbreak has passed, and most of the occupants are now in 'response mode' after a short phase of preparation and immediate actions. Operational resilience will be crucial to recovery. Companies will reinvent themselves to be more resilient, adapting their operating models to the 'next normal'. The customer experience journey in the company of the future includes the 'Re-entry', 'Re-imagination', 'Implementation' and 'Prosperity' phases. Having prepared the buildings for reopening, the 're-imagining' phase aims to establish a vision for the future, to later implement it and prosper.

### Offices

Rental Agreements

In 2019, the rental market registered record figures compared to recent years. With an annual increase of 14%, the rental of office space in Madrid and Barcelona reached the highest levels in the last cycle, with nearly one million metres taken up in both cities.

The take up in Madrid exceeded the record figure of 580,000 sqm during 2019, representing an annual increase of 19%. There were also record take-up levels in Barcelona during the past year, with more than 380,000 sqm, representing an increase of 7% compared to 2018.

In Madrid, the financial sector was top of the ranking for leased surface area during 2019, given that the largest operations of the year were carried out by large banks in the capital.
In Barcelona, the first place was held by the real estate sector, as a result of the sharp increase in rentals by operators of flexible spaces, which reached maximum figures during the past year.
In both cities, the second position by surface area rented in 2019 was taken by the technology sector, in line with recent years.

The Covid-19 pandemic has forced office tenants around the world to confront an ever-changing environment characterised by the growing tendency to work remotely and the inability to make decisions about future growth. Furthermore, the current uncertain environment raises questions about the duration and severity of both the economic impact and the possibility of a rapid recovery.

The rental of office space has been affected in all regions, and Spain has not been alone in this. The take up of office space during the first half of 2020 was around 220,000 sqm in Madrid and Barcelona as a whole, a decrease of 61% compared to the same period of the previous year.

In the capital, take up was close to 150,000 sqm, with a year-on-year decrease of 54%, whereas Barcelona accumulated a take up of more than 68,000 sqm, a drop of 71% compared to the same period in 2019. Activity during the first quarter was more evident in Madrid, while demand was more active in the second quarter in Barcelona. However, there is a low availability, mainly of quality product, in the most central areas.

As the de-escalation progressed, companies resumed their activities, to once again consider changing headquarters. Towards the end of May, there was a noticeable increase in demand, which improved substantially throughout the month of June. Therefore, during the second quarter of 2020, the rental of office space amounted to around 95,000 sqm in Madrid and Barcelona as a whole, of which nearly 55,000 sqm were taken

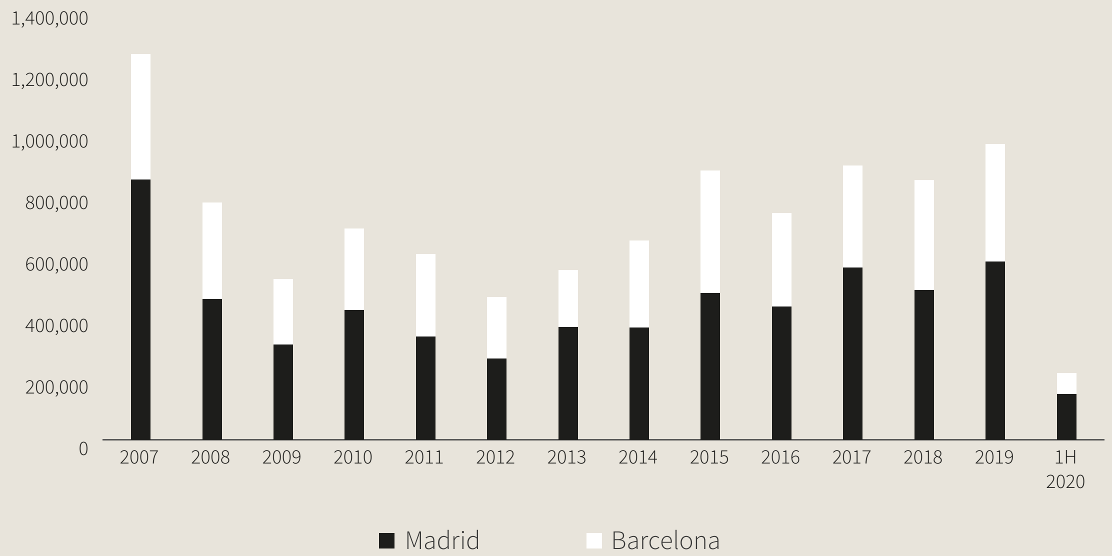
up in the capital and more than 40,000 sqm in Barcelona. Rentals in both cities jointly represented a decrease of 24% compared to the first quarter of the year; but Barcelona it was 40% higher.

Operations that had been underway for several months have not come to a standstill, which has contributed to a better result in the second quarter than initially expected as a result of the pandemic. Renegotiations have been reactivated substantially throughout these months. Lastly, large operations have been signed in both Madrid and Barcelona, which has helped to contain the increase in the product offered in both cities.

The flexible spaces segment, which in recent years has accounted for a substantial part of the net absorption in both cities, plummeted as a direct result of the Covid-19 outbreak. In the short term, we expect limited growth in this segment, although it is already beginning to show some signs of reactivation after the de-escalation and recovery in activity.

While some companies are considering teleworking to limit their real estate footprint, most are exploring ways to prepare their portfolios for the future. It is still early days to make accurate predictions in terms of space requirements once the pandemic is over, but everything points to the physical office becoming the central stage to facilitate interaction and collaboration and ultimately preserve the health, well-being and productivity of employees.

Change in office rentals (sqm)




Source: JLL Research, 2Q 2020

## Rents

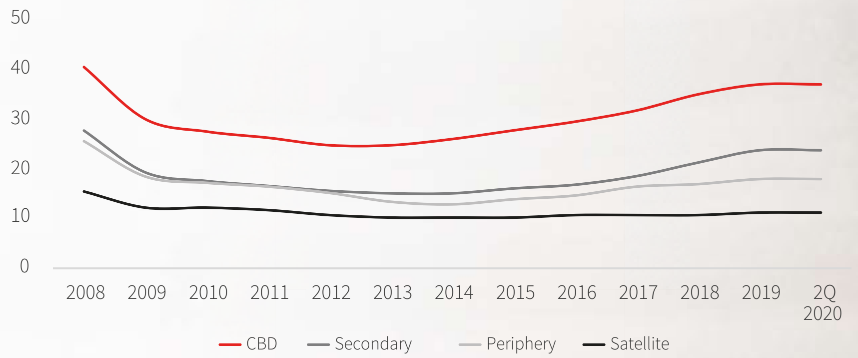
Throughout 2019, prime rents in Madrid and Barcelona continued their upward trend, with annual increases of 5.8% and 8.9%, respectively. The maximums in all areas of the capital rose clearly and with a special impact on the Secondary area, while the minimums reflected the dichotomy between the demand for grade A products and the rest. Even so, exclusive buildings, despite being of a poorer quality located in areas without great connections in Peripheral and Satellite, maintained their prices.

Rents according to area in Barcelona reflected the great take up activity in 2019. The great attractiveness of the 22@ area and the quality of the buildings in Almeda Park, boosted rents in the North/South areas of the business district and Greater Barcelona, with annual increases of 10.9% and 12.5%, respectively. In the latter case, although the aforementioned park was the pole of attraction for the greatest demands in the area, other areas and buildings were not so attractive, but maintained stable yields throughout 2019.

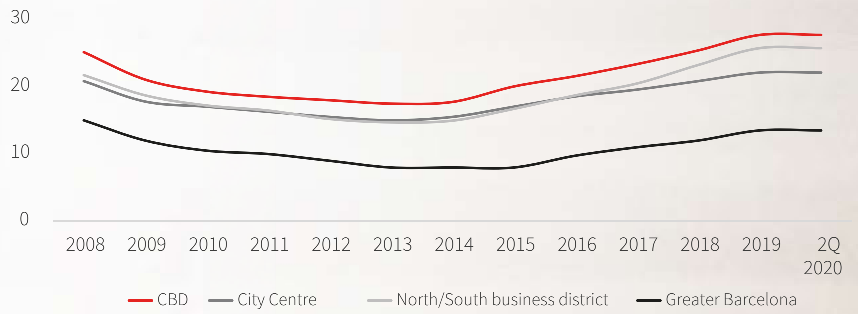
The rise in prime rents came to a halt after the state of alarm was decreed, subsequently the reference prices for the second quarter of 2020 remained at the same levels as at the end of 2019.

Therefore, the maximum prices are €36.5/sqm/month in Madrid and €27.5/ sqm/month in Barcelona for the best buildings, where there is still little availability. During these months, although the owners have not negotiated prices, they have shown greater flexibility when permitting late payments or other incentives, although, in general, they have been associated with an increase in mandatory obligations.

Change in prime rents in Madrid (€/sqm/month)




Change in prime rents in Barcelona (€/sqm/month)




Source: JLL Research, 2Q 2020

## Availability and future supply

Thanks to the good take up levels in 2019, vacancy rates gradually decreased in the capital, while in Barcelona they were at historic lows, reflecting a great shortage of product, especially in the prime buildings (quality offices).

At the end of the second quarter of 2020, availability rates had increased compared to the first, 29 bp in Madrid to stand at 8.5%, and 20 bp in Barcelona to 4.2%. Taking into account the low availability, mainly in the most central areas of both cities, where the rate is below 3% in Madrid (Secondary) and is less than 2% in Barcelona (CBD and City Centre), the impact of Covid- 19 on availability is expected more towards the medium term.

Regarding future supply, at the end of the second quarter of 2020, new plant projects were barely being completed in Madrid, somewhat less than 5,000 sqm, while in Barcelona the total was around 10,000 sqm. Refurbishments in the city of Barcelona totalled about 40,000 sqm.

The projects for future supply suffered slight delays as developers have readjusted their deadlines, exceeding 300,000 $m^2$ for the period 2020-2021 in Madrid and close to 320,000 sqm in Barcelona.

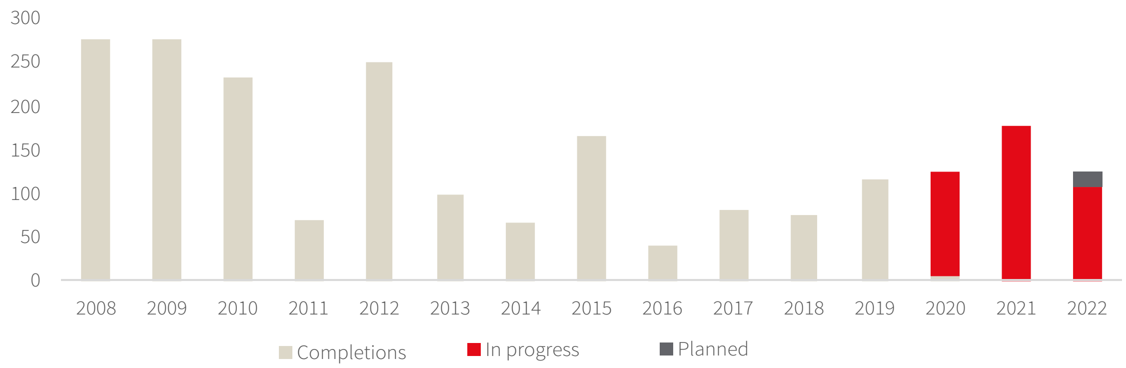
**Total availability rate in Madrid.** Q2 2020: **8.8%**

| CBD | Secondary | Periphery | Satellite |
|---|---|---|---|
| **4.1%** | **2.6%** | **11.2%** | **16.4%** |

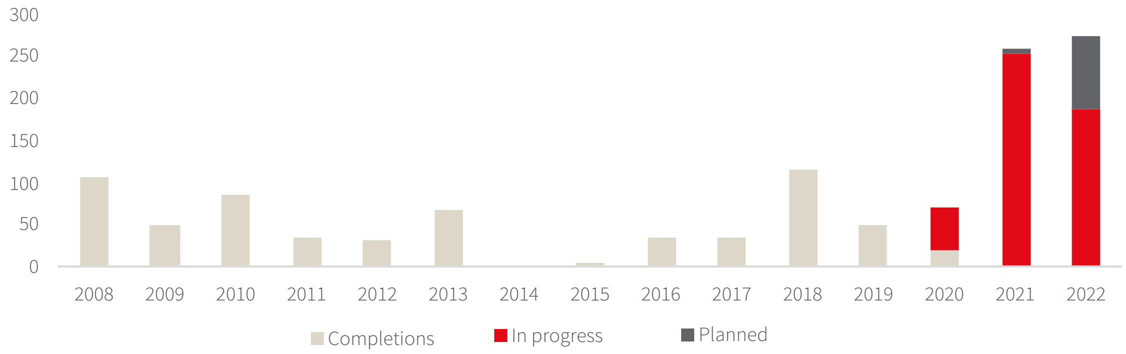
**Total availability rate in Barcelona.** Q2 2020: **4.2%**

| CBD | City Centre | NSBD (North/South business district) | Greater Barcelona (Metropolitan area) |
|---|---|---|---|
| **1.9%** | **1.9%** | **3.6%** | **10.0%** |

Completions and future supply in Madrid (thousands of sqm)




Completions and future supply in Barcelona (thousands of sqm)




Source: JLL Research, 2Q 2020

## Logistics

### Rental Agreements

During 2019, demand in Madrid and Barcelona maintained the momentum of the last five years, exceeding the average of the last five years. 1,135,600 sqm were leased in total for the two cities, 26% less than in the previous year. One of the main reasons for this lower number of lease agreements in annual terms was due to the good figures for 2018, which was an exceptionally good year, with a high number of large operations, whereas in 2019 these types of transactions were not as frequent.

In the capital, the lease agreements 2019 accounted for around 550,000 sqm, while in Barcelona it was 585,000 sqm. In the first half of 2019, the lease agreements in the Madrid market fell considerably, but rebounded in the second half. Meanwhile, demand was robust in Barcelona, with a logistics absorption very similar to that of 2018.

In recent years, the boom in the Spanish logistics market has not been exclusive to Madrid and Barcelona, it has also spread to other cities. Valencia, Zaragoza and Seville stand out due to the large number of projects being carried out, as well as the investor interest in these locations.

The lockdown and restrictions on mobility have led to a massive disruption in the global supply chain. The logistics sector continues to be one of the most resilient within the real estate sector. Proof of this is the limited impact on logistics rentals, which fell by only 15% in the first half of 2020 compared to the same period of the previous year, with a take up of nearly 432,000 sqm in Madrid and Barcelona as a whole. In fact, in the first half of 2020, the accumulated take up in Madrid (more than 255,000 sqm) was 56% higher compared to the same period of 2019. Barcelona, however, registered a decrease of 49% compared to the previous year, with a take up of more than 175,000 sqm in the first six months of 2020.

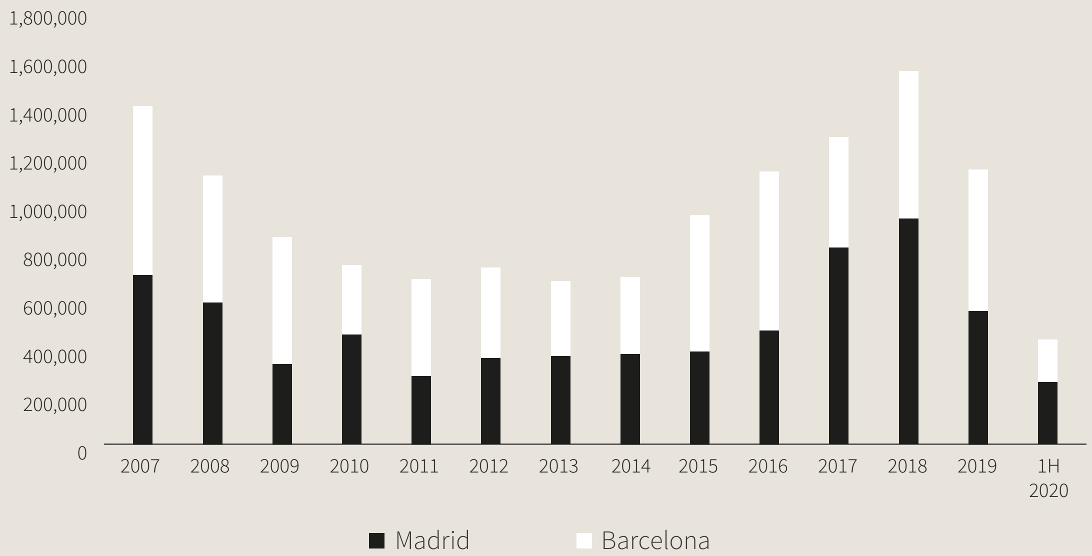
During the second quarter of 2020, logistics rentals in the Madrid market exceeded 100,000 sqm. This figure represents a 34% decrease compared to the first quarter of the year but an increase of 17% compared to the same period of the previous year. Almost all of the logistics platforms occupied during the second quarter were by logistics operators, such as XPO Logistics or Arvato. By location, the rentals along the A-2 corridor (Corredor de Henares) stood out, the logistical golden mile par excellence.

Take up in Barcelona amounted to 70,000 sqm during the second quarter of 2020, a decrease of more than 30% compared to the previous quarter and 40% year-on-year, considering the impact of the lockdown. Logistics operators signed 75% of operations, with retailers signing the remaining 25%. During the second quarter, no operation exceeded 10,000 sqm, in line with that also observed during 2019 and the first quarter of 2020.

The logistics sector experienced an increase in demand in the short term as a consequence of the immediate impact of Covid-19, due to the significant growth in food spending, including through online channels, and the need to support critical health services.

Supply chain risk mitigation and resilience will be a key focal point for operators. Trends that were already observed before the pandemic have now accelerated since the Covid-19 outbreak, such as the increase in the penetration rate of e-commerce, the expansion of online food sales, omnichannel retailing and the integration of technology in warehouses.

Trend in logistics rentals (sqm)




Source: JLL Research, 2Q 2020

## Rents

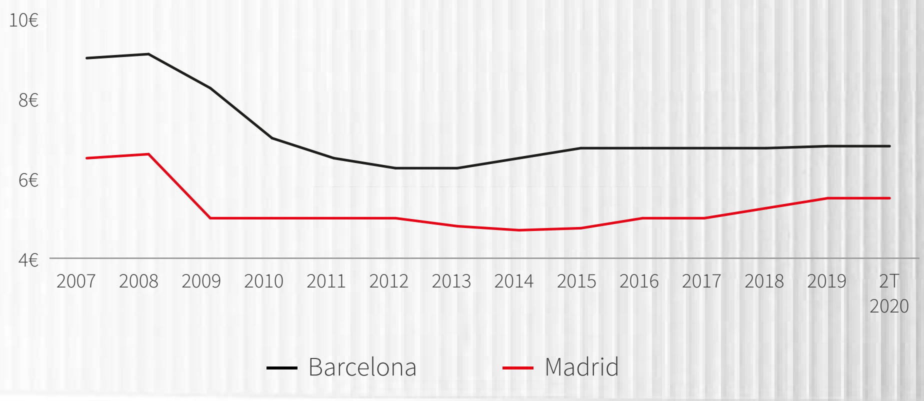
During 2019, logistics prime rents increased 4.8% in Madrid, from €5.25/sqm/month in the first quarter to €5.5/sqm/month at the end of the year. In Barcelona, prime rent increased 0.7%, to €6.80/sqm/month (from €6.75 the previous year), thus breaking almost four years of rental stability in a market where availability was at record lows.

During the past year, we have observed certain upward movements of rents in certain areas such as Coslada, some sub-markets of the A-2 and consolidations of certain price expectations in areas such as Illescas or Seseña. But we also find logistics areas such as Getafe, San Fernando de Henares or Alcalá de Henares that have maintained stable rents.

The solid take up in recent years has driven the recovery of rents in the market. Between 2014 and 2020, prime rent increased 15%. In addition, the proportion of operations with rents below €3.5/ sqm/month decreased from almost 90% in 2015 to 30% in 2019.

During the first half of 2020, prime rents in the logistics sector remained stable, maintaining pre-covid levels. Compared to a year ago, prime rents increased 5% in Madrid and 1% in Barcelona at the end of the second quarter of 2020.

Trend in prime rents (€/sqm/month)




Source: JLL Research, 2Q 2020

## Availability and future supply

At the end of 2019, the vacancy rate in Madrid stood at 7.7%. These levels were healthy, far from the highs reached in 2012, when availability was around 16.0%. In Barcelona, the vacancy rate stood at 3.2% at the end of 2019, well below the levels registered at the end of 2013 (10.4%). In both cities, the inner metropolitan ring had the lowest availability: 5.8% in Madrid and 1.9% in Barcelona. Growing demand for quality warehouses coupled with the shortage of available product has prompted developers and owners to develop new projects in both cities to increase the supply.

Turning to new projects, during the first half of 2020 about 180,000 sqm were delivered in Madrid and around 35,000 m$^2$ in Barcelona. The vacancy rate remained stable in the capital at 8.7%, increasing slightly in Barcelona to 3.2%. For 2020, we anticipate that more than 510,000 sqm of new logistics area will be delivered in Madrid (with 72% being speculative) and about 255,000 sqm in Barcelona (15% being speculative).

In the logistics sector, there is still an open debate on the format of warehouses that will operate near cities. Here we are talking about the last mile, as a consequence of the e-commerce boom, the growing consumer need to quickly and safely receive products purchased online. As major cities will continue to grow, having land positions close to large cities will always be a safe investment from a real estate point of view. In some cases, very long term.

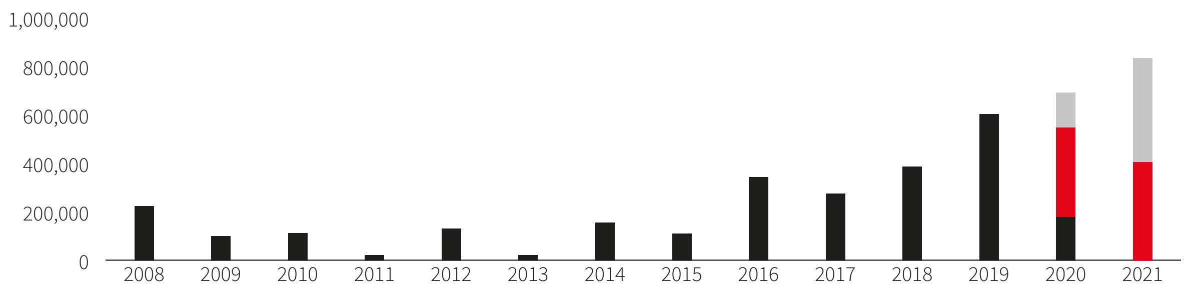
**Total availability rate in Madrid.** Q2 2020: **8.7%**

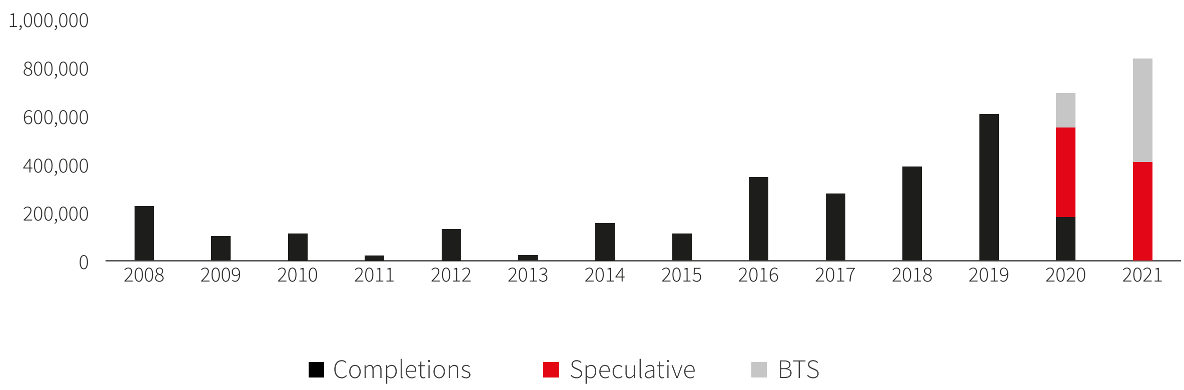
| Ring 1 | Ring 2 | Ring 3 |
|---|---|---|
| **8.0%** | **9.2%** | **8.8%** |

**Total availability rate in Barcelona.** Q2 2020: **3.2%**

| Ring 1 | Ring 2 | Ring 3 |
|---|---|---|
| **1.3%** | **2.9%** | **5.3%** |

Completions and future supply (sqm)




Source: JLL Research, 2Q 2020

## Retail

With more countries planning their Covid-19 exit strategy, retailers are testing practical solutions to enable a safe, but gradual, return of customers to their stores. Concerns about cash flow continue, particularly among retailers that depend on discretionary spending. The structural challenges vary depending on retailer type.

Despite strong revenue growth in the first half of 2020, many grocery retailers have seen their margins erode, as they have needed to employ additional efforts to keep stores stocked and fill online orders during the crisis.

Meanwhile, many fashion operators are faced with high levels of unsold inventory. Continued social distancing measures and the initial challenges in retailers' supply chains will limit their ability to return to full capacity.

In the long term, retailers will shift their attention from preserving cash to reviewing their strategy to drive sales. In the same way, their interest in strengthening their capacity for omnichannel distribution will be evident, including small purchases, Click & Collect and product returns.

### Demand and rentals

Over the last few years, we have observed how the retail sector in Spain continues to change. The demand for retailers to find central and urban locations continues, in contrast to secondary locations. The polarisation of the retail sector has meant that secondary assets have lost their attractiveness for brands.

However, many of these long-standing high-availability assets have locations close to cities that offer good connections, easy access for long vehicles, and large parking spaces. These assets, which are secondary to retail, can form prime locations for

logistics. In recent years, secondary retail rental has been in decline, while proximity logistics has followed an upward trend.

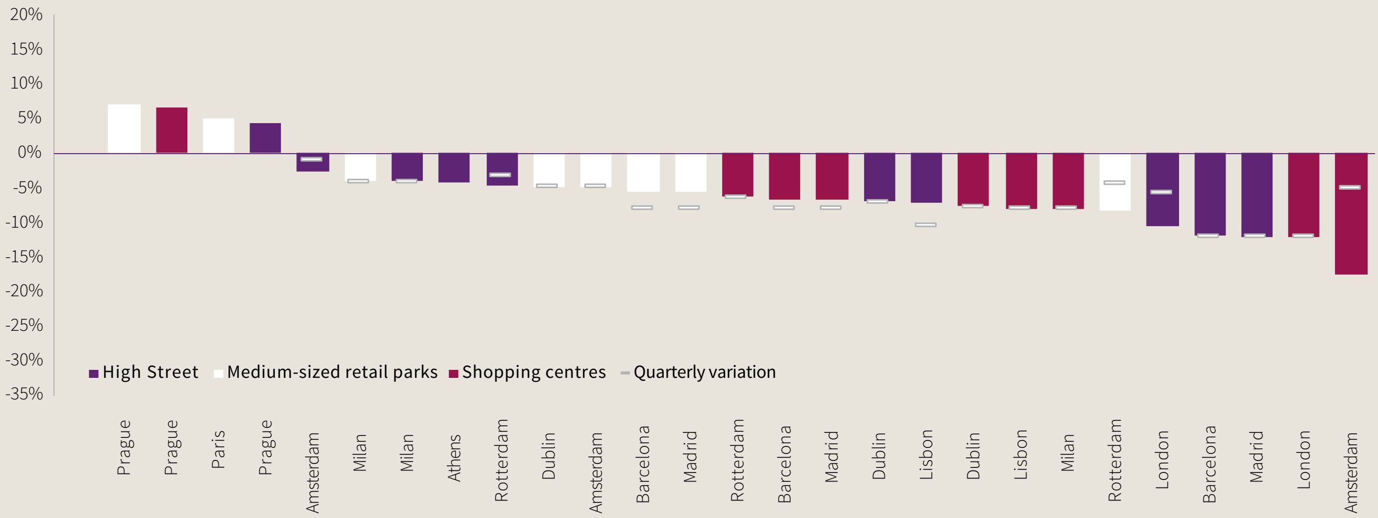
The demand for central locations in retail has driven rents in prime locations, which have experienced accelerated growth in recent years, to taper off in 2019. Rent increases in shopping centres and in dominant medium-sized parks stood out, exceeding 2% during 2019. Being the dominant centre of the *catchment* area is increasingly relevant; there is the guarantee of having retailer demand, during a situation in which the latter optimise their store networks.

Given the strong impact of the pandemic in the retail sector, many brands have decided to postpone their expansion plans until 2021. Prime rents in retail are experiencing a strong correction this year in most European markets, but it is expected gradually recover from 2021 and return to pre-Covid-19 levels by 2024.

The actual impact remains difficult to measure, as many rental renegotiations between owners and retailers still need to take place. Retailers are interested in knowing where the sustainable rental levels are so as to organise their business. A slow recovery of the *footfall* in the main areas of the city centre and the lagged recovery of tourism are placing greater pressure on the sustainability of brand revenue.

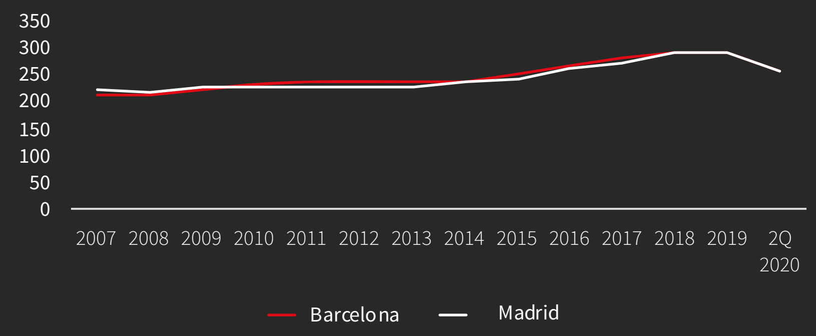
Retail rents in Spain contracted in the second quarter of 2020, in line with what was also observed in Europe. High Street prime rents registered an annual decline of nearly 10%, while the decline in shopping centres and mid-size parks was somewhat more limited, with rental reductions of 7% and 6% annually, respectively.

## Annual growth of rents in Europe 2Q 2020 (%)

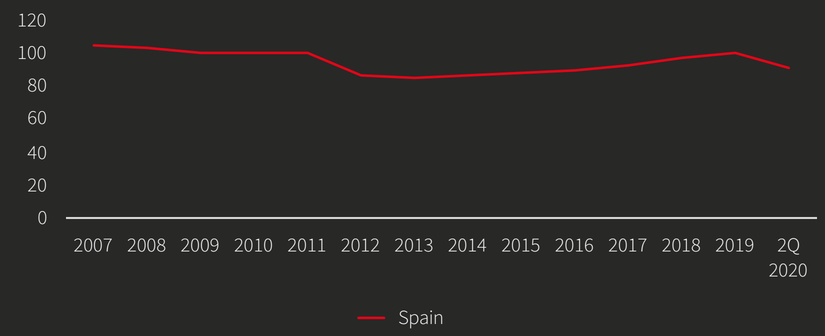



Source: JLL Research, 2Q 2020

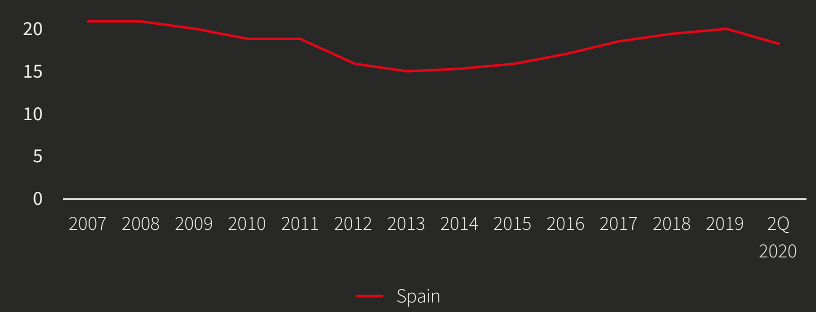
## High Street prime rents (€/sqm/month)




## Shopping centre prime rents (€/sqm/month)




## Medium-sized park prime rents (€/sqm/month)




Source: JLL Research, 2Q 2020

## Commercial Premises

### Stock and future supply

Spain has a GLA of about 16.5 million[1] of commercial premises, according to the latest data from the AECC[2] (Spanish Association of Shopping Centres and Retail Parks). By autonomous community, 21% of the total GLA in Spain is located in Madrid, followed by Andalusia (18%) and then the Valencian Community (12%). Catalonia and the Canary Islands also have good commercial supply levels. By province, Madrid occupies first position with more than 3 million sqm of commercial surface area, followed by Barcelona, with about 1.3 million sqm. Ciudad Real, Ceuta and Las Palmas recorded the lowest GLA for commercial premises.

In the last four years, development activity in Spain has reactivated and continued rise, although it still remains at minimum levels. Throughout 2019, six new shopping complexes were opened, adding more than 300,000 sqm of new GLA to the market.

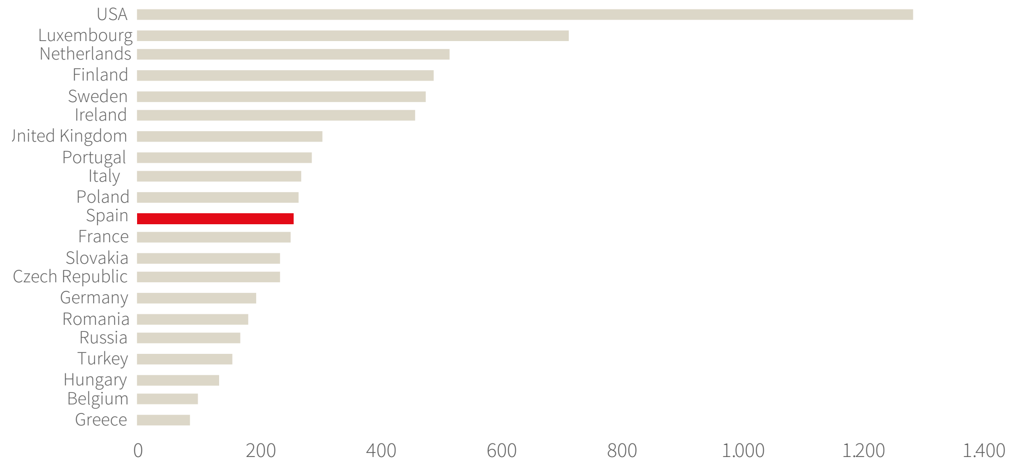
Among them were: Granaita in Pulianas (Granada), Lagoh in Palmas Altas (Seville), X-Madrid in Alcorcón (Madrid) and phase one of the Jaén Plaza retail park.

In the first half of 2020, about 40,000 sqm of new GLA were added to the market, with notable openings such as Málaga Designer Outlet or the Cemar retail park in Huécar (Almería). Regarding future projects, it is estimated that around 250,000 sqm of new commercial space will come on to the market between the second half of 2020 and 2021. With these data, Spain is among the main European countries in terms of new complexes planned for the next two years.

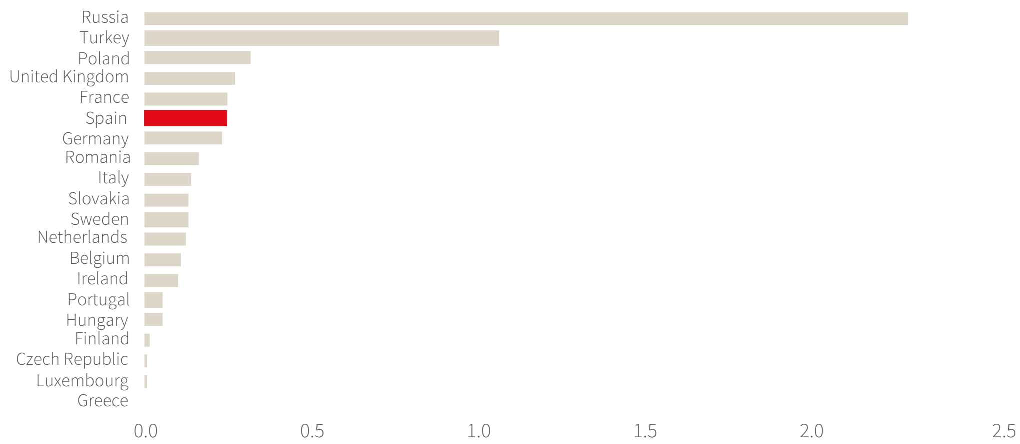
### Commercial density

Spain is a mature market in terms of commercial density and offers opportunities for the development of new complexes. Commercial density in Spain, including shopping and leisure centres, medium-sized parks and factory outlets, represented a GLA of 349 sqm per 1,000 inhabitants at the end of the second quarter of 2020. If we consider only the stock of shopping centres, Spain has a density equivalent to a GLA of 259 sqm per 1,000 inhabitants.

Stock of shopping centres per 1,000 inhabitants




Future shopping centre projects for 2H 2020-2021 (Total GLA in millions of sqm)




[1] Gross Leasable Area.
[2] Spanish Association of Shopping Centres and Retail Parks (data from July 2020).

Source: JLL, 2Q 2020; Note: Includes complexes> 5,000m$^2$ GLA; excludes medium-sized parks and factory outlets.

## The investment market

### Tertiary investment volumes

2019 was very positive for Spanish real estate in terms of investment. The total volume of tertiary investment (offices, logistics and retail) once again broke records in 2019 with a total investment that exceeded 11,300 million euros, 43% more than in 2018. It was the highest volume since records began. If we exclude the Santander Group Financial City from the equation, the investment figure was around 8,000 million euros, very similar to the last three years.

In the first half of 2020, the volume of tertiary investment exceeded 2,500 million euros. According to these data, investment fell by 15% year-on-year. The decrease in investment was therefore limited to the first quarter. This was helped by the good performance during the first two months of the year (before the state of alarm and the lockdown) and the two large shopping centre operations that were closed in the first quarter (Intu Asturias and Intu Puerto Venecia), with a joint volume that was around 800 million euros.

In the second quarter of 2020, the volume of tertiary investment was around 300 million euros. This figure represented a decrease of 79% compared to the same period of the previous year. The Covid-19 pandemic brought the investment market to a standstill during the months under lockdown, causing operations that were about to be formalised to be postponed, thus having an impact on the volumes for the quarter. But there are already operations in the pipeline scheduled to close in the second half of the year.

The office sector was the one that accumulated the highest volume during the second quarter of 2020, with an investment of more than 200 million euros, followed by the logistics sector, with a volume close to 100 million euros. The retail sector, along with hospitality, is where the pandemic has had the most immediate impact. Due to this, no large operations were recorded during the second quarter of the year, but ongoing opportunities are identified that will eventually be completed during the second half. These are mainly focused on supermarkets and medium-sized parks as defensive assets.

In the first half of 2020, the retail sector was positioned as the leading real estate investment segment, with an accumulated volume exceeding 1,400 million euros, thanks to the closure of the two large shopping centre operations mentioned above. It was followed by investment in offices, accounting for around 845 million euros, and the logistics sector, with more than 235 million in the first half of the year.

During the second quarter of 2020, prime yields remained stable in the logistics sector, proving itself to be one of the most resilient sectors in Spain. In the case of Offices and Retail, prime yields registered a slight increase of 10 bp at the end of the second quarter. Given the possibility of a future decompression of yields, mainly in the retail sector, some investors may take advantage of the opportunity to enter the market.

Greater resilience is expected from the most prime locations for all sectors, while secondary locations will suffer a greater impact. There is interest in well-located core assets that involve lower risk. And also for value add/ opportunistic assets that offer good prices. Sale & Leaseback operations are expected to continue rising, given the need for liquidity and optimising real estate portfolios.

## Offices

Investment in offices broke records during 2019, with more than 7,800 million euros invested in Madrid and Barcelona, including more than 3,000 million euros in the Santander Financial City in Boadilla del Monte (Madrid). Even without considering this operation, 2019 saw investments that almost doubled that invested in 2018 and it was the largest volume since records began. Some 6,000 million euros were invested in the capital, while in Barcelona the volume was around 1,800 million euros. With these data, for both cities as a whole, the maximum previously reached in 2006 was exceeded by 123%.

Despite the impact of Covid-19, operations are still being negotiated, as there is a strong investment appetite for *core and core plus* product, although the shortage of product of this type continues. Also significant is the interest for *value add* product with the appropriate discount.

Therefore, in the midst of the pandemic, the accumulated investment volume between Madrid and Barcelona was around 200 million euros in the second quarter of 2020 (-74% y/y) and in excess 800 million euros in the first six months of the year (-51% y/y). In Barcelona, the significant number of investors willing to buy speculative turnkey has fallen.

Given the current uncertainty, prime yields have registered slight increases of 10 bp at the end of the second quarter of 2020 in all areas. Subsequently, prime yields rose to 3.35% in Madrid and 3.6% in Barcelona.

In the *core* and *core plus* types of assets, the correction due to the effect of Covid-19 is so far very limited, a maximum of 10bp, with some cases of stable yields without increases. However, in *value add* products, buyers have adjusted prices to seek higher returns, although it is still too early for supply and demand to find a balance.

Offices


## Logistics

In recent years, logistics investment has been gaining weight within the real estate sector, going from 18% in 2018 to 23% in 2019. The growing investment appetite for logistics assets has been based on good expectations for the sector, given the boom in online sales and the need for storage space. The volume of investment in the logistics sector increased by 31% in 2019, with a record figure of 1,875 million euros.

The volume of logistics investment in the first half of 2020 amounted to 235 million euros, representing a fall of close to 50% compared to the same period in 2019. The volume for the second quarter was around 100 million euros, 52% down year-on-year due to the paralysation of the economy as a result of the Covid-19 outbreak and lockdown.

Although the vast majority of processes were paralysed as a result of the pandemic, investors with a more *value add* profile have been active in the market seeking opportunities; although the most conservative have remained cautious in the face of the uncertainty generated by the pandemic.

In recent months, the logistics investment market has started to reactivate, with strong activity by the funds that are seen to be optimistic. During the second half of the year, it is expected that the closure of operations will continue due to the good expectations of the sector, which is one of the most resilient within the real estate segment.

The prime yield for the logistics segment remains at 4.75%, unchanged compared to the first quarter of 2020. While the most prime product maintains yield stability, assets in secondary locations or of lower quality could register a slight increase in their returns.

## Retail

Retail investment in Spain totalled more than 1,600 million euros during 2019, which represented a slowdown compared to the record figures of the last five years. The lack of large shopping centre operations on the market influenced the lower levels of investment during the past year, which decreased by 60% compared to 2018.

In the first half of 2020, the volume of retail investment exceeded 1,430 million euros, representing an increase of 86% compared to the same period of the previous year. The two large shopping centre operations (Intu Asturias and Intu Puerto Venecia) explain this significant increase, with a wcombined volume of around 800 million euros. The accumulated volume in shopping centres exceeded 1,100 million euros in the first half of 2020, while the High Street segment registered an investment of around 130 million euros.

Although there were no relevant operations during the second quarter of the year, there are opportunities on the market that we will see culminate during the second half of 2020. These are mainly focused on supermarket and hypermarket portfolios. At the same time, the medium-sized retail parks attract the interest of investors as defensive assets and in the face of last-mile needs.

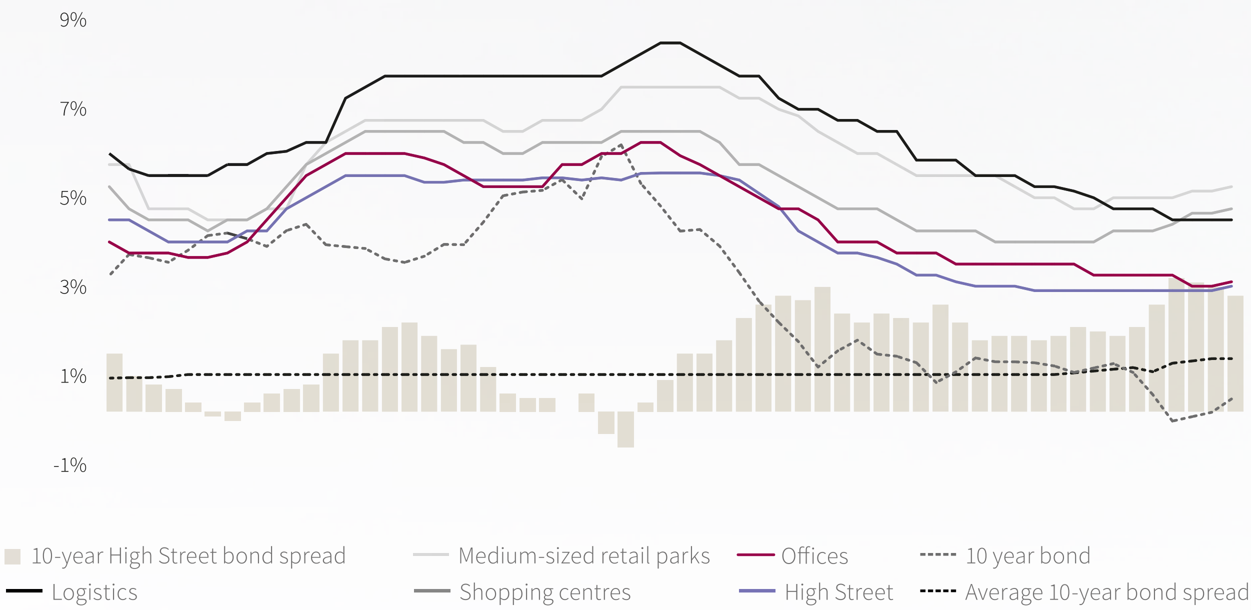
Retail prime yields registered a slight increase of 10 bp at the end of the second quarter of 2020. Prime yield reached 3.25% in High Street, 5% in shopping centres and 5.50% in medium-sized retail parks, which some investors will take advantage of to break into the market in search of opportunities. Greater resilience is expected by prime locations compared to secondary locations, where the availability of premises is greater.

Retail

## Direct Investment Volume (€Mn)


Source: JLL Research, 2Q 2020

## Prime yields (%)




Source: JLL Research, 2Q 2020

## Residential

### Multifamily: resilience and growth

Since 2010, global investment in the Multifamily sector, including BTR[3] and the PRS[4], has grown at an annual rate of 15.6%, placing it among the types of assets with highest growth in recent years. Investor interest has leaned very significantly towards this defensive sector, also driven by the demographic and secular trends that have sustained demand.

This product attracts a great deal of interest due to its resilience. Given the non-existence of a European-style Spanish PRS market, (the majority of the ownership of leasable product is in the hands of individuals), together with the prospects of the market itself and the restrictions on retail financing that make the equation between purchase and rent opt for the latter, we expect the BTR model will tend to consolidate after the crisis. The stop on home sales will lead developers to look at rent. It is also likely that citizens will be reluctant to buy a home and, given the uncertainty in sales due to the pandemic, there will be a higher demand for rent.

The current housing stock in Spain is divided between 20% rent and 80% home ownership, compared to a greater balance that exists elsewhere in Europe. Looking to the future, Spain is expected to follow the example of Ireland, where rental housing went from representing 18% (in 2004) to around 30% (in the last three years)[5].

Forecasts point to the creation of about 120,000 new homes per year over the next 15 years. It is foreseeable that a growing percentage will choose or need to choose rent as a way to access housing. Additionally, given the age of the rental housing stock, it is also foreseeable that some of them will leave the market due to obsolescence.

These factors suggest that there will be rental housing needs for up to 100,000 homes each year. The Spanish market also faces the need for financing new product (between 17,000 million and 25,000 million euros) over the next 10 years, approximately.

### Prices

As a consequence of the pandemic, sales prices registered a year-on-year fall of 2.2% in Madrid during the second quarter of the year, while falling only 0.4% quarterly. In Barcelona, however, sales prices increased by 1.3% quarterly, while registering a decrease of 1% annually.

Rental prices, however, continued to register increases in the second quarter. In the capital they grew 3% year-on-year and 1.4% compared to the first quarter of 2020. In Barcelona, the increase in rents was 1.6% year-on-year, but fell 1.3% over the quarter[6].


[3] Build To Rent
[4] Private Rental Sector
[5] Eurostat, January 2020 (data up to 2018)
[6] Idealista, July 2020

## Investments and yields

In Spain, investment in rental housing exceeded 725 million euros in the first half of 2020. These figures demonstrate the attractiveness of the sector, even in times of Covid-19, with large operations by consolidated firms in the Spanish market, as well as of new actors. However, investment fell slightly (-1.9%) year-on-year. In Madrid and Barcelona, prime yields rose 25bp at the end of the second quarter, to reach 3.5%.

On the other hand, the effort rate has been declining in recent years while mortgages have been increasing steadily, although nowhere near the levels of the previous crisis. In 2020, a significant reduction in transactions can be expected, which will rebound in 2021. A mismatch between supply and demand in terms of price is also foreseeable, and this will have an impact on product released onto the market.

