2021

CBRE RESEARCH | SPAIN

REAL ESTATE

MARKET OUTLOOK

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INTRODUCTION

History will record 2020 as a year of convulsive change, when governments and populations across the globe were hit hard by an invisible enemy, when they least expected it. Lockdown measures were introduced to combat the virus, with serious implications for economies around the world, which lurched into crisis. Controlling the spread of covid-19 became the top priority, while also trying to manage the knock-on effects of a broad range of pandemic control measures. Hardly any area of economic or social activity has been unaffected.

After some lifting of restrictions in the summer months, a rise in case numbers in the northern hemisphere winter has brought a reintroduction of at least partial lockdown measures in many parts of Europe, including Spain. On completion of this report, and amidst the third wave, the duration and success of these measures, and the timing of their removal, will go a long way to determining the recovery path as we head into 2021.

The recent news around the development of an effective vaccine, which is now being rolled out to the most vulnerable members of the population, offers some encouragement that there is light at the end of the tunnel. But how has the real estate sector fared? As expected many of the conventional measures of market activity, such as investment turnover and leasing demand, weakened sharply in 2020. In many parts of the market values have remained resilient, supported in part by the massive scale of government and European Central Bank interventions.

As with all crises, the impacts will be uneven. Closure and subsequent capacity restrictions in large parts of the retail and hospitality sectors, for instance, are giving rise to substantial challenges. Data centres, by contrast, are benefitting from the widespread switch to digital and parts of the multi-family residential market look robust too, heading up the investor leader board in 2020.

We are also witnessing a dramatic acceleration in the changing role of the office, with more lasting effects from the forced experiment in home-based working still to be confirmed. Similarly the interplay between retail and logistics has taken on a new dynamic which will support the rise of urban logistics. And new opportunities will undoubtedly emerge. And as with many crises, there are longer-term structural impacts that are often only apparent with the luxury of hindsight. Heading into 2021, while there is still great uncertainty around near-term prospects, the likely introduction of a vaccine offers grounds for hope. We look forward to working with you our clients, in what will undoubtedly be a challenging year, but not without its opportunities.

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Director of Research
CBRE Spain

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SPAIN REAL ESTATE
MARKET OUTLOOK 2021

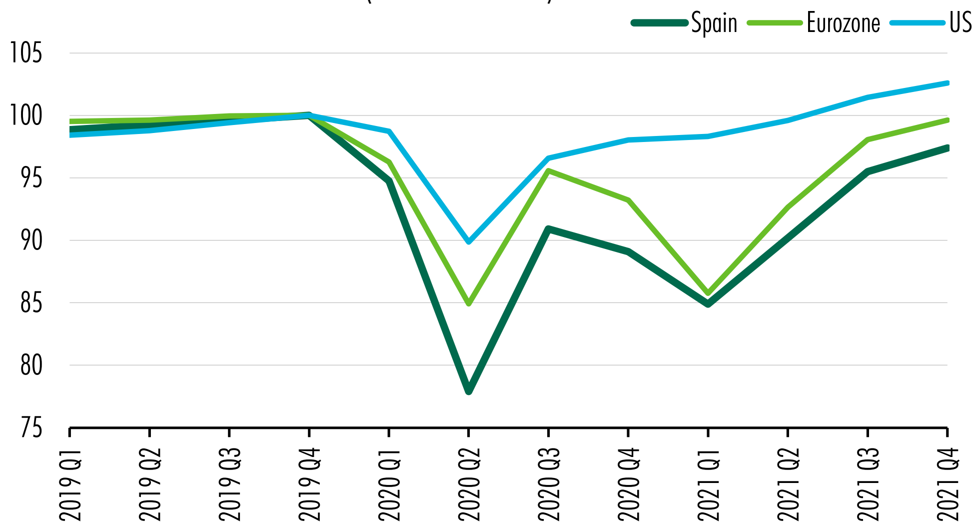
01

ECONOMY

UNEVEN GDP RECOVERY IN SPAIN

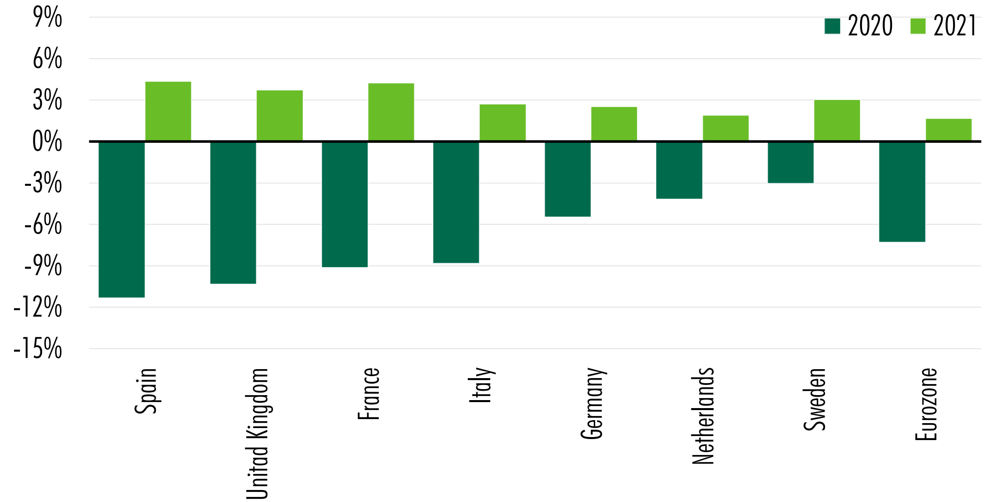
- The Spanish economy shrank in Q2 2020 (-17.9%) before rebounding strongly in Q3 (+16.4%). Figures for Q4 are likely to reveal that this relief was short-lived; infection rates took a turn for the worse, occasioning new restrictions to contain Spain's third wave of the covid-19 pandemic.
- Following restrictions both land and air traffic were down over Q4, and data collected by mobile phone operators shows reduced mobility after recent measures were brought in. Moreover, economic forecasts indicate that Spain's GDP contraction has intensified year-on-year, coming in at around -11.3% for 2020 (CBRE House View).
- Whether these predictions bear out depends on how the covid battle unfolds, although the general view is that growth will gather strength in 2021 as restrictions are eased and vaccinations rolled out across the population.
- Spanish health authorities started the administration of the first covid-19 vaccines in late December, and if all goes to plan we should see a marked improvement in economic indicators in Q2, followed by sustained growth for the rest of the year. Our current forecasts point to a 4.4% bump in Spanish GDP in 2021, as external demand seeps back, restrictions are lifted and the effects of monetary and fiscal stimulus packages start to kick in. The Eurozone as a whole is expected to have fared somewhat better, with a less abrupt deceleration in 2020 and the prospect of more vigorous growth in 2021. Spain has been hit harder than most, and it will be 2022 before the recovery gets up to cruising speed, resulting in an expected GDP growth of around 9.1%.
- We can see from these forecasts that the crisis has taken a heavy toll on activity in Spain, as a 2.6% y-o-y GDP loss is expected at the end of 2021 vs Q4 2019. Again, we are unlikely to see a return to pre-pandemic levels until late in 2022 at the earliest. Meanwhile, the Bank of Spain has warned that unemployment will climb steeply this year to somewhere between 17.1% and 20.5%, depending on how the situation develops. At the end of 2020, more than 750,000 workers not accounted for in unemployment statistics were subject to forlough scheme (ERTE).

FIGURE 1: GDP FORECAST (Q4 2019 = 100)



Source: CBRE House View, January 2021

FIGURE 2: GDP GROWTH FORECAST (%)