Implications for Multifamily

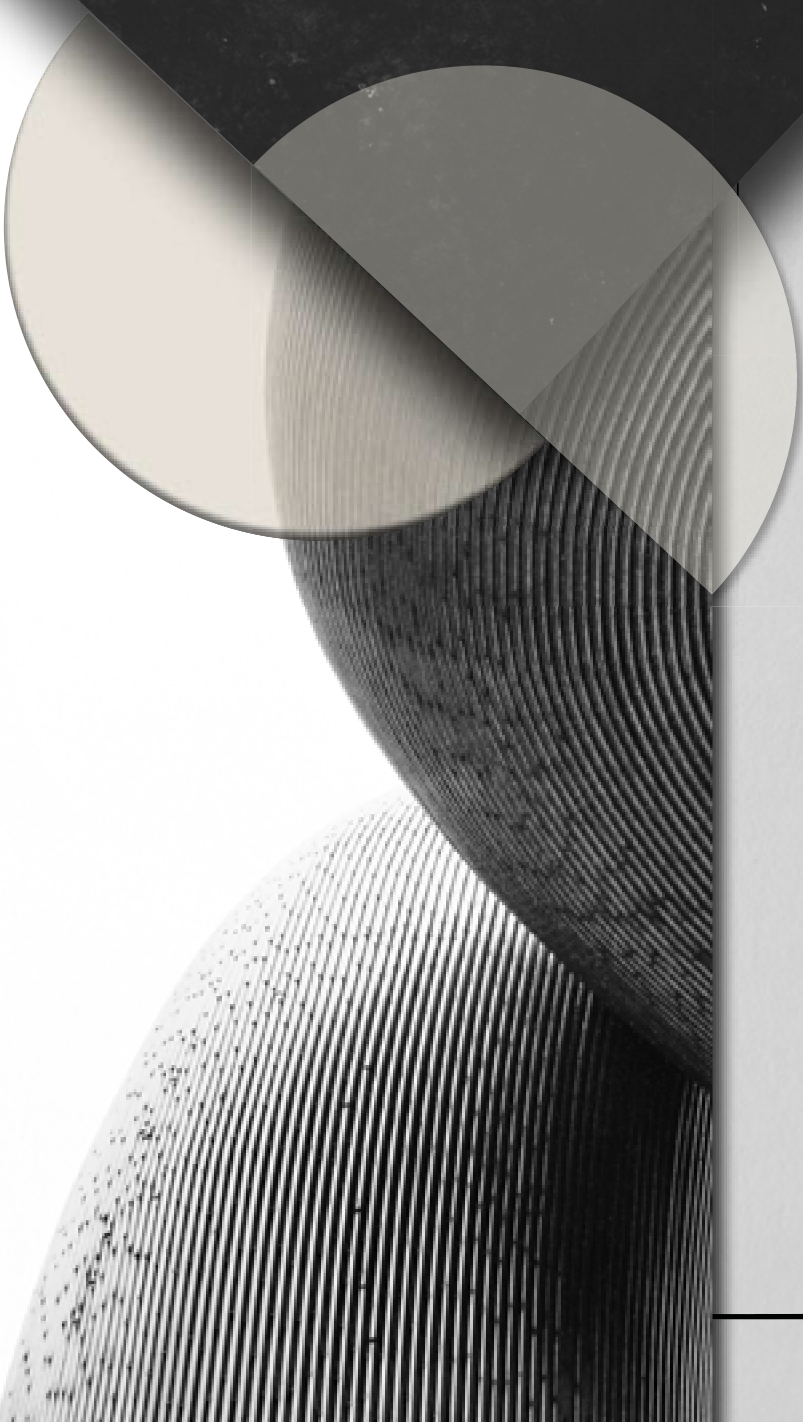
**Rent collection**

- Tenant demand is likely to remain strong, with economic consequences involving the change of some owned homes to rental
- New private owners entering the market (of new owners buying to rent), which may increase competition in the rental market
- Limited short-term growth in rentals due to the financial difficulties of tenants
- Probability of greater defaults and breaches of contract in the medium term, as the financial situation evolves

**Financial resilience**

- Insecurity in PRS could lead to tenant defaults and evictions, but financial difficulties can also translate into more movement in the sector
- Clear implications for the resilience of Multifamily in different countries

# 2 Anatomy of the REITs market in 2019

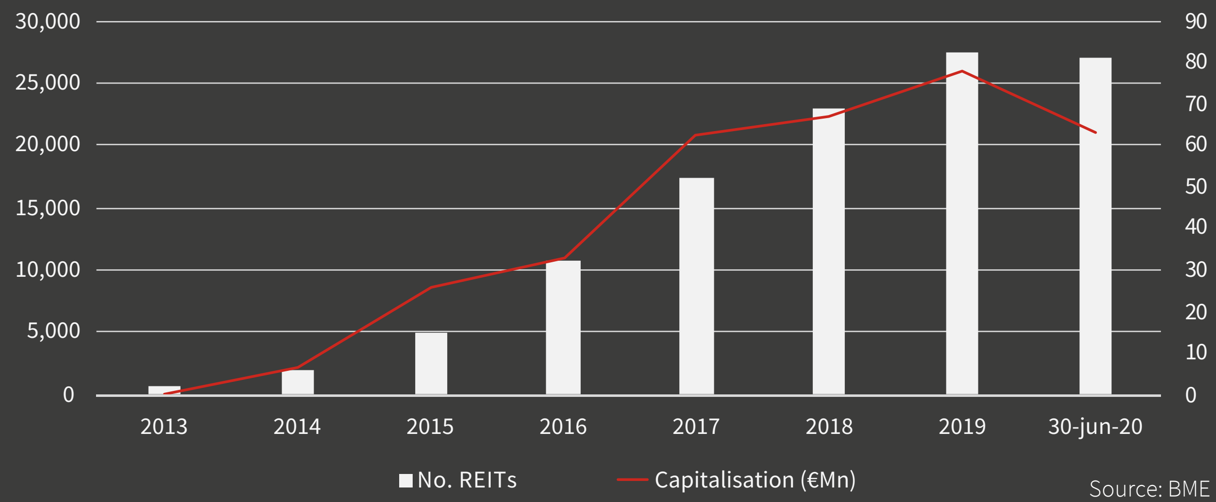


Real Estate Investment Trusts (REITs) were created from Law 11/2009[8] which laid the first stone for the implementation in Spain of REITs, investment vehicles for real estate assets under rental regimes, already well known in most developed countries. That law, drafted in the midst of the economic crisis, but without it having yet hit rock bottom and clearly seeking to revitalise an equity real estate sector decimated after the years of crisis, did not attract investors or asset owners, as its conditions and criteria were not attractive to the investment community. It was an initial law that passed without pain or glory through the legislative book and which had to wait until 2012 -Law 16/2021 of 27 December, a very short law and no subsequent regulation- for the legislator to introduce a set of changes in the configuration of the vehicles, making their constitution easier by reducing their formalities. Seeing the light at the end of the tunnel of the long period of crisis, years later it became a booster in the property market, allowing us to lay the foundations for the development of the market that we enjoy today. After this partial amendment, which, among other things, softened the minimum amount of share capital necessary for its creation and allowed the creation of a vehicle with a single asset, it granted a more favourable package of tax measures, basically in the corporate tax and tax credits for other taxes linked to the acquisition of assets. It also required the mandatory listing on a national or European organised market, as well as lower requirements for dissemination and changes in the distribution of dividends deriving not only from the profit of the rental income, but also due to capital gains from the sale of assets and from obtaining dividends from direct shareholdings in the capital of other similar vehicles. The degree of attractiveness of these vehicles multiplied, penetrating investors, owners and savers, giving rise to the birth, slow at the beginning, of our first REITs back in 2013 and 2014[9].

Since then, year after year, the REITs market has grown not only in the number of listed vehicles but also in terms of real estate value, setting a wrecord for market capitalisation at the beginning of 2020. As at the date of this report, the Spanish market has 81 active REIT vehicles[10], four listed on the Stock Exchange and the rest on BME Growth, the REIT segment of which has been growing progressively since its creation. The market capitalisation at the end of the 2019 financial year reached 21,268 million euros, with the 2016-2019 period being the one with the highest fertility in terms of creation and release in the stock market for this class of vehicle.

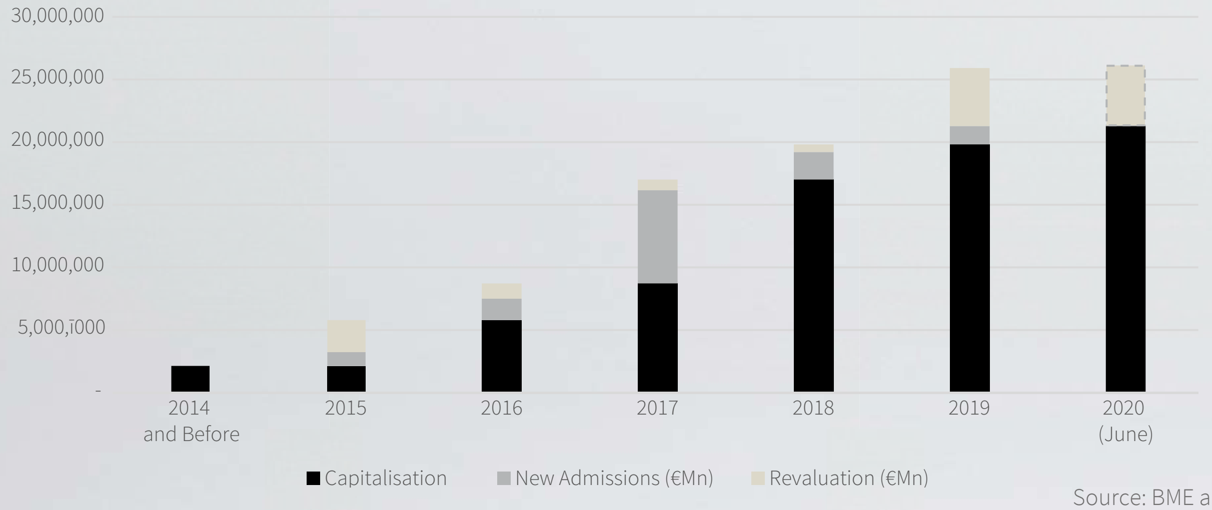
[8] The criteria for the creation of Real Estate Investment Trusts in Law 11/2009 and its subsequent partial amendment in Law 16/2012 can be viewed on page 47 of the report "REITs, stability and investment in the real estate market; Market Report 2019" by BME and JLL.
[9] In 2013, the REITs Entrecampos Cuatro y Promociones Renta y Mantenimiento joined the newly created BME Growth, with Mercal Inmuebles joining in 2014. That same year, Hipania, Merlin and Lar España were listed on the continuous market (Stock Exchange), with the first REIT to be listed on a stock market (Luxembourg) being Saint Croix Inmobilier Socimi S.A.
[10] We include the companies Asgard Investment Hotels Socimi, S.A., HEREF Habaneras Socimi, S.A., as well as DOMO Activos Socimi, S.A. in the total number of current listed vehicles.

REITs admitted to trading on the Spanish stock markets (companies and capitalisation)



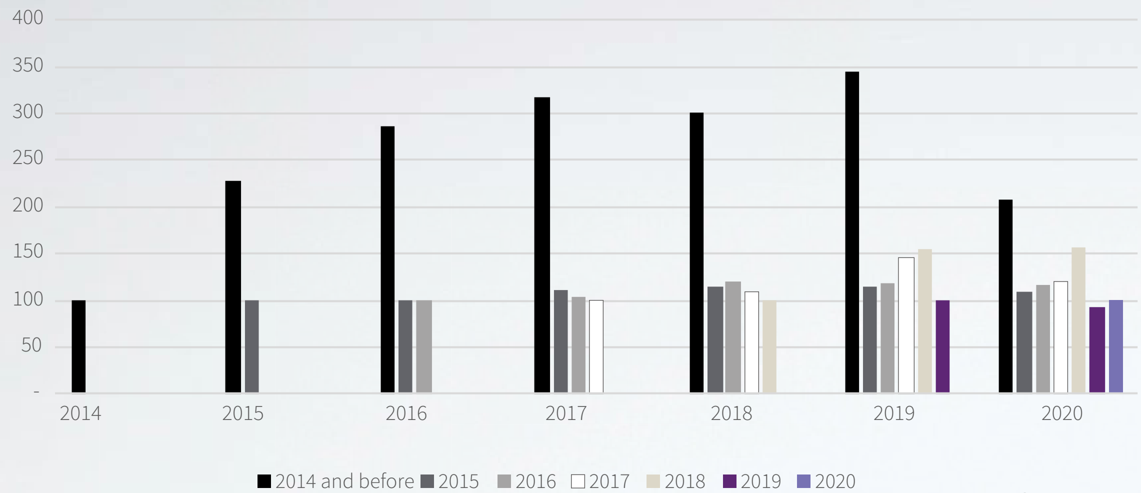

Source: BME and JLL

Changes in capitalisation (Revaluations vs. new listings)



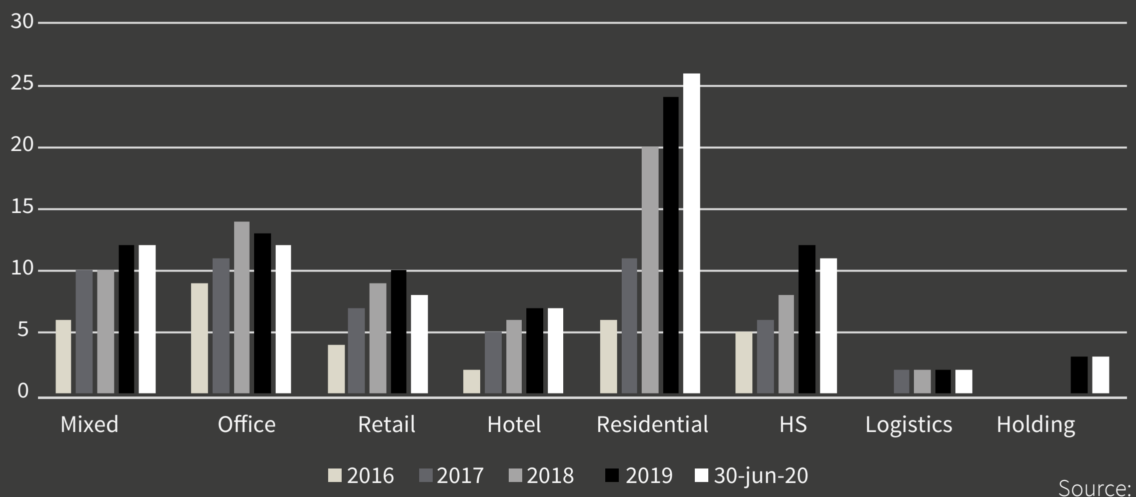

Source: BME and JLL

Changes in capitalisation (Revaluations vs. new listings)




Source: BME and JLL

Trend of the REITs market (number of vehicles and segments)




Source: BME and JLL

| Up to 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| St Croix (2011) | Colonial | Testa | Almagro | Next Point |
| Entrecampos Cuatro (2013) | Galerías Comerciales | Vivenio | Park Rose | Desarrollos La Ermita |
| Renta y Patrimonio (2013) | Albirana | Tempore | Urban View | Galvari Prop. |
| Merlin Properties (2014) | Olimpo RE | Atom | Euripo | Home Capital Rentals |
| Hispania (2014) | Elaia | Castellana Prop. | Millenium | |
| Lar España (2014) | Am Locales | Serrano 61 | Trivium | |
| Mercal (2014) | Meridia RE III | Arima | La Finca Global Assets | |
| Zambal (2015) | Grupo Ortiz | Veracruz | Torimbia | |
| Uro (2015) | Optimum III | Hispanotels | Mansfield | |
| Trajano (2015) | Gore Spain | GO Madrid | Advero Properties | |
| Fidere (2015) | Barcino | Arrienda RP | Greenoak Spain | |
| Zaragoza Properties (2015) | P3 Spain Logistic | Elix Vintage | Persepolis | |
| Autonomy Spain (2015) | PSN | Tander | Inbest Prime I, II, III y IV | |
| Corpfin Capital PR II (2015) | Numulae | Azaria | | |
| Asgard (2015) | Student Properties | AP67 | | |
| GMP Properties (2016) | Domo Activos | Mistral | | |
| Asturias Retail (2016) | Tajar Xairo | Unica | | |
| Doalca (2016) | | Galil Capital | | |
| Eurocervantes (2016) | | Excem | | |
| ISC Fresh Water (2016) | | Quid Pro Quo | | |
| Corona (2016) | | | | |
| Quonia (2016) | | | | |
| Vitrubio (2016) | | | | |
| Silvercode (2016) | | | | |
| Optimum (2016) | | | | |
| Hadley (2016) | | | | |
| Inmofam 99 (2016) | | | | |
| Jaba I (2016) | | | | |
| Vbare (2016) | | | | |
| Corpfin Cap. PRIII (2016) | | | | |
| Habaneras (2016) | | | | |

This report has been complied from an exhaustive study of 79 vehicles that are actually active in the Spanish market (we have not taken into account the companies Asgard Investment Hotels Socimi, S.A. as their shares were suspended from trading in October 2017, HEREF Habaneras Socimi, S.A., which in the process of liquidation, DOMO Activos Socimi, S.A., a company which despite still being an REIT listed on BME Growth it is in process of removing itself from the REIT regime, and we have included Saint Croix in the same manner as last year) versus 74 vehicles analysed in last year's report. The REITs Desarrollos Ermita del Santo and Next Point, whose admission to trading on the market took place during the month of July 2020, have not been taken into account either. In this way, the scope of analysis has changed compared to last year's report, not only due to the new listings since then on the market, but also by the exit, exclusion and merger of some of them. The comparison of the scopes of both analyses is presented in the following table and we understand that it is important to understand the changes in the values of the accounting headings of the following chapters, as well as of the market values for each of the years.

## Comparative of scopes of analysis 2020 Report vs. 2019 Report

| **Report REITs 2020** | | | **Report REITs 2019** | | |
|---|---|---|---|---|---|
| **#** | **REIT** | **Market** | **#** | **REIT** | **Market** |
| 1 | Merlin Properties | Stock exchange | 1 | Merlin Properties | Stock exchange |
| 2 | Colonial | Stock exchange | 2 | Colonial | Stock exchange |
| 3 | General de Galerías Comerciales | BME Growth | 3 | General de Galerías Comerciales | BME Growth |
| | | | 4 | Hispania Activos Inmobiliarios | Stock exchange |
| 4 | Gmp Property | BME Growth | 5 | Gmp Property | BME Growth |
| 5 | Testa Residencial Socimi, S.A. | BME Growth | 6 | Testa Residencial Socimi, S.A. | BME Growth |
| 6 | Zambal Spain | BME Growth | 7 | Zambal Spain | BME Growth |
| 7 | Lar España Real Estate | Stock exchange | 8 | Lar España Real Estate | Stock exchange |
| 8 | Castellana Properties SOCIMI, S.A. | BME Growth | 9 | Castellana Properties SOCIMI, S.A. | BME Growth |
| 9 | Vivenio Residencial Socimi, S.A. | BME Growth | 10 | Vivenio Residencial Socimi, S.A. | BME Growth |
| 10 | St Croix Holding Immobilier | BME Growth | 11 | St Croix Holding Immobilier | Stock exchange |
| 11 | Albirana Properties U | BME Growth | 12 | Albirana Properties U | BME Growth |
| 12 | ATOM Hoteles Socimi, S.A. | BME Growth | 13 | ATOM Hoteles Socimi, S.A. | BME Growth |
| 13 | URO Socimi Property Holdings, S.A. | BME Growth | 14 | URO Socimi Property Holdings, S.A. | BME Growth |
| 14 | Olimpo Real Estate | BME Growth | 15 | Olimpo Real Estate | BME Growth |
| 15 | Tempore Properties | BME Growth | 16 | Tempore Properties | BME Growth |
| | | | 17 | Asturias Retail and Leisure U | BME Growth |
| 16 | Trajano Iberia | BME Growth | 18 | Trajano Iberia | BME Growth |
| 17 | Inversiones Doalca | BME Growth | 19 | Inversiones Doalca | BME Growth |
| 18 | Euro Cervantes Socimi, S.A. | BME Growth | 20 | Euro Cervantes Socimi, S.A. | BME Growth |
| 19 | ISC Fresh Water Investment, S.A. | BME Growth | 21 | ISC Fresh Water Investment, S.A. | BME Growth |
| 20 | Fidere Patrimonio | BME Growth | 22 | Fidere Patrimonio | BME Growth |
| | | | 23 | Zaragoza Properties Socimi, S.A. | BME Growth |
| 21 | Elaia Investment Spain | BME Growth | 24 | Elaia Investment Spain | BME Growth |
| 22 | AM Locales Property | BME Growth | 25 | AM Locales Property | BME Growth |
| 23 | Serrano 61 Desarrollo Socimi, S.A. | BME Growth | 26 | Serrano 61 Desarrollo Socimi, S.A. | BME Growth |
| 24 | Corona Patrimonial | BME Growth | 27 | Corona Patrimonial | BME Growth |
| 25 | Entrecampos Cuatro | BME Growth | 28 | Entrecampos Cuatro | BME Growth |
| 26 | Quonia Socimi, S.A. | BME Growth | 29 | Quonia Socimi, S.A. | BME Growth |
| 27 | Arima Real Estate Socimi, S.A. | Stock exchange | 30 | Arima Real Estate Socimi, S.A. | Stock exchange |
| 28 | Meridia Real Estate III | BME Growth | 31 | Meridia Real Estate III | BME Growth |
| 29 | Vitruvio Real Estate | BME Growth | 32 | Vitruvio Real Estate | BME Growth |
| 30 | Grupo Ortiz Properties | BME Growth | 33 | Grupo Ortiz Properties | BME Growth |
| 31 | Veracruz Properties Socimi, S.A. | BME Growth | 34 | Veracruz Properties Socimi, S.A. | BME Growth |
| 32 | GO Madrid Benz Socimi, S.A. | BME Growth | 35 | Autonomy Spain Real Estate U | BME Growth |
| 33 | Hispanotels Inversiones Socimi, S.A. | BME Growth | 36 | Hispanotels Inversiones Socimi, S.A. | BME Growth |
| 34 | Optimum III Value-Added Residential | BME Growth | 37 | Optimum III Value-Added Residential | BME Growth |
| | | | 38 | Silvercode Investments | BME Growth |
| 35 | Optimum RE Spain | BME Growth | 39 | Optimum RE Spain | BME Growth |

## Report REITs 2020

| | | |
|---|---|---|
| 36 | Arrienda Rental Properties Socimi, S.A. | BME Growth |
| 37 | Gore Spain Holdings SOCIMI I, S.A.U. | BME Growth |
| 37 | Elix Vintage Residencial Socimi, S.A. | BME Growth |
| 38 | Tander Inversiones | BME Growth |
| 39 | Hadley Investments U | BME Growth |
| 40 | Azaria Rental Socimi, S.A. | BME Growth |
| 41 | Inmofam 99 Socimi, S.A. | BME Growth |
| 42 | Urban View Development Spain Socimi, S.A. | BME Growth |
| 43 | AP67 Socimi, S.A. | BME Growth |
| 44 | JABA I Inversiones Inmobiliarias SOCIMI, S.A. | BME Growth |
| 45 | Barcino Property Socimi, S.A. | BME Growth |
| 46 | Mistral Patrimonio Inmobiliario Socimi, S.A. | BME Growth |
| 47 | Vbare Iberian Properties Socimi, S.A. | BME Growth |
| 48 | P3 Spain Logistic Parks Socimi, S.A. | BME Growth |
| 49 | Mercal Inmuebles SOCIMI, S.A. | BME Growth |
| 50 | RREF II AL Breck Socimi, S.A. | BME Growth |
| 51 | Previsión Sanitaria Nacional Gestión Socimi, S.A. | BME Growth |
| 52 | Corpfin Capital Prime Retail III Socimi, S.A. | BME Growth |
| 53 | Numulae Gestion de Servicios Socimi, S.A. | BME Growth |
| 54 | Galil Capital RE Spain Socimi, S.A. | BME Growth |
| 55 | Excem Capital Partners Sociedad de Inversion Residencial, S.L. | BME Growth |
| 56 | Student Properties Spain Socimi, S.A. | BME Growth |
| 57 | Corpfin Capital Prime Retail II Socimi, S.A. | BME Growth |
| 58 | Inmobiliaria Park Rose Iberoamericana Socimi, S.A. | BME Growth |
| 59 | Almagro Capital Socimi, S.A. | BME Growth |
| 60 | Quid Pro Quo Alquiler Seguro Socimi, S.A. | BME Growth |
| 61 | Tarjar Xairo Socimi, S.A. | BME Growth |
| 62 | Euripo | BME Growth |
| 63 | Torbel Investment 2015 Socimi | BME Growth |
| 64 | Mistral Iberia Real Estate, S.A. | BME Growth |
| 65 | La Finca Global Assets SOCIMI, S.A. | BME Growth |
| 66 | Millenium Hotels Real Estate, S.L. | BME Growth |
| 67 | Persepolis Investments 1 Socimi, S.A. | BME Growth |
| 68 | Torimbia Socimi, S.A. | BME Growth |
| 69 | Trivium Real Estate Socimi, S.A. | BME Growth |
| 70 | Inbest Prime I Inmuebles Socimi, S.A. | BME Growth |
| 71 | Inbest Prime II Inmuebles Socimi, S.A. | BME Growth |
| 72 | Inbest Prime III Inmuebles Socimi, S.A. | BME Growth |
| 73 | Inbest Prime IV Inmuebles Socimi, S.A. | BME Growth |
| 74 | GREENOAK SPAIN HOLDINGS SOCIMI II, S.A. | BME Growth |
| 75 | MANSFIELD INVEST SOCIMI, S.A. | BME Growth |
| 76 | Advero Properties SOCIMI, S.A. | BME Growth |
| 77 | GAVARI PROPERTIES SOCIMI, S.A. | BME Growth |
| 78 | HOME CAPITAL RENTALS SOCIMI, S.A. | BME Growth |

## Report REITs 2019

| | | |
|---|---|---|
| 40 | GO Madrid Benz Socimi, S.A. | BME Growth |
| 41 | Arrienda Rental Properties Socimi, S.A. | BME Growth |
| 42 | Gore Spain Holdings SOCIMI I, S.A.U. | BME Growth |
| 43 | Elix Vintage Residencial Socimi, S.A. | BME Growth |
| 44 | Tander Inversiones | BME Growth |
| 45 | Hadley Investments U | BME Growth |
| 46 | Azaria Rental Socimi, S.A. | BME Growth |
| 47 | Inmofam 99 Socimi, S.A. | BME Growth |
| 48 | Urban View Development Spain Socimi, S.A. | BME Growth |
| 49 | AP67 Socimi, S.A. | BME Growth |
| 50 | JABA I Inversiones Inmobiliarias SOCIMI, S.A. | BME Growth |
| 51 | Barcino Property Socimi, S.A. | BME Growth |
| 52 | Mistral Patrimonio Inmobiliario Socimi, S.A. | BME Growth |
| 53 | Vbare Iberian Properties Socimi, S.A. | BME Growth |
| 54 | Unica Real-Estate Socimi, S.A. | BME Growth |
| 55 | P3 Spain Logistic Parks Socimi, S.A. | BME Growth |
| 56 | Mercal Inmuebles SOCIMI, S.A. | BME Growth |
| 57 | RREF II AL Breck Socimi, S.A. | BME Growth |
| 58 | Previsión Sanitaria Nacional Gestión Socimi, S.A. | BME Growth |
| 59 | Corpfin Capital Prime Retail II Socimi, S.A. | BME Growth |
| 60 | Numulae Gestion de Servicios Socimi, S.A. | BME Growth |
| 61 | Galil Capital RE Spain Socimi, S.A. | BME Growth |
| 62 | Domo Activos Socimi, S.A. | BME Growth |
| 63 | Excem Capital Partners Sociedad de Inversion Residencial, S.L. | BME Growth |
| 64 | Student Properties Spain Socimi, S.A. | BME Growth |
| 65 | Corpfin Capital Prime Retail III Socimi, S.A. | BME Growth |
| 66 | Inmobiliaria Park Rose Iberoamericana Socimi, S.A. | BME Growth |
| 67 | Almagro Capital Socimi, S.A. | BME Growth |
| 68 | Quid Pro Quo Alquiler Seguro Socimi, S.A. | BME Growth |
| 69 | Tarjar Xairo Socimi, S.A. | BME Growth |
| 70 | HEREF Habaneras SOCIMI, S.A. | BME Growth |
| 71 | Asgard Investment Hotels Socimi, S.A. | BME Growth |
| 72 | Promociones Renta Y Mantenimiento SOCIMI, S.A. | BME Growth |
| 73 | Euripo | BME Growth |
| 74 | Torbel Investment 2015 Socimi | BME Growth |

The analysis of the following pages was compiled from the 78 real estate vehicles shown plus St. Croxi Socimi, totalling 79 REITs

Source: JLL

At the end of June 2020, the Spanish market reached a market value of 21,268 million euros compared to 25,733 million euros in December 2019, representing a loss in market value of more than 17% (4,400 million euros) as a consequence of the crisis which commenced in March of this year due to the effects of the global pandemic that we are experiencing.

## Market capitalisation as at 30 June 2020


Source: JLL

The significant loss of value experienced by the more liquid vehicles and therefore of larger size on the market, as well as the continuous entry of new vehicles to the market (albeit always at a lower value) has slightly modified the market concentration profile, while this degree of concentration and heterogeneity remains in similar ranges. Our market thus continues to be a place with a high degree of heterogeneity to the extent that REITs with a high market value, liquidity and extensive daily trading of their shares coexist with others, that are more numerous, smaller in size and where the dissemination of their shares is still scarce and in many cases testimonial. For all these reasons, and unchanged in the last year, there continues to be a high degree of concentration, where the top five REITs grouped by market capitalisation represent more than 62% of the market as a whole, with the first ten accounting for three quarters of the entire market. The first thirty REITs -which represent 38% of the number of listed vehicles- account for 90% of the total value. Likewise, it is BME Growth that continues to fuel the entry of REITs into the stock markets, having not yet produced the natural transfer of BME Growth companies to the continuous market, a process that has occurred in other economic sectors.

**Degree of concentration of the REITs market. 30 June 2020**

| No. REITs | % of total no. of REITs | Stock market capitalisation (€Mn) | Accumulated stock market capitalisation (€Mn) | % Accumulated stock market capitalisation over the total | % Accumulated stock market capitalisation over the total. 2019 |
|---|---|---|---|---|---|
| 5 | 6.3% | 13,144 | 13,144 | 62% | 67% |
| 10 | 12.7% | 2,758 | 15,902 | 75% | 79% |
| 15 | 19.0% | 1,356 | 17,258 | 81% | 85% |
| 20 | 25.3% | 847 | 18,105 | 85% | 88% |
| 30 | 38.0% | 1,265 | 19,369 | 91% | 93% |

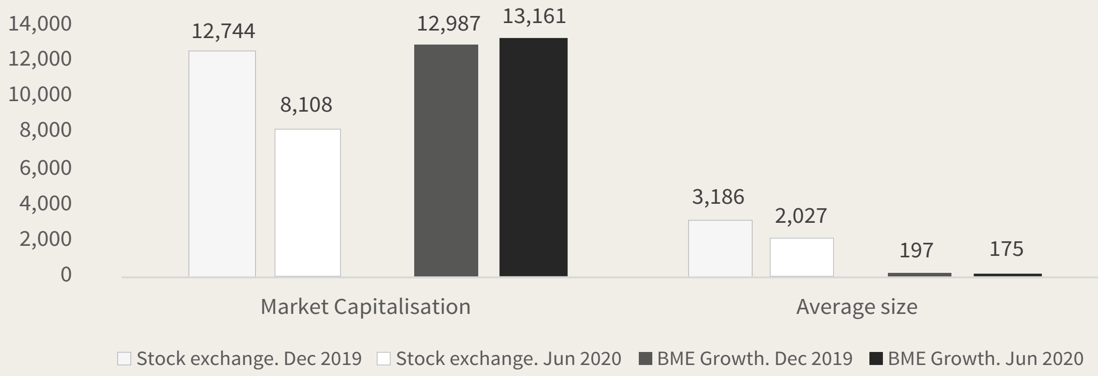
Source: JLL

We consider that it is quite likely that over the coming years and as a consequence of the crisis we are experiencing, that this degree of concentration and heterogeneity may soon vary to the extent that the current situation is the necessary, albeit insufficient condition for the acquisition of assets in some vehicles or the merger of others to increase individual volume and therefore the degree of management efficiency by spreading overhead costs among larger portfolios. However, the differences existing between the shareholder profiles, as well as highly heterogeneous asset portfolios, can be considered as the element that slows down a necessary concentration process.

The scarce trading and depth of the REIT shares in BME Growth, and therefore their limited correlation with the economic outlook in terms of price and impact on the value of vehicle shares, causes the weight in terms of the value of this market to clearly exceed that demonstrated by the continuous market. Therefore, at the close of the first half of 2020, BME Growth showed a value of 13,160 million euros (62% of the total) compared to the 8,100 million euros of the Stock Exchange (38%), representing 62% more in value. At the end of December 2019, the situation was more balanced and coincided with the end of 2018, to the extent that the Stock Exchange accumulated a value of 12,700 million euros compared to the 12,900 of BME Growth, an aspect that indicates a liquidity paradox due to the very configuration of both markets. While REITs on the Stock Exchange have lost 36% of their value (representing more than 4,600 million euros), BME Growth has gained 1.3% (170 million euros) mainly corresponding to the commencement of the listing of new vehicles.

In terms of the distribution of the listed real estate sector it is still clearly the property sector when compared to the development sector that shows the highest value, 5.9 times greater in fact.

Market Capitalisation Distribution by markets and average size (€Mn). June 2020 and December 2019




Source: JLL

Real estate sector in the stock markets (€Mn). December 2019


Source: JLL

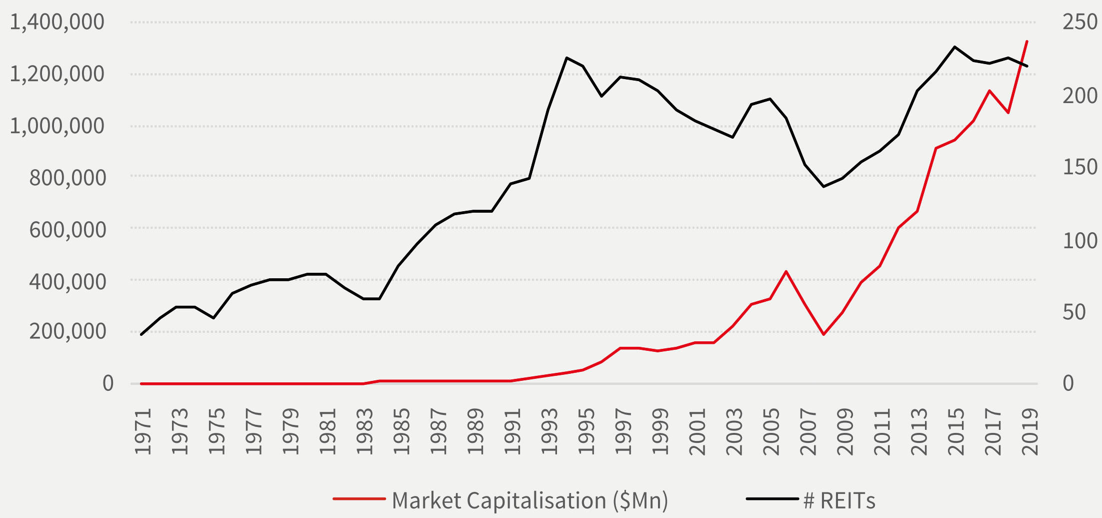
International markets

## REITs in the international markets

Outside our borders and with special attention to the North American real estate market for REITs, this is still the main market for this class of real estate vehicle with a market capitalisation of $1.3 trillion spread over 219 listed vehicles[11] with an average size of more than 6,000 million dollars per vehicle, and in line with recent years and with the evolution of the stock markets in that country, offering significant annual returns.

Source: JLL

REIT Performance (Listed): Market capitalisation and No. of REITs (1971-2019). US Market




Source: Nareit and in-house

[11] The American regulation allows the creation of unlisted (private) REITs as well as REITs specialising in mortgage debt.

## International markets

However, this market has not been immune to the events and uncertainties that have surrounded the world economies since the beginning of this year as a consequence of the global Covid 19 pandemic. Subsequently, for the first quarter of the year as a whole, all segments showed significant negative yields -except for the specialised segments in data centres and infrastructures- with a particular impact on the most affected segments such as retail, hotels and mixed vehicles with a significant presence in the retail sector. Also of particular note is the poor performance of mortgage REITs, both those specialised in the residential and commercial segments, as a consequence of the American regulation for this type of vehicle.

**REIT annual yields (1994-2019) by segment (%). US Market**

| | Offices | Industrial/Logistics | Retail | Residential | Mixed | Health | Hotel/Resorts | Storage | Forest lands | Infrastructures | Data centres | Other | Mortgages |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1994 | 2.9 | 18.7 | 3.0 | 2.3 | -6.0 | 4.1 | -8.9 | 8.9 | | | | | -24.3 |
| 1995 | 38.8 | 16.2 | 5.1 | 12.0 | 21.2 | 24.9 | 30.8 | 34.4 | | | | | 63.4 |
| 1996 | 51.8 | 37.2 | 34.6 | 29.5 | 34.0 | 20.4 | 49.2 | 42.9 | | | | | 50.9 |
| 1997 | 29.0 | 19.0 | 17.0 | 16.3 | 21.7 | 15.8 | 30.1 | 3.4 | | | | | 3.8 |
| 1998 | -17.4 | -11.7 | -4.7 | -8.1 | -22.1 | -17.5 | -52.8 | -7.2 | | | | | -29.2 |
| 1999 | 4.3 | 3.9 | -11.7 | 9.5 | -14.4 | -24.8 | -16.1 | -8.0 | | | | | -33.2 |
| 2000 | 35.5 | 28.6 | 18.0 | 34.3 | 24.1 | 25.9 | 45.8 | 14.7 | | | | | 16.0 |
| 2001 | 6.7 | 7.4 | 30.4 | 9.0 | 12.5 | 51.9 | -8.6 | 43.2 | | | | | 77.4 |
| 2002 | -6.3 | 17.3 | 21.0 | -6.0 | 4.2 | 4.8 | -1.5 | 0.6 | | | | | 31.1 |
| 2003 | 34.0 | 33.1 | 46.8 | 25.9 | 40.3 | 53.6 | 31.7 | 38.1 | | | | | 57.4 |
| 2004 | 23.3 | 34.1 | 40.2 | 32.7 | 32.4 | 21.0 | 32.7 | 29.7 | | | | | 18.4 |
| 2005 | 13.1 | 15.4 | 11.8 | 13.7 | 9.9 | 1.8 | 9.8 | 26.5 | | | | | -23.2 |
| 2006 | 45.2 | 29.0 | 29.0 | 39.0 | 38.0 | 44.6 | 28.2 | 40.9 | | | | | 19.3 |
| 2007 | -19.0 | 0.4 | -15.8 | -25.1 | -22.3 | 2.1 | -22.4 | -24.8 | | | | | -42.4 |
| 2008 | -41.1 | -67.5 | -48.4 | -24.9 | -28.3 | -12.0 | -59.7 | 5.1 | | | | | -31.3 |
| 2009 | 35.6 | 12.2 | 27.2 | 30.8 | 17.0 | 24.6 | 67.2 | 8.4 | | | | | 24.6 |
| 2010 | 18.4 | 18.9 | 33.4 | 46.0 | 23.7 | 19.2 | 42.8 | 29.3 | | | | | 22.6 |
| 2011 | -0.8 | -5.12 | 122 | 15.4 | 2.8 | 13.6 | -14.3 | 35.2 | 7.7 | | | | -2.4 |
| 2012 | 14.2 | 31.3 | 26.7 | 7.0 | 12.2 | 20.4 | 12.5 | 20.0 | 37.1 | 30.0 | | | 19.9 |
| 2013 | 5.6 | 7.4 | 1.9 | -5.4 | 4.3 | -7.0 | 27.2 | 9.5 | 7.9 | 4.8 | | | -2.0 |
| 2014 | 25.9 | 21.0 | 27.6 | 40.0 | 27.2 | 33.3 | 32.5 | 31.4 | 8.6 | 20.2 | | | 17.9 |
| 2015 | 0.3 | 2.6 | 4.6 | 17.1 | -0.5 | -7.3 | -24.4 | 40.7 | -7.0 | 3.7 | 1.5 | 1.7 | -8.9 |
| 2016 | 13.2 | 30.7 | 1.0 | 4.5 | 10.3 | 6.4 | 24.3 | -8.1 | 8.3 | 10.0 | 26.4 | 20.0 | 22.9 |
| 2017 | 5.2 | 20.6 | -4.8 | 6.6 | -0.1 | 0.9 | 7.2 | 3.7 | 22.0 | 35.4 | 28.4 | 13.2 | 19.8 |
| 2018 | -14.5 | -2.5 | -5.0 | 3.0 | -12.5 | 7.6 | -12.8 | 3.0 | -32.0 | 7.0 | -14.1 | -6.7 | -2.5 |
| **2019** | **31.4** | **48.7** | **10.7** | **30.9** | **24.1** | **21.2** | **15.7** | **13.7** | **42.0** | **42.0** | **44.2** | **27.4** | **21.3** |

Source: FTSE Nareit US RE, Nareit and in-house

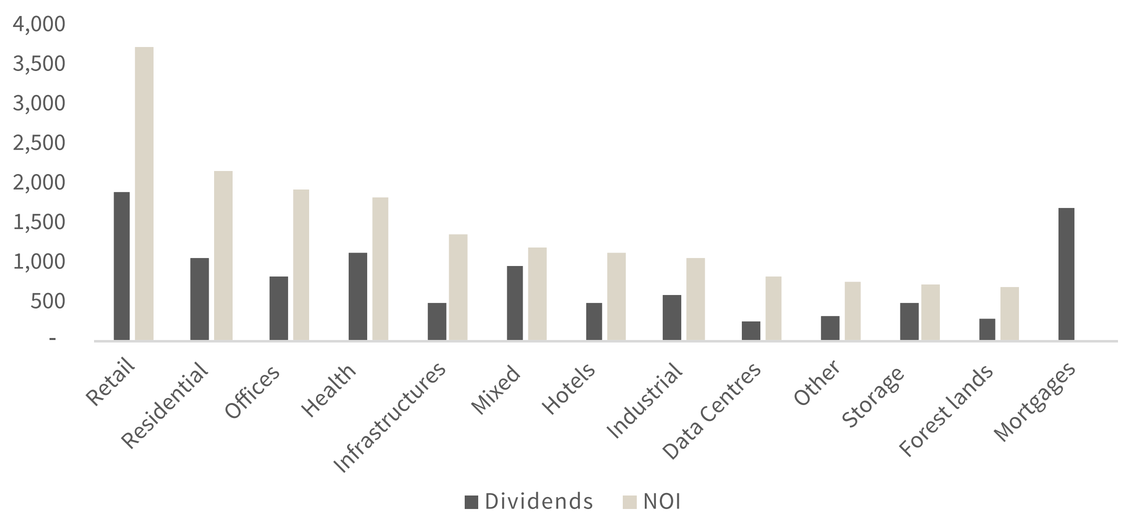
### Monthly Yield USA Market 2020 (%)

| | January | February | March | April | YTD 2020 |
|---|---|---|---|---|---|
| Offices | 0.7 | -10.3 | -20.4 | 7.5 | -22.6 |
| Industrial | 3.7 | -9.0 | -5.0 | 8.0 | -3.2 |
| Retail | -3.4 | -7.5 | -42.7 | 14.8 | -41.2 |
| Residential | 3.7 | -7.3 | -21.5 | 8.6 | -18.0 |
| Mixed | 1.8 | -12.0 | -32.0 | 13.1 | -31.2 |
| Hotels | -10.9 | -13.9 | -36.6 | 11.3 | -45.8 |
| Health | 3.2 | -8.0 | -33.4 | 10.0 | -30.4 |
| Storage | 4.5 | -6.6 | -5.6 | -6.7 | -14.1 |
| Forest lands | -4.4 | -11.0 | -28.6 | 22.1 | -15.8 |
| Infrastructures | 2.5 | -1.4 | -1.7 | 9.6 | 8.8 |
| Data Centres | 1.1 | -2.7 | 10.5 | 8.1 | 17.7 |
| Other | 3.9 | -7.5 | -33.7 | 6.8 | -31.9 |
| Mortgages (Residential) | 4.2 | -8.1 | -54.5 | 16.8 | -49.1 |
| Mortgages (Commercial) | 2.2 | -9.0 | -52.1 | 5.0 | -44.3 |
| **Total REITs Market** | **1.3** | **-7.0** | **-18.7** | **8.8** | **-16.7** |

Source: FTSE Nareit US RE Idx, Nareit and in-house

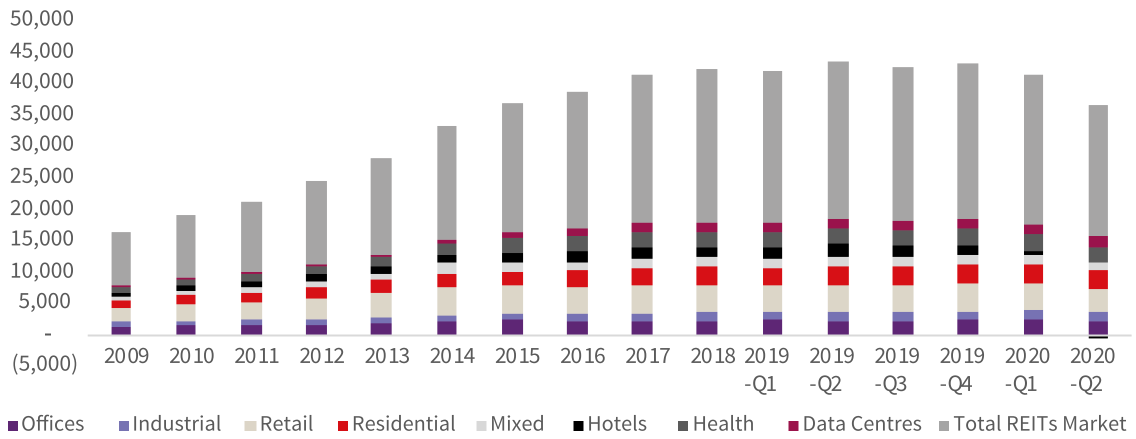
However, beyond the specific and short-term outlook of the current times we are living in, it is necessary to broaden this outlook and try to analyse the importance of these vehicles in the most important global economy from a long-term perspective. In this regard, the capacity of the American REITs in terms of business and dividends in the last decade should not be overlooked, seeing as all the vehicles in the American market have paid out more than 10,200 million dollars annually in dividends over the period 2009-2020 to their shareholders and generated more than 17,000 million dollars in terms of Net Operating Income (NOI). In business terms, the retail, residential, office, health, infrastructure and mixed segments account for almost three quarters of the average annual contribution to the market as a whole.

## Annual average dividends and NOI 2009-2020 ($Mn)




Source: Nareit and in-house

## NOI performance of USA REITs by segment ($Mn) 2009-2020



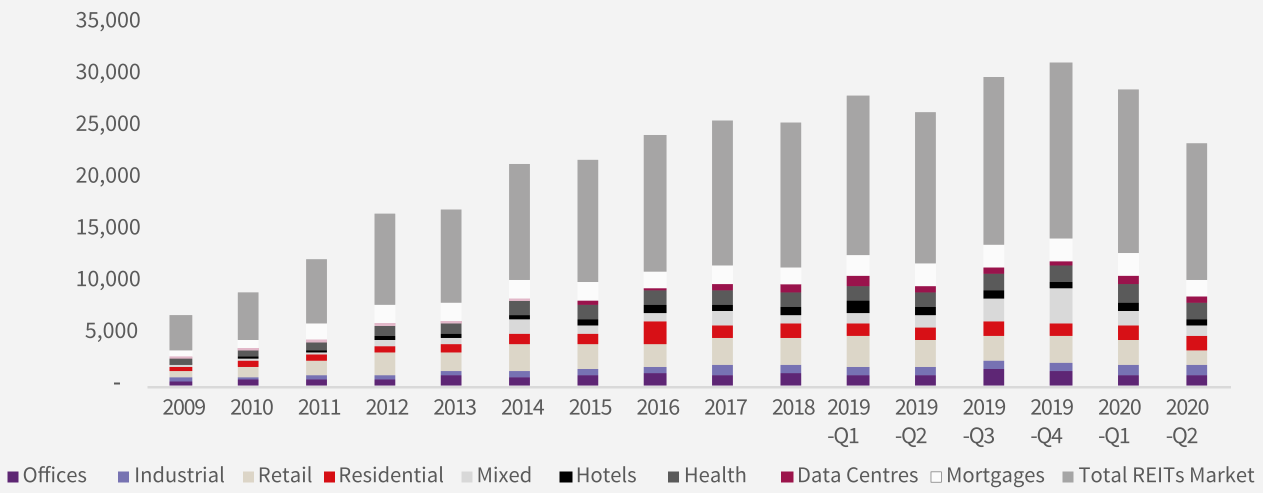

Source: Nareit and in-house

**NOI annual growth (%) 2010-2019. USA REITs by segment**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Offices | 12% | 6% | 6% | 13% | 15% | 9% | -2% | 2% | -2% | 5% |
| Industrial | -1% | 9% | 11% | -3% | 7% | 13% | -3% | 6% | 19% | 9% |
| Retail | 26% | 3% | 17% | 22% | 10% | -1% | 0% | -1% | -2% | 2% |
| Residential | 7% | 11% | 10% | 17% | 13% | 6% | 4% | 12% | 6% | 6% |
| Mixed | 10% | 7% | 9% | 7% | 107% | -20% | 4% | 12% | -5% | 0% |
| Hotels | 16% | 27% | 19% | -2% | 12% | 16% | 1% | 15% | -3% | -12% |
| Storage | 5% | 11% | 15% | 14% | 14% | 19% | 14% | 5% | 5% | 4% |
| Health | 15% | 31% | 11% | 24% | 11% | 21% | 11% | 0% | -4% | 3% |
| Forest lands | 184% | 0% | 29% | 5% | -19% | -20% | -9% | 40% | -34% | -2% |
| Infrastructures | N/A | N/A | N/A | 20% | 95% | 31% | 11% | 33% | 22% | -7% |
| Data Centres | 54% | 10% | 22% | 34% | 11% | 114% | 22% | 19% | 9% | 7% |
| Other | N/A | N/A | N/A | N/A | 30% | 647% | 18% | 5% | 17% | 4% |
| **Total REITs Market** | **19.1%** | **10.1%** | **19.1%** | **15.2%** | **18.7%** | **14.7%** | **4.9%** | **9.1%** | **3.2%** | **1.4%** |

Source: Nareit and in-house

Performance of US REITs Dividends by segment ($Mn) 2009-2020



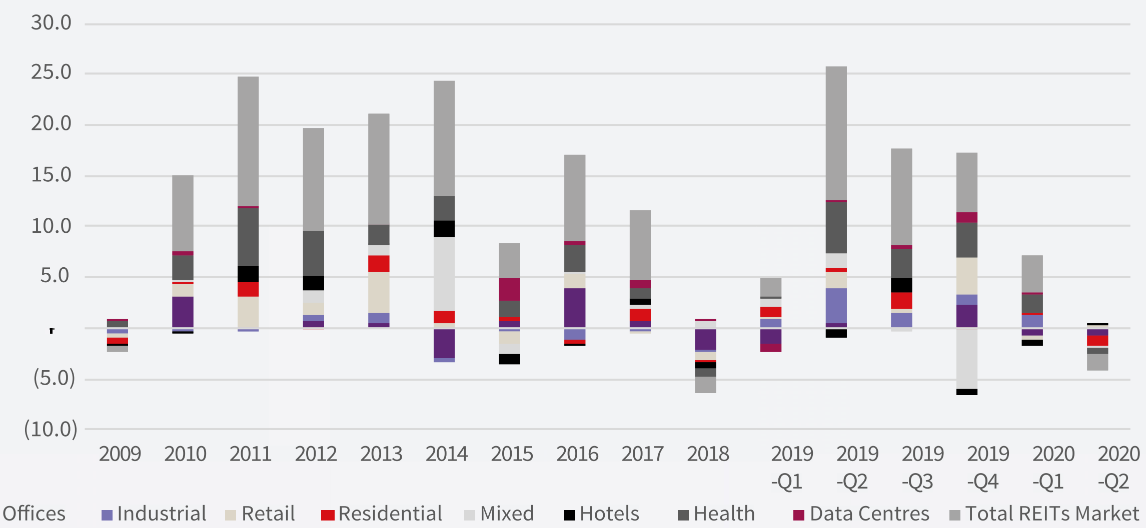

Source: Nareit and in-house

**Annual growth in dividends paid (%) 2010-2019. USA REITs by segment**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Offices | 27% | 8% | 7% | 53% | -7% | 7% | 25% | -13% | 30% | 9% |
| Industrial | 2% | 7% | 15% | 20% | 24% | 6% | -8% | 62% | -21% | 5% |
| Retail | 80% | 40% | 53% | -15% | 45% | -6% | -6% | 15% | -2% | -3% |
| Residential | 3% | 14% | 19% | 21% | 19% | 6% | 119% | -45% | 4% | 4% |
| Mixed | 74% | 24% | 72% | -6% | 128% | -37% | 3% | 63% | -34% | 281% |
| Hotels | 126% | 87% | 95% | -4% | 27% | 30% | 2% | 11% | 0% | -7% |
| Storage | 17% | 11% | 98% | -24% | 8% | 27% | 19% | 3% | 4% | 3% |
| Health | 11% | 27% | 18% | 16% | 30% | 4% | 0% | -9% | 22% | 5% |
| Forest lands | 23% | 33% | 8% | 40% | -4% | 1% | -8% | 5% | 27% | -14% |
| Infrastructures | N/A | N/A | N/A | 21% | 96% | 46% | 14% | 24% | 10% | 3% |
| Data Centres | 12% | 78% | 20% | 71% | 51% | 269% | -25% | 121% | 13% | -43% |
| Other | N/A | N/A | N/A | N/A | 11% | 334% | 25% | -7% | 45% | 8% |
| Mortgages | 32% | 71% | 28% | -8% | -3% | -8% | -6% | 13% | -11% | 30% |
| **Total REITs Market** | **30%** | **35%** | **39%** | **3%** | **26%** | **4%** | **11%** | **6%** | **1%** | **20%** |

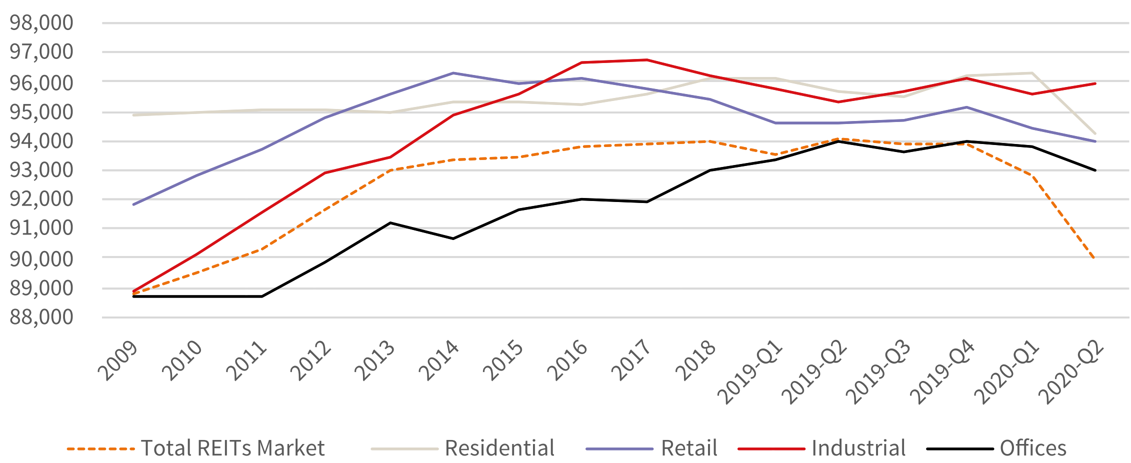
Source: Nareit and in-house

Performance of US REITs in Net Acquisitions by segment (€Bn) 2009-2020




Source: Nareit and in-house

## Trend of Occupancy Ratio (%) 2009-2020




Source: Nareit and in-house

Turning to the **European market**, according to EPRA, as at June 2020 the market capitalisation of REITs totalled 175,000 million dollars, representing a loss in value over one year of more than 42,000 million dollars (-19.5%) in line with the market as a whole, taking into account that the weight of the real estate vehicles on all financial markets has not changed significantly.

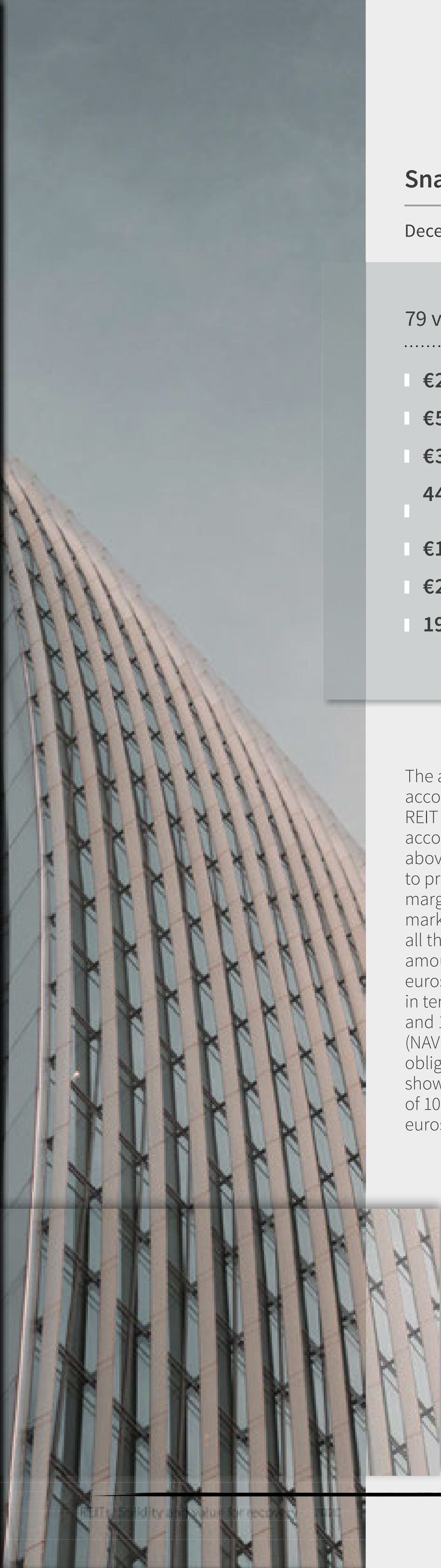
| Countries | Commercial RE ($Bn) | | Capitalisation of listed real estate companies ($Bn) | | Number of Listed Real Estate companies (No.) | | REITs Capitalisation ($Bn) | | Number of REITs (No.) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Dec-18 | Dec-19 | Mar-19 | Jun-20 | Mar-19 | Jun-20 | Mar-19 | Jun-20 | Mar-19 | Jun-20 |
| Austria | 191.4 | 191.2 | 8.2 | 6.9 | 6 | 6 | | | | |
| Belgium | 225.7 | 225.6 | 22.5 | 24.7 | 28 | 28 | 16.9 | 20.0 | 17 | 17 |
| Bulgaria | 17.8 | 18.2 | 1.0 | 1.3 | 33 | 29 | 0.5 | 0.6 | 28 | 24 |
| Croatia | 19.9 | 20.2 | 0.1 | -- | 1 | | | | | |
| Cyprus | 9.8 | 10.0 | 1.1 | 0.3 | 10 | 10 | | | | |
| Czech R. | 91.6 | 91.8 | 0.4 | 2.6 | 1 | 1 | | | | |
| Denmark | 149.0 | 149.6 | 2.0 | 2.5 | 11 | 10 | | | | |
| Estonia | 10.9 | 11.5 | 0.1 | 0.1 | 3 | 3 | | | | |
| Finland | 115.9 | 115.5 | 5.1 | 6.6 | 5 | 4 | | | | |
| France | 1,184.1 | 1,182.6 | 63.1 | 49.4 | 47 | 45 | 57.7 | 45.1 | 29 | 28 |
| Germany | 1,691.8 | 1,669.4 | 112.9 | 118.7 | 61 | 62 | 4.6 | 5.0 | 6 | 6 |
| Greece | 82.0 | 82.6 | 3.5 | 3.8 | 12 | 11 | 2.7 | 2.5 | 5 | 4 |
| Hungary | 52.2 | 53.6 | 0.4 | 0.4 | 2 | 2 | | | | |
| Ireland | 151.0 | 154.3 | 3.1 | 1.8 | 4 | 3 | 3.1 | 1.8 | 4 | 3 |
| Italy | 887.3 | 887.8 | 1.4 | 1.0 | 10 | 9 | 1.2 | 0.7 | 3 | 3 |
| Latvia | 11.8 | 12.0 | 0.0 | 0.0 | 2 | 2 | | | | |
| Lithuania | 18.6 | 18.9 | 0.1 | 0.0 | 2 | 2 | | | | |
| Luxembourg | 28.7 | 28.8 | 0.0 | -- | | | | | | |
| Malta | 5.8 | 5.9 | 0.3 | 0.3 | 5 | 6 | | | | |
| The Netherlands | 381.1 | 382.2 | 27.0 | 10.1 | 9 | 8 | 26.8 | 10.0 | 5 | 5 |
| Poland | 184.9 | 194.5 | 7.0 | 5.8 | 43 | 42 | 0.7 | 0.1 | 3 | 3 |
| Portugal | 92.3 | 93.7 | 0.0 | 0.0 | 0 | 2 | | | | |
| Romania | 72.3 | 72.4 | 6.2 | 4.5 | 3 | 3 | | | | |
| Slovakia | 38.8 | 38.7 | 0.0 | -- | | | | | | |
| Slovenia | 21.8 | 21.5 | 0.0 | -- | | | | | | |
| **Spain** | **601.4** | **600.2** | **33.4** | **27.8** | **86** | **93** | **26.7** | **23.2** | **72** | **77** |
| Sweden | 240.7 | 242.2 | 58.2 | 65.2 | 50 | 53 | | | | |
| United Kingdom | 1,538.8 | 1,545.2 | 91.7 | 75.0 | 94 | 86 | 76.2 | 65.8 | 56 | 53 |
| **European Union** | **8,117.2** | **8,119.7** | **448.9** | **408.9** | **528** | **520** | **217.1** | **174.8** | **228** | **223** |

Source: EPRA and in-house

| | Market Capitalisation ($Bn) | | Real estate companies/Total Market capitalisation (%) | | REITs Capitalisation/Total Capitalisation total Stock Exchange (%) | | REITs Capitalisation/ Commercial RE (%) | |
|---|---|---|---|---|---|---|---|---|
| | Mar-19 | Jun-20 | Mar-19 | Jun-20 | Mar-19 | Jun-20 | Mar-19 | Jun-20 |
| Austria | 133.2 | 103.3 | 6.1% | 6.7% | 0.0% | 0.0% | 0.0% | 0.0% |
| Belgium | 373.1 | 324.6 | 6.0% | 7.6% | 4.5% | 6.2% | 7.5% | 8.9% |
| Bulgaria | 5.7 | 15.3 | 16.6% | 8.3% | 8.0% | 3.7% | 2.6% | 3.1% |
| Croatia | 20.7 | 19.6 | 0.4% | | 0.0% | 0.0% | 0.0% | 0.0% |
| Cyprus | 2.4 | 3.3 | 45.5% | 8.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Czech R. | 29.0 | 22.7 | 1.3% | 11.6% | 0.0% | 0.0% | 0.0% | 0.0% |
| Denmark | 421.1 | 503.1 | 0.5% | 0.5% | 0.0% | 0.0% | 0.0% | 0.0% |
| Estonia | 3.0 | 2.8 | 3.6% | 2.5% | 0.0% | 0.0% | 0.0% | 0.0% |
| Finland | 265.0 | 250.4 | 1.9% | 2.6% | 0.0% | 0.0% | 0.0% | 0.0% |
| France | 2,431.7 | 2,314.7 | 2.6% | 2.1% | 2.4% | 1.9% | 4.9% | 3.8% |
| Germany | 2,081.4 | 2,087.1 | 5.4% | 5.7% | 0.2% | 0.2% | 0.3% | 0.3% |
| Greece | 41.1 | 36.6 | 8.4% | 10.5% | 6.7% | 6.9% | 3.3% | 3.1% |
| Hungary | 30.5 | 22.9 | 1.4% | 1.7% | 0.0% | 0.0% | 0.0% | 0.0% |
| Ireland | 108.5 | 96.8 | 2.8% | 1.9% | 2.8% | 1.9% | 2.0% | 1.2% |
| Italy | 631.0 | 568.1 | 0.2% | 0.2% | 0.2% | 0.1% | 0.1% | 0.1% |
| Latvia | 0.9 | 1.0 | 1.1% | 1.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Lithuania | 4.0 | 4.2 | 1.2% | 1.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Luxembourg | 8.2 | 6.9 | 0.0% | | 0.0% | 0.0% | 0.0% | 0.0% |
| Malta | 5.7 | 4.9 | 5.6% | 6.7% | 0.0% | 0.0% | 0.0% | 0.0% |
| The Netherlands | 547.1 | 770.7 | 4.9% | 1.3% | 4.9% | 1.3% | 7.0% | 2.6% |
| Poland | 164.3 | 129.0 | 4.3% | 4.5% | 0.4% | 0.0% | 0.4% | 0.0% |
| Portugal | 68.5 | 65.6 | 0.0% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% |
| Romania | 20.4 | 20.4 | 30.5% | 22.3% | 0.0% | 0.0% | 0,0% | 0.0% |
| Slovakia | 7.8 | 4.4 | 0.0% | | 0.0% | 0.0% | 0.0% | 0.0% |
| Slovenia | 8.2 | 8.7 | 0.0% | | 0.0% | 0.0% | 0.0% | 0.0% |
| **Spain** | **697.1** | **568.9** | **4.8%** | **4.9%** | **3.8%** | **4.1%** | **4.4%** | **3.9%** |
| Sweden | 726.9 | 821.6 | 8.0% | 7.9% | 0.0% | 0.0% | 0.0% | 0.0% |
| United Kingdom | 3,320.9 | 2,669.9 | 2.8% | 2.8% | 2.3% | 2.5% | 5.0% | 4.3% |
| **European Union** | **12,157.2** | **11,447.2** | **3.7%** | **3.6%** | **1.8%** | **1.5%** | **2.7%** | **2.2%** |

Source: EPRA and in-house

However, the Spanish market still has a long way to go to match its European peers in terms of average size per vehicle. According to the same EPRA data, the European Union as a whole is home to REITs exceeding more than 784 million euros per unit, figures convincingly beaten by the French, German, Dutch and British markets, but in Spain these are 2.6 times lower (300 million dollars).



## Snapshot of the Spanish REIT market as a whole

**December 2019 |** Figures expressed in €Mn and % of homogeneous scope

79 vehicles

- **€25,945 Mn** Market Capitalisation
- **€51,062 Mn** Gross Asset Value (GAV)
- **€31,477 Mn** Net Asset Value (NAV)
- **44,028 Mn** Book Value of Real Estate Investments (€Mn)
- **€1,612 Mn** Asset Revaluation
- **€24,189 Mn** Net Equity
- **19,585 Mn** Net Financial Debt
- **€2,060 Mn** Rental income
- **€1,393 Mn** EBITDA (without asset sales)
- **€1,702 Mn** EBITDA (with asset sales)
- **€1,254 Mn** Dividends paid out
- **4.8%** Dividend yield
- **1.8%** Shareholder Cash on Cash

Source: JLL

The analysis of the main figures and accounting headings of the Spanish REIT market as a whole, taking into account the aforementioned scope[12], above all shows stability compared to previous years, as well as a certain margin for improvement. In terms of market value[13], at the end of 2019, all the portfolios owned by REITs amounted to more than 51,000 million euros, representing an increase of 12% in terms of Gross Asset Value (GAV) and 17% in terms of Net Asset Value (NAV) discounting debt and payment obligations. The book value of assets[14] shows a similar trend with an increase of 10% and exceeding 44,000 million euros, a figure even higher than that of the previous year with its own scope taking into account the departure of vehicles for this year, with a high investment volume and value. Also at the end of the 2019 financial year, there was an increase in the value of the assets as a whole (revaluations totalling 1,600 million euros), representing 3.7% of the fair value and 6.3% of the capitalisation value of the sector as a whole, but showing a 9% decrease on the previous year and compared to the trend of previous years.

[12] The change in the scope of analysis of the market as a consequence of the entry of new vehicles and the departure of some, means that the data in this report cannot be compared with those of the previous year and that the magnitudes and headings corresponding to previous years do not accurately match.

[13] The market value or GAV (Gross Asset Value) is determined by independent RICS valuations of each of the assets that make up the equity of the vehicles at the close of the 2019 financial year and published as a Relevant Fact on the financial markets.

[14] Only some REITs recognise their assets at market value, therefore, the book value does not reflect the increase in value.

If we look at the financing structure of Spanish vehicles, they continue to show an adequate balance. Total equity amounts to more than 24,000 million euros (+14%), with a net financial debt of 19,500 million euros with a reliance on debt of less than half (+6.1%) of the growth experienced by the corporate assets. This effect caused the leverage of the Spanish REITs to fall by two points compared to the previous year, to stand at 38.4% of the market value of assets and maintain one of the main characteristics that gives it the required stability.

In business terms, the scope for this year shows rental income of more than 2,000 million euros (+8%) together with a significant decrease, both in annual variation and in absolute data for the item "other income", allowing the EBITDA to remain very stable and similar to the analysis of the previous year. However, the increase in staff costs is notable -which means a greater commitment to the internal management of each vehicle together with retaining and obtaining the loyalty of specialised teams- as well as the decrease in general expenses (-11%) mainly related to external services (-28%) and not so much in taxes and fees that totalled 138 million euros (+4.3%). All the previous items for income and expenditure, with their movements in opposite directions, result in a clear deterioration in efficiency, with a fall of seven points to 0.43 compared to 0.36 in previous years. If we consider the net effect of the capital gains from the sale of assets throughout the year within the calculation of the EBITDA, it reaches an amount of 1,700 million euros, which together with the effect that asset revaluations have on the income statement, this would set a record net accounting profit exceeding 2,500 millions of euros.

From the point of view of the financial health of our REITs market, it is the annual capacity to generate cash that should set the tone for the analysis. Subsequently, it can be observed how 2019 set a new high in the operating cash flow of up to 1,230 million euros with a more than significant increase compared to the previous year.

| MARKET AS A WHOLE (79 Vehicles) | | | | | |
|---|---|---|---|---|---|
| **MARKET DATA** | **units** | **2019** | **2018** | **2017** | **Change: 19/18** |
| **MARKET** | | | | | |
| **Market Value (Closing)** | **€Mn** | 25,971 | 19,881 | 16,984 | 30.5% |
| **GAV** | **€Mn** | 51,062 | 45,390 | 39,835 | 12.5% |
| **NAV** | **€Mn** | 31,477 | 26,934 | 26,311 | 16.9% |
| **INVESTMENTS - BALANCE SHEET** | | | | | |
| **Investment Properties** | **€Mn** | **44,028** | **40,027** | **32,524** | **10.0%** |
| Increase in Fair Value | €Mn | 1,612 | 1,778 | 2,121 | -9.3% |
| Fair Value/Prop. Investments | % | 3.7% | 4.4% | 6.5% | |
| Fair Value/Market Value | % | 6.2% | 8.9% | 12.5% | |
| **Equity** | **€Mn** | **24,189** | **21,186** | **18,843** | **14.2%** |
| **NFD** | **€Mn** | **19,585** | **18,456** | **13,524** | **6.1%** |
| Cash | €Mn | 1,756 | 1,091 | 2,235 | 60.9% |
| Non-current borrowings | €Mn | 20,216 | 18,752 | 15,201 | 7.8% |
| Current borrowings | €Mn | 1,125 | 795 | 559 | 41.5% |
| **BUSINESS - INCOME STATEMENT** | | | | | |
| **Rental income** | **€Mn** | **2,060** | **1,894** | **1,481** | **8.8%** |
| Other income | €Mn | 64 | 237 | 57 | -72.9% |
| Employees | €Mn | 349 | 138 | 168 | 153.1% |
| Operating costs | €Mn | 560 | 632 | 378 | -11.4% |
| Amortisation | €Mn | 183 | 140 | 112 | 31.2% |
| Operating Profit (loss) | €Mn | 1,210 | 1,280 | 979 | -5.4% |
| **EBITDA** | **€Mn** | **1,393** | **1,394** | **1,096** | **-0.1%** |
| Result of disposals and reversals | €Mn | 309 | | | |
| Change in Fair Value of Prop.Inv. | €Mn | 1,612 | 1,778 | 2,121 | -9.3% |
| Finance costs | €Mn | 577 | 522 | 396 | 10.5% |
| Net profit | €Mn | 2,539 | 2,283 | 2,771 | 11.2% |
| **Adjusted Net Profit** | **€Mn** | **927** | **505** | **651** | **83.6%** |
| **BUSINESS - CASH FLOW** | | | | | |
| **Dividends** | **€Mn** | **1,254** | **781** | **536** | **60.5%** |
| Amort. Equity Instruments (net) | **€Mn** | -812 | 130 | -895 | |
| **CF from operations** | **€Mn** | **1,230** | **700** | **1,321** | **75.8%** |
| **CF from Investment** | **€Mn** | **-957** | **-2,713** | **-1,832** | **-64.7%** |
| >>> From investment payments | €Mn | -2,759 | -4,256 | -2,185 | -35.2% |
| >>> Proceeds from disposals | €Mn | 1,788 | 1,464 | 816 | 22.2% |
| **CF from Financing (E+D)** | **€Mn** | **234** | **2,007** | **1,740** | **-88.3%** |
| >>> Equity instruments | €Mn | 819 | -125 | 895 | -756.5% |
| >>> Issuance of financial debt | €Mn | 3,366 | 6,188 | 3,467 | -45.6% |
| >>> Repayment and amortisation of debt | €Mn | -2,682 | -3,940 | -2,219 | -31.9% |
| Dividend payments | €Mn | -1,281 | -742 | -321 | 72.7% |
| **Generation of Cash** | **€Mn** | **507** | **-6** | **1,229** | |
| **YIELD** | | | | | |
| Return on Real Estate Assets (ROA) | **%** | 3.2% | 3.5% | 3.4% | |
| Financial Yield (ROE) | **%** | 10.5% | 10.8% | 14.7% | |
| Gross Yield (/GAV) | **%** | 4.0% | 4.2% | 4.8% | |
| Net Yield (/NAV) | **%** | 6.5% | 7.0% | 5.6% | |
| Dividend Yield | **%** | 4.8% | 3.9% | 3.2% | |
| Cash on Cash | **%** | 1.8% | 4.3% | -1.9% | |
| **RATIOS** | | | | | |
| Leverage (/GAV) | % | 38.4% | 40.7% | 33.9% | |
| Leverage (Debt/Equity + Debt) | % | 44.7% | 46.6% | 41.8% | |
| Average effective rate (debt) | bp | 270.5 | 267.2 | 251.5 | |
| ICR (Interest coverage ratio) | x | 3.1 x | 2.3 x | 4.3 x | |
| **MARGINS** | | | | | |
| EBITDA margin | % | 65.6% | 65.4% | 71.3% | |
| Net Margin | % | 123.3% | 120.5% | 187.1% | |
| Efficiency | x | 0.43 | 0.36 | 0.36 | |
| PE (MV/NP) | x | 10.2 | 8.7 | 6.1 | |
| EBITDA/CF_O | % | 88.3% | 50.2% | 120.5% | |
| Multiple EBITDA | x | 18.6 x | 14.3 x | 15.5 x | |
| Multiple Income | x | 12.2 x | 9.3 x | 11.0 x | |

Source: JLL

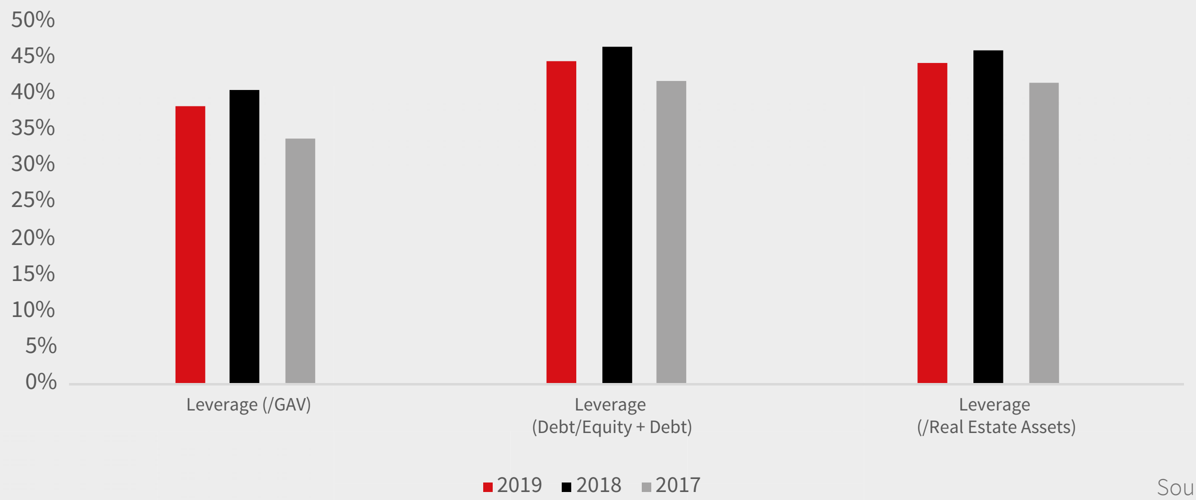
The generation of cash derived from usual business operations has allowed the investment processes in the asset portfolio to continue, although at a slower pace -to the extent that payments for investments decreased by 35% compared to the above period, down almost 1,500 million euros- and also combined with a portfolio turnover of an amount greater than 1,700 million euros. All this has led to a lower reliance on debt -normally bank of 3,300 million euros- in almost half of the debt issuances carried out in 2018 and with a remarkable capacity to repay and amortise debts -2,600 million euros- which, together with an increase in the issuance of equity instruments (capital increases), this has allowed shareholders to obtain a volume of 1,200 million euros in dividends paid out[15] generating a yield of very close to 5% -although reducing its cash on cash for the year- and also maintaining another of its basic characteristics, such as an adequate pay out to its shareholders.

Lastly, it is worth mentioning that the book yields of REITs have remained stable. At the end of the year, return on assets (ROA) stood at 3.2%, a level similar to that of the previous year, which repeated for return on equity (ROE), which continues to be clearly above 10% per year. However, the yields most associated with real estate -gross yield and net yield- show an evident downward trend in 2019, matched by the trend in the real estate sector throughout the year and a continuous process of yield compression.

REIT Market Yields (%)


Source: JLL

Financing structure (%)




Source: JLL

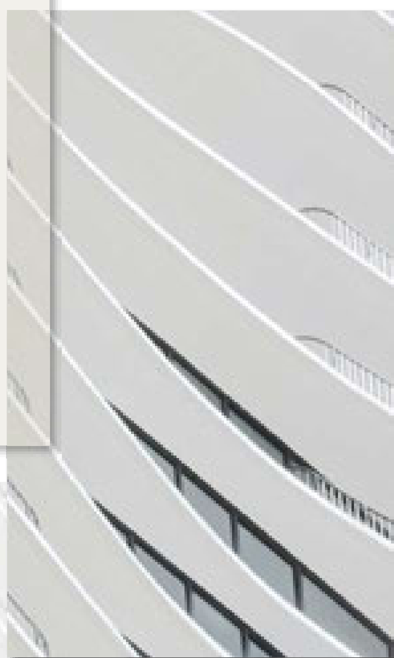
[15] Amount of dividends paid out (cash) throughout the year regardless of the announcement date.

## Snapshot by markets: Stock Exchange vs. BME Growth

Of the 81 REIT vehicles in our country -79 for the purposes of this report- only four are listed on the main market, the rest being companies listed on BME Growth an exchange regulated multilateral trading facility (MTF). The comparison of both markets, for yet another year, continues to show important conclusions with respect to 2019. In terms of market value or market capitalisation at the end of 2019, both markets were even, although with a small difference in favour of BME Growth (weight of 50.5%). This is not the case when analysing the gross value of the assets where the Stock Exchange has a difference of more than 2,000 million euros compared to the 51,000 million euros total declared in terms of GAV. Both differences, together with the amount of net financial debt, determine a higher discount in the listing price on the Stock Exchange than on BME Growth, as a consequence of the greater liquidity of the first compared to the second (21% vs. 15%) and its subsequent capacity to correlate between the economic situation and the performance of the financial markets.

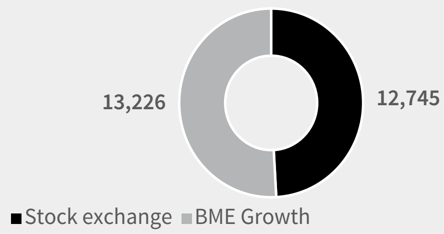
| **Stock exchange**<br># 4 REITs | **BME Growth**<br># 75 REITs |
|---|---|
| **€12,745 Mn** Stock Market Capitalisation (2019) | **€13,226 Mn** Stock Market Capitalisation (2019) |
| **€26,720 Mn** Gross Asset Value (GAV) | **€24,342 Mn** Gross Asset Value (GAV) |
| **€25,637 Mn** Book Value of Prop. Investments | **€18,390 Mn** Book Value of Prop. Investments |
| **€1,290 Mn** Asset Revaluation | **€322 Mn** Asset Revaluation |
| **€14,952 €Mn** Equity | **€9,238 €Mn** Equity |
| **€10,593 Mn** Net Financial Debt | **€8,992 Mn** Net Financial Debt |
| **€956 Mn** Rental income | **€1,104 Mn** Rental income |
| **€437 Mn** Dividends paid | **€844 Mn** Dividends paid |
| **3.4%** Dividend yield | **6.2%** Dividend yield |
| **2.0%** Shareholder Cash on Cash | **1.5%** Shareholder Cash on Cash |
| **€16,128 Mn** Net Asset Value (NAV) | **€15,349 Mn** Net Asset Value (NAV) |
| **€674 Mn** EBITDA | **€718 Mn** EBITDA |
| **39.6%** Leverage (GAV) | **36.9%** Leverage (GAV) |
| **2.6%** ROA | **3.9%** ROA |
| **11.1%** ROE | **9.6%** ROE |
| **0.27** Efficiency | **0.56** Efficiency |

Source: JLL

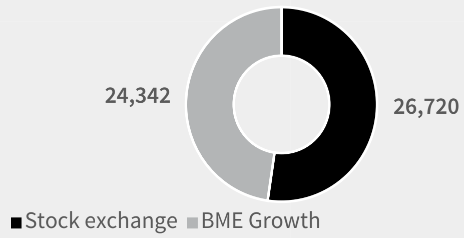


## 2019

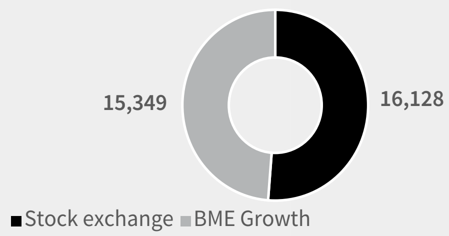
Market Value (€Mn)



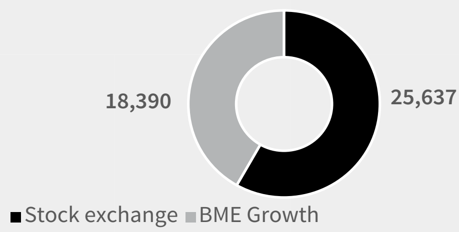

Gross Asset Value (€Mn)



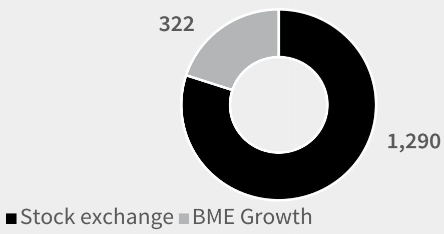

Net Asset Value (€Mn)




Book Value of Real Estate Investments (€Mn)

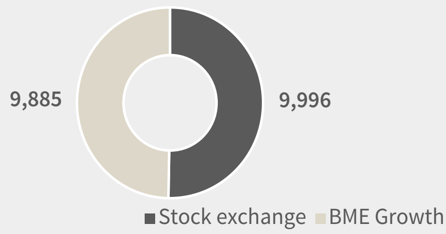



Increase in Fair Value Investments (€Mn)

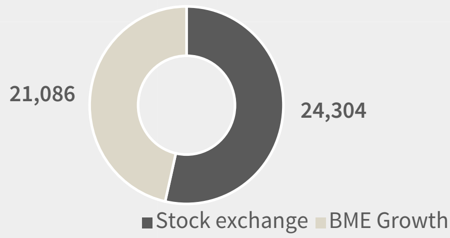



## 2018

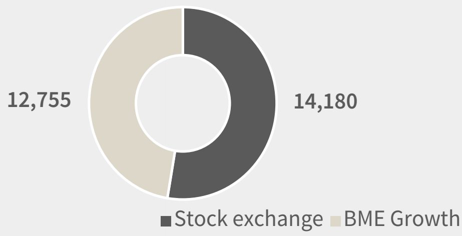
Market Value (€Mn)



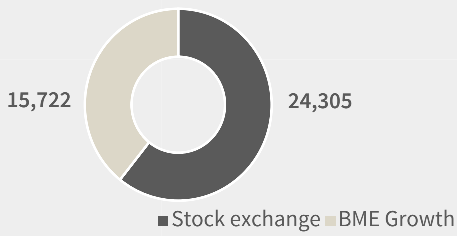

Gross Asset Value (€Mn)



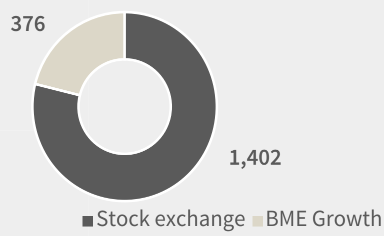

Net Asset Value (€Mn)




Book Value of Real Estate Investments (€Mn)




Increase in Fair Value Investments (€Mn)

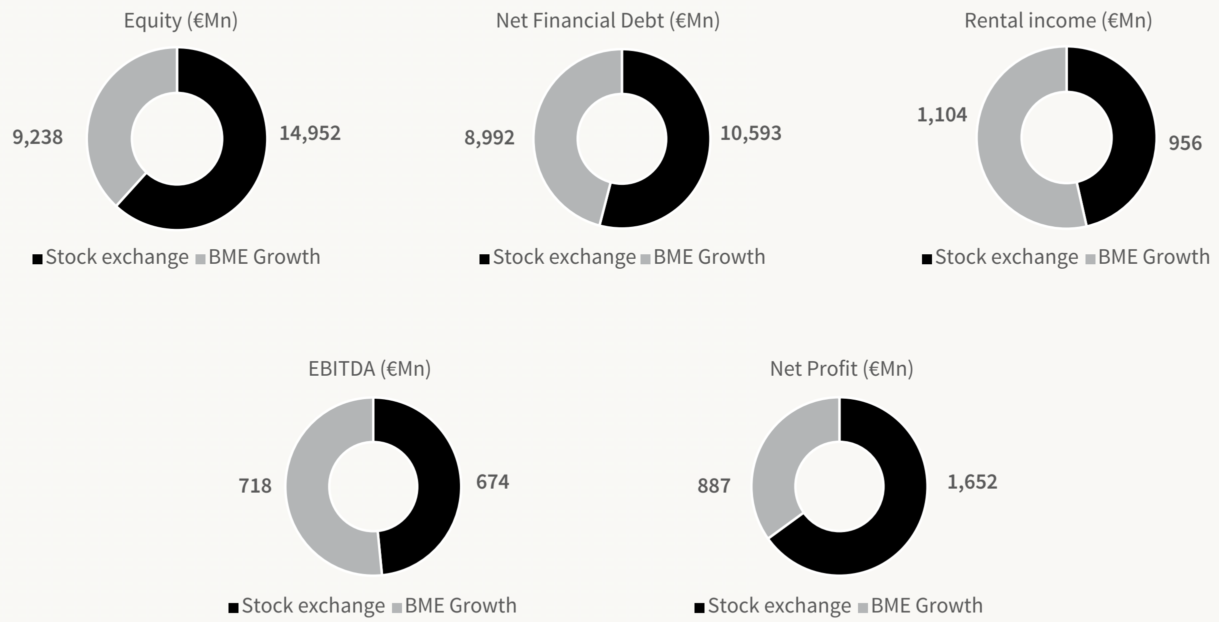



Source: JLL

It is in the book value heading where the differences become greater in favour of the Stock Exchange insofar as its four REITs reflect the values of their investments at market prices -as per international accounting- reflecting the increase or decrease in value in the income statement -lower than that of other years by 7.9% and reaching 1,200 million euros-, compared to BME Growth, where the acquisition cost is typically applied and where the stock market revaluations fall by 14% to reach 322 million euros.

The comparison of both markets in terms of balance sheet and business structure also offers significant conclusions. All the vehicles, regardless of the market where their shares are listed, have increased the volume of their own funds and their available cash, with 60% of the former and 54% of the latter being grouped on the Stock Exchange, offering in both cases more solid financing structures than in previous years by lowering the debt levels in relative terms over the value of assets. Subsequently, the debt of these vehicles has grown in the last year by just over 1,400 million euros, with being BME Growth vehicles being those that have captured most of the debt.

## 2019

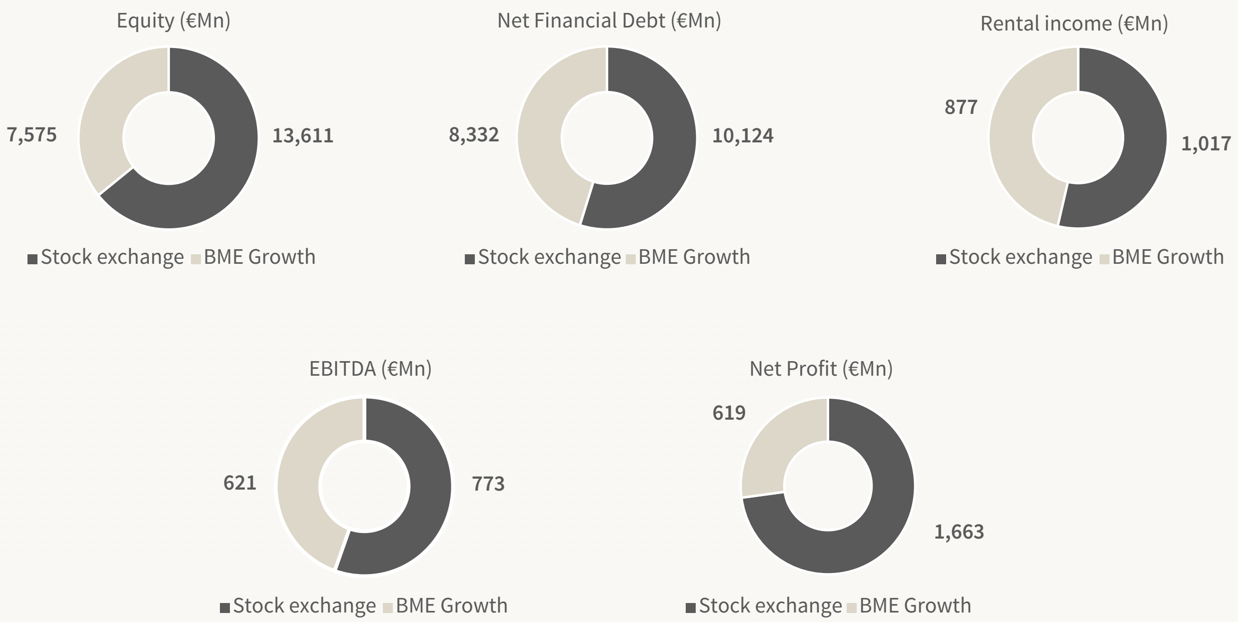



Source: JLL

The annual cash generation capacity in turn presents solid indicators to the extent that the entire sector generates, through the exploitation of its usual activity, more than 1,200 million euros, representing more than significant growth compared to the previous period. This cash generation has a very symmetrical profile between both markets, although it is the Stock Exchange REITs that account for more than 50%, giving rise to a final creation of cash, after the effect of investments and the cash flow from financing, close to 300 million euros and 500 million euros for the whole market respectively. These amounts are also explained by the significant drop in the volume of investment in both markets -35%- and a substantial growth in divestments -22%- which together with a lower reliance on financing -own and external- give rise to very positive cash balances. However, going into detail, it can be appreciated how own financing -issuance of equity instruments- has increased by 819 million euros, mostly in BME Growth, while the net effect of external financing -debt issuance and depreciation- amounted to 684 million euros, with a greater impact on the REITs on the Stock Exchange. All the cash generation previously

The business structure shows that BME Growth is the market that brings together the highest rental income -with a growth of 25% compared to the previous year in the comparison with this scope and exceeding 1,000 million euros- compared to a reduction of close to 6% in REITs in the continuous market. However, the greater efficiency of the latter in terms of spending, as well as a higher turnover in the asset portfolio, means that in terms of EBITDA -computing net gains on sales- the two markets are in very similar amounts and growth positive compared to the previous year. It is the net profit heading, in which the accounting effect of the asset revaluations has already been taken into account, resulting in a much higher preponderance to the REITs on the Stock Exchange to the extent that these double the net profit of the BME Growth REITs (1,650 million euros compared to €887 million). In this sense, it also stands out that the net profits of the more liquid and smaller size REITs did not register significant growth throughout 2019, while the profits of the BME Growth vehicles grew by more than 43% compared to the previous year.

**2018**




Source: JLL

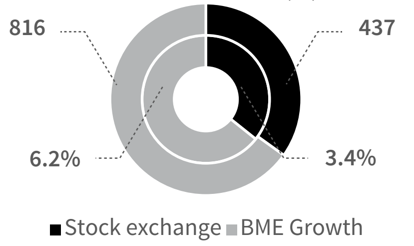
explained allowed the record pay-out of dividends[16] in the sector amounting to more than 1,200 million euros -compared to 800 million the previous year- with BME Growth vehicles being the ones paying out the most and in absolute value to their shareholders, obtaining an overall dividend yield of 4.9% -3.4% in the Stock Exchange and 6.3%[17] on BME Growth-.

[16] The amount of dividends paid refers to the item "dividend payment" in the statement of cash flows of each of the vehicles and are dividends paid throughout the year without reflecting their timing or the accounting period to which they belong.

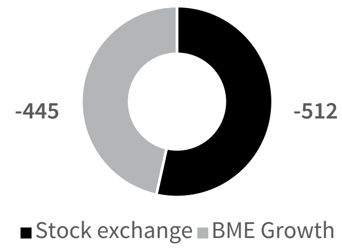
[17] Remember that this point includes the sale of some REIT assets on BME Growth or a re-leveraging of its assets, that has allowed the distribution of extraordinary dividends among shareholders, as is the case for Tempore, Go Madrid, Corona, Trajano, Hadley, Gore Spain among others, with distributions of high amounts.

## 2019

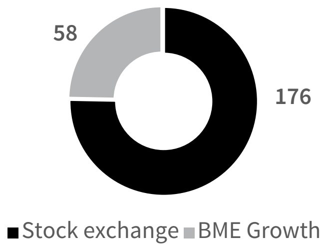
Dividends paid out (€Mn) and Dividend Yield (%)



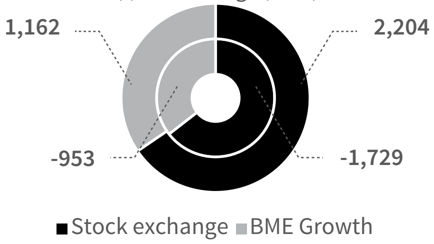

Investment Cash Flow (€Mn Net)



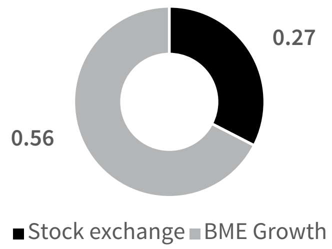

Investment Cash Flow (€Mn Net)



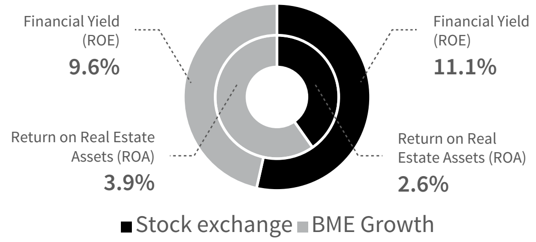

Issuance (+) and Amortisation (-) Borrowings (€Mn)



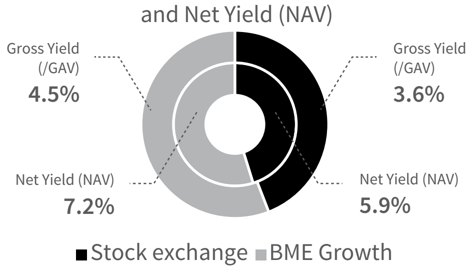

Efficiency



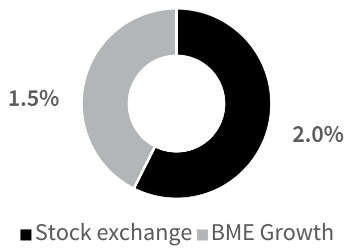

Return on Real Estate Assets (ROA) and Return on Equity (ROE)



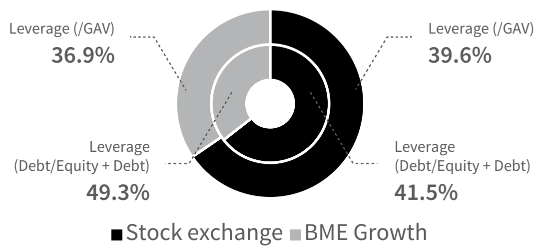

Gross Yield (GAV) and Net Yield (NAV)



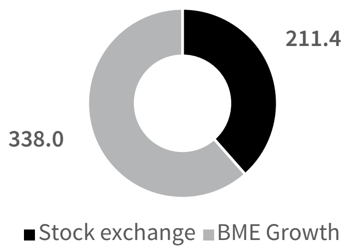

Cash on Cash



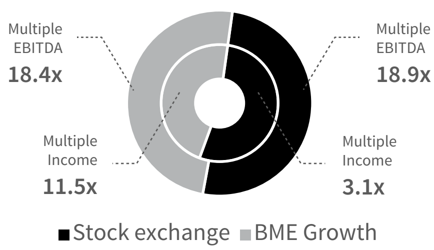

Leverage



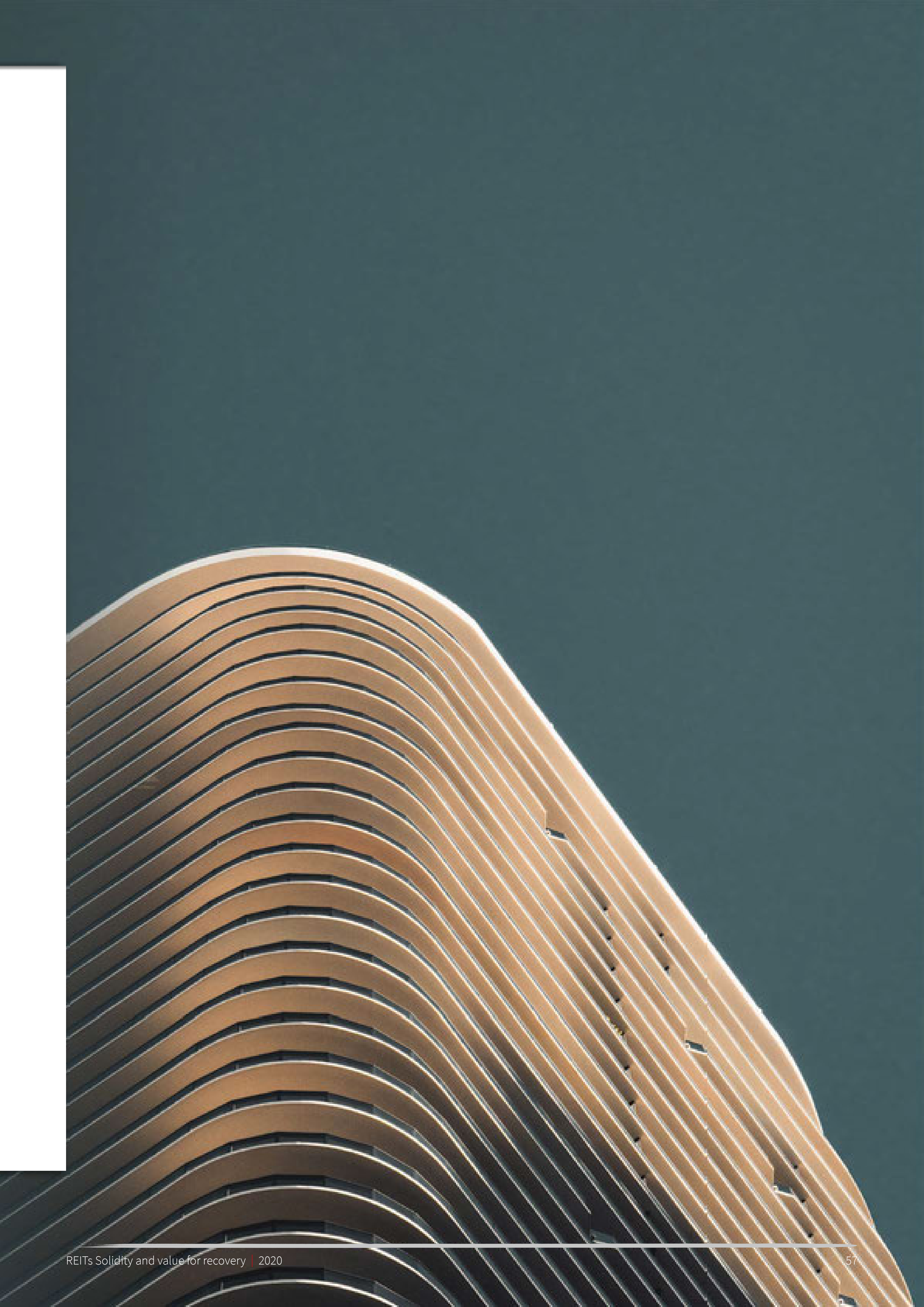

Average Borrowings Cost (bp)




Multiple EBITDA and Multiple Income

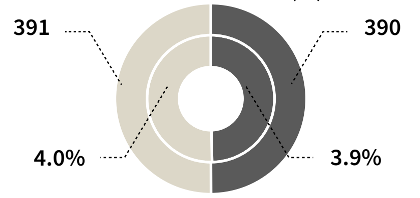



Source: JLL



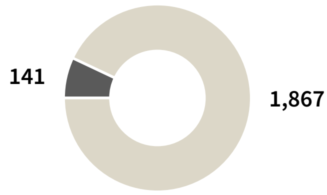
## 2018

Dividends paid out (€Mn) and Dividend Yield (%)

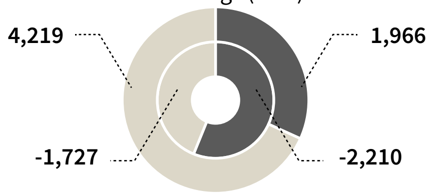



Investment Cash Flow (€Mn Net)

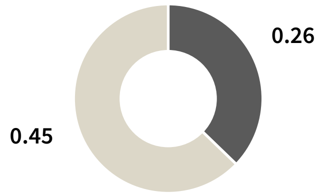

Financing Cash Flow (€Mn Net)



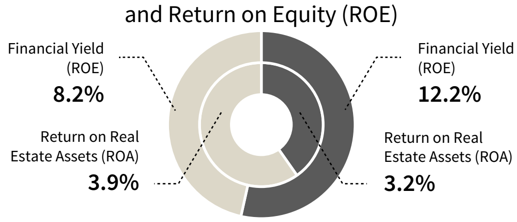

Issuance (+) and Amortisation (-) Borrowings (€Mn)




Efficiency

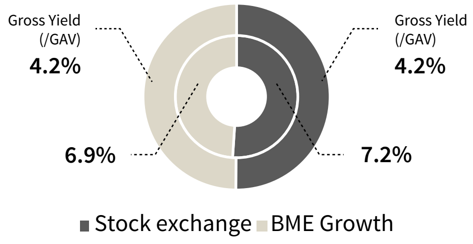



Return on Real Estate Assets (ROA) and Return on Equity (ROE)

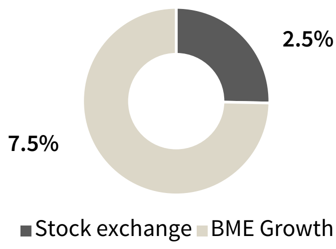



Source: JLL

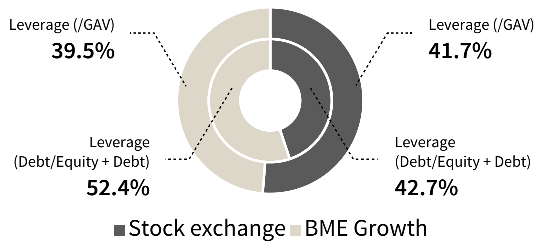
Gross Yield (GAV) and Net Yield (NAV)



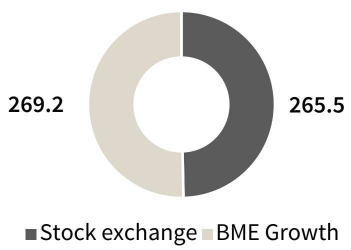

Cash on Cash



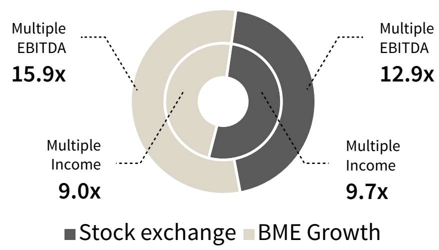

Leverage




Average Borrowings Cost (bp)




Multiple EBITDA and Multiple Income




Source: JLL

However, efficiency, and to a lesser extent yields, are the main issues affecting our REITs vehicles. Although the REITs belonging to the Stock Exchange were able to maintain the efficiency levels of the previous year -27 bp-, those belonging to BME Growth have seen this ratio deteriorate by more than 10 points, falling from a level of 0.45 bp to 0.56 bp- as a direct consequence of growth in its cost structure. Regarding yields, although in global terms these have remained stable -an ROA of 3.2% vs. 3.5% of the previous year and an ROE of 10.5% vs. 10.8%- the breakdown by markets shows a disparate performance. A decline can be seen in the accounting yields of the REITs of the Stock Exchange (3.2% vs. 2.6%) whereas it is observed that the vehicles listed in BME Growth (3.9%) have remained stable. In terms of return on equity, the movement is similar, with a fall among the REITs on the Stock Exchange but with an increase in the case of BME Growth (9.6% in 2019 compared to 8.2% the previous year). Whereas real estate yields have been in line with the real estate market itself, insofar as they are determined by the narrowing of yields in almost all real estate segments, going from a gross yield of 4.2% to 4%, with a more pronounced decrease in REITs listed on the Stock Exchange.

The financial health of the REITs in terms of annual cash generation capacity has not only allowed them to satisfactorily reward shareholders, but also, the net balance of attracting third-party resources in the year over the increase in the value of assets has allowed for a significant reduction in leverage levels, to stand at 38%, 2 points less than in the previous year for the same scope, with a total net debt volume of 19,500 million euros. It has been the REITs of BME Growth that have managed to reduce the degree of leverage with the greatest impetus by computing a decrease of more than 2.5 points compared to the 2 points of those on the Stock Exchange.

| BREAKDOWN BY MARKET 2019 | | | | |
|---|---|---|---|---|
| **Figures in millions of euros, %, or as indicated** | **Units** | **Stock exchange** | **BME Growth** | **Total** |
| **MARKET** | | | | |
| **Market Value (Equity Value)** | €Mn | 12,745 | 13,226 | 25,971 |
| **GAV** | €Mn | 26,720 | 24,342 | 51,062 |
| **NAV** | €Mn | 16,128 | 15,349 | 31,477 |
| **INVESTMENTS - BALANCE SHEET** | | | | |
| Investment properties (Net BV) | €Mn | 25,637 | 18,390 | 44,028 |
| Increase in Fair Value (Income Statement) | €Mn | 1,290 | 322 | 1,612 |
| Fair Value/Prop. Investments | % | 5.0% | 1.8% | 3.7% |
| Fair Value/Market Value | % | 10.1% | 2.4% | 6.2% |
| Equity | €Mn | 14,952 | 9,238 | 24.189 |
| NFD | €Mn | 10,593 | 8,992 | 19.585 |
| Cash | €Mn | 785 | 971 | 1,756 |
| Non-current borrowings | €Mn | 10,620 | 9,596 | 20,216 |
| Current borrowings | €Mn | 758 | 367 | 1,125 |
| **BUSINESS - INCOME STATEMENT** | | | | |
| Rental income | €Mn | 956 | 1,104 | 2,060 |
| Other income | €Mn | 16 | 48 | 64 |
| Employees | €Mn | 116 | 234 | 349 |
| Operating costs | €Mn | 147 | 413 | 560 |
| External services | €Mn | 48 | 301 | 349 |
| Taxes other than corporation tax | €Mn | 73 | 65 | 138 |
| Provisions and others | €Mn | 0 | 81 | 81 |
| Amortisation | €Mn | 9 | 174 | 183 |
| Operating Profit(Loss) | €Mn | 665 | 545 | 1,210 |
| EBITDA | €Mn | 674 | 718 | 1,393 |
| Result of disposals and reversals | €Mn | 40 | 269 | 309 |
| Change in Fair Value of Prop.Inv. | €Mn | 1,290 | 322 | 1,612 |
| Finance costs | €Mn | 241 | 337 | 577 |
| Net profit | €Mn | 1,652 | 887 | 2,539 |
| Adjusted Net Profit | €Mn | 362 | 565 | 927 |
| **BUSINESS - CASH FLOW** | | | | |
| Dividends | €Mn | 437 | 816 | 1,254 |
| Amort. Equity Instruments (net) | €Mn | -139 | -680 | -819 |
| CF from operations | €Mn | 634 | 596 | 1,230 |
| CF from Investment | €Mn | -512 | -445 | -957 |
| >>> From investment payments | €Mn | -1,201 | -1,558 | -2,759 |
| >>> Proceeds from disposals | €Mn | 689 | 1,099 | 1,788 |
| CF from Financing (E+D) | €Mn | 176 | 58 | 234 |
| >>> Equity instruments | €Mn | 139 | 680 | 819 |
| >>> Issuance of financial debt | €Mn | 2,204 | 1,162 | 3,366 |
| >>> Repayment and amortisation of debt | €Mn | -1,729 | -953 | -2,682 |
| Dividend payments | €Mn | -437 | -844 | -1,281 |
| Generation of Cash | €Mn | 299 | 208 | 507 |
| **YIELD** | | | | |
| Return on Real Estate Assets (ROA) | % | 2.6% | 3.9% | 3.2% |
| Financial Yield (ROE) | % | 11.1% | 9.6% | 10.5% |
| Gross Yield (/GAV) | % | 3.6% | 4.5% | 4.0% |
| Net Yield (/NAV) | % | 5.9% | 7.2% | 6.5% |
| Dividend Yield | % | 3.4% | 6.2% | 4.8% |
| Cash on Cash | % | 2.0% | 1.5% | 1.8% |
| **RATIOS** | | | | |
| Leverage (/GAV) | % | 39.6% | 36.9% | 38.4% |
| Leverage (Debt/Equity + Debt) | % | 41.5% | 49.3% | 44.7% |
| Average effective rate (debt) | bp | 211.4 | 338.0 | 270.5 |
| ICR (Interest coverage ratio) | x | 3.6 | 2.8 | 3.1 |
| **MARGINS** | | | | |
| EBITDA margin | % | 69.4% | 62.4% | 65.6% |
| Net Margin | % | 172.8% | 80.4% | 123.3% |
| Efficiency | x | 0.27 | 0.56 | 0.43 |
| PE (MV/NP) | x | 7.7 | 14.9 | 10.2 |
| EBITDA/CF_O | % | 94.1% | 82.9% | 88.3% |
| Multiple EBITDA | x | 18.9 | 18.4 | 18.6 |
| Multiple Income | x | 13.1 | 11.5 | 12.2 |

Source: JLL

| BREAKDOWN BY MARKET 2018 | | | | |
|---|---|---|---|---|
| Figures in millions of euros, %, or as indicated | Units | Stock exchange | BME Growth | Total |
| **MARKET** | | | | |
| Market Value (Equity Value) | €Mn | 9,996 | 9,885 | 19,881 |
| GAV | €Mn | 24,304 | 21,086 | 45,390 |
| NAV | €Mn | 14,180 | 12,755 | 26,934 |
| **INVESTMENTS - BALANCE SHEET** | | | | |
| Investment properties (Net BV) | €Mn | 24,305 | 15,722 | 40,027 |
| Increase in Fair Value (Income Statement) | €Mn | 1,402 | 376 | 1,778 |
| Fair Value/Prop. Investments | % | 5.8% | 2.4% | 4.4% |
| Fair Value/Market Value | % | 14.0% | 3.8% | 8.9% |
| Equity | €Mn | 13,611 | 7,575 | 21,186 |
| NFD | €Mn | 10,124 | 8,332 | 18,456 |
| Cash | €Mn | 487 | 605 | 1,091 |
| Non-current borrowings | €Mn | 10,228 | 8,524 | 18,752 |
| Current borrowings | €Mn | 382 | 413 | 795 |
| **BUSINESS - INCOME STATEMENT** | | | | |
| Rental income | €Mn | 1,017 | 877 | 1,894 |
| Other income | €Mn | 16 | 221 | 237 |
| Employees | €Mn | 104 | 34 | 138 |
| Operating costs | €Mn | 172 | 460 | 632 |
| External services | €Mn | 95 | 391 | 487 |
| Taxes other than corporation tax | €Mn | 77 | 56 | 132 |
| Provisions & Others | €Mn | - | 2 | 2 |
| Amortisation | €Mn | 5 | 134 | 140 |
| Operating Profit (loss) | €Mn | 768 | 512 | 1,280 |
| EBITDA | €Mn | 773 | 621 | 1,394 |
| Result of disposals and reversals | €Mn | - | - | - |
| Change in Fair Value of Prop.Inv. | €Mn | 1,402 | 376 | 1,778 |
| Finance costs | €Mn | 282 | 241 | 522 |
| Net profit | €Mn | 1,663 | 619 | 2,283 |
| Adjusted Net Profit | €Mn | 262 | 243 | 505 |
| **BUSINESS - CASH FLOW** | | | | |
| Dividends | €Mn | 390 | 391 | 781 |
| Amort. Equity Instruments (net) | €Mn | -45 | 175 | 130 |
| CF from operations | €Mn | 451 | 249 | 700 |
| CF from Investment | €Mn | -834 | -1,879 | -2,713 |
| >>> From investment payments | €Mn | -1,973 | -2,274 | -4,247 |
| >>> Proceeds from disposals | €Mn | 1,203 | 261 | 1,464 |
| CF from Financing (E+D) | €Mn | 141 | 1,867 | 2,007 |
| >>> Equity instruments | €Mn | 45 | -175 | -130 |
| >>> Issuance of financial debt | €Mn | 1,966 | 4,219 | 6,185 |
| >>> Repayment and amortisation of debt | €Mn | -2,210 | -1,727 | -3,937 |
| Dividend payments | €Mn | -390 | -352 | -742 |
| Generation of Cash | €Mn | -242 | 236 | -6 |
| **YIELD** | | | | |
| Return on Real Estate Assets (ROA) | % | 3.2% | 3.9% | 3.5% |
| Financial Yield (ROE) | % | 12.2% | 8.2% | 10.8% |
| Gross Yield (/GAV) | % | 4.2% | 4.2% | 4.2% |
| Net Yield (/NAV) | % | 7.2% | 6.9% | 7.0% |
| Dividend Yield | % | 3.9% | 4.0% | 3.9% |
| Cash on Cash | % | 2.5% | 7.5% | 4.3% |
| **RATIOS** | | | | |
| Leverage (/GAV) | % | 41.7% | 39.5% | 40.7% |
| Leverage (Debt/Equity + Debt) | % | 42.7% | 52.4% | 46.6% |
| Average effective rate (debt) | bp | 265.5 | 269.2 | 267.2 |
| ICR (Interest coverage ratio) | x | 2.6 | 2.0 | 2.3 |
| **MARGINS** | | | | |
| EBITDA margin | % | 74.8% | 56.6% | 65.4% |
| Net Margin | % | 163.6% | 70.6% | 120.5% |
| Efficiency | x | 0.27 | 0.45 | 0.36 |
| PE (MV/NP) | x | 6.0 | 16.0 | 8.7 |
| EBITDA/CF_O | % | 58.3% | 40.1% | 50.2% |
| Multiple EBITDA | x | 13.0 | 15.9 | 14.3 |
| Multiple Income | x | 9.7 | 9.0 | 9.3 |

Source: JLL

# 3 The REITs market by segment

As in the 2018 report based on the different segments, the current report also repeats this analysis to the extent that the REITs sector increasingly has a greater degree of specialisation relating to assets and the heterogeneity of the market offers highly differentiated behaviours and profiles. The two variables used to distinguish the segments are, firstly, the real estate characteristics of each REIT's asset portfolio and, secondly, their size in terms of market capitalisation.

## The REIT market by real estate segment

All the vehicles have been segmented under the first criterion according to the categories of **Mixed** (those whose asset portfolio at the end of the financial year 2019 corresponded to three or more real estate segments), **Offices** (for investments and majority portfolios in the rental of office buildings), **Retail** (for shopping centres and medium-sized retail parks), **Hotel** (in the case of hotel establishments or similar business models such as hostels or student residences), **Residential** (asset portfolios mostly made up of rental homes either in granular format or complete buildings), **High street** (for street commercial premises including bank branches) and **Logistics** (portfolios of warehouses and industrial assets). REITs known as Holdings are left out of these real estate segments[18] as their assets are made up of shares in one or more listed REITs.

| Mixed Segment |
|---|
| Merlin Properties |
| St Croix Holding Immobilier |
| Trajano Iberia |
| Grupo Ortiz Properties |
| Vitruvio Real Estate |
| Entrecampos Cuatro |
| Arrienda Rental Properties Socimi |
| Quonia Socimi, S.A. |
| Hadley Investments U |
| Previsión Sanitaria Nacional Gestión Socimi, S.A. |
| Gore Spain Holdings SOCIMI I, S.A.U. |
| Torimbia Socimi, S.A. |
| Greenoak Spain Hold. Socimi |

| Offices Segment |
|---|
| Colonial |
| Gmp Property |
| Zambal Spain |
| Inversiones Doalca |
| Arima Real Estate SOCIMI, S.A. |
| Meridia Real Estate III |
| GO Madrid Benz Socimi, S.A. |
| Corona Patrimonial |
| Azaria Rental Socimi, S.A. |
| JABA I Inversiones Inmobiliarias SOCIMI, S.A. |
| La Finca Global Assets SOCIMI, S.A. |

| Residential Segment |
|---|
| Testa Residencial Socimi, S.A. |
| Vivenio Residencial Socimi, S.A. |
| Albirana Properties |
| Fidere Patrimonio |
| Tempore Properties |
| Euripo |
| Torbel Investment Socimi |
| Optimum III Value-Added Residential |
| Optimum RE Spain |
| Elix Vintage Residencial Socimi, S.A. |
| AP67 Socimi, S.A. |
| Vbare Iberian Properties SOCIMI, S.A. |
| Urban View Development Spain Socimi, S.A. |
| Mercal Inmuebles SOCIMI, S.A. |
| Barcino Property Socimi, S.A. |
| Mistral Patrimonio Inmobiliario Socimi, S.A. |
| Galil Capital RE Spain Socimi, S.A. |
| Almagro Capital SOCIMI, S.A. |
| RREF II AL Breck Socimi, S.A. |
| Excem Capital Partners Sociedad de Inversión Residencial SL |
| Quid Pro Quo Alquiler Seguro Socimi, S.A. |
| Persepolis Investments 1 Socimi, S.A. |
| Advero Properties SOCIMI, S.A. |
| Gavari Properties Socimi |
| Home Capital Rentals Socimi, S.A. |

| Logistics |
|---|
| P3 Spain Logistic Parks Socimi, S.A. |
| Tarjar Xairo Socimi, S.A. |

| High Street segment |
|---|
| URO Socimi Property Holdings, S.A. |
| ISC Fresh Water Investment, S.A. |
| AM Locales Property |
| Tander Inversiones |
| Inmofam 99 Socimi, S.A. |
| Park Rose Socimi |
| Corpfin Capital Prime Retail II Socimi, S.A. |
| Corpfin Capital Prime Retail III Socimi, S.A. |
| Inbest Prime I Inmuebles Socimi, S.A. |
| Inbest Prime II Inmuebles Socimi, S.A. |
| Inbest Prime III Inmuebles Socimi, S.A. |
| Inbest Prime IV Inmuebles Socimi, S.A. |

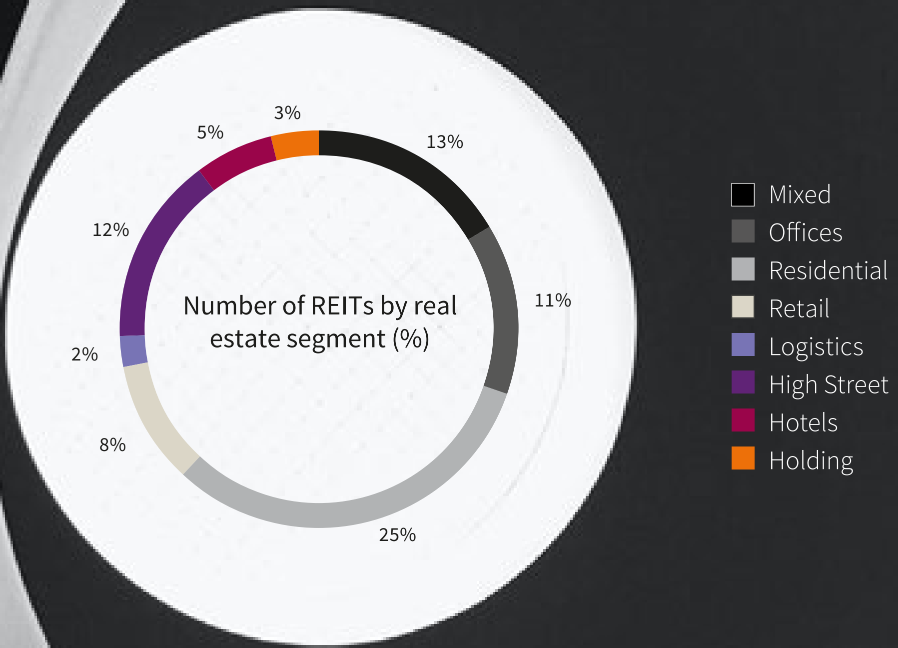
| Retail Segment |
|---|
| General de Galerías Comerciales |
| Lar España Real Estate |
| Castellana Properties SOCIMI, S.A. |
| Olimpo Real Estate |
| Serrano 61 Desarrollo Socimi, S.A. |
| Veracruz Properties Socimi, S.A. |
| Numulae Gestion de Servicios Socimi, S.A. |
| Trivium Real Estate Socimi, S.A. |

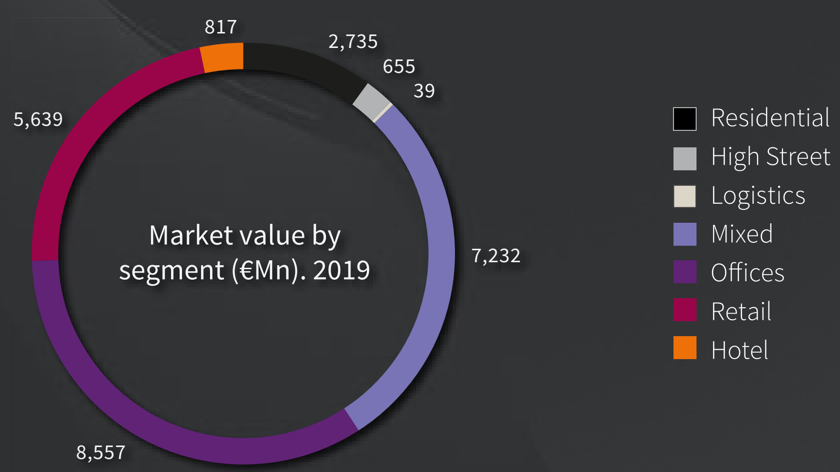
| Hotel Segment |
|---|
| ATOM Hoteles Socimi, S.A. |
| Elaia Investment Spain |
| HISPANOTELS Inversiones Socimi, S.A. |
| Student Properties Spain Socimi, S.A. |
| Millenium Hotels Real Estate, S.L. |

[18] For the purposes of the analysis, this is the case of Euro Cervantes (GMP shareholders), Mansfield Iberían Real Estate (La Finca shareholders) and Mistral Iberian Real Estate (REIT of REITs).

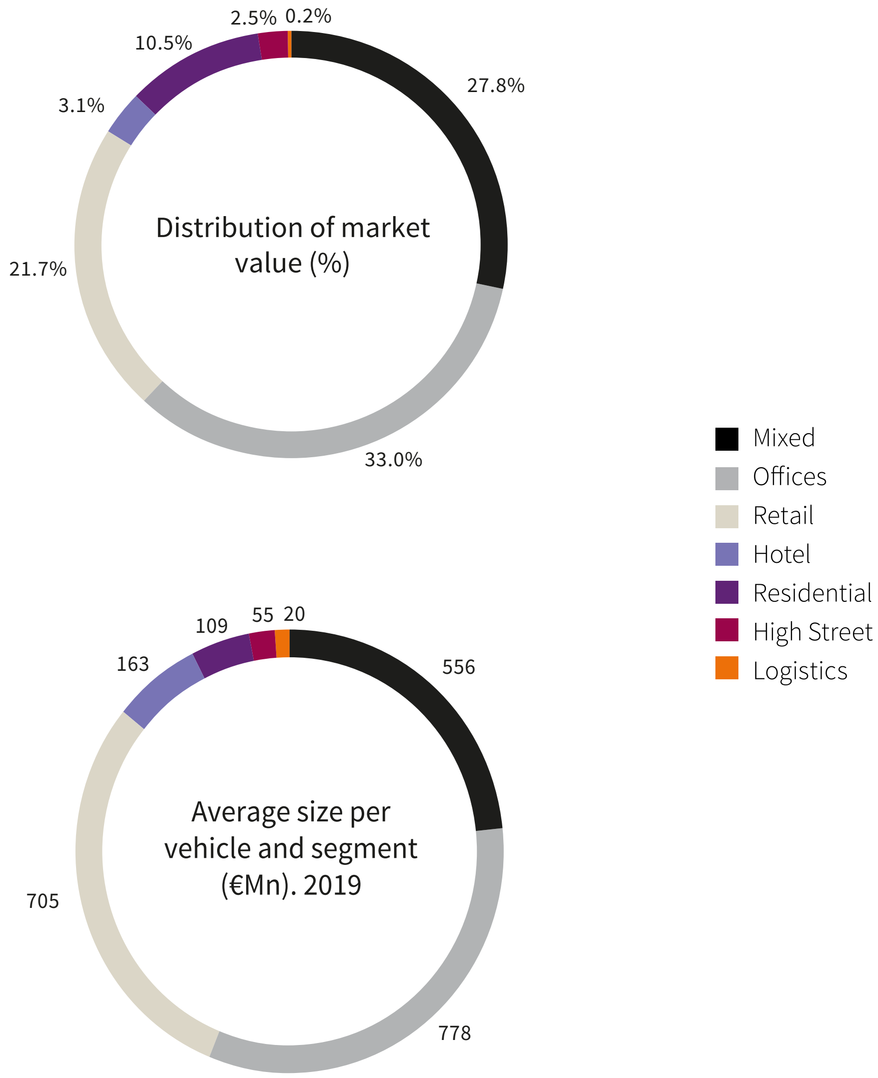
The greater concentration of the number of REIT vehicles, according to their distribution by real estate segments where they carry out their activity, is mainly concentrated in residential, mixed, offices and high street, which make up more than 80% of the total number of listed vehicles, with the residential segment leading the number of vehicles with 25 specialised REITs. From a market capitalisation perspective, the ranking shows different values to the extent that these are vehicles specialising in office, mixed and retail that account for more than 80% of the market value and more than 75% of the market value of the assets. These three segments are the oldest on the market, and are also the ones with a larger average unit size per vehicle, with the logistics and commercial premises segment being the smallest, with sizes of 20 and 48 million euros respectively.

Once again, the reduced weight of specialised logistics vehicles is surprising as this is one of the star segments in the recent performance of the real estate market, although it is true that mixed vehicles have significant investments in this assets category.



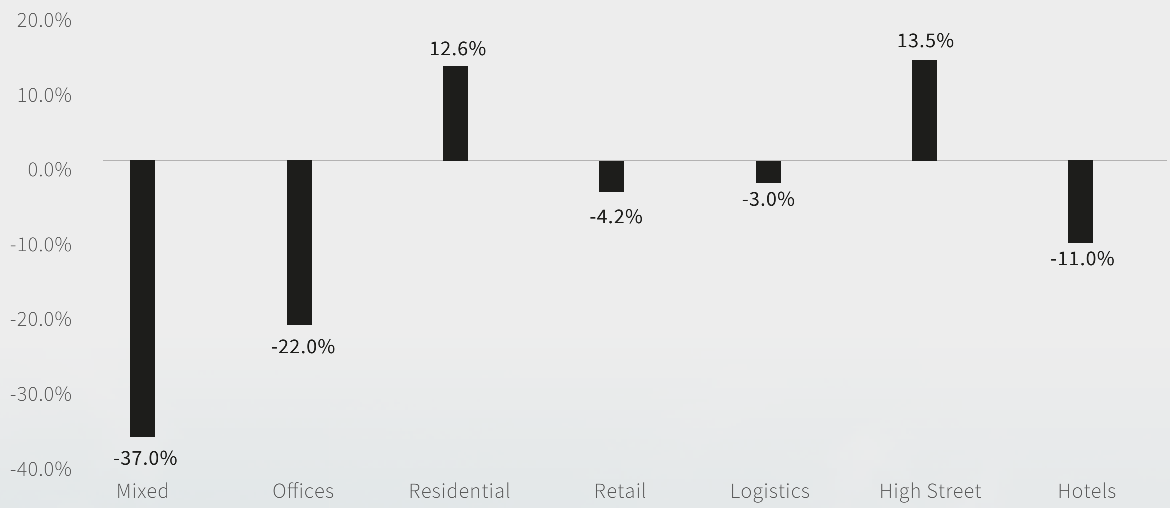

Source: JLL




Source: JLL

If we consider the increase in terms of stock market value between 2019 and 2018 -at the end of both years- paradoxical conclusions can be made, insofar as almost all the segments notably increase their value by two digits with particular attention to the hotel and residential segments- favoured by the new arrival of vehicles- but also the retail sector, mainly based on the effect of Shopping Arcades on this segment. If we move this same comparison forward six months to the end of June 2020, we can clearly see that the sector has lost more than 17% of its overall value on the Stock Exchange, with the mixed segments, offices, hotels and to a lesser extent retail, leading the losses. Whereas, the residential and High Street segments have increased in value. However, these comparisons must be taken with some caution to the extent that we are comparing REITs listed on two stock markets with very different liquidity, trading and market depths and therefore are not perfectly comparable.

Market Capitalisation Loss (%) December 2019 vs. June 2020

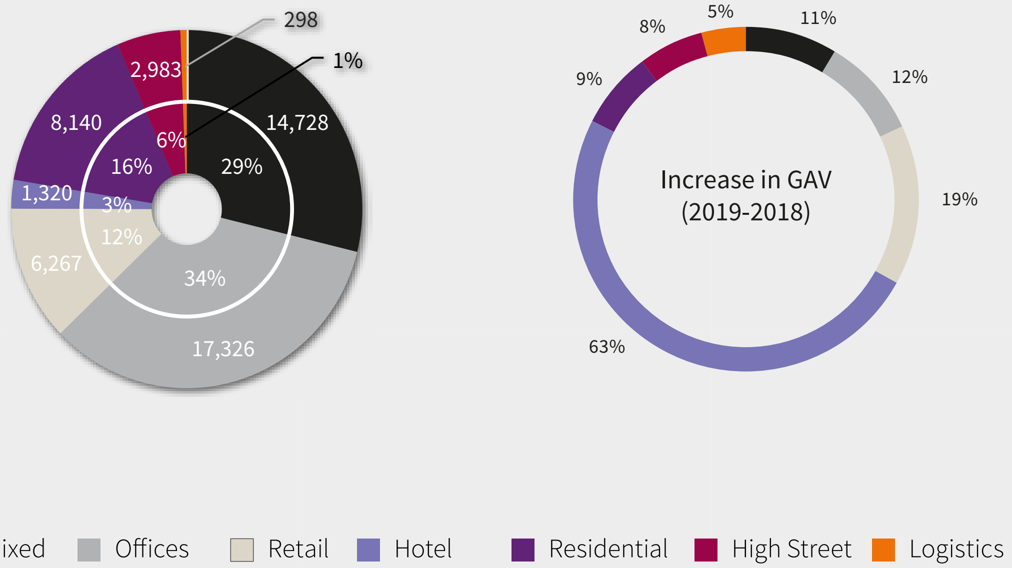



Source: JLL

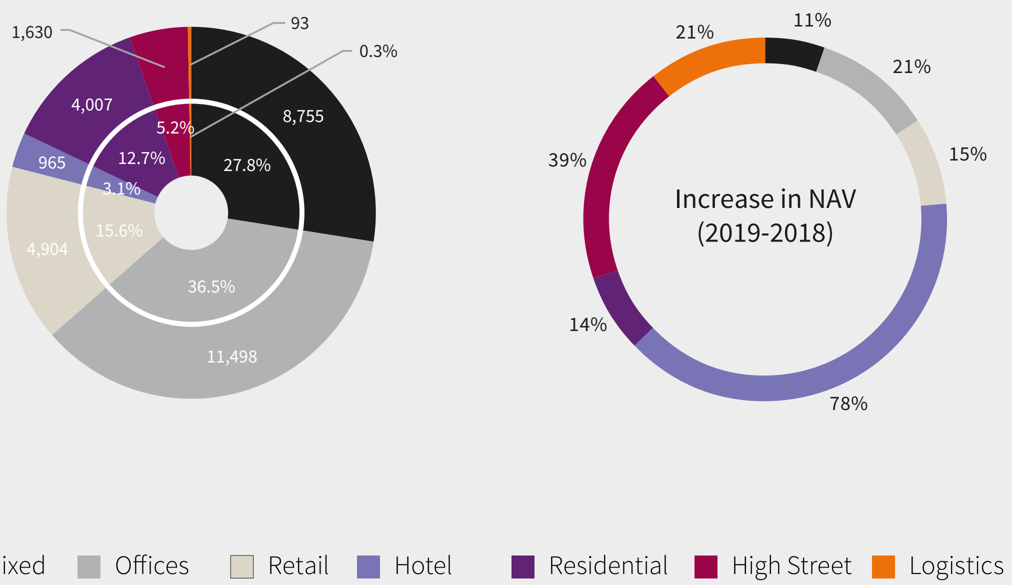
From an asset value perspective, in both gross and net terms (GAV and NAV), there are four segments -offices, mixed, residential and retail- which in both cases account for more than 90% of the value of the portfolios, but it is the hotel sector which was experiencing the highest growth at the end of 2019.

In this sense, the exclusion of Hispania from the market has been more than offset by the entry of other vehicles specialising in this asset class.

## Distribution of GAV 2019 (€Mn and %)

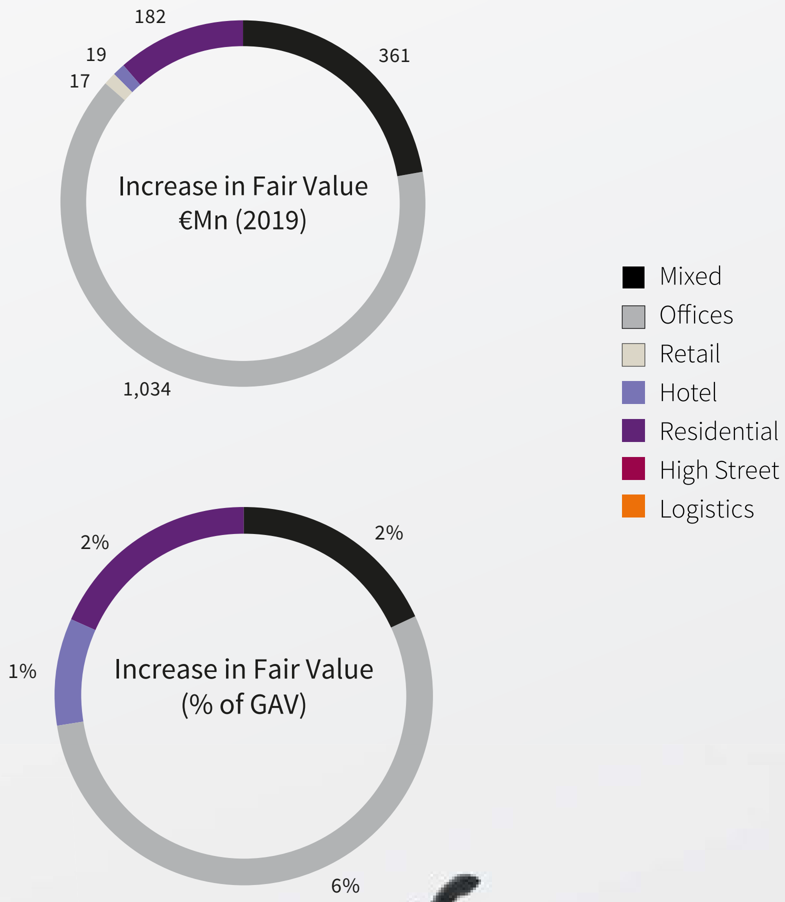


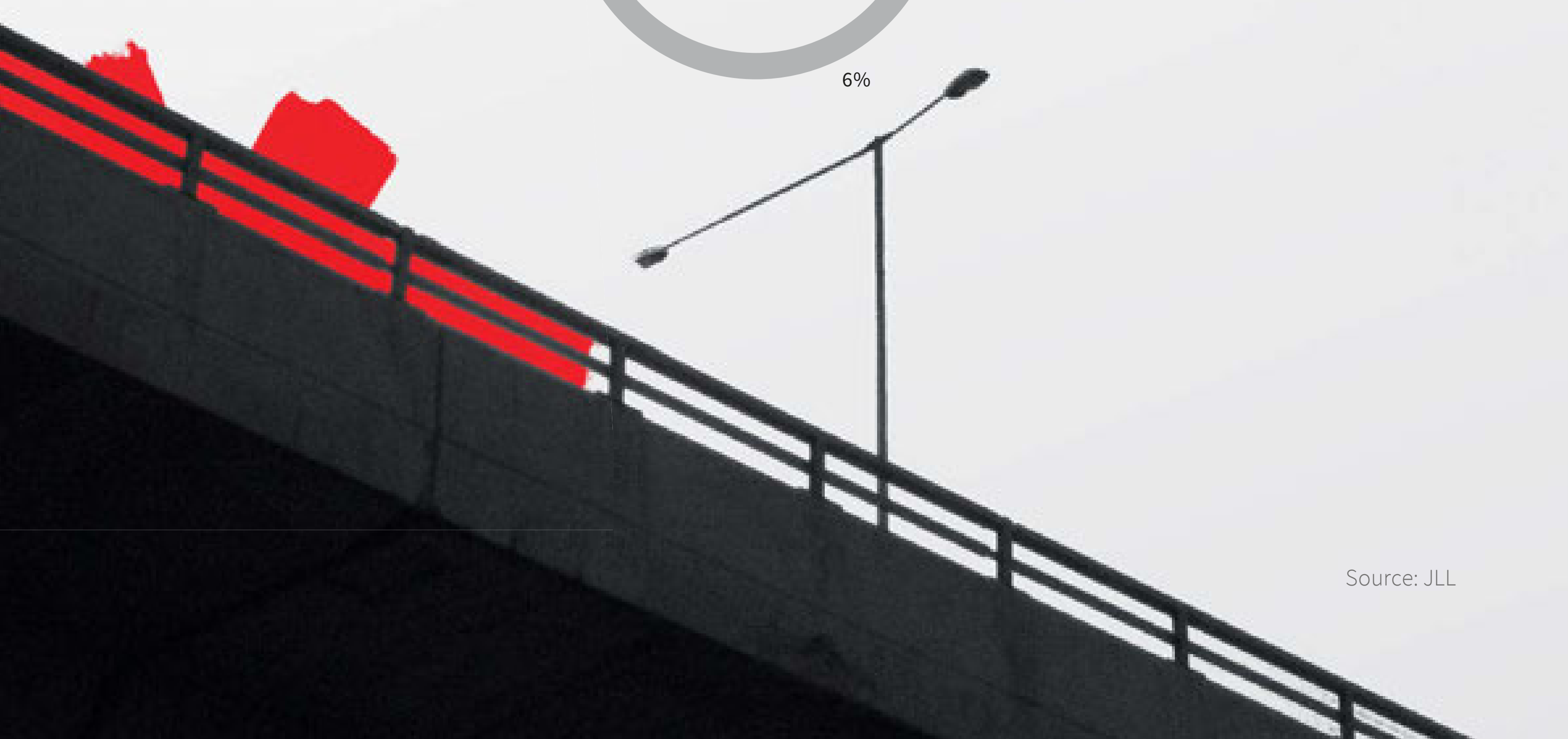

## Distribution of NAV 2019 (€Mn and %)




Source: JLL

The positive performance of the figures in the real estate sector throughout 2019, its capacity for investment and the consideration of some of its segments as safe haven assets, the continuous process of rent compression as well as the increase in rents and the decrease in availability and vacancy ratios, have resulted in capital gains at the close of the year for REITs that are regulated by the international accounting standard (or what is known as increase in the fair value of assets) that offer a positive trend and values of 1,600 million euros, with the office segment once more proving to be the one where the increase in asset value is concentrated (over 1,000 million euros, representing 6% of the GAV for the year), with the mixed segment -investments mostly in offices and logistics- with the residential segment lagging behind. However, in this heading, there is a clearly a downward trend in terms of growth, reaching a point of exhaustion that the Covid-19 crisis, which began in March this year, could exacerbate in years to come.



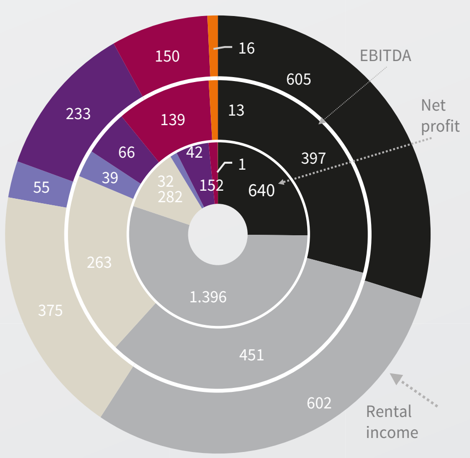



Source: JLL

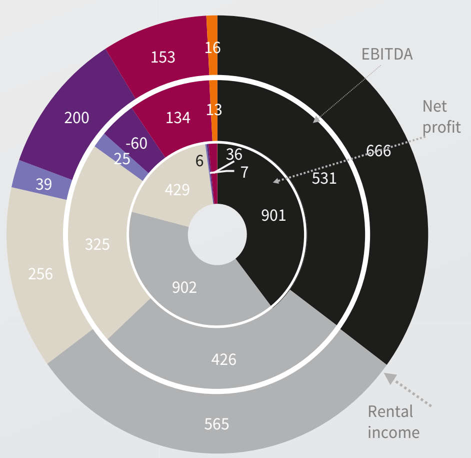
The analysis of the leasing business of each of the segments considered throughout 2019 also shows positive signs, albeit unevenly distributed. Rental income amounted to more than 2,000 million euros compared to 1,900 in the previous period for the same scope, representing an annual increase of 7.5%. Overall, revenue derives from the three main segments in listed vehicles: the mixed segment and offices -practically at a very similar level- and retail, with the revenue from the other segments being significantly lower. Although global growth in its business activity is positive, the breakdown by segment shows a differentiated profile, insofar as it is the mixed REITs that suffer the most -a 9% drop- along with commercial premises. Whereas offices, hotels, residential and retail -in this case due to the growth of Shopping Arcades- show significant growth, in some cases in double digits.

With regard to the generation of recurring profit, without taking into account asset sales and portfolio revaluations (EBITDA), the snapshot by segment follows the same pattern, although in this case there is a slight drop between the last two years of around 2%. Although throughout 2018 -and always considering the same scope of analysis- the mixed, offices and retail segments were the leaders in terms of EBITDA. Throughout 2019, it can be seen that even though they are still in the majority -the three represent 81% of the annual EBITDA despite showing decreases in mixed and retail- the contribution of the other segments has been increasing -258 million euros compared to 113 in 2018- undoubtedly highlighting the increase in the residential and hotel sector. The positive contribution of the increase in the fair value of the assets, together with the effects of the portfolio turnover, caused the REITs sector to set a record in the generation of net profit with a final balance exceeding 2,500 million euros, an increase of more than 11% in one year. In this case, the concentration occurs in the three largest segments -mixed, offices and retail- the three accounting for 90% of the net accounting profit generated.

Rental income, EBITDA and Net Profit. €Mn (2019)




Rental income, EBITDA and Net Profit. €Mn (2018)

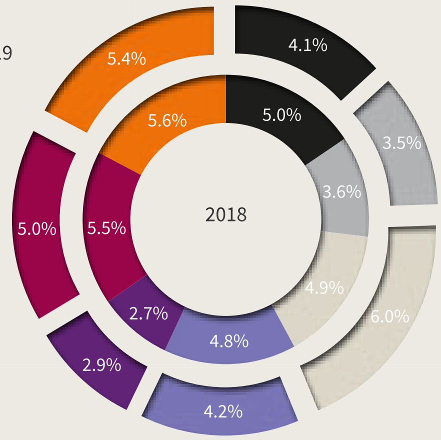



Mixed Offices Retail Hotel Residential High Street Logistics

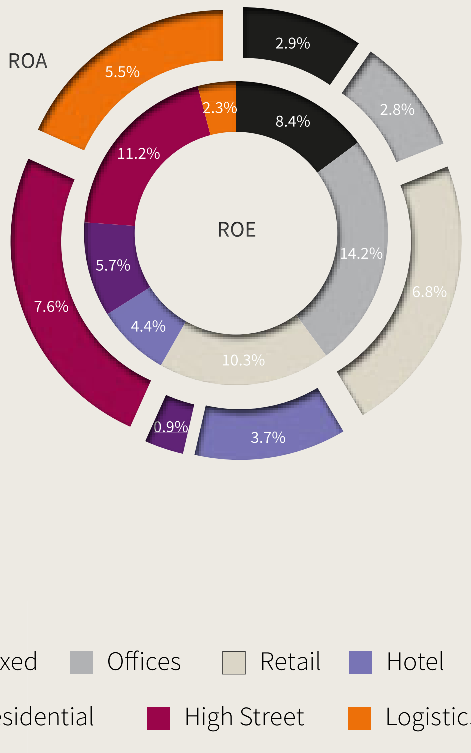
Source: JLL

The positive trend throughout 2019 in the real estate sector and its attractiveness to investors and savers has caused the yield compression process of recent years to continue, with the listed market also showing this effect on gross yields. This compression process can be clearly seen in the mixed segment -with a reduction of 90 bp- and also the hotel and commercial premises segment -62 bp and 52 bp, respectively- whereas the shopping centre and residential segments have experienced significant increases -112 bp and 17 bp, respectively - the origin of which must be for quite different reasons.

## Gross Yield over GAV 2019 vs. 2018




## ROA vs. ROE 2019

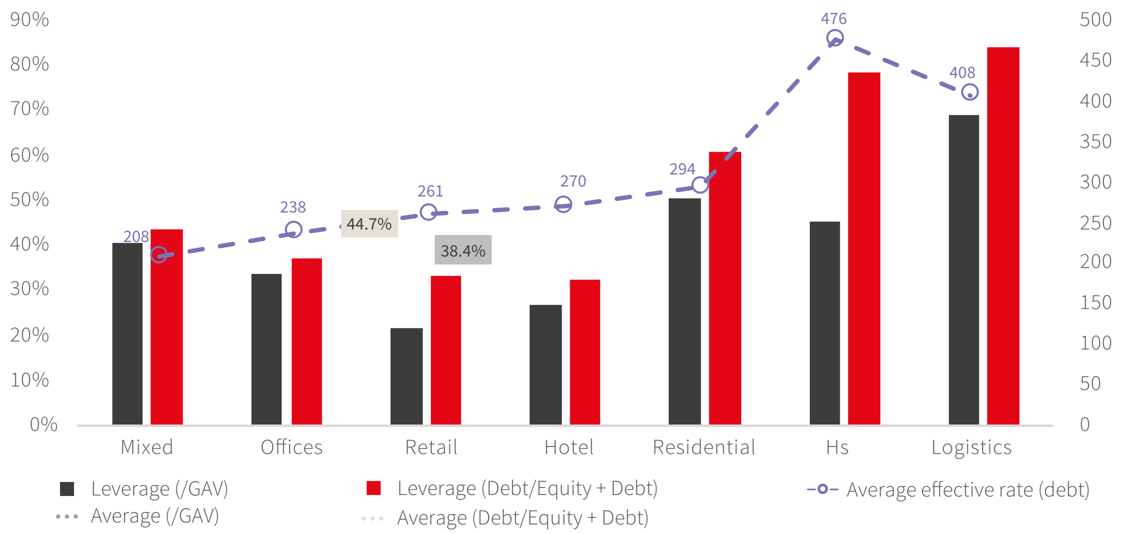



Source: JLL

To complement the real estate yields, the accounting yields on assets show how the High Street segment continues to be the one with the highest annual yield followed by retail and logistics. In terms of return on equity -ROE- it is the office segment that offers the highest annual yield, unlike in the previous study where retail was at the top in both headings.

Where significant differences between the segments can be appreciated is in the financial structure used, and more specifically, in the various degrees of leverage, as indicated in the financial statements for 2019. In average terms we have already seen that leverage has fallen compared to the previous year -measured as a net financial debt between the market value of assets- reaching a level of 38%, with three segments -offices, retail (as a consequence of the effect of Shopping Arcades) and hotels- are below the mean, while the rest show higher values. It can also be seen how, for the purposes of financing real estate assets, it is the residential and logistics sector, along with offices, that are more attractive to lenders, despite the higher average costs in these two segments due to the effect of the financing by the actual shareholders.

Leverage (%). 2019

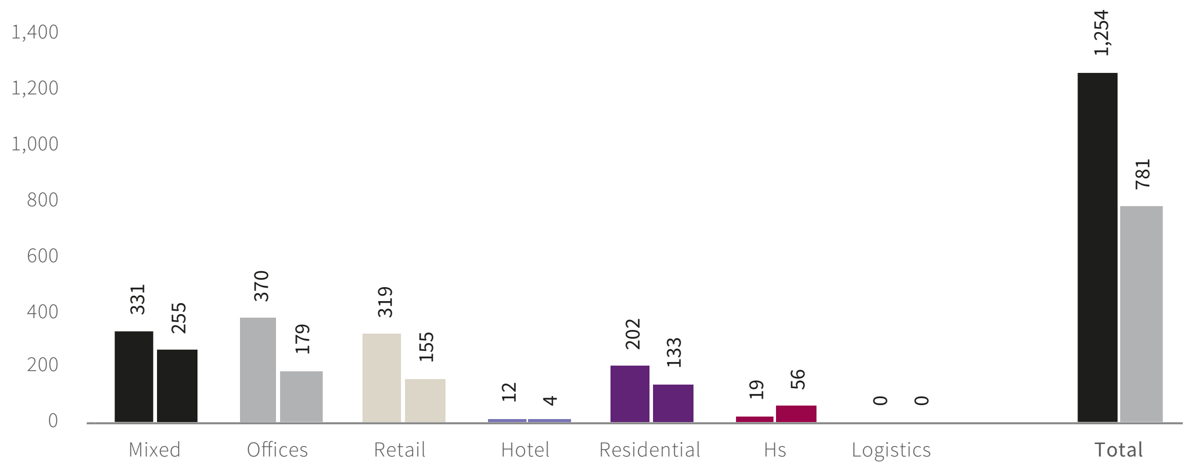



Source: JLL

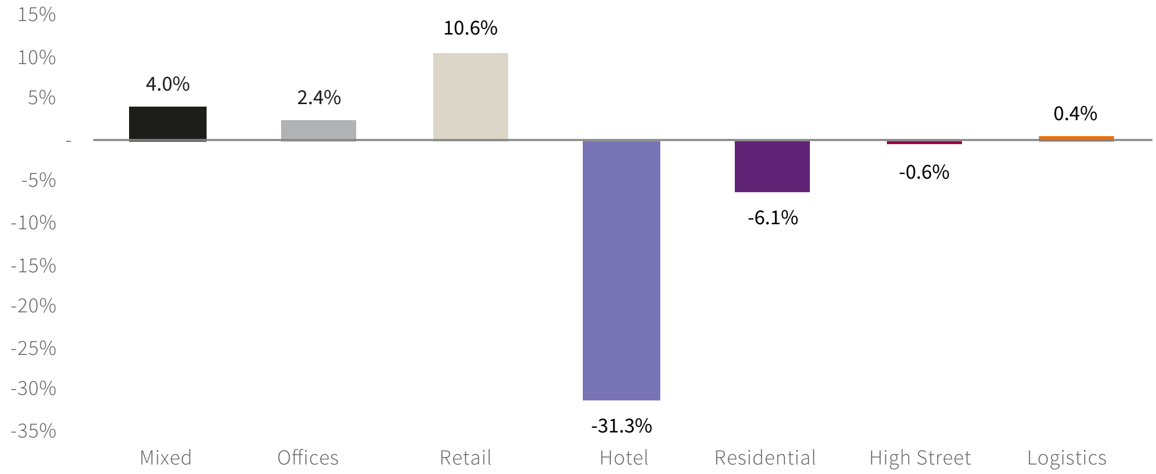
The generation of annual cash flow from operations -operating cash flow- reached 1,250 million euros in 2019, mainly concentrated in the most consolidated and voluminous segments- mixed, offices and retail- which has allowed shareholder dividend pay-outs amounting to 1,000 million euros and yields of between 4.3% and 5.7%. The residential segment also stands out with more than 200 million euros paid out in dividends -although concentrated almost exclusively in a single entity- as well as the residual contribution, both the absolute and relative value, of the other segments.

Contrarily, the investment volume throughout 2019 is highly distributed among almost all the segments. If the analysis of the 2018 accounts for the same scope offered a concentration in the residential and office segment, for 2019, in addition to showing a lower net volume and below half that of the previous year, this offers a certain investor balance among all segments, although office vehicles show a negative net investment as a result of their portfolio turnover and in turn a higher cash flow generation. If we focus the analysis on investment financing we can see how once again offices, together with retail, have decreased their financing volume -own and third-party- in net terms, with the hotel and residential sector being the ones that have had the greatest appeal to shareholders and lenders, and therefore reduced the cash on cash metrics for the shareholder.

Dividends paid 2019 and 2018. €Mn

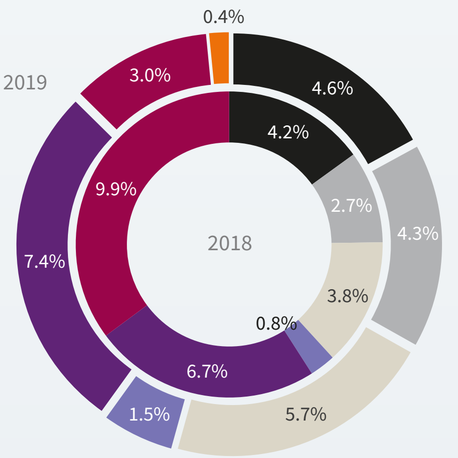



Cash on Cash 2019. %

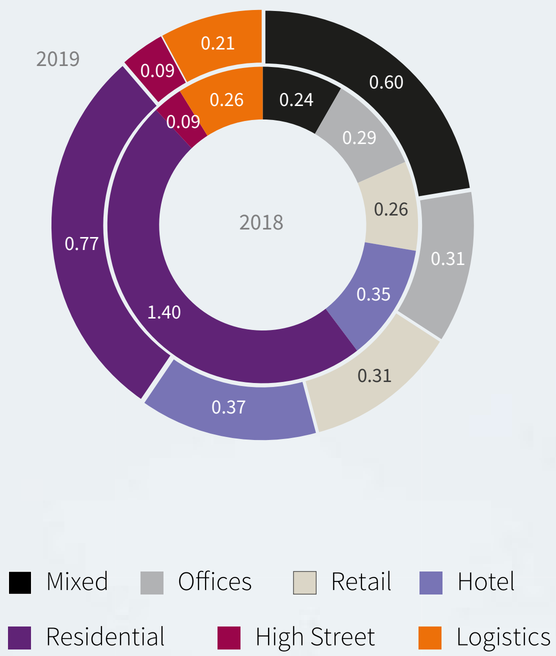



Source: JLL

## Dividend yield (%). 2019 and 2018




## Efficiency. 2019 and 2018




Source: JLL

Lastly, it is also necessary to highlight the change in the efficiency levels for each of the segments, given that to the best of our knowledge it is one of the most important ratios in the management of REIT vehicles. We previously mentioned that this ratio (the lower the amount, the greater the efficiency) had clearly deteriorated compared to the previous year, going from 0.36 bp for the scope in 2018 to 0.43 bp in 2019. Only the residential segment -with gains of 62 bp linked to its growth in terms of economies of scale but still at a more inefficient level- along with logistics -+5 bp- were the only ones that improved in this parameter whereas, on the opposite side, it was the mixed segment, which saw more than 30 bp of its efficiency disappear, fundamentally linked to its drop in revenue. However, the commercial premises segment remains -with a comparatively simpler management- the most efficient (lower ratio), followed by vehicles specialising in office and retail.

| BREAKDOWN BY REAL ESTATE SEGMENT - 2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Figures in millions of euros, %, or as indicated | | | | | | | | | |
| TYPE | | MIXED | OFFICES | RETAIL | HOTEL | RESIDENTIAL | HS | LOGISTICS | TOTAL (1) |
| **MARKET** | | | | | | | | | |
| Market Value | | | | | | | | | |
| Market Capitalisation | €Mn | 7,232 | 8,557 | 5,639 | 817 | 2,735 | 655 | 39 | 25,971 |
| GAV | €Mn | 14,728 | 17,326 | 6,267 | 1,320 | 8,140 | 2,983 | 298 | 51,062 |
| NAV | €Mn | 8,755 | 11,498 | 4,904 | 965 | 4,007 | 1,630 | 93 | 31,477 |
| **BALANCE SHEET - INVESTMENTS** | | | | | | | | | |
| Investment properties (Net BV) | €Mn | 13,573 | 15,930 | 3,873 | 1,067 | 7,002 | 1,832 | 242 | 44,028 |
| Increase in Fair Value | €Mn | 361 | 1,034 | 17 | 19 | 182 | 0 | - | 1,612 |
| Fair Value/Prop. Investments | % | 2.7% | 6.5% | 0.4% | 1.8% | 2.6% | - | - | 3.7% |
| Fair Value/Market Value | % | 5.0% | 12.1% | 0.3% | 2.3% | 6.7% | 0.0% | - | 6.2% |
| Equity | €Mn | 7,656 | 9,862 | 2,726 | 732 | 2,668 | 371 | 39 | 24,189 |
| NFD | €Mn | 5,973 | 5,828 | 1,363 | 355 | 4,132 | 1,353 | 206 | 19,585 |
| Cash | €Mn | 299 | 615 | 303 | 90 | 321 | 106 | 8 | 1,756 |
| Non-current borrowings | €Mn | 6,184 | 5,768 | 1,613 | 426 | 4,250 | 1,384 | 206 | 20,216 |
| Current borrowings | €Mn | 88 | 675 | 53 | 18 | 203 | 76 | 8 | 1,125 |
| **INCOME STATEMENT - BUSINESS** | | | | | | | | | |
| Rental income | €Mn | 605 | 602 | 375 | 55 | 233 | 150 | 16 | 2,060 |
| Other income | €Mn | 15 | 37 | 5 | 1 | 4 | 1 | 1 | 64 |
| Employees | €Mn | 269 | 50 | 11 | 6 | 13 | 1 | - | 349 |
| Operating costs | €Mn | 102 | 148 | 109 | 15 | 169 | 13 | 4 | 560 |
| External services | €Mn | 42 | 78 | 60 | 11 | 144 | 10 | 3 | 349 |
| *Services. Independent Professionals* | €Mn | 17 | 21 | 3 | 8 | 57 | 2 | 2 | 111 |
| *where Management/Admon Fee* | €Mn | 0 | 0 | 0 | 4 | 0 | 0 | - | 4 |
| *Repairs and Maintenance* | €Mn | 3 | 16 | 0 | 0 | 27 | 0 | 0 | 46 |
| *Supplies* | €Mn | 5 | 3 | 1 | 1 | 6 | 0 | 0 | 16 |
| *Other expenses* | €Mn | 12 | 11 | 21 | 1 | 49 | 5 | 0 | 101 |
| Taxes other than corporation tax | €Mn | 56 | 49 | 9 | 4 | 17 | 2 | 1 | 138 |
| Provisions & Others | €Mn | 1 | 1 | 2 | 0 | 77 | 0 | - | 81 |
| Amortisation | €Mn | 22 | 42 | 29 | 12 | 45 | 29 | 4 | 183 |
| Operating Profit (loss) | €Mn | 374 | 409 | 234 | 27 | 22 | 110 | 10 | 1,210 |
| EBITDA | €Mn | 397 | 451 | 263 | 39 | 66 | 139 | 13 | 1,393 |
| *Change in Fair Value II* | €Mn | 361 | 1,034 | 17 | 19 | 182 | 0 | - | 1,612 |
| *Finance costs* | €Mn | 131 | 154 | 44 | 12 | 131 | 69 | 9 | 577 |
| Net profit | €Mn | 640 | 1,396 | 282 | 32 | 152 | 42 | 1 | 2,539 |
| Adjusted Net Profit | €Mn | 279 | 362 | 265 | 13 | -30 | 42 | 1 | 927 |
| **CASH FLOW** | | | | | | | | | |
| Dividends | €Mn | 331 | 370 | 319 | 12 | 202 | 19 | 0.2 | 1,254 |
| Amort. Equity Instruments (net) | €Mn | -25,6 | -134.9 | -29.6 | -241.7 | -365.6 | -21.6 | 0.0 | -819 |
| CF from operations | €Mn | 334,2 | 468.1 | 342.4 | 27.0 | -44.2 | 73.7 | 7.8 | 1,230 |
| CF from Investment | €Mn | -285,6 | 291.1 | -231.4 | -391.2 | -260.4 | -72.0 | -1.9 | -957 |
| >>> From investment payments | €Mn | -789,9 | -558.1 | -351.1 | -403.2 | -556.3 | -86.6 | -1.9 | -2,759 |
| >>> Proceeds from disposals | €Mn | 490,7 | 849.1 | 119.7 | 12.0 | 296.1 | 14.6 | 0.0 | 1,788 |
| CF from Financing (E+D) | €Mn | 13,1 | -474.4 | -92.5 | 395.3 | 395.3 | 4.3 | -3.1 | 234 |
| >>> Equity instruments | €Mn | 25,6 | 134.9 | 29.6 | 241.7 | 365.6 | 21.6 | 0.0 | 819 |
| >>> Issuance of financial debt | €Mn | 1,726.8 | 662.5 | 219.6 | 198.6 | 478.7 | 717 | 0.0 | 3,366 |
| >>> Repayment and amortisation of debt | €Mn | -1,394.2 | -884.1 | -22.7 | -28.1 | -252.6 | -86.4 | -2.6 | -2,682 |
| >>> Dividend payments | €Mn | -340.5 | -387.9 | -319.4 | -12.3 | -201.7 | -19.4 | -0.2 | -1,282 |
| Generation of Cash | €Mn | 61.7 | 284.7 | 18.5 | 31.1 | 90.8 | 5.9 | 2.8 | 507.0 |
| **YIELD** | | | | | | | | | |
| Return on Real Estate Assets (ROA) | % | 2.9% | 2.8% | 6.8% | 3.7% | 0.9% | 7.6% | 5.5% | 3.2% |
| Financial Yield (ROE) | % | 8.4% | 14.2% | 10.3% | 4.4% | 5.7% | 11.2% | 2.3% | 10.5% |
| Gross Yield (/GAV) | % | 4.1% | 3.5% | 6.0% | 4.2% | 2.9% | 5.0% | 5.4% | 4.0% |
| Net Yield (/NAV) | % | 6.9% | 5.2% | 7.6% | 5.7% | 5.8% | 9.2% | 17.3% | 6.5% |
| Dividend Yield | % | 4.6% | 4.3% | 5.7% | 1.5% | 7.4% | 3.0% | 0.4% | 4.8% |
| Cash on Cash | % | 4.0% | 2.4% | 10.6% | -31.3% | -6.1% | -0.6% | 0.4% | 1.8% |
| **RATIOS** | | | | | | | | | |
| Leverage (/GAV) | % | 40.6% | 33.6% | 21.8% | 26.9% | 50.8% | 45.4% | 69.0% | 38.4% |
| Leverage (Debt/Equity + Debt) | % | 43.8% | 37.1% | 33.3% | 32.7% | 60.8% | 78.5% | 84.0% | 44.7% |
| Average effective rate (debt) | bp | 208.5 | 238.3 | 261.3 | 270.8 | 294.6 | 476.0 | 408.2 | 270.5 |
| ICR (Interest coverage ratio) | x | 3.6 x | 4.0 x | 8.9 x | 3.2 x | 0.7 x | 2.1 x | 1.9 x | 2.1 x |
| **MARGINS** | | | | | | | | | |
| EBITDA margin | % | 64.1% | 70.6% | 69.3% | 70.0% | 28.1% | 91.9% | 78.7% | 65.6% |
| Net Margin | % | 105.9% | 231.8% | 75.3% | 58.6% | 65.2% | 27.7% | 5.6% | 123.3% |
| Efficiency | x | 0.60 | 0.31 | 0.31 | 0.37 | 0.77 | 0.09 | 0.21 | 0.43 |
| PE (MV/NP) | x | 11.3 | 6.1 | 20.0 | 25.3 | 18.0 | 15.8 | 4,383.5% | 10.2 |
| Adjusted PE (NV/NPa) | x | 25.9 | 23.6 | 21.3 | 61.5 | -90.4 | 15.8 | 43.8 | 28.0 |
| EBITDA/CF_O | % | 84.2% | 103.8% | 130.0% | 68.8% | -66.6% | 53.1% | 58.0% | 88.3% |
| Multiple EBITDA | x | 18.2 x | 19.0 x | 21.4 x | 20.8 x | 41.3 x | 4.7 x | 294.4% | 18.6 x |
| Multiple Income | x | 11.7 x | 13.4 x | 14.8 x | 14.6 x | 11.6 x | 4.3 x | 231.7% | 12.2 x |
| Assets Reval./EBITDA | x | 0.9 x | 2.3 x | 0.1 x | 0.5 x | 2.7 x | 0.0 x | - | 1.2 x |
| EBITDA/Market Val. | % | 5.5% | 5.3% | 4.7% | 4.8% | 2.4% | 21.2% | 34.0% | 5.4% |
| EBITDA+Rev. /Market Val. | % | 10.5% | 17.4% | 5.0% | 7.1% | 9.1% | 21.2% | 34.0% | 11.6% |

(1) The sum corresponds to the entire market including the Holding typology

| BREAKDOWN BY REAL ESTATE SEGMENT - 2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Figures in millions of euros, %, or as indicated | | | | | | | | | |
| TYPE | | MIXED | OFFICES | RETAIL | HOTEL | RESIDENTIAL | HS | LOGISTICS | TOTAL (1) |
| **MARKET** | | | | | | | | | |
| Market Capitalisation | €Mn | 6,051 | 6,523 | 4,105 | 465 | 1,980 | 565 | 37 | 19,881 |
| GAV | €Mn | 13,307 | 15,513 | 5,262 | 812 | 7,452 | 2,760 | 284 | 45,390 |
| NAV | €Mn | 7,863 | 9,497 | 4,259 | 542 | 3,527 | 1,171 | 77 | 26,935 |
| **BALANCE SHEET - INVESTMENTS** | | | | | | | | | |
| Investment properties (Net BV) | €Mn | 12,885 | 14,775 | 3,264 | 677 | 6,327 | 1,855 | 244 | 40,027 |
| Increase in Fair Value | €Mn | 637 | 830 | 96 | 1 | 213 | 0 | - | 1,778 |
| Fair Value/Prop. Investments | % | 49% | 5.6% | 3.0% | 0.1% | 3.4% | - | - | 4.4% |
| Fair Value/Market Value | % | 10.5% | 12.7% | 2.3% | 0.2% | 10.8% | 0.0% | - | 8.9% |
| Equity | €Mn | 7,209 | 8,521 | 2,475 | 415 | 2,202 | 303 | 39 | 21,186 |
| NFD | €Mn | 5,444 | 6,017 | 1,004 | 270 | 3,926 | 1,589 | 207 | 18,456 |
| Cash | €Mn | 203 | 226 | 271 | 38 | 231 | 116 | 5 | 1,091 |
| Non-current borrowings | €Mn | 5,537 | 5,740 | 1,258 | 300 | 4,103 | 1,607 | 206 | 18,752 |
| Current borrowings | €Mn | 109 | 502 | 18 | 8 | 54 | 97 | 6 | 795 |
| **INCOME STATEMENT - BUSINESS** | | | | | | | | | |
| Rental income | €Mn | 666 | 565 | 256 | 39 | 200 | 153 | 16 | 1,894 |
| Other income | €Mn | 17 | 26 | 189 | 0 | 3 | 1 | 1 | 237 |
| Employees | €Mn | 75 | 40 | 8 | 0 | 13 | 1 | 0 | 138 |
| Operating costs | €Mn | 90 | 132 | 109 | 13 | 271 | 13 | 4 | 632 |
| External services | €Mn | 41 | 84 | 90 | 11 | 249 | 9 | 3 | 487 |
| *Services. Independent Professionals* | €Mn | 17 | 21 | 49 | 9 | 162 | 2 | 2 | 262 |
| *where Management/Admon Fee* | €Mn | 4 | 0 | 17 | 3 | 141 | 1 | - | 166 |
| *Repairs and Maintenance* | €Mn | 4 | 4 | 0 | 0 | 30 | 0 | 0 | 39 |
| *Supplies* | €Mn | 4 | 3 | 0 | 0 | 2 | 0 | 0 | 10 |
| *Other expenses* | €Mn | 11 | 23 | 11 | 1 | 47 | 5 | 1 | 100 |
| Taxes other than corporation tax | €Mn | 49 | 48 | 11 | 3 | 18 | 3 | 1 | 132 |
| Provisions & Others | €Mn | 1 | 0 | 8 | 0 | -2 | -5 | - | 2 |
| Amortisation | €Mn | 17 | 28 | 16 | 8 | 38 | 28 | 4 | 140 |
| Operating Profit (loss) | €Mn | 514 | 398 | 308 | 17 | -72 | 106 | 9 | 1,280 |
| EBITDA | €Mn | 531 | 426 | 325 | 25 | -60 | 134 | 13 | 1,394 |
| *Change in Fair Value II* | €Mn | 637 | 830 | 96 | 1 | 213 | 0 | - | 1,778 |
| *Finance costs* | €Mn | 127 | 189 | 37 | 9 | 81 | 71 | 9 | 522 |
| Net profit | €Mn | 901 | 902 | 429 | 6 | 7 | 36 | 0 | 2,283 |
| Adjusted Net Profit | €Mn | 263 | 72 | 333 | 5 | -206 | 36 | 0 | 505 |
| **CASH FLOW** | | | | | | | | | |
| Dividends | €Mn | 254.7 | 178.8 | 155.1 | 3.6 | 132.7 | 55.7 | 0.3 | 781 |
| Amort. Equity Instruments (net) | €Mn | 37.3 | -244.3 | -50.3 | -242.1 | 631.3 | -1.8 | 0.0 | 130 |
| CF from operations | €Mn | 290.4 | 263.5 | 130.8 | 15.2 | -75.2 | 68.1 | 6.8 | 700 |
| CF from Investment | €Mn | -111.9 | -1,171.5 | 119.5 | -467.7 | -1,104.0 | 25.9 | -3.1 | -2,712 |
| >>> From investment payments | €Mn | -683.9 | -1,492.6 | -446.5 | -477.6 | -1,140.3 | -1.1 | -4.5 | -4,246 |
| >>> Proceeds from disposals | €Mn | 582.0 | 381.6 | 326.8 | 9.9 | 108.6 | 53.1 | 1.5 | 1,464 |
| CF from Financing (E+D) | €Mn | 431.0 | -60.7 | 79.9 | 463.6 | 1,169.1 | -72.9 | -2.6 | 2,007 |
| >>> Equity instruments | €Mn | -37.3 | 244.3 | 50.3 | 242.1 | -631.3 | 1.8 | 0.0 | -130 |
| >>> Issuance of financial debt | €Mn | 381.1 | 1,859.9 | 379.3 | 245.0 | 3,242.8 | 75.3 | 1.8 | 6,185 |
| >>> Repayment and amortisation of debt | €Mn | -554.3 | -1,838.7 | -196.7 | -24.7 | -1,309.0 | -9.8 | -3.9 | -3,937 |
| >>> Dividend payments | €Mn | -254.7 | -178.8 | -155.1 | -3.6 | -132.7 | -16.9 | -0.3 | -742 |
| Generation of Cash | €Mn | 609.4 | -968.7 | 330.3 | 11.0 | -10.1 | 21.1 | 1.2 | -6 |
| **YIELD** | | | | | | | | | |
| Return on Real Estate Assets (ROA) | % | 4.1% | 2.9% | 9.9% | 3.7% | -0.9% | 7.2% | 5.4% | 3.5% |
| Financial Yield (ROE) | % | 12.5% | 10.6% | 17.4% | 1.5% | 0.3% | 12.0% | 1.2% | 10.8% |
| Gross Yield (/GAV) | % | 5.0% | 3.6% | 4.9% | 4.8% | 2.7% | 5.5% | 5.6% | 4.2% |
| Net Yield (/NAV) | % | 8.5% | 5.9% | 6.0% | 7.2% | 5.7% | 13.1% | 20.6% | 7.0% |
| Dividend Yield | % | 4.2% | 2.7% | 3.8% | 0.8% | 6.7% | 9.9% | N/A | 3.9% |
| Cash on Cash | % | 0.3% | -1.6% | -1.0% | -29.8% | 8.5% | -0.1% | N/A | 4.3% |
| **RATIOS** | | | | | | | | | |
| Leverage (/GAV) | % | 40.9% | 38.8% | 19.1% | 33.2% | 52.7% | 57.6% | 73.0% | 40.7% |
| Leverage (Debt/Equity + Debt) | % | 43.0% | 41.4% | 28.9% | 39.4% | 64.1% | 84.0% | 84.3% | 46.6% |
| Average effective rate (debt) | bp | 224.51 | 302.10 | 290.23 | 302.11 | 194.64 | 415.79 | N/A | 267.20 |
| ICR (Interest coverage ratio) | x | 2.3 x | 1.4 x | 3.5 x | 1.6 x | -0.9 x | 1.0 x | 77.7% | 1.3 x |
| **MARGINS** | | | | | | | | | |
| EBITDA margin | % | 77.8% | 72.1% | 73.0% | 63.8% | -29.6% | 87.2% | 79.6% | 65.4% |
| Net Margin | % | 135.3% | 159.8% | 167.9% | 16.0% | 3.6% | 23.8% | 2.8% | 120.5% |
| Efficiency | x | 0.24 | 0.29 | 0.26 | 0.35 | 1.40 | 0.09 | 0.26 | 0.36 |
| PE (MV/NP) | x | 6.7 | 7.2 | 9.6 | 74.8 | 275.2 | 15.5 | 84.1 | 8.7 |
| Adjusted PE (NV/NPa) | x | 23.0 | 90.6 | 12.3 | 87.1 | -9.6 | 15.5 | 84.1 | 39.4 |
| EBITDA/CF_O | % | 54.7% | 61.9% | 40.3% | 60.6% | 125.3% | 50.6% | 52.0% | 50.2% |
| Multiple EBITDA | x | 11.4 x | 15.3 x | 12.6 x | 18.6 x | -33.0 x | 4.2 x | 284.2% | 14.3 x |
| Multiple Income | x | 8.9 x | 11.0 x | 9.2 x | 11.8 x | 9.7 x | 3.7 x | 226.3% | 9.3 x |
| Assets Reval./EBITDA | x | 1.2 x | 1.9 x | 0.3 x | 0.0 x | -3.6 x | 0.0 x | - | 1.3 x |
| EBITDA/Market Val. | % | 8.8% | 6.5% | 7.9% | 5.4% | -3.0% | 23.8% | 35.2% | 7.0% |
| EBITDA+Rev. /Market Val. | % | 19.3% | 19.2% | 10.3% | 5.6% | 7.7% | 23.8% | 35.2% | 16.0% |

(1) The sum corresponds to the entire market including the Holding typology

Although the Spanish economy contracted sharply in April due to Covid-19 and the mobility restriction measures imposed by the Government, the latest data shows that activity is now recovering as these restrictions are lifted.

The office segment continues to be one of the most traditional, liquid and preferred assets by both national and international investors. It is true that after these months the uncertainty regarding the future of its performance has increased, not only in transactional terms but also in terms of the future of the teleworking alternative and with it the need for current or potential space, the impact this will have on rents and the increase in availability. Many questions concern investors for which there are still no clear answers. However, what reality has shown is the stable income behaviour at the levels of December 2019, although it is true that owners have shown greater flexibility in granting grace periods, credits and other incentives.

Offices continue to be a product attracting high annual investment, with a lot of competition and a shortage of product, and despite the situation caused by the pandemic with many investors are adapting their investment criteria, it is still a sector with high demand. It is true that not all types of offices have performed, nor will they in the same way. The more *Core* product, with long-term contracts, continues to be an asset in high demand, since the uncertainty is practically zero and it has a guaranteed fixed income. Turning to *Value Add* and even the Opportunistic products, where uncertainty is greater, we should rely on the more peripheral areas, income growth and ultimately, the repositioning of properties or even developments, where we expect greater price adjustments, since supply and demand are still far from crossing over and financing has either become more expensive and its degree of leverage has decreased or is non-existent. It is a segment that REITs have been focusing on in recent years since through said repositioning they have obtained a better path for their investments.

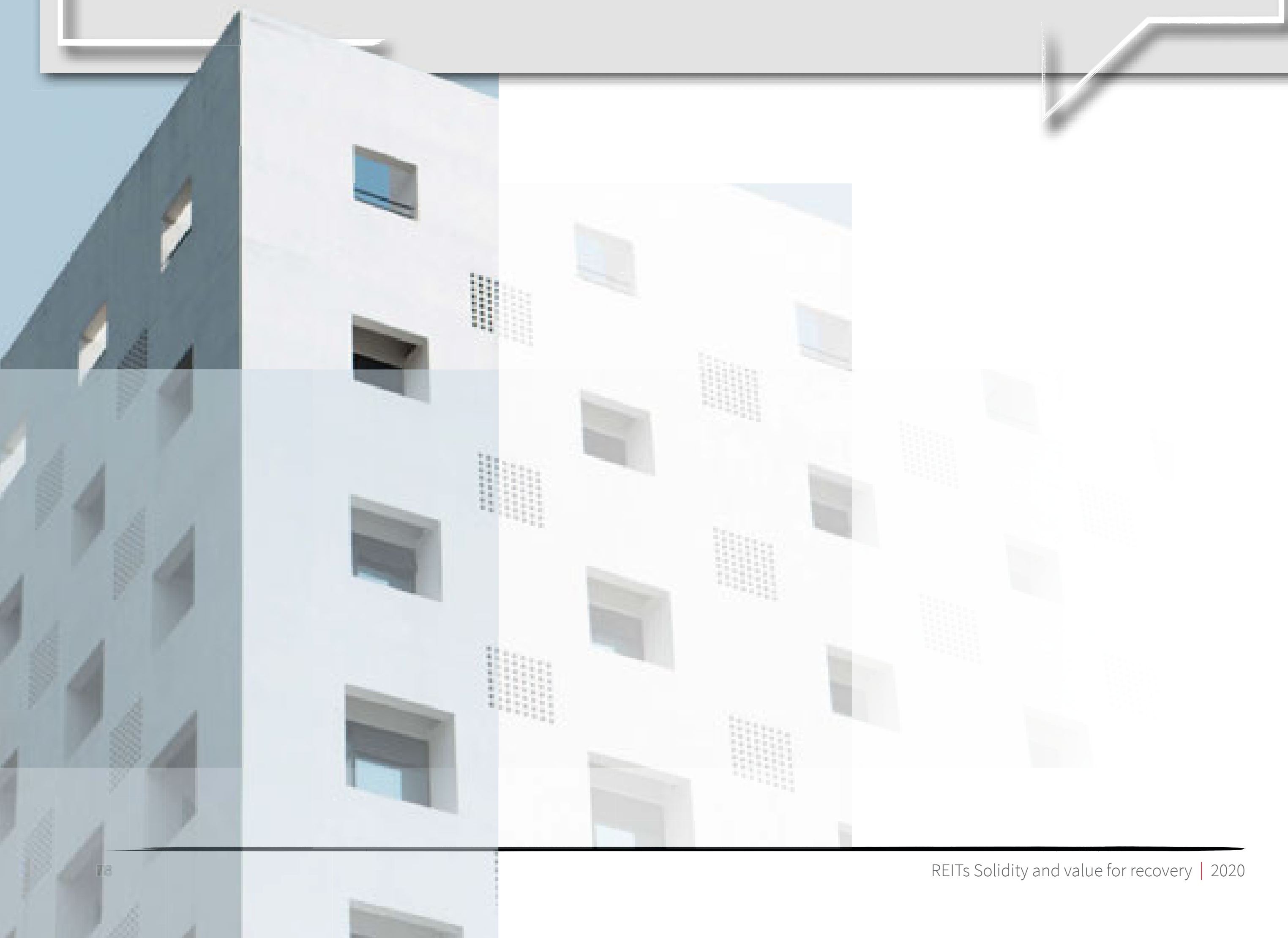
Investment volumes in offices in the last two years have reached historic levels, which has led to a decrease and compression of yields, with prime yields around 3% for the best assets and registering maximum historical values in *Capital Values.*

In short, we still consider the office asset as one of the star segments of the real estate sector and although it will be affected by the situation caused by the global pandemic and surely partially and asymmetrically -depending on their typology- by changes in the profiles and uses of both investors and users, it will undoubtedly continue to be an active save haven for the Real Estate investor.

**Offices**

Paola Erhardt

Head of Office Capital Markets



The residential market has proven to be one of the segments that is best weathering the current situation of uncertainty. It is still an embryonic market but with a long history, which is attracting the appetite of institutional investors, thus increasing their exposure to the real estate sector. Although the Spanish residential sector played a key role in Europe in the previous cycle, where all the product that was built was intended for sale, the current snapshot, a little over a decade later, is totally different, more in line with that of other countries in our geographic and economic environment.

At present, the housing stock in Spain is broadly divided into 20% rent and 80% home ownership, compared to the greater balance that exists in Europe, with less than 10% of the rented product in the hands of specialised companies. Looking to the medium term, Spain is expected to follow in the footsteps of Ireland, where rental housing went from representing 18% (in 2004) to around 30% (in the last three years).

However, the private rented sector or PRS continues to face one of its main key challenges preventing its continued expansion, which is the lack of product mainly in the centre of large cities so that it can be used entirely for professional rental. In this regard, forecasts by JLL point to the creation of about 120,000 new homes per year over the next 15 years of which it is foreseeable that a growing percentage will choose or need to choose rent as a way to access housing. Additionally, given the age of the rental housing stock, it is also foreseeable that some will leave the market due to obsolescence.

These factors suggest that there will be rental housing needs for up to 100,000 homes each year. This estimate assumes that a significant part of new homes -around 50%- may be for rent and another 40,000 are obsolete or will be removed from the market of currently rented homes. These factors are driven by the difficulties in finding financing for first time home buyers, where the containment of wages and their deflation originating in the previous crisis and not yet fully recovered, causes the young population, in addition to having a different cultural bias, see rental as the best option.

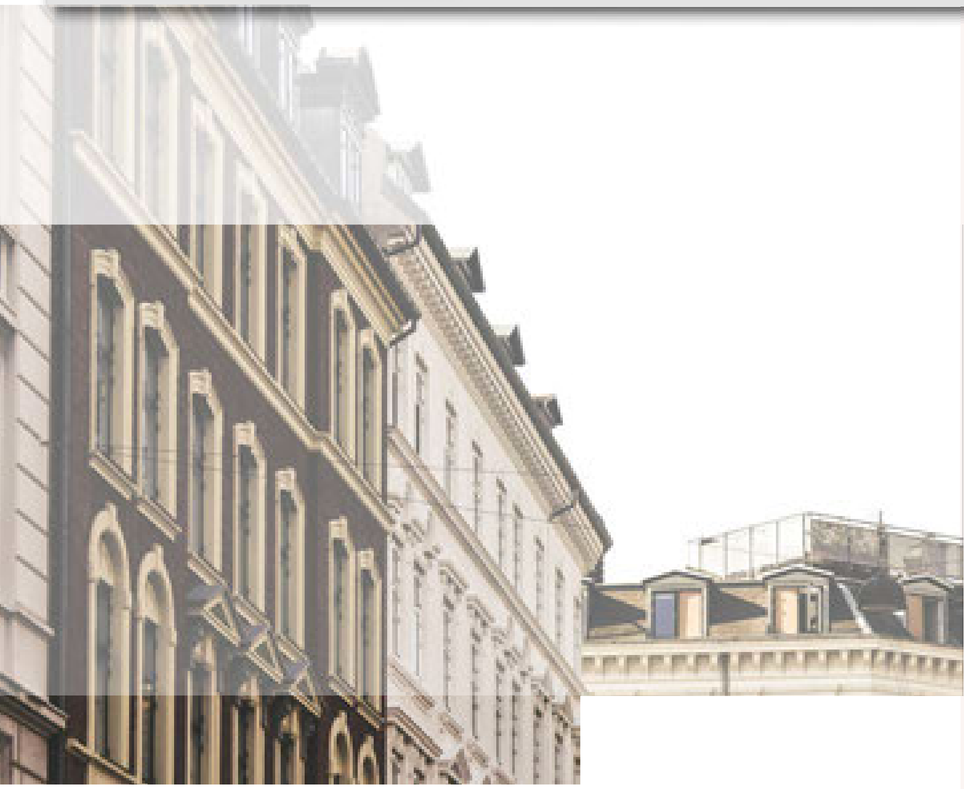
Given the growing interest of institutional investors in the sector, as well as the adjustment of the business models of the main national developers responding to growing demand, the BTR market is increasingly becoming the meeting point between investors and developers, where the former promote construction financing through forward purchase commitments that eliminate commercial risk and the latter modify their commercial, business and technical criteria by designing and building a product that is more suitable for rent than for sale.

From a regulatory point of view, in addition to the amendment to the 2019 Urban Lease Law, it should be noted that the central government recently announced the creation of the State System Index of Rental Prices -as a shock measure to prevent excessive price hikes-, although its implementation, measurement and consequences generate many doubts, especially in a situation of economic instability such as the present.

**Residential**

Juan Manuel Pardo

Head of Living Market



The retail sector has undoubtedly been going through a time of great transformation for some years. However, it must be taken into account that the crisis generated by Covid-19 has actually accelerated a process of change that has already been underway for some years, consisting of adapting the retail segment to different formats, sales models and relationships with customers. Having experienced a period where the vast majority of physical stores have remained closed as a result of the health measures and mobility restrictions to alleviate the effects of the pandemic, it has been possible to test their importance for consumers as well as the limits of online sales. And although it is entirely impossible to foresee the future, we believe that there are enough clues to analyse and reach some conclusions regarding the real estate aspect of this segment.

One of the main conclusions is the importance of the physical store, which goes far beyond a simple and traditional point of sale. A store is a part of an extensive network that serves to present a product, transfer a brand image, deliver merchandise, collect returns and provide customer service. It is a relevant element of the entire omnichannel supply chain.

This change in the role of the store also entails transformations in the role of real estate. With the growth of online commerce, retailers can reduce the size of their physical store chains, but without forgetting that location is increasingly more important. Not only does it need to be in high traffic areas for potential consumers, but they must also be practical locations from a logistics and market coverage point of view. "Fewer stores" have to become "better stores".

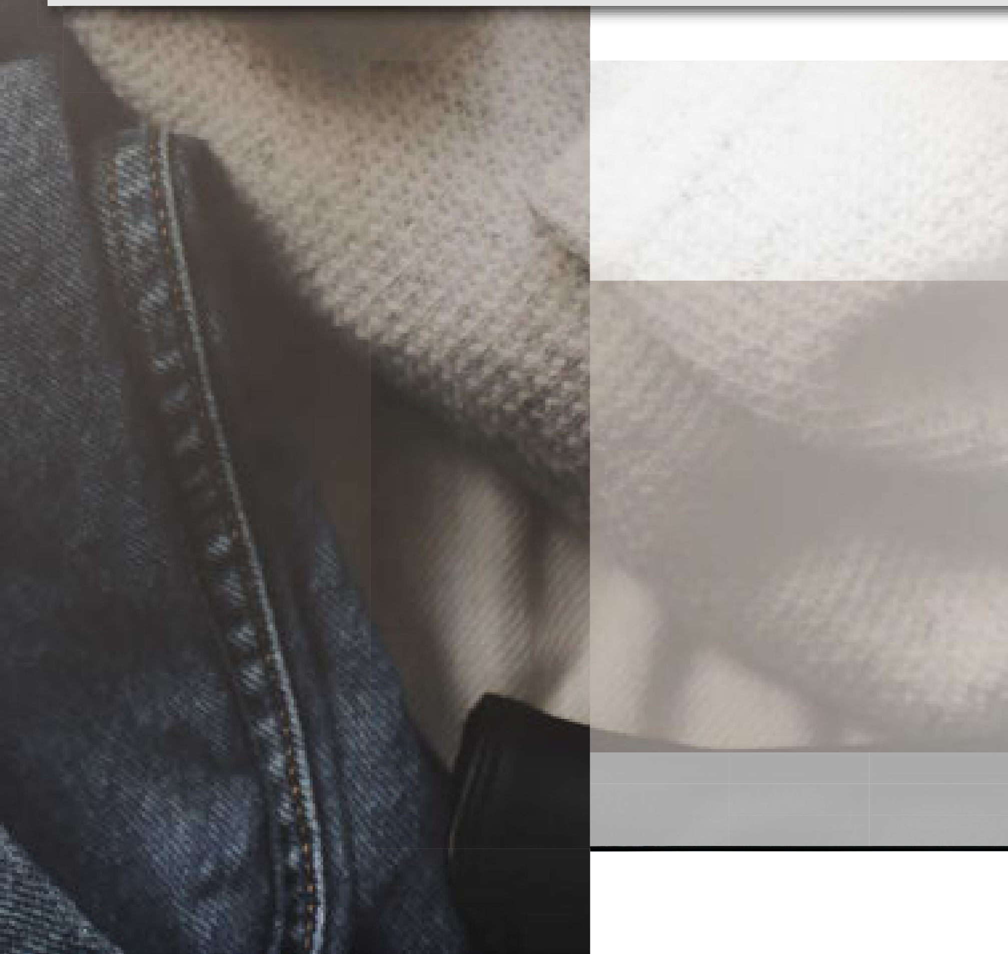
For investors, the message is clear. The polarisation of Retail is increasing, where the prime concept is more and more reinforced as with other formats, such as medium-sized retail parks, which are very practical and it is possible to increase the logistics potential of the large size of the stores. Conversely, the best option for secondary locations may be a change of use, abandoning retail and switching to logistics or residential.

Finally, all the Retail *stress testing* that we have experienced has also allowed us to see the strength and resilience of food distribution, in particular, urban supermarkets. This is a very attractive format for investors, due to the financial strength of large food groups, and the reinforced trend in searching for urban locations by supermarket chains. They are undoubtedly attractive assets subject, for the most part, to long-term lease agreements and not exposed, a priori, to the direct and indirect consequences the global pandemic may have on the real estate sector.

In short, this transformative moment in which we are living highlights the most significant aspects of Retail, with those formats that effectively have a better and clearer future standing out, while incrementing the speed of change in how the segment is viewed, a process that we were already experiencing before, but at a much slower pace.

**Retail**


Augusto Lobo
Head of Retail Market

In the current situation with the global Covid-19 pandemic and the health restrictions adopted by the Government to contain it and on the mobility of citizens, the Spanish economy has been severely affected with an unprecedented drop in GDP in the second quarter of the year and there are huge uncertainties regarding the speed of the recovery in the coming quarters.

In this economic context, the High Street sector and therefore the REITs whose main component is high street commercial premises have been greatly affected during this current crisis. The lockdown phase has led to the closure of some businesses that have not reopened as they have not been able to overcome the crisis and it has forced others to renegotiate their leases agreeing to lower rents and credits that allow them to keep afloat continue during this phase.

Faced with this situation, the reaction of the owners of premises has been to promote flexibility, giving breathing space to their tenants before exercising other types of more severe measures in accordance with the contractual clauses, thus maintaining the premises. The unprecedented situation did not deserve other measures.

However, this crisis is asymmetric with regard its impact on the High Street segment. The most affected areas are the secondary ones, where the presence of empty premises is increasing. These are high management properties with a value add profile, which are the first to receive the impact of the market. Whereas the effect in those prime and local core areas, the impact is minimal, providing investors with greater peace of mind. This is the case of some recent transactions with a high investment volume and location in one of the main shopping streets in Spain, where the transaction has been closed at yield levels of 3%, in line with pre-crisis levels in this segment.

In short, every crisis creates opportunities and the HS segment does not escape this general trend. It will be national and foreign institutional investors, REITs and high net worth companies, who will be able to take advantage of potential investments with a high return at more competitive prices.

**High Street**

*Patricia Frías*

Head of High Street Investment

The logistics real estate market has established itself as one of the main investment destinations for national and international investors, and we are no longer talking about a subsector dominated by the leading specialists, the only ones interested in this type of product until a few years ago. The main reasons for this growing interest are the attractive returns they offer, in the case of Spain, this being well above Germany, the United Kingdom and France, and the enormous potential growth in the demand for logistics spaces in the Spanish market, with the rise of electronic commerce as a fundamental pillar.

Other aspects that have favoured the logistics sector are its enormous liquidity in the market, construction speed, certainty in delivery, low maintenance of buildings, very limited property management in the case of large platforms and the gradual acceptance of triple net leases whereby the tenants are responsible not only for the payment of the rent but also all other costs related to tenants associations, fees and taxes.

If we add the obsolescence of a large part of the logistics stock to the above factors, then we can understand the high development volume of logistics parks in our market in recent years. Spanish logistics has a lot of potential but is very small compared to the large European markets, and the imbalance between the growth expectations of the large funds and the existing offer has generated developer interest, which never used to be a priority in this type of capital.

This positive pre-covid scenario has not been drastically altered during the lockdown, and what is more interesting, expectations for the sector remain very optimistic.

The main positive point is that the demand for logistics areas is entering a new dimension. *E-commerce* has grown a lot in recent months for obvious reasons and it is not a temporary phenomenon, but rather companies that had not yet started their online businesses, were forced to execute action plans in record time. The food and textile sectors, as well as pharmaceutical companies, stand out for their dynamism. The pandemic will force them to accelerate their technology investment plans, having an impact on the real estate market through the use of these assets as a mechanism to leverage investments.

The growth of last mile logistics platforms is another challenge that is being generated by the unstoppable growth of *e-commerce*. We are already seeing the construction of new warehouse developments, and we will see adaptations of existing buildings and the transformation of retail areas to meet demand. Automated buildings will be the next step together with operations involving industrial assets -factories- with very long-term lease agreements, in order to find the necessary financial resources to continue growing or even the separation and encapsulation of operational risk and real estate risk. In short, factors that accelerate a paradigm shift that allows the logistics sector, in its broadest sense, to be granted a range of new opportunities.

**Logistics**
Pere Morcillo
Head of Industrial Market and Logistics and Head of Barcelona Office

Spain has always been one of the most important tourist markets in the world, receiving more than 80 million tourists year after year. In Europe, Spain occupies second place in terms of international arrivals, just behind France with 90 million euros. Tourism is one of the most important economic activities in terms of generating national wealth, representing 12% of its GDP. Spanish hotel chains, many already established as multinational companies, have been and are the leaders in the sector and one of the main drivers of innovation in the industry.

With regard to investment in hotel assets, Spain closed the 2019 financial year as the third European country in receiving institutional investment, with more than 2,400 million euros, behind the United Kingdom and Germany. Contrary to what has happened in recent years, in 2019 local investors contributed more than 50% of the investment volume made, where listed REITs -in the case of Millenium and Atom- and the not yet listed -Mazabi- have had a strong investor dynamic that has always been based on acquisitions with long-term lease agreements.

The tourism sector has been the most affected by the Covid-19 crisis due to restrictions on global mobility and quarantines imposed on travellers.

As a market highly dependent on international demand, Spain is forecast to lose 54 million international tourists* in 2020, a drop of 65% compared to 2019. The reaction of the Government, through the implementation of economic and employment tools -ICO loans and furloughs schemes (Expedientes de Regulación Temporal de Empleo in Spanish)- during the first months of the pandemic has provided financial breathing room to companies by providing the necessary liquidity to maintain business structures.
The summer season has shown the resilience of the leisure sector, driven largely by local demand. This has allowed the owners to offset the losses of the urban hotels in their portfolio, most of which have remained closed since the beginning of the crisis with plans to reopen in September.

Although the current situation has been detrimental to the hotel sector, with a drop of 25% in hotel transaction volumes during the first half of 2020, this could result in great opportunities in the world of hotel investment. In this sense, large institutional investors and HNWIs -High Net Worth Individuals- although they may slightly adjust their capital cost, are still interested in deploying their capital into *core* and *core plus assets*. *Sale & lease back* operations involving hotel assets of the leading chains, in excellent locations and with good operations, will be strengthened in the coming months due to a lack of recurring income, cash inflows and maintenance of structure costs. Depending on the duration of the aforementioned government initiatives, we will also see distressed operations as a consequence of the fall in the market values of real estate assets and subsequent breaches of the financing covenants linked to them.

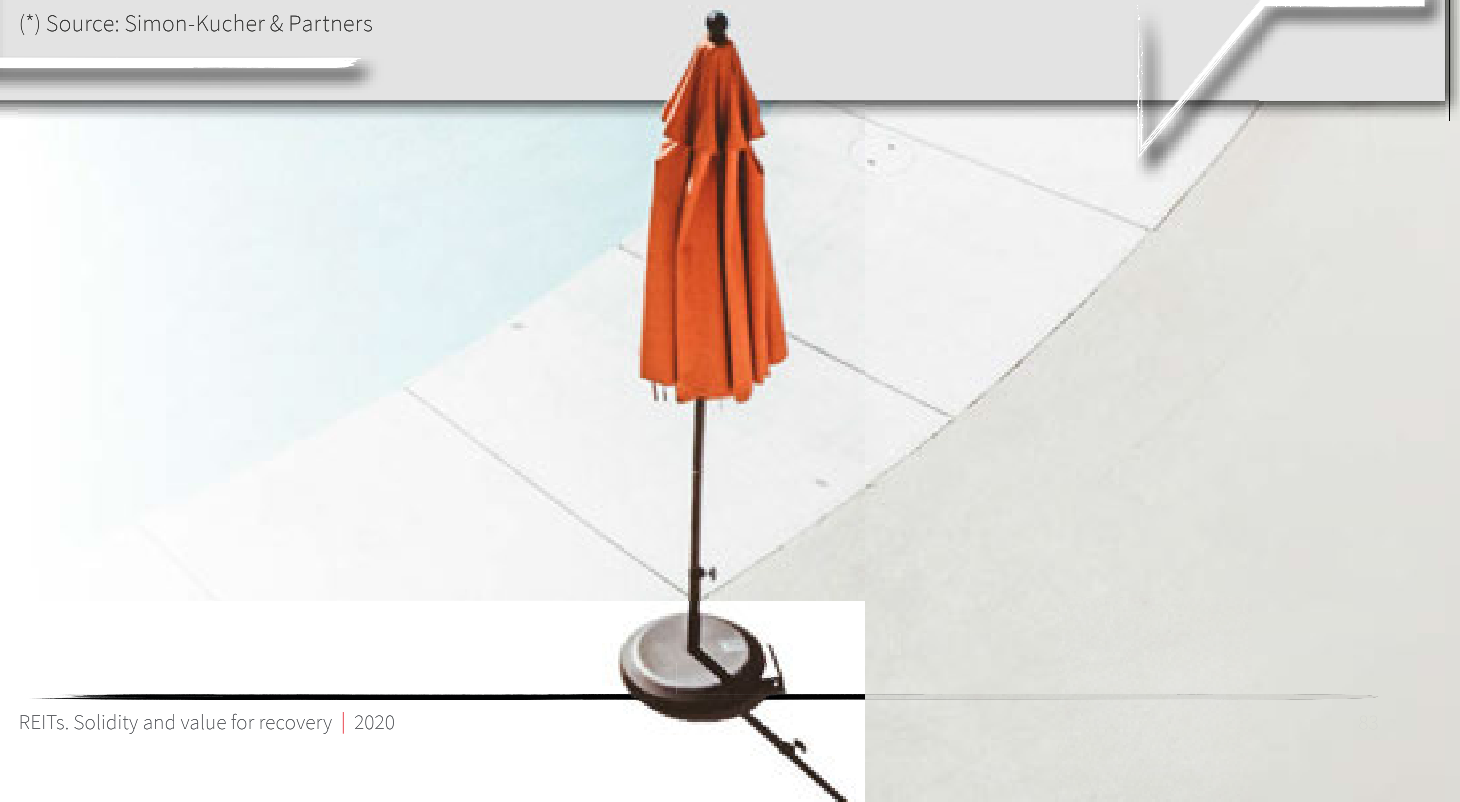
In this scenario, REITs specialising in this type of asset, with a good combination of risks -coastal hotels vs. urban hotels- have a great growth opportunity in a segment that, despite the current situation, will recover strongly. This same conclusion is valid for the industry to move again towards a concentration of the sector with the objective of achieving economies of scale in management.

**Hotels**

Ana Ivanovic

Head of Hotel Capital Markets

(*) Source: Simon-Kucher & Partners



## The REITs market by size

The second analysis is of the distribution of all REITs vehicles according to market capitalisation at the end of June 2020, distributing the vehicles[19] between four categories: **Large** with a market value of over 1,000 million euros; **Medium** for those between 999 million and 200 million euros; **Small** for vehicles with a market capitalisation between 199 million euros and 50 million euros; and **Micro** for all those with a market value of less than 50 million euros.

| **Category: Large** (MC> €1,000 Mn) | **MC** (Jun 2020) | **MC 2019** |
|---|---|---|
| Colonial | 3,983,620 | 5,772,184 |
| General de Galerias Comerciales | 3,744,000 | 3,744,000 |
| Merlin Properties | 3,466,908 | 6,008,368 |
| Gmp Property | 1,109,208 | 1,090,083 |

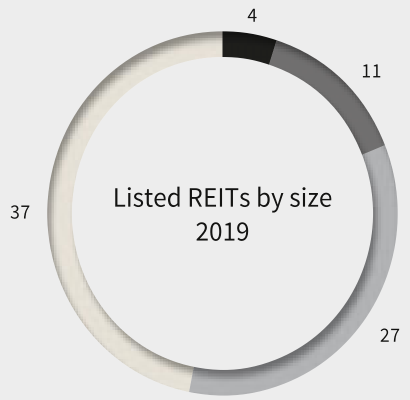
| **Category: Medium** (€200Mn <MC<€999Mn) | **MC** (Jun 2020) | **MC** 2019 |
|---|---|---|
| Testa Residencial Socimi, S.A. | 839,916 | 846,529 |
| Zambal Spain | 768,748 | 794,588 |
| Vivenio Residencial Socimi, S.A. | 643,666 | 503,126 |
| Castellana Properties Socimi, S.A. | 612,524 | 603,897 |
| Lar España Real Estate | 407,059 | 643,172 |
| Atom Hoteles Socimi, S.A. | 326,116 | 355,176 |
| Albirana Properties U | 324,269 | 324,269 |
| St Croix Holding Immobilier | 291,619 | 336,141 |
| Arima Real Estate Socimi, S.A. | 250,179 | 321,252 |
| Trivium Real Estate Socimi, S.A. | 247,000 | 249,000 |
| Millenium Hotels Real Estate, S.L. | 243,000 | 270,000 |

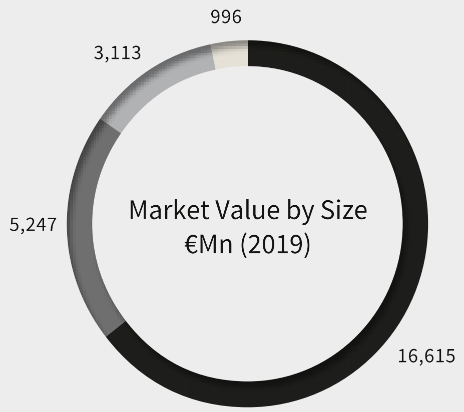
| **Category: Small** (€199Mn <MC<€50Mn) | MC (Jun 2020) | **MC** 2019 |
|---|---|---|
| URO Socimi Property Holdings, S.A. | 184,449 | 192,547 |
| Olimpo Real Estate | 178,009 | 194,728 |
| La Finca Global Assets Socimi, S.A. | 170,178 | 170,934 |
| Inversiones Doalca | 159,242 | 159,242 |
| Euro Cervantes Socimi, S.A. | 155,000 | 155,000 |
| Fidere Patrimonio | 145,070 | 145,070 |
| Meridia Real Estate III | 144,814 | 134,996 |
| Torimbia Socimi, S.A. | 144,358 | 144,358 |
| ISC Fresh Water Investment, S.A. | 141,693 | 145,442 |
| Tempore Properties Socimi, S.A. | 135,370 | 136,724 |
| Trajano Iberia Socimi, S.A. | 120,903 | 138,682 |
| Mansfield Invest Socimi, S.A. | 112,776 | 115,440 |
| AM Locales Property Socimi, S.A. | 110,616 | 110,616 |
| Serrano 61 Desarrollo Socimi, S.A. | 106,000 | 106,000 |
| Euripo Socimi, S.A. | 103,000 | 110,000 |
| Vitruvio Real Estate Socimis, S.A. | 102,509 | 108,317 |
| Grupo Ortiz Properties | 100,238 | 105,806 |
| Entrecampos Cuatro | 96,764 | 97,858 |
| Torbel Investments 2015 Socimi, S.A. | 87,789 | 0 |
| Veracruz Properties Socimi, S.A. | 85,222 | 80,319 |
| Elaia Investment Spain | 79,612 | 112,924 |
| Elix Vintage Residencial Socimi, S.A. | 74,275 | 52,270 |
| Optimum RE Spain | 65,500 | 65,500 |
| Hispanotels Inversiones Socimi, S.A. | 63,697 | 63,697 |
| Optimum III Value-Added Residential | 62,135 | 66,457 |
| Arrienda Rental Properties Socimi, S.A. | 58,520 | 56,872 |
| Tander Inversiones Socimi, S.A. | 51,897 | 51,111 |

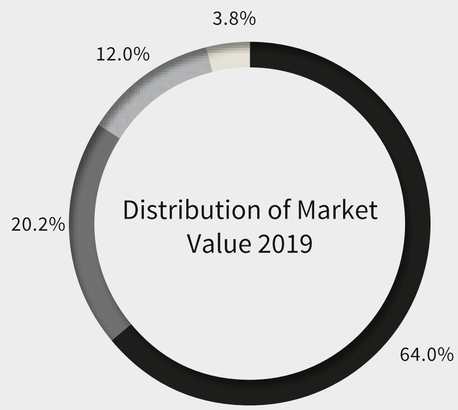
| **Category: Micro** (MC<€49Mn) | MC (Jun 2020) | MC 2019 |
|---|---|---|
| Home Capital Rentals Socimi, S.A. | 48,925 | 0 |
| AP67 Socimi, S.A. | 48,733 | 50,863 |
| Vbare Iberian Properties Socimi, S.A. | 48,732 | 48,371 |
| Quonia Socimi, S.A. | 48,597 | 48,597 |
| Hadley Investments U | 39,455 | 39,667 |
| Urban View Development Spain Socimi, S.A. | 38,227 | 38,227 |
| Greenoak Spain Hol. Socimi II, S.A. | 37,592 | 98,266 |
| JABA I Inversiones Inmobiliarias Socimi, S.A. | 37,027 | 34,713 |
| Mercal Inmuebles Socimi, S.A. | 36,796 | 33,669 |
| Persepolis Investments 1 Socimi, S.A. | 36,649 | 0 |
| Inmofam 99 Socimi, S.A. | 36,186 | 37,510 |
| Inbest Prime IV Inmuebles Socimi, S.A. | 36,124 | 0 |
| Barcino Property Socimi, S.A. | 34,712 | 33,775 |
| Mistral Patrimonio Inmobiliario Socimi, S.A. | 33,165 | 33,165 |
| Azaria Rental Socimi, S.A. | 33,097 | 29,552 |
| Galil Capital RE Spain Socimi, S.A. | 32,591 | 32,591 |
| Previsión Sanitaria Nacional Gestión Socimi, S.A. | 31,870 | 31,870 |
| P3 Spain Logistic Parks Socimi, S.A. | 29,952 | 30,754 |
| Almagro Capital Socimi, S.A. | 27,275 | 26,301 |
| Inbest Prime I Inmuebles Socimi, S.A. | 26,367 | 0 |
| Mistral Iberia Real Estate, S.A. | 25,313 | 0 |
| RREF II AL Breck Socimi, S.A. | 23,256 | 21,336 |
| Numulae Gestion de Servicios Socimi, S.A. | 20,485 | 18,099 |
| Park Rose Socimi, S.A. | 20,367 | 15,470 |
| Gore Spain Holdings Socimi I, S.A.U. | 16,497 | 16,990 |
| Student Properties Spain Socimi, S.A. | 14,300 | 14,960 |
| Advero Properties Socimi, S.A. | 14,174 | 13,034 |
| Inbest Prime III Inmuebles Socimi, S.A. | 13,621 | 0 |
| Excem Capital Partners Sociedad de Inversión Residencial SL | 11,630 | 14,962 |
| Corona Patrimonial | 10,865 | 47,345 |
| Corpfin Capital Prime Retail II Socimi, S.A. | 10,770 | 11,061 |
| Quid Pro Quo Alquiler Seguro Socimi, S.A. | 10,607 | 11,137 |
| Inbest Prime II Inmuebles Socimi, S.A. | 8,597 | 0 |
| Gavari Properties Socimi, S.A. | 8,313 | 0 |
| Tarjar Xairo Socimi, S.A. | 8,288 | 8,669 |
| Corpfin Capital Prime Retail III Socimi, S.A. | 6,699 | 6,699 |
| GO Madrid Benz Socimi, S.A. | 4,950 | 2,420 |

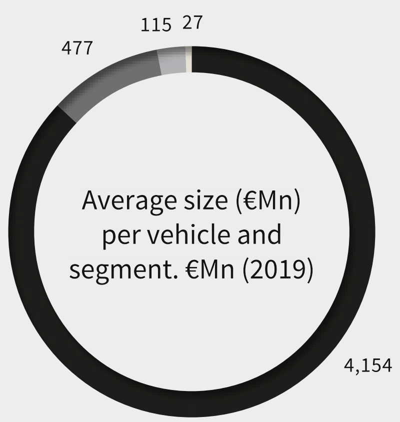
[19] Distribution based on market capitalisation (MC) at the end of June 2020. Holding REITs are included -those whose assets are shares in other REITs- for market value purposes but not for the accounting headings, margins and ratios of their financial statements corresponding to 2019.

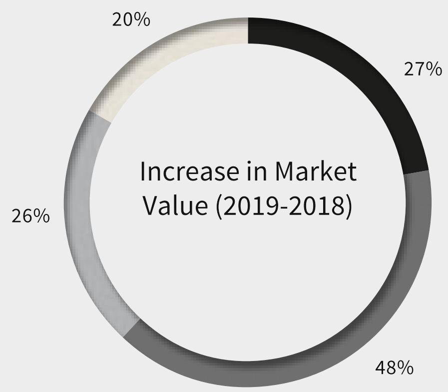
Given the degree of concentration that we were able to analyse at the beginning of this section, 81% (64) of REIT vehicles correspond to the last two categories with a market value below 200 million euros, accounting for only 15% of the market total and thus giving very small individual average sizes that barely reach 23 million euros.



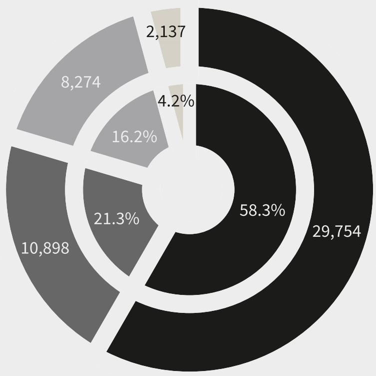



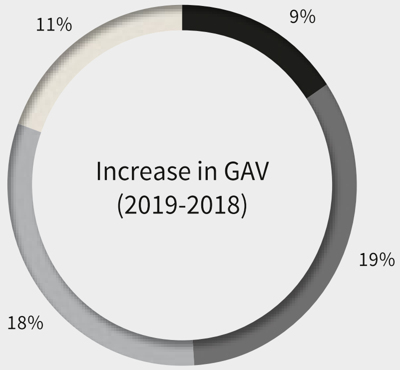

Large Medium Small Micro

Source: JLL

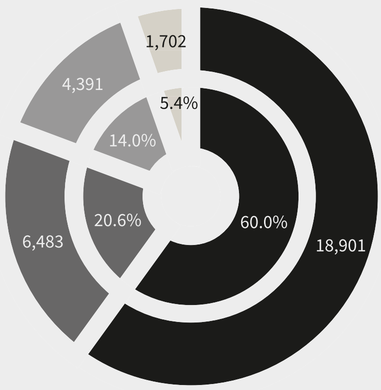
The analysis of the asset portfolios in terms of their value offers similar results insofar as the gross and net value of the assets is concentrated in large and medium vehicles. The other two categories do not reach a weight of 20% of the total, but these are the two smallest categories that experience the greatest growth in both headings. The same conclusion is made when analysed from the angle of the increase in fair value (portfolio revaluation) to the extent that these large portfolios record their accounting under international standards.

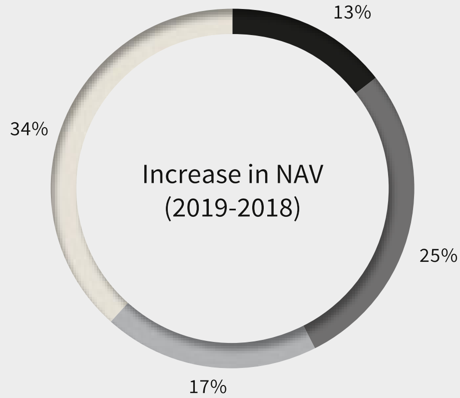
Distribution of GAV 2019 (€Mn and %)

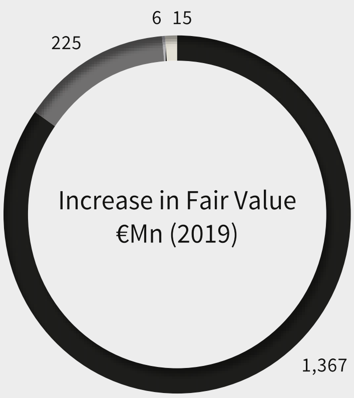


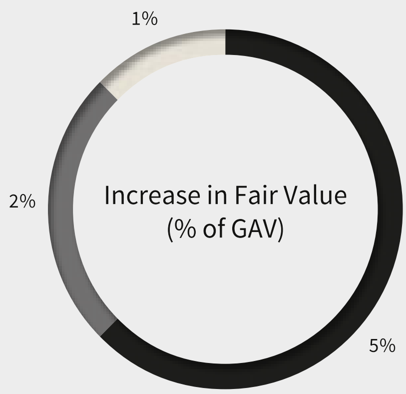




Distribution of NAV 2019 (€Mn and %)



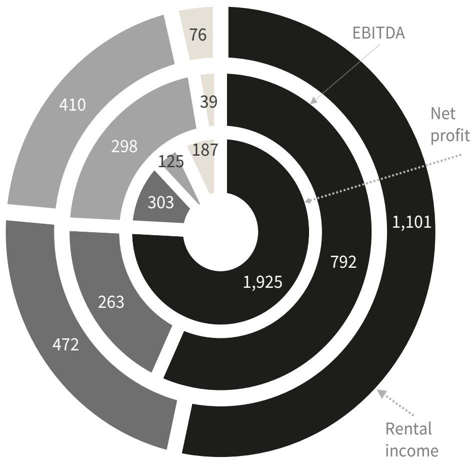

Large Medium Small Micro

Source: JLL

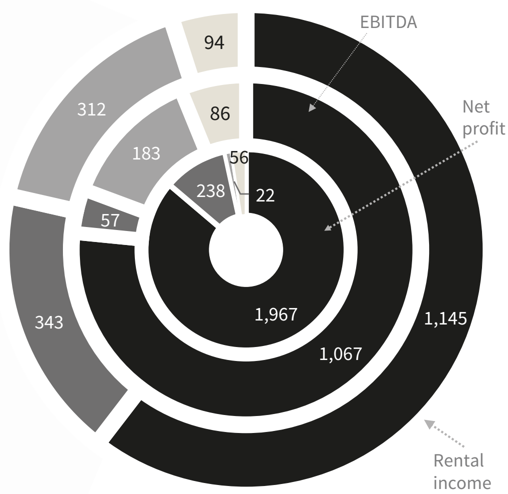
The concentration is also reproduced in business terms as detailed in the following graphs. However, it is the medium and small-sized REITs that have proportionally increased their income the most compared to 2018 -+38% and +31% respectively- compared to the largest and micro --4% and -19%- this being a similar trend in terms of EBITDA operating profit.

In terms of real estate yields, it is the large and micro categories that have been most influenced by the yield compression process carried out by the market, seeing how the gross yield on the GAV for both has been significantly reduced. Whereas it was the two middle categories that managed to increase their yields throughout 2019 and keep them above the market average.

Rental income, EBITDA and Net Profit. €Mn (2019)




Rental income, EBITDA and Net Profit. €Mn (2018)



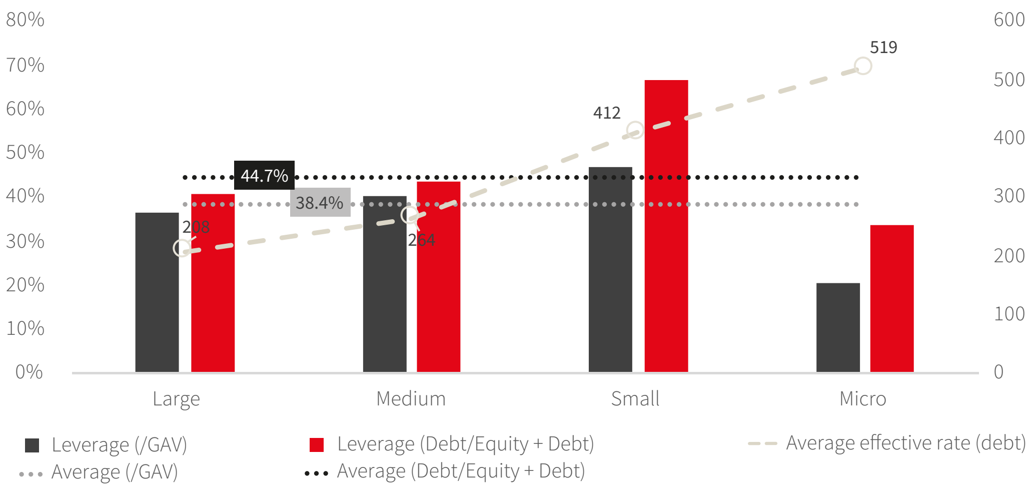

Large Medium Small Micro

Source: JLL

In the case of accounting yields, both on assets and on invested resources, it is the medium category that presents a return on assets that is lower than the others and the market as a whole, yet it is the small ones that beat the market for the second year running. In terms of return on resources, except for medium and small categories, the others are above the market average, with micro-companies standing out due to the weight of the revaluation of their portfolios over their net profit and this, in relative terms, over their equity.

Only small REITs have a leverage profile that is consistently higher than the market average, while the rest of the categories have levels of debt over GAV lower than 39% of the market as a whole. Of particular note is the smallest category whose indebtedness relative to the value of its assets is very low.

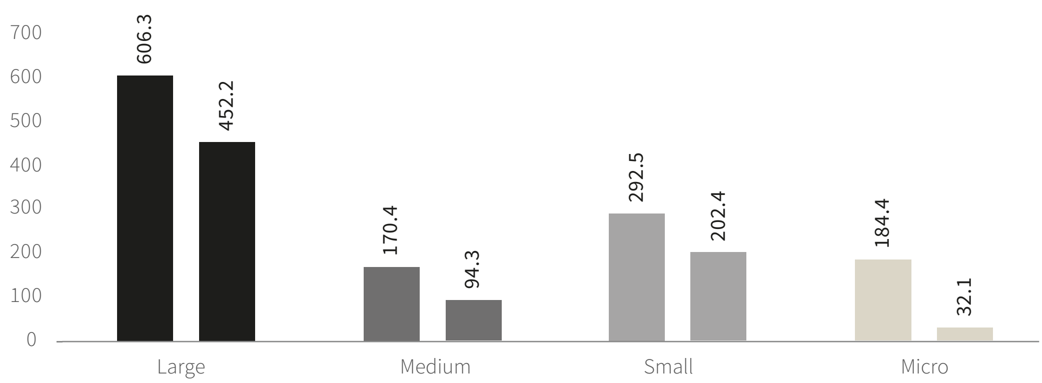
Leverage (%). 2019




Source: JLL

The annual investment volume in cash terms and the reliance on external resources has been concentrated by more than 80% and 75% respectively in the two categories with the highest value, but all of them show a positive operating cash flow which, together with the net effect of financing and the lower amount dedicated to investments, has allowed a significant increase in shareholder returns through dividends. In this sense, the shareholder returns in 2019 for the micro category stands out in a surprising way by displaying double-digit values. However, this effect is due to the distribution of the sales of portfolio assets of several REITs included in this category[20].

Dividends paid 2019 and 2018 €Mn

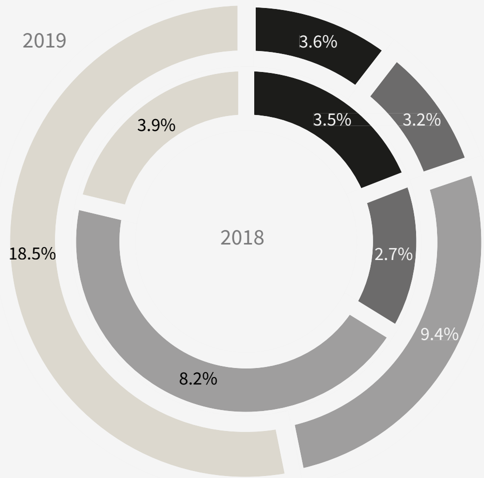



Source: JLL

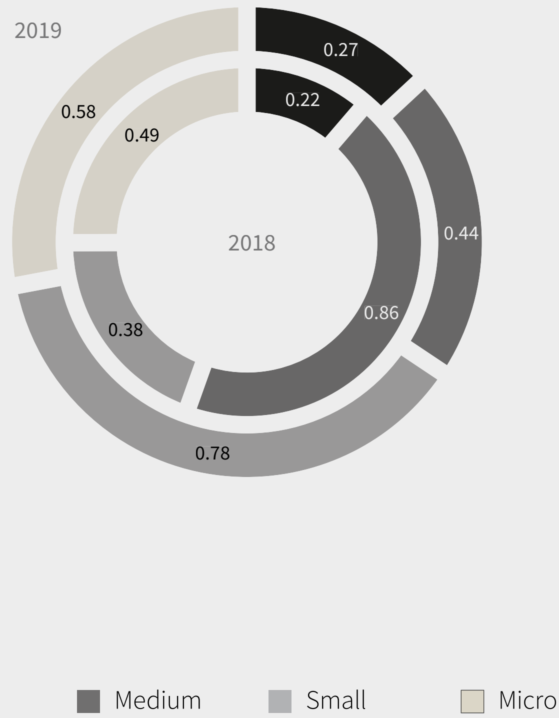
[20] This is the case of the sale of assets throughout the year by the REITs such as Go Madrid, Corona, All break and Gore Spain. Likewise, this fact has a double impact insofar as the sale of assets and their consequent decrease in GAV have an impact on the market value and therefore on the categorisation used for the purposes of this analysis. In this regard, Corona and Go Madrid now form part of the Micro category when in the previous report they were in the Small category.

In terms of efficiency, medium-sized REITs are the ones that obtain the worst results, almost double that of the market as a whole in 2019 and showing a more negative record than last year. Additionally, the large REITs continue to obtain the best marks, although all of them, except for medium-sized vehicles, recorded poorer results than those of the previous year for the same scope analysed, as a consequence of a higher cost structure depending on the revenue generated.

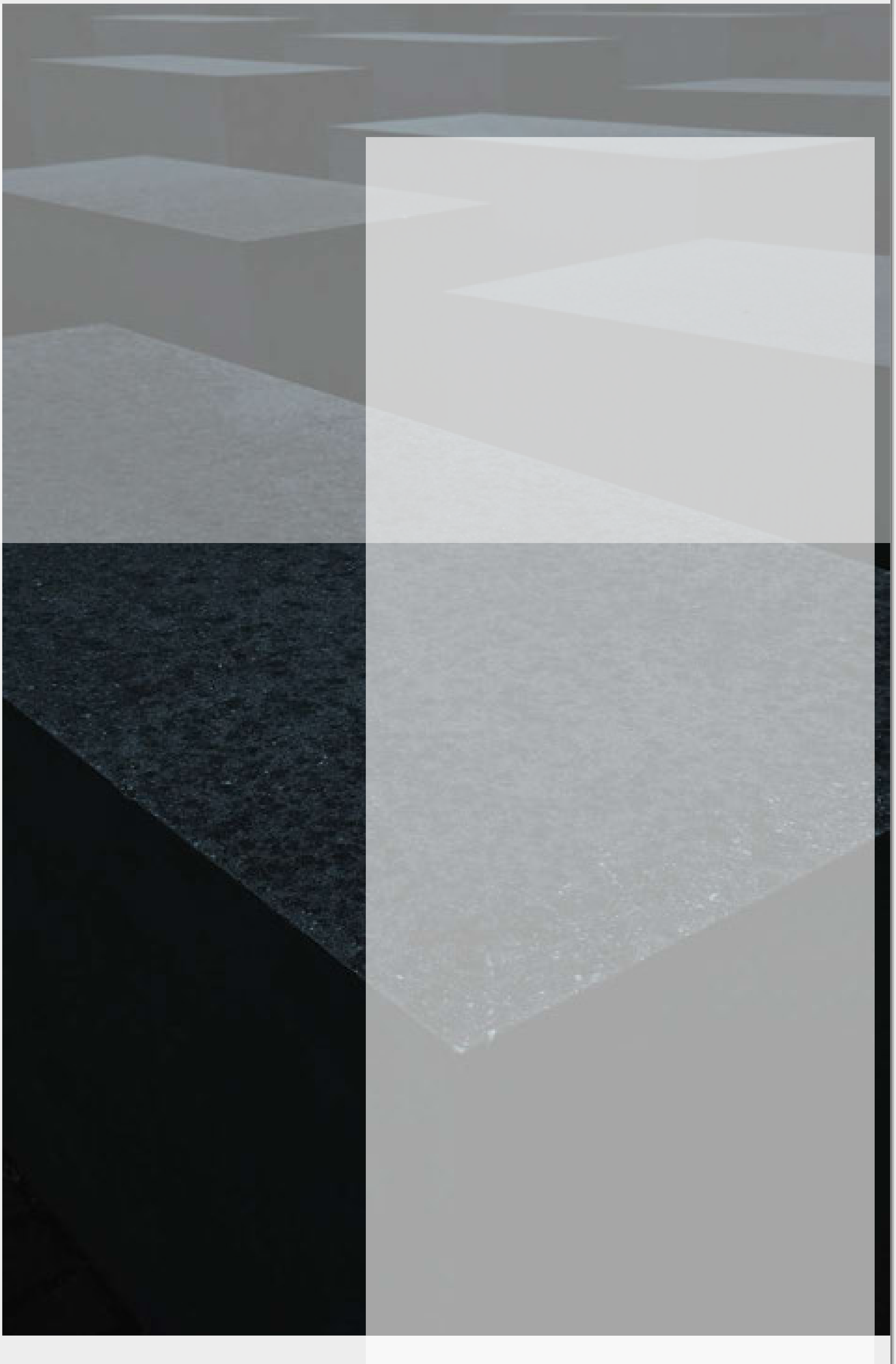
Dividend yield (%). 2019 and 2018




Efficiency (%). 2019 and 2018




Source: JLL



| BREAKDOWN BY REAL ESTATE SEGMENT - 2019 | | | | | | |
|---|---|---|---|---|---|---|
| Figures in millions of euros, %, or as indicated | | | | | | |
| *No. of REIT in each segment* | | *4 #´sw* | *11 #´s* | *27 #´s* | *37 #´s* | *79 #´s* |
| **TYPE** | | **Large** (MC> €1,000 Mn) | **Medium** (€200Mn<CB<€999Mn) | **Small** (€199Mn<MC<€50Mn) | **Micro** (MC<€49Mn) | **TOTAL** |
| **MARKET** | | | | | | |
| Market Value | | | | | | |
| Market Capitalisation | €Mn | 16,615 | 5,247 | 3,113 | 996 | 25.971 |
| GAV | €Mn | 29,754 | 10,898 | 8,274 | 2,137 | 51.062 |
| NAV | €Mn | 18,901 | 6,483 | 4,391 | 1,702 | 31.477 |
| **BALANCE SHEET - INVESTMENTS** | | | | | | |
| Investment properties (Net BV) | €Mn | 26,430 | 10,221 | 6,209 | 1,168 | 44,028 |
| Increase in Fair Value | €Mn | 1,367 | 225 | 6 | 15 | 1,612 |
| Fair Value/Prop. Investments | % | 5.2% | 2.2% | 0.1% | 1.3% | 3.7% |
| Fair Value/Market Value | % | 8.2% | 4.3% | 0.2% | 1.5% | 6.2% |
| Equity | €Mn | 15,730 | 5,666 | 1,933 | 860 | 24,189 |
| NFD | €Mn | 10,853 | 4,414 | 3,882 | 435 | 19,585 |
| Cash | €Mn | 633 | 669 | 310 | 144 | 1,756 |
| Non-current borrowings | €Mn | 10,769 | 4,921 | 3,993 | 532 | 20,216 |
| Current borrowings | €Mn | 717 | 162 | 199 | 47 | 1,125 |
| **INCOME STATEMENT - BUSINESS** | | | | | | |
| Rental income | €Mn | 1,101 | 472 | 410 | 76 | 2,060 |
| Other income | €Mn | 22 | 6 | 20 | 16 | 64 |
| Employees | €Mn | 120 | 31 | 195 | 3 | 349 |
| Operating costs | €Mn | 186 | 181 | 142 | 51 | 560 |
| External services | €Mn | 85 | 118 | 113 | 33 | 349 |
| *Services. Independent Professionals* | €Mn | 19 | 38 | 39 | 15 | 111 |
| *where Management/Admon Fee* | €Mn | 0 | 4 | 0 | 0 | 4 |
| *Repairs and Maintenance* | €Mn | 3 | 18 | 16 | 9 | 46 |
| *Supplies* | €Mn | 1 | 2 | 11 | 1 | 16 |
| *Other expenses* | €Mn | 19 | 48 | 27 | 8 | 101 |
| Taxes other than corporation tax | €Mn | 85 | 21 | 27 | 5 | 138 |
| Provisions & Others | €Mn | 3 | 4 | 74 | 0 | 81 |
| Amortisation | €Mn | 20 | 59 | 89 | 15 | 183 |
| Operating Profit (loss) | €Mn | 772 | 204 | 210 | 25 | 1,210 |
| EBITDA | €Mn | 792 | 263 | 298 | 39 | 1,393 |
| *Change in Fair Value II* | €Mn | 1,367 | 225 | 6 | 15 | 1,612 |
| *Finance costs* | €Mn | 240 | 135 | 173 | 30 | 577 |
| Net profit | €Mn | 1,925 | 303 | 125 | 187 | 2,539 |
| Adjusted Net Profit | €Mn | 558 | 78 | 119 | 172 | 927 |
| **CASH FLOW** | | | | | | |
| Dividends | €Mn | 606 | 170 | 292 | 184 | 1,254 |
| Amort. Equity Instruments (net) | €Mn | 4,0 | -781 | -23 | -18 | -818 |
| CF from operations | €Mn | 906 | 164 | 135 | 24 | 1,230 |
| CF from Investment | €Mn | -299 | -1,010 | 17 | 335 | -957 |
| >>> From investment payments | €Mn | -1,032 | -1,212 | -257 | -257 | -2,759 |
| >>> Proceeds from disposals | €Mn | 734 | 202 | 261 | 592 | 1,788 |
| CF from Financing (E+D) | €Mn | -302 | 929 | -106 | -287 | 234 |
| >>> Equity instruments | €Mn | -4 | 781 | 23 | 18 | 818 |
| >>> Issuance of financial debt | €Mn | 2,028 | 550 | 533 | 255 | 3,366 |
| >>> Repayment and amortisation of debt | €Mn | -1,720 | -216 | -354 | -392 | -2,682 |
| >>> Dividend payments | €Mn | -606 | -183 | -310 | -181 | -1,281 |
| Generation of Cash | €Mn | 306 | 83 | 46 | 72 | 507 |
| **YIELD** | | | | | | |
| Return on Real Estate Assets (ROA) | % | 3.0% | 2.6% | 4.8% | 3.3% | 3.2% |
| Financial Yield (ROE) | % | 12.2% | 5.3% | 6.4% | 21.8% | 10.5% |
| Gross Yield (/GAV) | % | 3.7% | 4.3% | 5.0% | 3.6% | 4.0% |
| Net Yield (/NAV) | % | 5.8% | 7.3% | 9.3% | 4.5% | 6.5% |
| Dividend Yield | % | 3.6% | 3.2% | 9.4% | 18.5% | 4.8% |
| Cash on Cash | % | 3.9% | -10.8% | 13.9% | 19.4% | 1.8% |
| **RATIOS** | | | | | | |
| Leverage (/GAV) | % | 36.5% | 40.5% | 46.9% | 20.4% | 38.4% |
| Leverage (Debt/Equity + Debt) | % | 40.8% | 43.8% | 66.8% | 33.6% | 44.7% |
| Average effective rate (debt) | bp | 208.8 | 264.8 | 412.0 | 519.7 | 270.5 |
| ICR (Interest coverage ratio) | x | 4.8 x | 2.2 x | 1.8 x | 1.8 x | 2.1 x |
| **MARGINS** | | | | | | |
| EBITDA margin | % | 70.5% | 55.0% | 69.5% | 42.2% | 65.6% |
| Net Margin | % | 174.8% | 64.0% | 30.4% | 246.1% | 123.3% |
| Efficiency | x | 0.27 | 0.44 | 0.78 | 0.58 | 0.43 |
| PE (MV/NP) | x | 8.6 | 17.3 | 25.0 | 5.3 | 10.2 |
| Adjusted PE (NV/NPa) | x | 29.8 | 67.4 | 26.2 | 5.8 | 28.0 |
| EBITDA/CF_O | % | 114.4% | 62.5% | 45.3% | 62.3% | 88.3% |
| Multiple EBITDA | x | 21.0 x | 19.9 x | 10.4 x | 25.5 x | 18.6 x |
| Multiple Income | x | 14.8 x | 11.0 x | 7.2 x | 10.8 x | 12.2 x |
| Assets Reval./EBITDA | x | 1.7 x | 0.9 x | 0.0 x | 0.4 x | 1.2 x |
| EBITDA/Market Val. | % | 4.8% | 5.0% | 9.6% | 3.9% | 5.4% |
| EBITDA+Rev. /Market Val. | % | 13.0% | 9.3% | 9.8% | 5.4% | 116% |

Source: JLL

## BREAKDOWN BY REAL ESTATE SEGMENT - 2018

Figures in millions of euros, %, or as indicated

| *No. of REIT in each segment* | | *4 #´s* | *11 #´s* | *27 #´s* | *37 #´s* | *79 #´s* |
|---|---|---|---|---|---|---|
| **TYPE** | | **Large** (MC> €1,000 Mn) | **Medium** (€200Mn<CB<€999Mn) | **Small** (€199Mn<MC<€50Mn) | **Micro** (MC<€49Mn) | **TOTAL** |
| **MARKET** | | | | | | |
| Market Value (December 2018) | €Mn | 13,034 | 3,537 | 2,480 | 830 | 19,881 |
| GAV | €Mn | 27,291 | 9,165 | 7,013 | 1,922 | 45,390 |
| NAV | €Mn | 16,737 | 5,170 | 3,755 | 1,272 | 26,934 |
| **BALANCE SHEET - INVESTMENTS** | | | | | | |
| Investment properties (Net BV) | €Mn | 25,248 | 8,432 | 5,058 | 1,289 | 40,027 |
| Increase in Fair Value | €Mn | 1,459 | 278 | 8 | 32 | 1,778 |
| Fair Value/Prop. Investments | % | 5.8% | 3.3% | 0.2% | 2.5% | 4.4% |
| Fair Value/Market Value | % | 11.2% | 7.9% | 0.3% | 3.9% | 8.9% |
| Equity | €Mn | 14,443 | 4,299 | 1,797 | 646 | 21,186 |
| NFD | €Mn | 10,554 | 3.994 | 3,257 | 650 | 18,456 |
| Cash | €Mn | 328 | 472 | 216 | 76 | 1,091 |
| Non-current borrowings | €Mn | 10,511 | 4,297 | 3,335 | 608 | 18,752 |
| Current borrowings | €Mn | 370 | 170 | 138 | 117 | 795 |
| **INCOME STATEMENT - BUSINESS** | | | | | | |
| Rental income | €Mn | 1,145 | 343 | 312 | 94 | 1,894 |
| Other income | €Mn | 209 | 6 | 17 | 6 | 237 |
| Employees | €Mn | 116 | 15 | 5 | 3 | 138 |
| Operating costs | €Mn | 181 | 284 | 120 | 46 | 632 |
| External services | €Mn | 92 | 259 | 97 | 38 | 487 |
| *Services. Independent Professionals* | €Mn | 9 | 188 | 44 | 21 | 262 |
| *where Management/Admon Fee* | €Mn | 0 | 148 | 11 | 7 | 166 |
| *Repairs and Maintenance* | €Mn | 2 | 19 | 13 | 5 | 39 |
| *Supplies* | €Mn | 1 | 1 | 5 | 3 | 10 |
| *Other expenses* | €Mn | 30 | 40 | 23 | 6 | 100 |
| Taxes other than corporation tax | €Mn | 83 | 23 | 20 | 6 | 132 |
| Provisions & Others | €Mn | 6 | -1 | -3 | 0 | 2 |
| Amortisation | €Mn | 13 | 45 | 65 | 17 | 140 |
| Operating Profit (loss) | €Mn | 1,054 | 13 | 118 | 95 | 1,280 |
| EBITDA | €Mn | 1,067 | 57 | 183 | 86 | 1,394 |
| *Change in Fair Value II* | €Mn | 1,459 | 278 | 8 | 32 | 1,778 |
| *Finance costs* | €Mn | 285 | 69 | 129 | 40 | 522 |
| Net profit | €Mn | 1,967 | 238 | 22 | 56 | 2,283 |
| Adjusted Net Profit | €Mn | 508 | -41 | 14 | 24 | 505 |
| **CASH FLOW** | | | | | | |
| Dividends | €Mn | 452 | 94 | 202 | 32 | 781 |
| Amort. Equity Instruments (net) | €Mn | 57 | 191 | -83 | -35 | 130 |
| CF from operations | €Mn | 539 | 125 | 31 | 5 | 700 |
| CF from Investment | €Mn | -989 | -1,597 | -83 | -44 | -2,713 |
| >>> From investment payments | €Mn | -1,855 | -1,922 | -341 | -128 | -4,247 |
| >>> Proceeds from disposals | €Mn | 926 | 325 | 105 | 107 | 1,463 |
| CF from Financing (E+D) | €Mn | -51 | 1,721 | 269 | 68 | 2,007 |
| >>> Equity instruments | €Mn | -57 | -191 | 83 | 35 | -130 |
| >>> Issuance of financial debt | €Mn | 1,891 | 2,942 | 1,139 | 213 | 6,185 |
| >>> Repayment and amortisation of debt | €Mn | -2,164 | -942 | -671 | -160 | -3,937 |
| >>> Dividend payments | €Mn | -452 | -94 | -163 | -32 | -742 |
| Generation of Cash | €Mn | -501 | 249 | 217 | 29 | -6 |
| **YIELD** | | | | | | |
| Return on Real Estate Assets (ROA) | % | 4.2% | 0.7% | 3.6% | 6.7% | 3.5% |
| Financial Yield (ROE) | % | 13.6% | 5.5% | 1.2% | 8.6% | 10.8% |
| Gross Yield (/GAV) | % | 4.2% | 3.7% | 4.4% | 4.9% | 4.2% |
| Net Yield (/NAV) | % | 6.8% | 6.6% | 8.3% | 7.4% | 7.0% |
| Dividend Yield | % | 3.5% | 2.7% | 8.2% | 3.9% | 3.9% |
| Cash on Cash | % | 0.2% | 2.1% | -1.2% | -1.8% | 4.3% |
| **RATIOS** | | | | | | |
| Leverage (/GAV) | % | 38.7% | 43.6% | 46.4% | 33.8% | 40.7% |
| Leverage (Debt/Equity + Debt) | % | 42.2% | 48.2% | 64.4% | 50.2% | 46.6% |
| Average effective rate (debt) | bp | 261.61 | 154.57 | 371.32 | 546.08 | 267.20 |
| ICR (Interest coverage ratio) | x | 1.9 x | 1.8 x | 0.2 x | 0.1 x | 1.3 x |
| **MARGINS** | | | | | | |
| EBITDA margin | % | 78.9% | 16.4% | 55.8% | 86.0% | 65.4% |
| Net Margin | % | 171.9% | 69.2% | 7.0% | 59.2% | 120.5% |
| Efficiency | x | 0.22 | 0.86 | 0.38 | 0.49 | 6 |
| PE (MV/NP) | x | 6.6 | 14.9 | 113.8 | 14.9 | 8.7 |
| Adjusted PE (NV/NPa) | x | 25.6 | -87.2 | 182.9 | 35.0 | 39.4 |
| EBITDA/CF_O | % | 50.5% | 219.0% | 16.8% | 5.4% | 50.2% |
| Multiple EBITDA | x | 12.2 x | 61.9 x | 13.5 x | 9.6 x | 14.3 x |
| Multiple Income | x | 9.6 x | 10.1 x | 7.5 x | 8.3 x | 9.3 x |
| Assets Reval./EBITDA | x | 1.4 x | 4.9 x | 0.0 x | 0.4 x | 1.3 x |
| EBITDA/Market Val. | % | 8.2% | 1.6% | 7.4% | 10.4% | 7.0% |
| EBITDA+Rev. /Market Val. | % | 19.4% | 9.5% | 7.7% | 14.2% | 16.0% |

Source: JLL

## The effect of COVID on valuations

Covid-19 is still present today, more than six months on since first hearing about this virus. The pandemic has affected all facets of our reality, both in the economic and financial fields, as well as in the social, political and health areas. The real estate sector has not been immune to this effect and as a result we are faced with the complex task of valuing real estate assets.

It is relatively easy to appraise a real estate asset within a context of certainty, when there is a recurring investment activity, a liquid market with stable market rents, a supply and demand that naturally intersect and expected rates of return accepted by the different participants. The pandemic has disrupted the previous rules of the game, giving rise to a context of uncertainty never seen before, and as a result, investment activity has fallen by more than -38% compared to last year. Real estate has been closed for months and tenants demand help from property owners to save their businesses, and landlord owners look for ways to help prevent their properties from becoming unoccupied, while at the same time reviewing their business plans to continue giving the expected response to their investors and financers. All this is occurring within a very weakened economic context, where the fundamental concern is focused on maintaining the health of the population and where the effect of lockdowns has had a profound negative impact on the generation of national wealth, savings, financial markets and the confidence of consumers, savers and investors.

These times are not affecting the real estate sector in a uniform manner: We can observe that, in general, the retail segment, which was already in a moment of deep reconversion before the pandemic, has suffered a greater impact, along with the hotel sector. Whereas other sectors such as logistics, have maintained their attractiveness and growth levels, not only in view of the prospect, but also in view of their importance as a consequence of the explosion in on-line demand. Even the office sector, one of the most traditional and immersed in different visions regarding its future, remains resilient as a consequence of the sudden and intense arrival of teleworking, especially in the CBD areas.

In addition to the above factors, we must add others of a strictly financial nature linked to the operation of the assets and above all to their ability to generate cash flows. Basic and vital elements in valuation processes such as the effect of their financing -not only in terms of cost but also in their leverage capacity- or even the discount rates applied to the generation of future cash flows, are undergoing important changes that must be treated with the greatest care, to the extent that this generation of value of real estate assets in turn has an impact on the owners' income statements and on the sector's own dynamics.

But another of the trends currently having, and which will continue to have, a greater impact on the valuations of real estate assets is determined by their sustainability, as well as their impact on ESG (Environmental, Social and Governance) criteria. We need to remember that the real estate sector is one of the economic sectors with the greatest impact on the environment and more investors and owners are giving this point greater importance. In fact, from this perspective, we can say that the current pandemic we are experiencing has allowed us to channel existing concerns in order to generate a much more sustainable medium-term economic environment than the actual, making economic development, the generation of wealth and future sustainability, head in the same direction and at the same speed.

In short, months of uncertainty that have led us to reflect all of the above factors in our valuations of real estate assets. Now, this uncertainty is becoming a new reality that will remain in the sector for a long time, which is why our recommendation is that these valuations be performed on a more recurrent basis, while the pandemic lasts.

Despite all this, the real estate sector continues to attract the attention of investors and all market agents. Recently, the Governor of the Bank of Spain, in his article "Recent Performance of REITs in Spain" mentioned that the risks to financial stability associated with the activity of these companies are, in principle, limited. The transformation that has taken place in the sector in recent years after the 2008-2013 crisis, in which it has gone from an extraordinarily cyclical model based on the construction and sale of homes, to a more stable one, where leasing plays a leading role, together with a recurring investment in management transparency, professionalism and a conservative reliance on financing, has resulted in Spanish real estate companies and in particular REITs, to have a solid, stable position with sufficient guarantees to withstand and overcome the current crisis.

Undoubtedly, over the coming months, the valuations of real estate assets will become essential elements, not only for their owners, but also for investors, savers and financers. And these must be done according to the situation we are experiencing and always from the perspective of professionalism, coherence, excellence and ethics, counting on experts and teams trained in reading and understanding, not only the sector and its different segments, but also the situation at any given moment.

**JLL**

*Silvia Damiano*

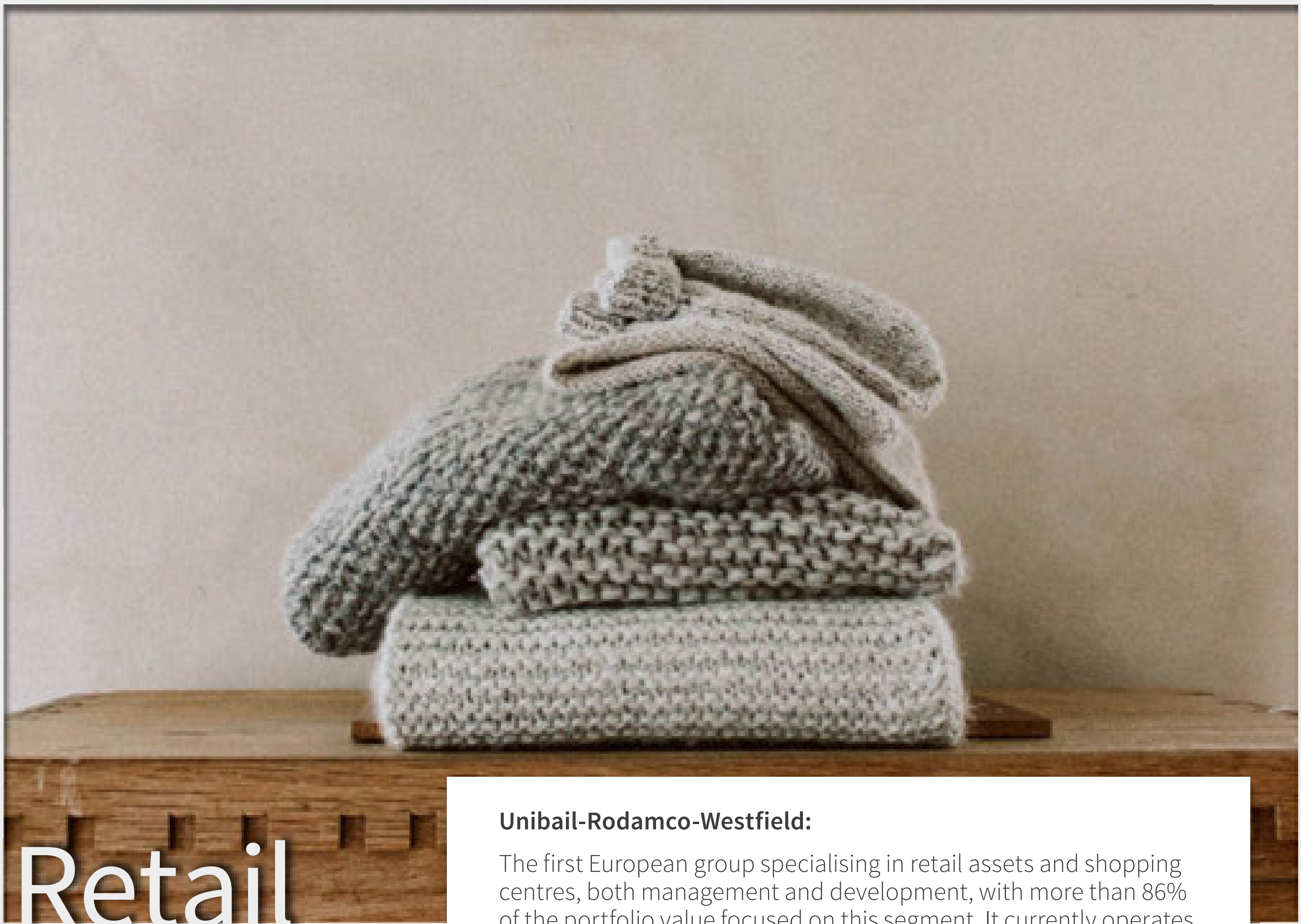
Head of Valuations, JLL

# 4 Comparison of the REIT market by real estate segment together with their European counterparts

To gain a better understanding of our REIT market and to position our vehicles within the European context to which they belong, we have incorporated a comparison between our vehicles and the leading REITs in the most relevant real estate segments in our country into the REITs market analysis. We have analysed the accounts corresponding to 2019 of the top 4 of the main REITs of each of the segments -detailed in the following table-, so that we can compare their ratios with those of our market in relative terms.

| Vehicle Name | Country | Segment | Market Capitalisation Dec-2019 (Mn) | |
|---|---|---|---|---|
| Unibail-Rodamco-Westfield | NL | Retail | 6,946 | EUR |
| Klepierre, S.A. | FR | Retail | 5,319 | EUR |
| Shaftesbury PLC | UK | Retail | 1,622 | GBP |
| Capital & Counties Properties PLC | UK | Retail | 1,243 | GBP |
| Gecina, S.A. | FR | Offices | 8,405 | EUR |
| PSP Swiss Property AG | CH | Offices | 4,894 | CHF |
| Derwent London PLC | UK | Offices | 3,108 | GBP |
| Fabege AB | SE | Offices | 36,022 | SEK |
| Segro PLC | UK | Logistics | 10,659 | GBP |
| Warehouses De Pauw CVA | BE | Logistics | 4,246 | EUR |
| Sagax AB | SE | Logistics | 43,981 | SEK |
| Tritax EuroBox PLC | UK | Logistics | 431 | GBP |
| Vonovia SE | DE | Residential | 29,597 | EUR |
| Deutsche Wohnen SE | DE | Residential | 14,374 | EUR |
| LEG Immobilien AG | DE | Residential | 8,066 | EUR |
| Kojamo Oyj | FI | Residential | 4,646 | EUR |
| Aroundtown SA | DE | Mixed | 7,873 | EUR |
| Fastighets AB Balder | SE | Mixed | 63,918 | SEK |
| Swiss Prime Site AG | CH | Mixed | 6,653 | CHF |
| Covivio | FR | Mixed | 6,094 | EUR |

Source: JLL



# Retail

**Unibail-Rodamco-Westfield:**

The first European group specialising in retail assets and shopping centres, both management and development, with more than 86% of the portfolio value focused on this segment. It currently operates more than 89 shopping centres in the main European cities and in the United States (2 continents, 12 countries), with more than 1,200 million annual visits, a development portfolio of 6,200 million euros and a staff more than 3,400 people.

**Klepierre:**

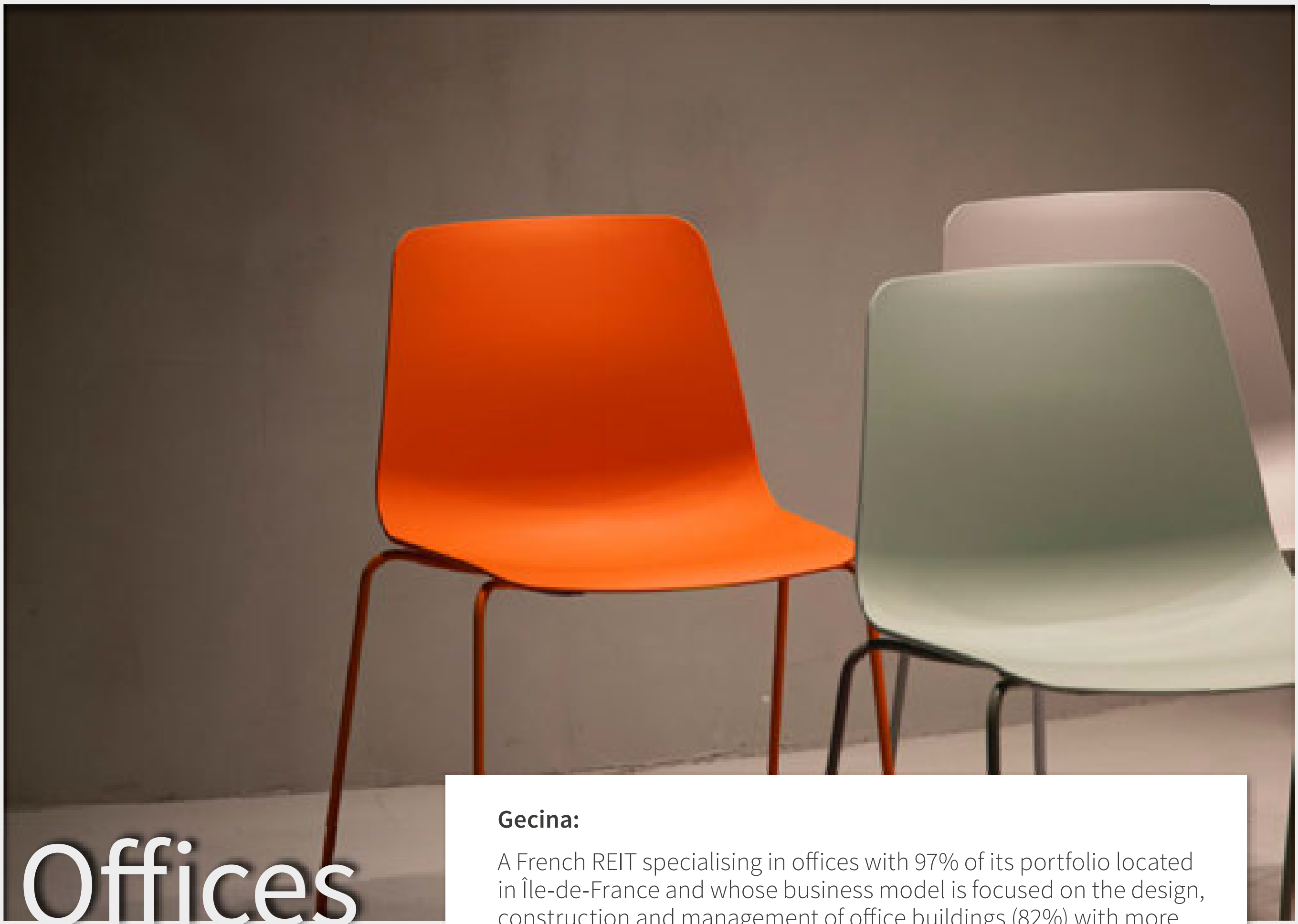
French REIT specialising in the ownership and management of shopping centres in Europe, operating in 12 countries, more than 100 centres with 1,100 million visits each year and offering its assets to more than 150 million consumers. It has a 21% shareholding in the Simon Property Group investment fund and a 7% shareholding in the Dutch pension fund APG. Two thirds of its shareholding is liquid and in the hands of institutional investors.

**Shaftesbury:**

British REIT specialising in retail whose investment portfolio is centred in London (West End) with a value of 3,800 million pounds. Its centres are located in Carnaby, Covent Garden, China Town, Soho and Fitzrovia.

**Capital & Counties Properties (Capco):**

Vehicle listed on the London Stock Exchange and in Johannesburg, specialising mainly in shopping centres and whose star centre is located in Covent Garden, London. It also has offices and residential. With more than 85 years of history, it has a market value of its properties of 2,200 million pounds.



# Offices

**Gecina:**

A French REIT specialising in offices with 97% of its portfolio located in Île-de-France and whose business model is focused on the design, construction and management of office buildings (82%) with more than 1.6 million sqm. They also have investments in the residential and student residence segment (6,000 units and 3,200 beds respectively).

**PSP Swiss Property AG:**

Swiss real estate company founded in 1999 by the Zurich insurance company. The company is listed on the Swiss SIX Real Estate Exchange. Specialising in the office segment, it has more than 160 properties, spread over the economic centres of Zurich, Geneva, Basel, Bern and Lausanne.

**Derwent London PLC:**

English REIT listed on the FTSE 250 Index, specialising in investment in the offices market. The company is the result of the merger between London Merchant Securities PLC and Derwent London. It has a very London-centric portfolio of assets (in the Fitzrovia neighbourhood).

**Fabege AB:**

Swedish REIT with a portfolio of assets located mainly in Stockholm, valued at SEK 73.6 Mn (approx. €7,000 Mn). With 192 employees and 1.2 Mn sqm under management spread over 6 districts of the Swedish capital.

# Logistics

**Segro PLC:**

English REIT that operates logistics assets in England and continental Europe specialising in making investments and managing logistics assets close to urban centres. The company became established as a REIT in 2007 and is listed on the London FTSE 100 index and is the largest industrial property company in Europe. Its assets include the "Slough Trading Estate", the largest wholly-owned commercial property in Europe.

**Warehouses De Pauw CVA:**

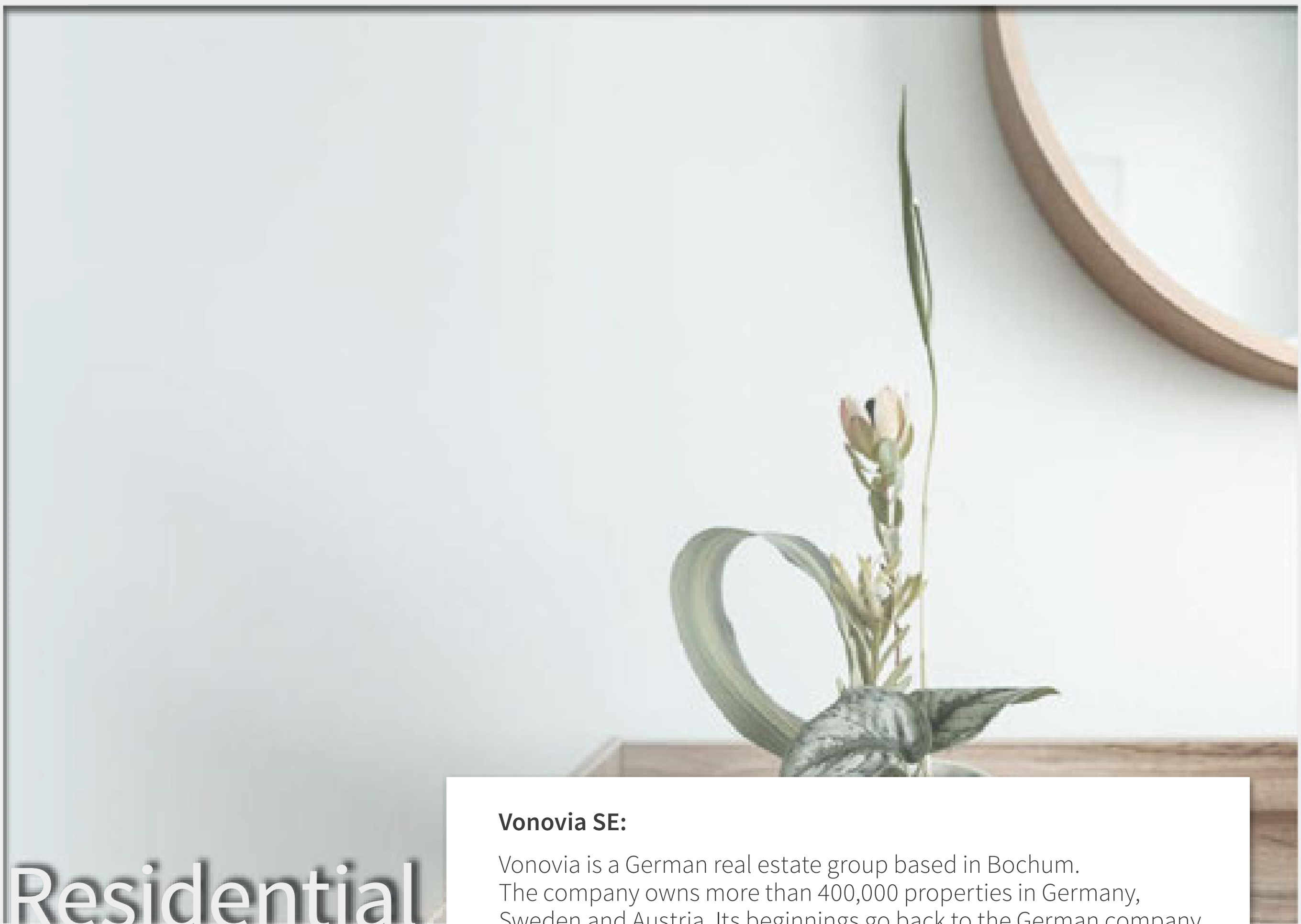
Belgian REIT specialising in the logistics segment. Founded in 1977, it went public in 1999. It has investments in other European countries in addition to Belgium (the Netherlands and Romania).

**Sagax AB:**

Swedish REIT listed on Nasdaq Stockholm, specialising in investment in industrial and logistics warehouses. It has a total of 533 properties (3 Mn sqm) spread over several countries (Sweden, Finland, France, the Netherlands, Germany, Denmark and Spain).

**Tritax EuroBox PLC:**

English REIT with a large number of investments in industrial assets and warehouses. It has a presence in a number of countries in the European Union (Spain, Italy, Belgium, Germany, Netherlands and Poland).



# Residential

**Vonovia SE:**

Vonovia is a German real estate group based in Bochum. The company owns more than 400,000 properties in Germany, Sweden and Austria. Its beginnings go back to the German company Deutsche Annington, which in 2001 successfully requested the purchase of several railway homes.

**Deutsche Wohnen SE:**

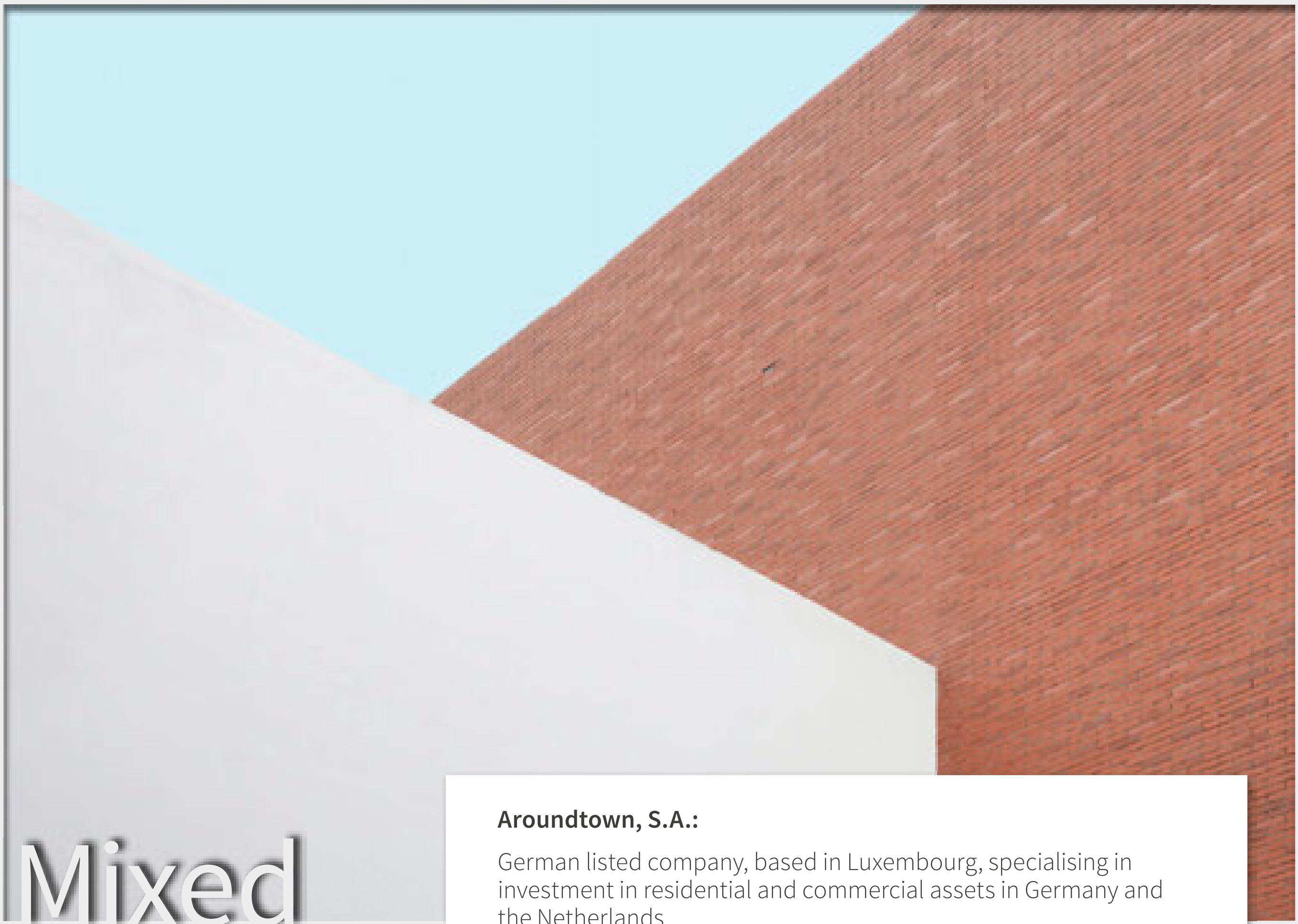
Deutsche Wohnen SE is a German real estate company and one of the 30 companies that make up the DAX index. It has a portfolio of 165,000 real estate units (of which 162,000 are residential assets and the rest are commercial assets), located exclusively in Germany.

**LEG Immobilien AG:**

It is a German real estate company. As of 2016, it was listed on the German stock market index MDAX (for German mid-caps). The company was established as a housing provider operating in the German territory of North Rhine-Westphalia.

**Kojamo Oyj:**

Finnish company listed on the Helsinki Nasdaq index, founded in 1969. Initially founded to provide homes for people who moved from rural to urban areas in search of work. It is currently one of the largest owners of residential real estate in Finland.



# Mixed

**Aroundtown, S.A.:**

German listed company, based in Luxembourg, specialising in investment in residential and commercial assets in Germany and the Netherlands.

**Fastighets AB Balder:**

Balder owns, manages and develops residential and commercial properties and hotels in Sweden, Denmark, Norway, Finland, the United Kingdom and Germany. Founded in 2005, since then it has been acquiring a significant number of properties to become one of the leading European real estate investors.

**Swiss Prime Site AG:**

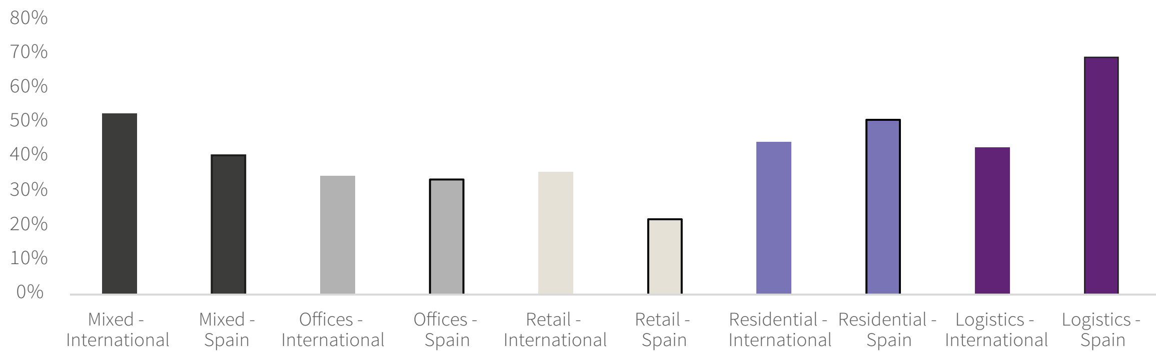
Swiss Prime Site AG is a public listed real estate company in Olten, Switzerland. The portfolio has a value of around 10 billion CHF and consists mainly of commercial and retail real estate. Real estate investments, together with the real estate services of the subsidiary Wincasa AG, form the real estate division.

**Covivio:**

Real estate Covivio is a French company specialising in real estate investment with a portfolio of €24,000 million located mainly in France, Germany, Italy, the United Kingdom, Spain and Belgium, with occupancy rates of close to 100%.

In terms of leverage, it can be seen how the European REITs in almost all segments have levels somewhat higher than the Spanish ones, except in the case of the residential sector -influenced by shareholder financing in our REITs- and the logistics sector, which barely has any weight in our market. In the more traditional segments it can be clearly appreciated how reliance on external resources in European vehicles is much higher in mixed and retail, above 50% in the case of mixed vehicles and 35% in the case of shopping centres.

## Leverage (/GAV)

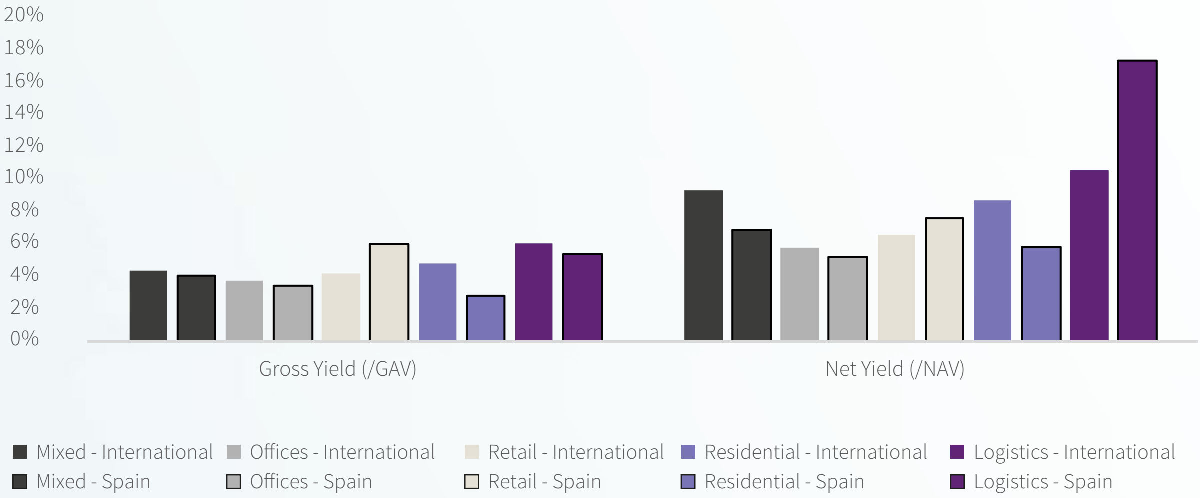


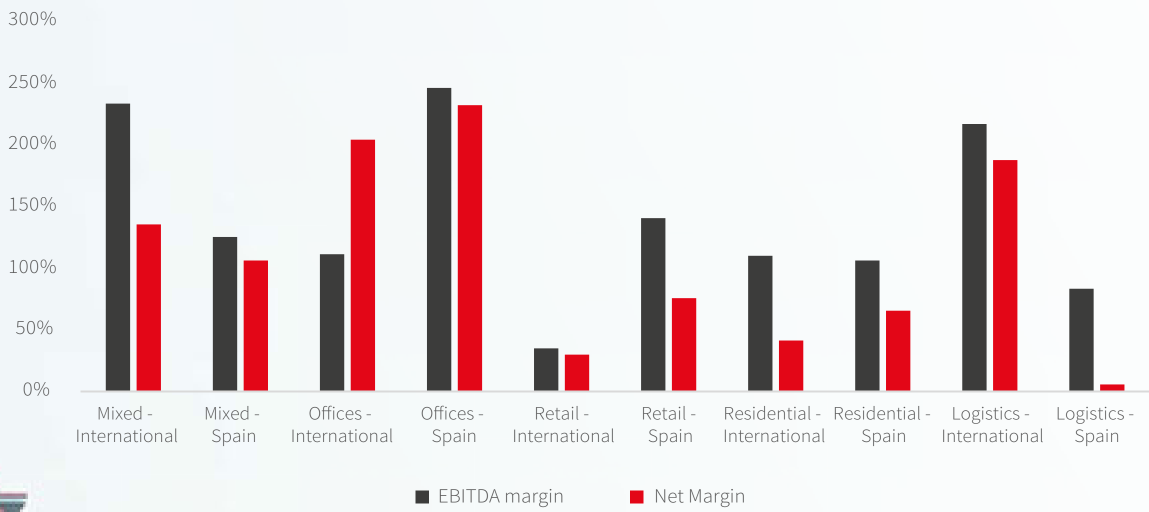

Source: JLL

From a returns perspective, both accounting and real estate, several aspects stand out. Although returns on assets -this time calculated on the market value of the asset portfolio- are, as we have seen in the previous chapter, different depending on the segment in question, the international comparison shows a high difference in vehicles specialising in logistics mainly because in the Spanish market their weight is almost residual and a large part of these assets are in the hands of mixed REITs. Additionally, it is also the retail sector that is surprising, given that the yield of Spanish vehicles -in terms of assets, equity and dividends- far exceeds that of their European counterparts. The differences are less evident in the other segments, although the Spanish residential segment shows better performance, certainly influenced by the fact that it is a growth segment and by some of the operations and characteristics previously commented on compared to some of the REITs that make up this group.

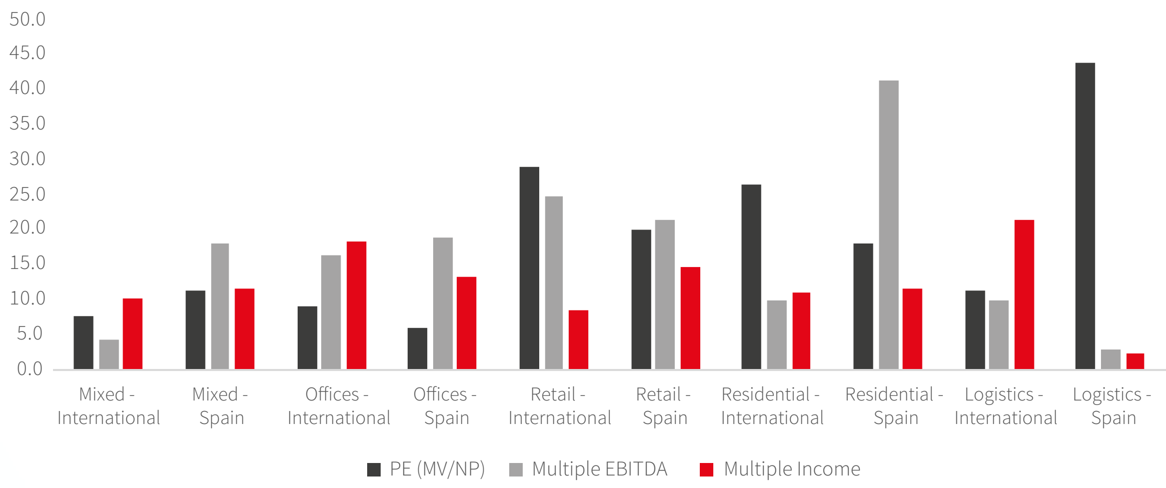

Source: JLL

In the more traditional segments we can also appreciate how real estate returns are of a more even magnitude, although in the case of Spanish Retail the gross yield on the value of the assets exceeds that of the other segments. The attractiveness of the real estate market for all investors over the last few years, the demand for investment and therefore the competition and increase in asset prices, together with the lack of other types of investment that generate long-term returns for the same level of risk, has given rise to a yield compression process in most segments, and because of this, Spanish vehicles show a lower return than their European counterparts.




Source: JLL




**International Comparison of REITs by real estate segment. 2019 figures**

Figures in millions of euros, %, or as indicated

| Type | | Mixed - International | Mixed - Spain | Offices - International | Offices - Spain | Retail - International | Retail - Spain | Residential - International | Residential - Spain | Logistics - International | Logistics - Spain |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of Vehicles in each segment | | *4 #´s* | *13 #´s* | *4 #´s* | *11 #´s* | *4 #´s* | *8 #´s* | *4 #´s* | *25 #´s* | *4 #´s* | *2 #´s* |
| **MARKET** | | | | | | | | | | | |
| Market Capitalisation | €Mn | 87,270 | 7,232 | 74,296 | 8,557 | 34,849 | 5,639 | 52,472 | 2,735 | 61,678 | 39 |
| GAV | €Mn | 190,480 | 14,728 | 107,099 | 17,326 | 95,573 | 6,267 | 99,054 | 8,140 | 47,491 | 298 |
| NAV | €Mn | 89,849 | 8,755 | 70,040 | 11,498 | 61,366 | 4,904 | 54,901 | 4,007 | 27,099 | 93 |
| Premium/(Discount) on NAV | % | -3% | -17% | 6% | -26% | -43% | 15% | -4% | -32% | 128% | -57% |
| **YIELD** | | | | | | | | | | | |
| Return on Real Estate Assets (ROA/GAV) | % | 6.0% | 4.3% | 7.7% | 8.1% | 1.3% | 4.5% | 2.0% | 1.9% | 11.3% | 0.3% |
| Financial Yield (ROE) | % | 13.5% | 8.4% | 13.4% | 14.2% | 2.8% | 10.3% | 3.5% | 5.7% | 18.2% | 2.3% |
| Gross Yield (/GAV) | % | 4.4% | 4.1% | 3.8% | 3.5% | 4.2% | 6.0% | 4.8% | 2.9% | 6.0% | 5.4% |
| Net Yield (/NAV) | % | 9.4% | 6.9% | 5.8% | 5.2% | 6.6% | 7.6% | 8.7% | 5.8% | 10.6% | 17.3% |
| Dividend Yield | % | 1.0% | 4.6% | 2.1% | 4.3% | 2.2% | 5.7% | 2.8% | 7.4% | 1.4% | 0.4% |
| **RATIOS** | | | | | | | | | | | |
| Leverage (/GAV) | % | 52.8% | 40.6% | 34.6% | 33.6% | 35.8% | 21.8% | 44,4% | 50.8% | 42.9% | 69.0% |
| Leverage (Debt/Equity + Debt) | % | 54.4% | 43.8% | 37.5% | 37.1% | 44.2% | 33.3% | 43,3% | 60.8% | 40.8% | 84.0% |
| Average effective rate (debt) | bp | 165.7 | 208.5 | 165.7 | 238.3 | 256.9 | 261.3 | 714,3 | 294.6 | 234.4 | 408.2 |
| ICR (Interest coverage ratio) | x | 2.8 x | 3.6 x | 4.8 x | 4.0 x | 3.3 x | 8.9 x | 0.8 x | 0.7 x | 439.9% | 189.0% |
| **MARGINS** | | | | | | | | | | | |
| EBITDA margin (inc. Revaluation) | % | 233.0% | 125.3% | 111.7% | 246.6% | 34.8% | 140.5% | 109.8% | 106.7% | 216.9% | 83.4% |
| Net Margin | % | 135.0% | 105.9% | 203.8% | 231.8% | 29.6% | 75.3% | 41.5% | 65.2% | 188.1% | 5.6% |
| PE (MV/NP) | x | 7.67 | 11.30 | 9.00 | 6.13 | 29.03 | 19.99 | 26.41 | 18.02 | 11.44 | 43.83 |
| Multiple EBITDA | x | 4.4 x | 18.2 x | 16.4 x | 19.0 x | 24.7 x | 21.4 x | 10.0 x | 41.3 x | 9.9 x | 2.9 x |
| Multiple Income | x | 10.3 x | 11.7 x | 18.3 x | 13.4 x | 8.6 x | 14.8 x | 10.9 x | 11.6 x | 21.5 x | 2.3 x |
| EBITDA/Market Val. | % | 22.5% | 5.5% | 6.1% | 5.3% | 4.1% | 4.7% | 10.0% | 2.4% | 10.1% | 34.0% |

Source: JLL

# 5 Comparative analysis of the fiscal and legislative structures of REITs

Chapter written with Uría Menéndez

## Introduction

REITs (Real Estate Investment Trust), which originated in the United States in the 1960s, were born as a hybrid investment instrument between direct property management and investment in stocks or funds. One of the main objectives is to eliminate entry barriers (especially those related to capital) in the real estate market for minority investors, who in this way can participate in diversified and professional real estate portfolios.

The special tax regime of these companies is based on the fact that the profits are not subject to direct taxation in the company if certain requirements are met. This does not mean, although it is a fairly widespread misconception, that the profits of REITs are not taxed. Generally, it is the shareholders who pay tax on the profits when they are distributed, either in the company's country or in their country of residence.

More than forty countries, among them Germany, France, Portugal or the United Kingdom, have imported REITs into their internal legislation. Spain has adopted its own model with the Listed Real-Estate Investment Trusts (SOCIMI), which is fundamentally inspired by the regime of the French Sociétés d'Investissement Immobilier Cotées.

In the different countries, these entities generally have common characteristics, although some do have their own local peculiarities. Most countries have strict requirements on investing in assets and obtaining income to ensure that only companies engaged in real estate leasing can access the tax benefits of the scheme. Some countries, such as the United Kingdom, also require companies to diversify their real estate assets. However, there is usually a certain amount of freedom. For example, in many countries REITs can be constituted with a single leased asset.

It is also quite common for them to have to distribute a significant part of their profits at least once a year. This requirement is usually imposed by the characteristics of the tax regime, which does not tax the income obtained by the company in general, but only the dividends that are distributed to shareholders.

On the other hand, the regime is generally conditioned to there being a certain dilution of shareholders, precisely because the purpose of the special tax regime is to preferentially target small and medium shareholders. In some cases, REITs are also required to be companies listed on a stock market, although this is not mandatory in North America.

In this chapter, a comparative analysis is performed of the regulatory requirements of REITs and their tax regime in a sample of countries of the five continents. We have analysed the regime in ten countries, in addition to Spain, with regard to the investment and income test, the mandatory distribution of dividends, the shareholder dilution requirement and the taxation of income in the company and on shareholders.

All the information contained in this section has been compiled and prepared from public sources, the veracity of which cannot be guaranteed and is outside our professional practice.

### The asset test. What can REITs invest in?

In most countries, REITs can only invest in real estate assets or rights over real estate that are destined for rental or in shares that invest in real estate assets (directly or indirectly) to operate them on a rental basis. Less frequently, these entities carry out real estate development activities or invest in debt securities or real estate derivatives.

| Country | Assets it can invest in | Quantitative requirements |
|---|---|---|
| **Germany** | They can invest in real estate assets and rights, as well as shares in companies under certain requirements. | At least 75% of assets must be real estate. Assets destined to the development of secondary activities cannot exceed 20% of the assets of the company. Companies have no obligation to diversify their assets. |
| **Australia** | They can invest in real estate assets and shares in real estate funds and companies, credits and derivatives. Investment in real estate assets must be with the objective of obtaining returns. | No quantitative limits are foreseen. |
| **Dubai** | They can invest in real estate assets for rental, real estate funds, rights and bonds. Also in real estate development, under certain conditions. | The contractual value of the assets under development must be less than 30% of the total assets of the company. Treasury and bonds cannot exceed 40% of the asset value. |
| **Spain** | They can invest in real estate assets or rights for rental and shares in real estate funds and companies. Real estate development is possible if it is for rental. | At least 80% of the assets must be real estate assets, rights or holdings in real estate funds or companies. They do not need to diversify their assets. |
| **United States** | They can invest in real estate assets or rights (including mortgage rights) and bonds. | At least 75% of the company's assets must be in real estate assets or rights, bonds or treasury. They are not permitted to own more than 10% of the shares in companies other than REITs. |
| **France** | They can invest in real estate assets and rights for leasing (for residential, commercial or industrial use), real estate development and holdings in real estate funds and companies. In addition, they can invest in the financial leasing of properties. | Assets used in the performance of auxiliary activities (development and financial leasing) cannot exceed 20% of assets. |
| **India** | They can invest in real estate assets other than land, in shares of companies holding real estate assets which must generate returns for a period of three years or government bonds. | A maximum of 20% of the total assets must be invested in eligible assets. |
| **Japan** | They can invest in real estate assets and rights or raw materials, holdings and derivative rights. | They cannot own more than 50% of the shares of another company, except if it is a foreign company dedicated to the real estate sector. Certain special categories of assets, such as energy assets, cannot exceed 50% of total assets. |
| **Mexico** | They can invest in real estate assets or rights that allow income to be obtained from leases or other real estate assets and government bonds and shareholdings in certain funds. | 70% of the investments must consist of real estate assets or rights that allow income to be obtained from leases or other real estate assets.<br><br>30% of the investments must consist of government bonds and shareholdings in certain funds. |
| **United Kingdom** | There are no forbidden types of assets for investment as long as the quantitative limits are respected. | Each real estate asset cannot represent more than 40% of the total assets and there must be at least three assets.<br><br>75% of the assets must be dedicated to leasing. |
| **South Africa** | Investment in derivative products that are not within the corporate purpose is not allowed. | The shareholding in assets issued by a single company cannot exceed 10% of the market value of all assets. |

### The income test. What income can REITs have?

As with the asset test, most of the countries in our environment require REITs to obtain the majority of the income from activities (direct or indirect) related to the rental of real estate. To provide some flexibility to this requirement, these companies are usually allowed to obtain other income that does not derive from rent, although in general it is necessary that they have some association with real estate activities (for example, sales of assets that do not meet certain requirements, income derived from other forms of exploiting assets, etc.).

| Country | Obtainable income | Quantitative requirements |
|---|---|---|
| **Germany** | The income must come from the rental, leasing, assignment or sale of real estate assets and secondary activities (activities in the service of the investment portfolio of third parties). | At least 75% of the income must come from the rental, leasing, assignment and sale of real estate assets. Income from secondary activities cannot exceed 20% of the gross income of the company. |
| **Australia** | Income must come from assets that are permitted for investment. | 25% of income is allowed to come from real estate investments, not leases, as long as the transactions are considered incidental and relevant to the eligible investment business. |
| **Dubai** | Income must come from assets that are permitted for investment. | The income of the company must come from at least two leases. |
| **Spain** | The income must come from the leasing of real estate, dividends from holdings in real estate companies or the sale of real estate or shares in some cases. Companies can carry out other (non-real estate) activities that are complementary to the main one. | At least 80% of the income must originate from real estate or holdings in funds or real estate companies. |
| **United States** | The income must originate from the leasing of real estate, mortgage interest or the holding of shares in companies. | At least 75% of the income must originate from leases or interest on mortgage loans on real estate. In addition, at least 95% must originate from a combination of the above with passive income. |
| **France** | Income must originate from the leasing of real estate, shareholdings in real estate companies and funds, developments and complementary activities. | No quantitative limits have been established. |
| **India** | Income must come from assets that are permitted for investment. | At least 51% of the consolidated income must come from rentals, leases or other uses of real estate assets. |
| **Japan** | Income must come from assets that are permitted for investment. | No quantitative limits have been established. |
| **Mexico** | Income must come from assets that are permitted for investment. | No quantitative limits have been established. |
| **United Kingdom** | Income must come from assets that are permitted for investment. | At least 75% of the net profit must originate from real estate leases. |
| **South Africa** | There are no limitations. | At least 75% of income must come from real estate investments or dividends. |

### The shareholder dilution requirement

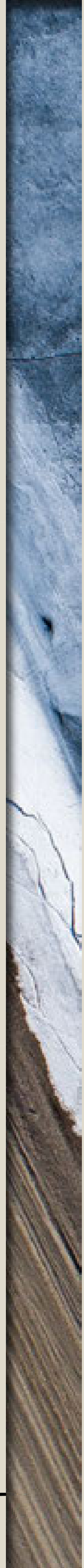
One of the fundamental objectives of the scheme is to allow minority shareholders access to real estate investment for lease. This objective is mainly achieved through the obligation for REIT shares to be listed on regulated markets or multilateral trading systems. Most countries also reinforce shareholder dilution through limitations on shareholdings in the company or by imposing of a minimum number of shareholders.

| Country | Minimum number of shareholders | Obligation to be listed |
|---|---|---|
| **Germany** | At least 15% of the shares must be owned by minority shareholders. A single shareholder cannot own more than 10% of the shares in the company. | Yes. |
| **Australia** | The company must have at least 50 shareholders (or 20% of the shares be owned by certain exempt entities). | It is not mandatory, but it is common for companies to choose to become listed. |
| **Dubai** | No. | Yes. |
| **Spain** | No, although the dilution rules of the market where it is listed must be met. | Yes. |
| **United States** | The company must have at least 100 shareholders. 5 or fewer persons or entities are not allowed to own more than 50% of the shares. | No. |
| **France** | A single shareholder is not allowed to own more than 60% of the shares in the company. | Yes. |
| **India** | Part of the shares must be offered to the public in accordance with certain ratios. | Yes. |
| **Japan** | 50% of the capital must be offered among Japanese shareholders.<br>No shareholder may have a stake of more than 50% in the share capital. | Yes. |
| **Mexico** | No, although the dilution rules of the market where it is listed must be met.<br>Unlisted companies must have at least 10 investors. | No. |
| **United Kingdom** | Corporate shareholders (companies) who have more than 10% of the entity's share capital have to pay additional taxes. | Yes. |
| **South Africa** | No. | Yes. |

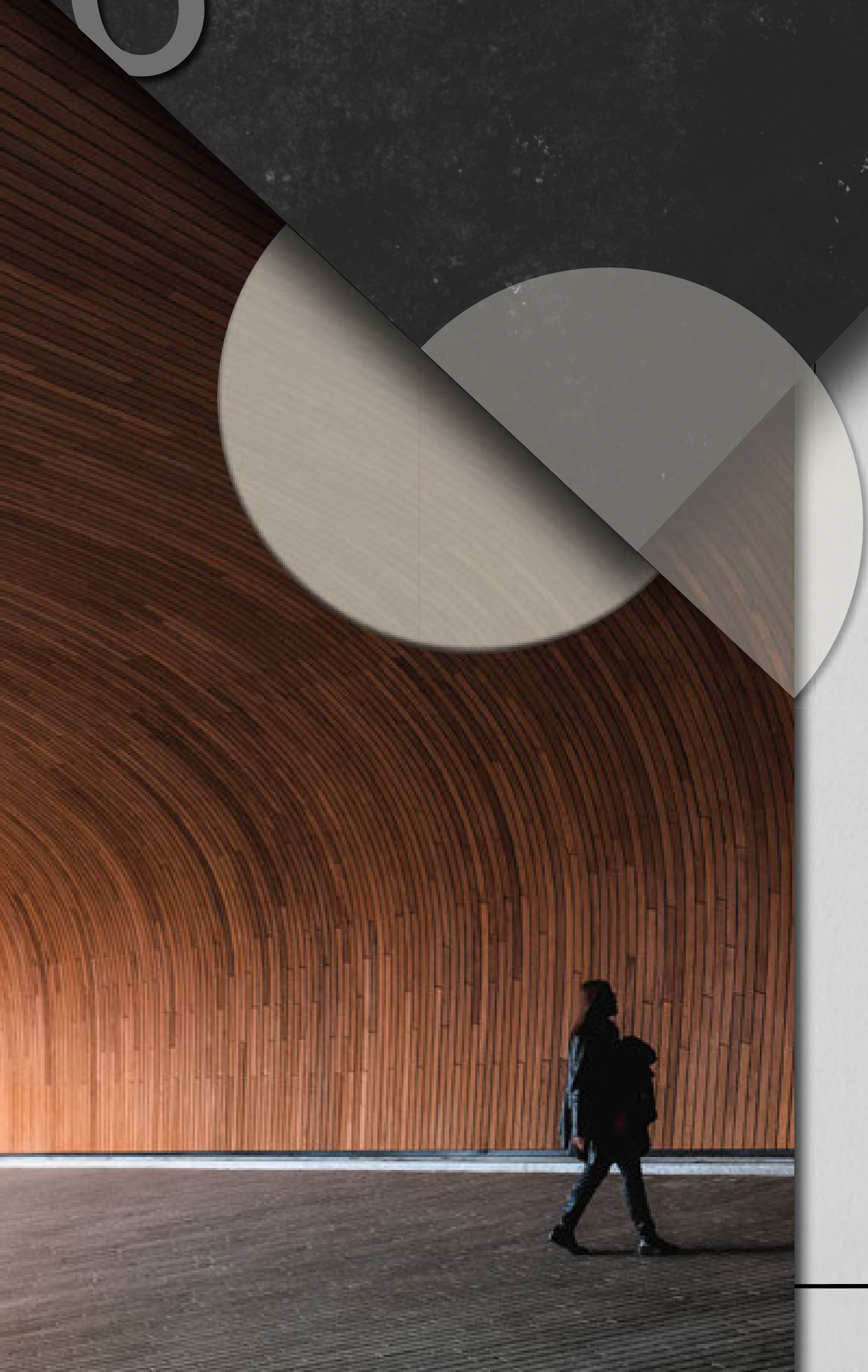
## Taxation of the company and shareholders

REITs are not usually subject to effective taxation for the income they earn, as long as they meet certain distribution requirements to their shareholders. In some cases, especially in relation to income that does not fall within the purpose of the regime, companies must pay corporation tax according to the general regulations. There does not appear to be any common rules on the taxation of the shareholders of these entities (each country sets its own), although it is usual for them to be subject to tax in the country of residence of the company.

| Country | Company taxation | Shareholder taxation |
|---|---|---|
| **Germany** | The company is exempt from taxation, regardless of whether the income is derived from real estate assets or not. | Taxed in the company's country of residence. |
| **Australia** | The company is not subject to tax if it distributes all of its revenue among its shareholders. Otherwise, it will be taxed at the general rate. | Taxed in the company's country of residence. |
| **Dubai** | The company is not subject to tax if it is domiciled at the Dubai International Finance Centre. | None. |
| **Spain** | The company is taxed at a special rate of 0%. Income that cannot benefit from the scheme will be taxed at the general rate. | According to the general provisions of the internal regulations. A minimum tax rate is envisaged if a shareholder with more than 5% of the entity's share capital is unable to demonstrate that the dividend has been taxed at least at a rate of 10%. |
| **United States** | The company is exempt from tax if it distributes all of its revenue among its shareholders. There is an obligation to pay taxes on undistributed income. | Taxed in the company's country of residence. |
| **France** | The company is exempt from taxation for income obtained in the exercise of its main activity, determined in accordance with the applicable rules. Income from complementary activities will be subject to tax in accordance with the general rules. | According to the general provisions of the internal regulations. A minimum tax rate is envisaged if a shareholder with more than 10% of the entity's share capital is unable to demonstrate that the dividend has been taxed at least a rate of 11,11%. |
| **India** | Income derived from qualified assets is not taxed. | Taxed in the company's country of residence. |
| **Japan** | Taxed in accordance with the general provisions. However, dividends will be deductible should they meet certain requirements. | Taxed in the company's country of residence. Non-residents do not usually pay taxes on the earnings from the sale of shares in the company. |
| **Mexico** | Withholdings on account must be practiced for the taxation of the participants on the income obtained. | According to the general provisions of the internal regulations. A tax credit is granted for amounts withheld by the REIT. |
| **United Kingdom** | Income from real estate leases and capital gains is not taxed. All other income is taxed at the general rate. | According to the general provisions of the internal regulations. |
| **South Africa** | The company is taxed at the ordinary rate on the income received, and the distributed results can be deducted from qualified income. Capital gains are not taxed. | Taxed in the company's country of residence. |



# 6 Snapshot of REIT stock market activity



If any sector of activity has been the talking point of the Spanish Stock Market in the last year and a half, it is the REITs. This type of company has been an indispensable instrument for driving the reactivation of the real estate sector, one of the most affected by the past financial crisis. This sector went from representing 6.6% of the total capitalisation of the Spanish Stock Market in January 2007 to 1.1% in May 2012 (3,619 million euros). At the end of July 2020, the real estate sector (including REITs) was worth 24,085 million euros on the stock market, after losing 21% of its value during the year and increasing its weight in the market value of all Spanish shares listed up to 4.54%, considering these lost 25% in the same period.

Since the REITs entered the Spanish market in force in 2014, their weight in the capitalisation of the real estate sector has continuously increased to represent around 85% today. The market value of these companies has also increased, from 2,190 million euros and six listed companies in December 2014 to a maximum of 26,352 million euros on 31 January 2020 with 81 SOCIMIs admitted to trading at that time. At the end of July 2020, there were 82 REITs admitted to the BME systems with a value of 20,424 million euros after digesting the first wave of effects of the global health and economic crisis.

The prominence of the figure of REITs in the Spanish stock market in recent years is indisputable according to the data. From January 2018 to July 2020, 59 companies have joined the Spanish stock market (without taking into account SICAVs [Open-ended collective investment schemes] and SILs [hedge funds]), of which 46 have been REITs. In the last year and a half these have been 21 out of 26 and in 2020 these have been 4 of the 6 additions to the market. The growth of these companies is essential to the Spanish economic landscape, as their activity is directly linked to production, employment and public revenue.

At the end of July 2020, four REITs were listed on the Stock Exchange: Inmobiliaria Colonial, Merlin Properties, Lar España y Arima Real Estate, with a market value of 7,598 million euros. The other 78 REITs are traded on BME Growth and their market value was 12,824 million euros, with 5 of them exceeding the market value of two of the four listed on the Stock Exchange. Specifically, one of them, General de Galerías Comerciales, had a capitalisation of around 3,600 million euros, rivalling the largest of the Stock Exchange (Merlin and Colonial).

In 2019, the performance of the REITs on the Stock Market was very positive. The revaluation was 23.5% and would have been 4.5 percentage points higher (28%) had we reinvested the dividends distributed in the year. This revaluation, which practically doubled that of the whole market in 2019, disintegrated with the declaration of the State of Alarm caused by Covid-19 in Spain in March 2020 when in the space of four weeks the value of the Spanish REITs fell by around 48%. At the end of August 2020, they lost almost 38% in the year (2 points less with dividends), somewhat more than all of most relevant European REITs whose price fell almost 30% in the year.

In spite of everything, in the almost seven years since the appearance of the first REITs on the market, this subsector has consolidated its presence in the Spanish economy and the markets. Up until August this year, the REITs have starred in 21 of the 60 increases carried out in the markets managed by BME, representing slightly more than 30% of the total and 60% of those carried out by companies admitted to trading in any segment of BME Growth. Logically, due to the fragmentation of the sector, in terms of cash value captured through these increases, the 254 million euros obtained represent 2.5% of the almost 10,000 million euros of the total of the companies listed on the Spanish Stock Exchange between January and August 2020.

In terms of shareholder remuneration, REITs distributed nearly 950 million euros in dividends in 2019 and another 181 million euros in the first half of 2020. Since 2014, these companies have distributed dividends of 2,466 million euros among their shareholders.

Lastly, the wide openness to foreign capital of REITs ought to be mentioned. According to the data recently published by the Bank of Spain and extracted from the SHSS (Security Holdings Statistics by Sector), most of the capital of the REITs listed on the Stock Exchange would have been in the hands of non-residents with 72% in 2018. In the case of those admitted to trading on BME Growth, this percentage would have been 43%.

**The MARF, a way to diversify financing**

The launch of the MARF in October 2013 responded to a clear desire to expand the channels through which medium-sized and small companies could obtain resources to finance their productive activity during a time of crisis, when the financial sector was incapable of providing funds to the economy.

As a consequence of the previous crisis, and the lending that led to the disappearance of half of the credit institutions that had been operating in our country, many companies had serious problems to obtain financing. In a study published in the Quarterly Bulletin I/2012 of the National Securities Markets Commission, it was concluded that: "84% of Spanish small and medium-sized companies have problems accessing credit, while practically half have been directly refused."

The contraction of bank lending thus became a damaging factor for the business sector. This element, together with the traditional -excessive- dependence in Spain on bank lending, amplified the problem during the first years of the previous financial crisis and extended the crisis of the financial sector to the rest of the real economy, compromising sustainability and the possibilities for expansion and growth of many companies that had to close due to a lack of liquidity.

In order to comply with the requirements of the MOU signed by the Spanish Government with the "troika" in the summer of 2012, and following the initiative proposed by the Ministry of Economy and Competitiveness, BME developed the legal and technological framework for a new market environment that would facilitate access to the issuance of fixed income instruments by medium and small companies. The work, carried out in coordination with the Ministry and the National Securities Markets Commission, concluded with the birth of the MARF, whose official launch took place on 7 October 2013.

Fortunately, in parallel with the birth of MARF, between 2014 and 2019, the Spanish lending landscape changed significantly. From a situation akin to a financial desert, and thanks to the successive quantitative easing policies (programmes and injections of liquidity by the European Central Bank), we have arrived at an oasis in which companies have enjoyed the best conditions of liquidity, prices, terms and flexibility in financing that nobody remembered. A five-year period in which there has been a total predisposition by financial institutions to lend, which have been joined by the appearance of new bilateral financing formulas such as Debt Funds or direct lending.

Within a short time, many companies have been able to take advantage of the opportunity that opened up with the birth of MARF to diversify their sources of financing and access the fixed income markets for the first time. The advantages associated with having a more diversified structure of financing sources have already been analysed in detail in recent economic-academic literature, so we are going to cover them here. The best practical proof of these positive effects is in the very evolution the MARF has registered in its almost seven years of life.

In this time we have seen the arrival of eighty new issuing companies to the market, 6 of them Portuguese; growth in double-digits year after year in the number of registered issues, exceeding 10,000 million euros issued in 2019; an outstanding balance in the market, equivalent to the actual financing provided by MARF to companies of 5,200 million euros; a degree of evolution and sophistication in the type of structures used by companies to finance themselves never before seen, in which the use of financial instruments as advanced as project bonds or corporate securitisation issues have joined the classic programmes of promissory notes or bond issues, opening up a range of enormous possibilities to the Financial Directors of the issuers. No one doubts that the MARF is another fundamental piece within the financial ecosystem of companies and that as such it coexists with other sources of financing, providing added value to companies.

However, in this process the MARF is missing the presence of companies from one of the sectors that, hand in hand with the markets, has developed the most in recent years: REITs. The great fragmentation of the sector and its youth have probably so far hampered a relatively frequent use of MARF to finance growth programmes. The performance of the sector itself and the effects derived from the Covid-19 crisis point to an upcoming consolidation process of the entities (especially those admitted to BME Growth) that should facilitate a rebalancing of the financial structures of REITs with a greater presence in financing with debt instruments traded on the markets. This is where the MARF can provide very interesting alternatives, as the REIT Saint Croix already informed at the time of the market startup when it registered a Bond Programme of 80 million euros on this market.

The business-sized deficit is an after effect that negatively affects Spain in the successive processes to reactivate the economy from those that we have been facing for a decade. The Bank of Spain very clearly indicates this issue in its most recent short-term reports. One of the most effective formulas known to promote the increase in the size of companies is through their presence in the markets. The combination of the formulas made possible by BME as market manager in Spain is proving to be an effective tool in this regard. It is necessary to accelerate this process and it is necessary for thriving sectors such as REITs to incorporate the possibilities offered by debt issuance into their growth discipline as a natural part of their financing structures. We are confident that this important step will take place in the not too distant future.

**BME**

*Gonzalo Gómez Retuerto*

General Manager of BME Fixed Income and the MARF

**REITs are providing good sensations in an economic environment hit by the pandemic.**

The pandemic that we are having to endure is affecting all economic sectors, albeit to differing extents. Investment in real estate has traditionally generated growing interest from all types of investors and at this time this interest has not disappeared, although some investment decisions do seem to have slowed down. In fact, given the difficulties involved in creating a direct portfolio in real estate, real estate investment financial vehicles are gaining weight in the portfolios of many of them.

As a result of the severe real estate crisis in Spain, the most prestigious analysis and study forums identified the need to diversify the Spanish real estate model towards rental. The launch of REITs, especially after the modification of their regime in 2012, has proven to be the right response to this need and is worthy of the endorsement and confidence of both foreign and national investors. The rate of creation and development of Spanish REITs has been growing year after year and, as in other countries with similar vehicles (Real Estate Investment Trusts), it is beginning to gain relevant importance in the economy and awakening the interest of investors.

This trajectory and the increase in the weight of real estate activities in the economy through REITs is very good news in these current times for several reasons.

As a recent study by the Bank of Spain points out, the risks to macro financial stability associated with REIT activity would be, in essence, limited. The direct exposure of Spanish banks (through equity holdings and the granting of loans) to REITs is low, both in absolute values and in terms of their weight in bank balance sheets. In addition, the structure of these vehicles is essentially more solid in the event of potential episodes of stock market and real estate crises when compared to real estate investment companies and funds, since REITs are not obliged to reimburse their shareholders contributions on demand, but they can be freely sold in the market, thereby reducing the risk of a run in the sale of portfolios of illiquid assets during times of crisis, which usually amplifies the effects of falls in real estate prices.

In recent years REITs have increased the weight of the residential business, especially in large metropolitan areas. This trend favours the increase in the supply of rental housing in the coming years, which can help to contain the prices of an essential good for households in difficult times that are already tremendously difficult for many families.

Since 2016, the Real Estate sector has been considered as one of the seven major sectors (Industry Group) in the world of stock indices. It is made up of two subsectors: Real Estate Investment Trusts (REITs) and Real Estate Management and Development. The total capitalisation of the companies in the Real Estate sector included in the MSCI World Index at the end of June 2020 was close to 1.43 trillion dollars and their weight in the index close to 2.9%. As at that date, the value of the REITs was 1.07 trillion dollars, representing 75% of the sector.

In Spain, the 81 REITs trading in June 2020 had a current market value of close to 21,050 million euros. They make up 85% of the real estate sector represented on the Spanish Stock Exchange and 3.81% of the capitalisation of all listed Spanish companies.

REITs provide the Spanish real estate market diversification towards rental with the participation of specialised entities and an extra capacity to attract financing from new investors. In addition, they oblige their developers to adopt demanding rules on the transparency and governance of the companies.

For the stock exchange and the financial market, they provide investment products linked to real estate rentals, which until now have had a low presence in investor portfolios, especially retail investors. They are an interesting option, both in terms of risk diversification (due to the possibility of investing in portfolios with different properties), as well as the professionalisation of the management. In addition, the dividends that these companies have to distribute are very attractive in an environment of very low interest rates.

**BME**

*Jesús González Nieto-Márquez*

General Manager of BME Growth

**REITs strengthen the business and capital structure of the Spanish real estate sector.**

After the economic activities linked to Commerce, Transport and Hospitality that contribute around 21% to the Gross Added Value of the Spanish GDP, the real estate sector, having sustained a weight of between 9% and 12% for more than a decade, is the most relevant of our economic framework.

This importance for the Spanish economy is demonstrated by the investment levels and this has increased proportionally during the first six months of 2020 due to the decrease in the volume of activity in commerce, transport and hospitality as a result of Covid-19.

REITs are aiding in consolidating a healthy and renewed real estate sector in Spain open to international capital. The consolidation of a professional liquid real estate investment collective vehicle is a great alternative for many investors and for the economy as a whole.

Historically, real estate investment is important for the Spanish saver/investor. Stock markets have proven to be the most agile and efficient gateway to channel this interest and also open it to international capital. At present, 51% of the value of Spanish companies on the markets is in the hands of foreign investors. According to the data recently published by the Bank of Spain and extracted from the SHSS (Security Holdings Statistics by Sector), most of the capital of the REITs listed on the Stock Exchange would have been in the hands of non-residents with 72% in 2018, whereas, in the case of those admitted to trading on BME Growth, this percentage would have been less (43%). In particular, the majority of non-resident shareholders would have come from countries outside the euro area with more than 50% of the capital of REITs in their hands at the end of the fourth quarter of 2019.

At the same time, the development of REITs and their presence in the markets contributes to expanding the offer of investment instruments available to savers. Compared to direct investment in real estate, these vehicles offer small investors the possibility to invest in them while benefiting from risk diversification, scalability and the professionalisation of management in a simple manner. At the end of 2019, the percentage of REIT capital in the hands of Spanish households was 21.9%, according to data from the aforementioned SHSS.

Through the opportunities offered by the markets, REITs have the possibility to rely on different types of investors to finance their growth plans and national and international purchases. The presence of the capital of these companies in the markets introduces a factor of transparency, professionalisation of the management and also an improvement to corporate governance.

The Capital Markets Union (CMU) project supports these ideas and realities and therefore proposes a determined push by governments for market alternatives as means to improve the economy's balance and health. An aspect that must be taken into account in the direction of economic policy measures aimed at shaping and rebuilding a productive ecosystem with larger and more solidly established companies.

**BME**

Jorge Yzaguirre

Head of Markets and Market Data at BME

**Different financing for a different environment. The focus on sustainability.**

Throughout this report the differences of our market for listed real estate vehicles can be appreciated, not only with respect to our European counterparts in the different real estate segments, but also among themselves, taking into account their size by market capitalisation, but in the same way on the basis of any of the variables chosen that can serve as a comparison. A market that shows, among other things, its youth and, in some respects, its embryonic and fledgling state, compared to that existing in other countries in our environment.

Although there are many differences, it is necessary to point out a couple of factors that noticeably stand out from the rest and refer to the financing structure of our REITs. This report clear states that the degree of reliance on indebtedness is relatively conservative, insofar as that, firstly, we come from historical situations where there was no such moderation and an excessive use of debt caused the real estate sector to collapse and, secondly, it refers to companies and vehicles with a legal obligation to distribute dividends to their shareholders, therefore a high debt service will weigh down the vehicle in terms of the cash necessary for the payment of said distributions to their owners. Having said that, traditional debt stands out on the REITs ecosystem (mainly among medium-sized and smaller) granted by financial institutions in a bilateral format and asset to asset, over the long term, with annual capital amortisation structures, with notable influence on the cash of the companies as well as on the cash-out of the shareholders and with a wide group of proprietary banks, each with its own mortgage guarantee. This does not mean that they are not valid financing structures, but their profile responds to a gradual and active asset-to-asset growth in the portfolio, resulting in the fact that, having reached a certain portfolio size, the financing structure created may not be the most efficient. Additionally, there are a few cases where syndicated financing structures by a group of financial entities can be seen that share risk and guarantees, opting for a structure that is more efficient and more in line with the philosophy of REITs.

Neither are corporate financing seen, except for specific hedges of working capital needs and, of course, for taking advantage of an alternative fixed income market such as BME's MARF, adapted to medium-sized companies. Beyond the large REITs listed on the Stock Exchange that do have a mix of debt based on bank loans (some in syndicated format) and the issuance of negotiable securities -corporate bonds-, the remainder of our REITs have not yet considered this market as a financing tool in wholesale markets and as a formula to diversify their financial sources. The amortisation profile of the bonds, the existence of BME Growth for small capitalisation companies where they can be traded, together with the existing transparency protocols in the organised markets in both equities and fixed income, which positively influence the options for refinancing, make this one of the best sources of financial resources for real estate vehicles.

The second of the factors to highlight has to do with green and sustainable financing with underlying real estate. According to the recent JLL report "2019 Global Sustainability Summary"[21] and using the International Energy Agency[22] as a source, it is estimated that the real estate sector represents approximately 36% of the total final energy consumption and almost 40% of the direct and indirect total. Socially responsible investment criteria (ESG[23]) is no longer a passing fad but a mega trend that has come to stay in all economic sectors. In addition to seeking economic-financial profitability, more and more investors make it an indispensable requirement that their investment decisions have a positive impact on society in the long term. This is made evident by the fact that sustainable funds in Europe raised more than 30,000 million euros in the first quarter of 2020 according to information from Morningstar.
At JLL we consider this trend as an urgent need as shown by our *Building a Better Tomorrow* strategy that encompasses our entire business, where we believe that tomorrow's most successful organisations increasingly need to place their business purpose above financial success and short-term objectives and provide the necessary guidelines to adapt real estate portfolios to environmental and sustainable criteria, acting primarily on six Millennium Development Goals declared by the United Nations[24]. With this, not only will they help improve the footprint of their businesses, but also stand out as a key piece in their financing strategy. JLL also participates as a founder in the *Bloomberg Green* initiative, a global platform focused on climate change.

[21] https://www.jll.es/content/dam/jll-com/documents/pdf/other/JLL-2019-Global-Sustainability-Summary-Report.pdf
[22] https://www.iea.org/topics/energyefficiency/buildings/
[23] After its acronym in English Environmental, Social and Governance.

If we look at the original green bond market, created in 2007, the amount issued in this type of instrument at the end of 2019 reached a global volume of 754,000 million dollars through more than 5,931 issues with 927 issuers according to the statistics provided by the Climate Bonds Initiative institution[25]. The United States stands out as the main issuing market with more than 172,000 million dollars, followed by China and France with 107,000 and 86,000 million dollars respectively. Although throughout the first half of 2020, the performance of the financial markets has not been in line with the pandemic and its economic effects. During the first half of the year more than 90,000 million new dollars were issued (-26% compared to the first half of 2019) in more than 439 transactions by 221 issuers from 34 different countries, led by Americans, Swedes, Japanese and Germans. In its annual report, the same institution highlights the expectation of growth in the issuance of green bonds for the 2020-2021 period, focused on financial institutions and sovereign issuers, as well as the growing use of other types of issuance "labels" such as sustainability bonds and social bonds.

A quick look at the ranking of the main issuers in the history of green bonds reveals, shows Fannie Mae in first place and with a significant advantage over the rest, with almost 30,000 million dollars of issuance in more than 991 operations. At this point, it should not be necessary to recall the relationship between this American state company and the real estate sector, as it guarantees a large part of the mortgages signed in the United States. The performance of the market in the first half of the current year shows how more than 20% of the green bond issues during 2019 have been allocated to the construction-building category (a higher percentage than the same period of the previous year) and the same can be said of the 30% of the income obtained in the issues corresponding to the same year. The real estate sector comes second as a destination for green paper emissions, behind energy (32% of revenue from issuances in 2019) and ahead of the transport and water sector with 20% and 9% respectively.

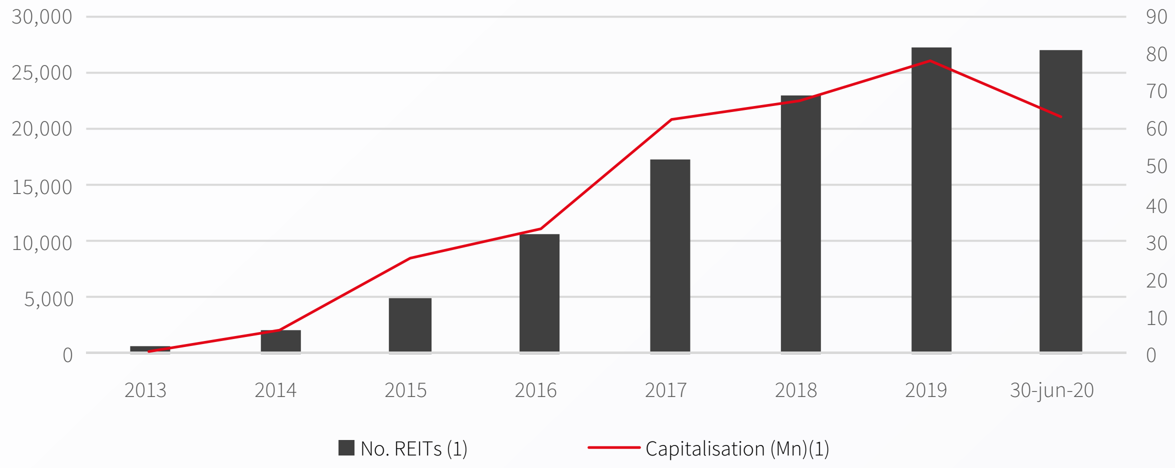
Green financing is already an absolutely global market, growing in all regions and countries and what is even better news, headed by Europe in recent years where it has grown by more than 74% in 2019 compared to 2018 and where private non-financing companies and publicly backed companies are leading growth. A market with more than 269 issuers and a balance of more than 300,000 million dollars, where France, Germany and the Netherlands have taken the lead and Spain holds the middle ground.

The question now is, can the Spanish real estate sector take advantage of this mega trend? Can Spanish real estate issuers achieve green financing based on the backing of their assets? Can green financing programmes be established that allow the transformation of asset portfolios under ESG criteria? Already in the pipeline, is it possible that in the coming years Spanish REITs, of different sizes and composition of assets will be able to take advantage of financing from the capital markets and specifically the bond and green bond markets, to finance investments intended for the renewal or development of sustainable real estate assets? The answer is clearly yes, not only from the perspective of the capital markets but also from the perspective of traditional bank financing, although in the latter case, it would be interesting, as a driving element, to have it reflected in banking regulation terms so that this type of financing, under ESG criteria, has an impact in terms of capital consumption of these institutions.

**JLL**
*Alberto Segurado*
Head of Debt and Corporate Finance

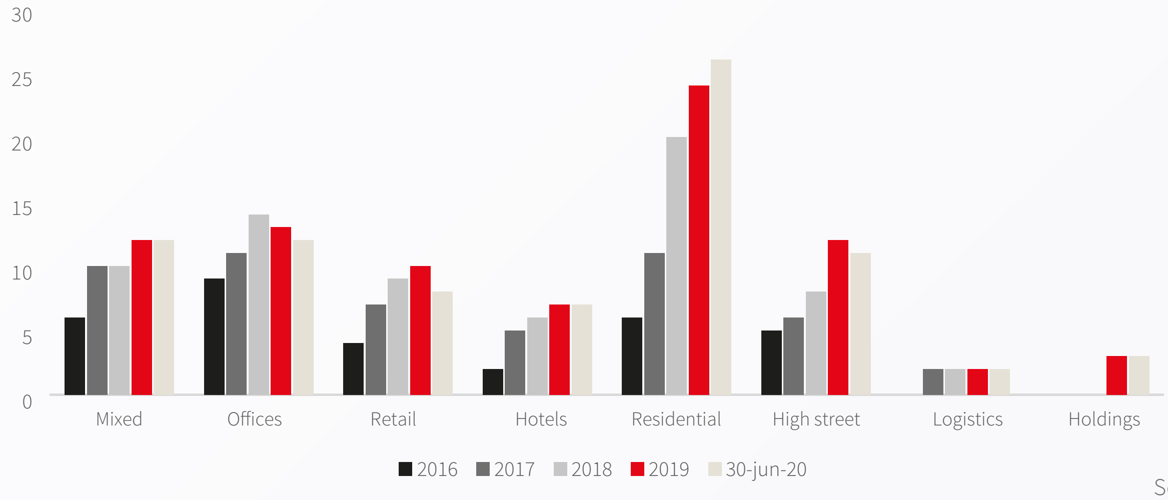
[24] The objectives are: Health and well-being (3), gender equality (5), decent work and economic growth (8), sustainable cities and communities (11), responsible consumption and production (12) and climate action (13).
[25] Green Bonds Report, Global State of the Market 2019 (https://www.climatebonds.net/system/tdf/reports/cbi_sotm_2019_vol1_04d.pdf?file=1&type=node&id=47577&force=0)

## Number of REITs admitted to the Spanish Stock Exchange and BME Growth and capitalisation. Values at the end of each financial year



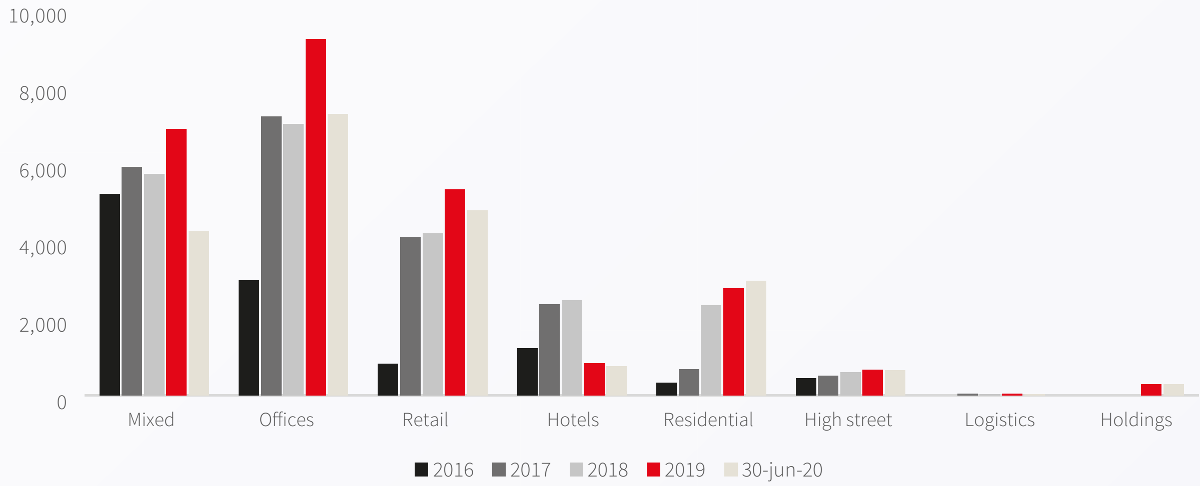

Source: BME

## Number of REITs listed on the Spanish Stock Exchange by type and year



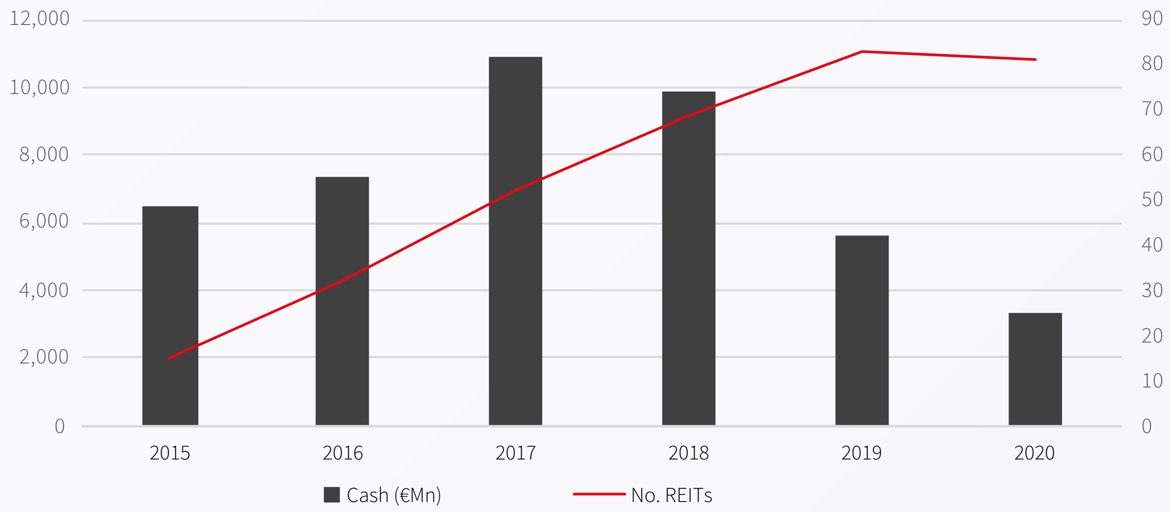

Source: BME

## Capitalisation of REITs admitted to the Stock Exchange by type and year



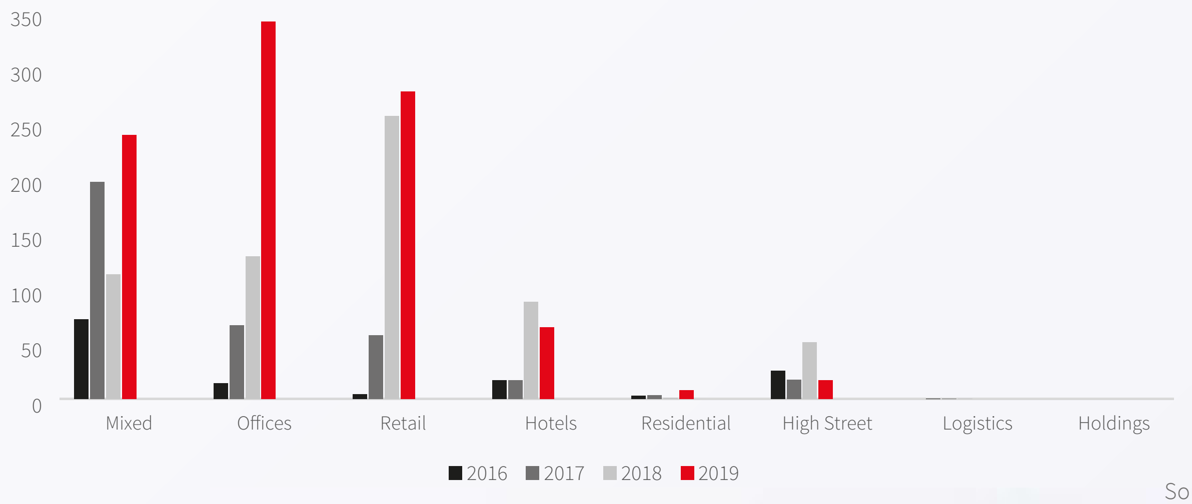

Source: BME

## Cash volume traded by REITs (€Mn) 2015-2020 (Last year only until June)



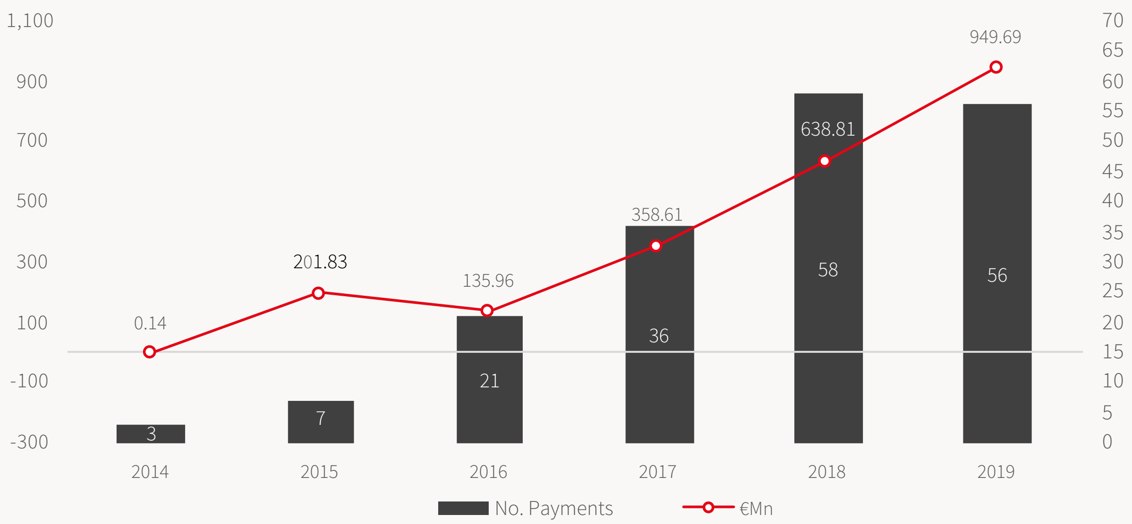

Source: BME

## Dividends paid out by REITs (2014-2019)



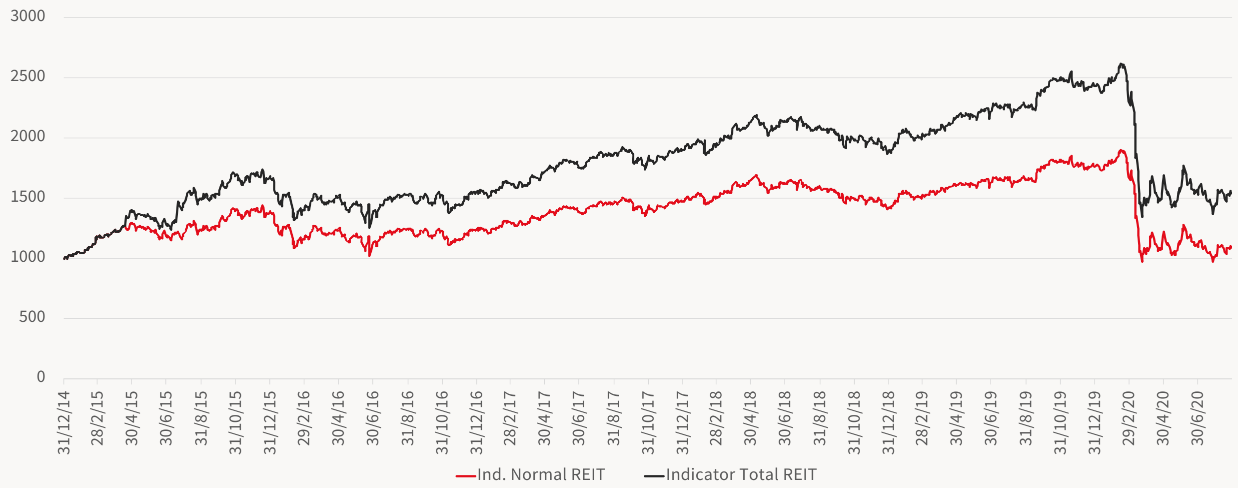

Source: BME

## Dividends paid out by REITs by type (2014-2019)



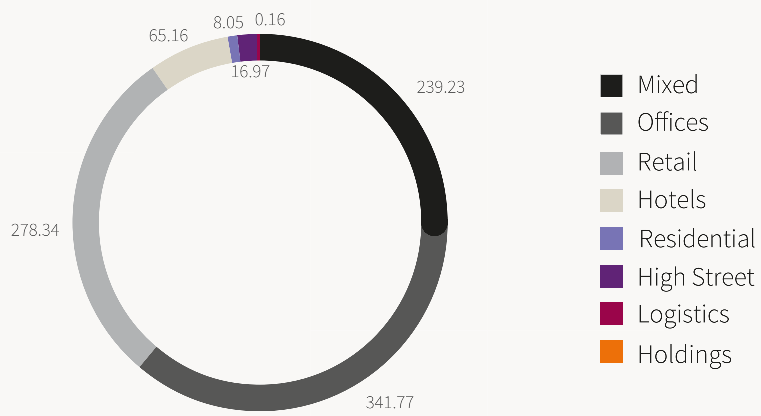

Source: BME

## REITs listed on the Spanish Stock Exchange Base 1000 = 31/12/2014, daily figures until 30 June 2020



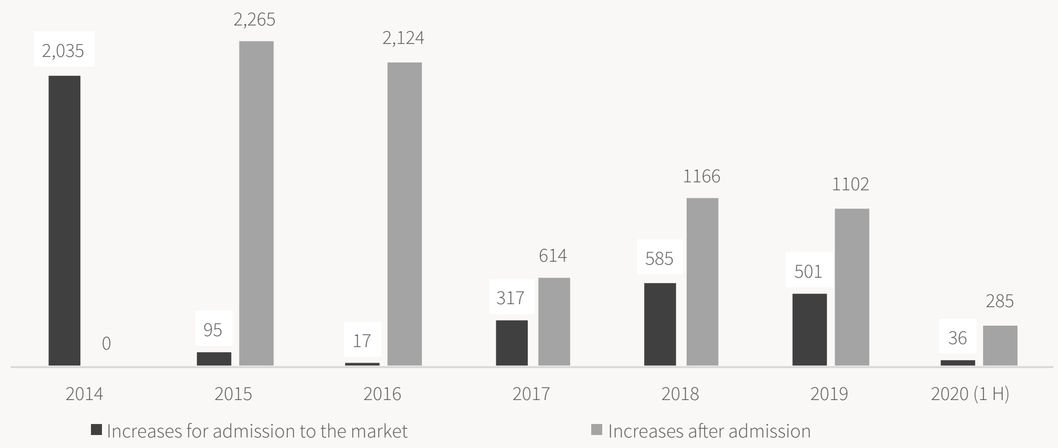

Source: BME

## Gross dividends paid out by REITs admitted to the Spanish Stock Exchange by type



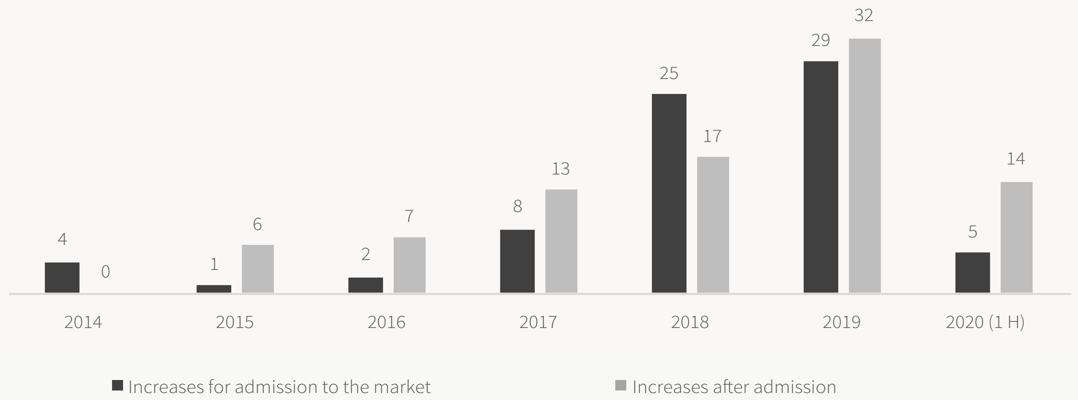

Source: BME

## Value of the capital increases of REITs on the Spanish Stock Exchange




Source: BME

## Number of REIT capital increases




Source: BME

# 7 Methodological Note

This report has been prepared from the analysis of the consolidated audited accounts and reports of each one of the REITs listed on the Spanish market corresponding to the years 2019, 2018 and 2017, together with the public information on the same obtained from their web pages, market presentations or the publication of different facts relevant to the market.

In terms of market value or market capitalisation, all REITs listed on the Spanish markets have been taken into account, adding to them the market capitalisation of St. Croix Holding Immobilier Socimi, S.A, a vehicle listed on the Luxembourg Stock Exchange. In this regard, the Spanish REITs listed on BME Growth have not been taken into account. However, the chapter dedicated to the stock market activity of REITs only takes into account those listed on the Spanish markets.

To proceed with the analysis of the different headings of the financial statements as well as the ratios analysed, the REITs listed on Spanish markets whose assets are made up of shares of other SOCIMIs have been eliminated (such as Euro Cervantes SOCIMI SA, Mansfield SOCIMI and Mistral Iberían SOCIMI) as well as others whose shares are suspended from trading (Asgard) or are in the process of renouncing their REIT status (Domo).

In order to improve the understanding and reading of this report and particularly the chapters dedicated to the analysis of the financial statements, the following methodological clarifications are made:

- **Non-current debt and current debt:** includes financial debt of more than one year and less than one year respectively with both financial lenders and shareholders.
- **Operating Profit (loss):** total income less operating expenses including amortisation and depreciation. This heading does not take into account changes in the fair value of real estate investments.
- **EBITDA:** operating profit without taking into account depreciation of fixed assets nor the net sales of portfolios.
- **Adjusted Net Profit:** net profit less the effect of the change in fair value of real estate investments.
- **Dividends (paid out):** Heading corresponding to the payment of dividends that is part of the financing cash flow on the Statement of Cash Flows. Therefore, the dividends considered correspond to a cash basis and not an accrual basis.
- **Return on Assets (ROA):** quotient between EBITDA and the Book Value of Real Estate Investments.
- **Return on Equity (ROE):** quotient between net profit and equity for the year.
- **Gross Yield (/GAV):** quotient between rental income and Gross Asset Value.
- **Net Yield (/NAV):** quotient between rental income and Net Asset Value.
- **NAV (Net Asset Value):** GAV less net financial debt.
- **Dividend yield:** quotient between the dividends paid in the year (cash criterion) and the market capitalisation at the year-end.
- **Cash on Cash:** quotient between the sum of the dividends paid out in the year and the heading amortisation of equity instruments (positive or negative sign) between equity.
- **Leverage (/GAV):** quotient between net financial debt (non-current, current and existing cash) and gross asset value (GAV).
- **Leverage (on financing sources):** quotient between the net financial debt and the sum of the financing sources, understood as the sum of the financial debt and equity.
- **Average effective rate:** relationship between financial expenses and financial debt.
- **Interest Coverage Ratio (ICR):** relationship between operating cash flow (without taking into account financial costs) and financial costs for the year.
- **EBITDA margin:** relationship between EBITDA and total revenue.
- **Net Margin:** relationship between net profit and total income.
- **Efficiency:** relationship between operating costs (staff costs and operating costs) and total income, expressed as a decimal.
- **PE:** relationship between market capitalisation and net profit for the year.
- **EBITDA/CF_O:** relationship between EBITDA and operating cash flow.
- Multiple EBITDA: relationship between market capitalisation and EBITDA.
- **Multiple Income:** relationship between market capitalisation and total revenue.
- **Revaluation of assets over EBITDA:** relationship between the annual increase in the asset portfolio and in EBITDA for the year.
- **EBITDA/Market Value:** quotient between EBITDA for the year and market capitalisation.
- **EBITDA + Rev/Market Value:** quotient where the numerator is the sum of EBITDA plus the increase in the value of the assets and the denominator is the market capitalisation.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# SOCIMIs.

Solidity and
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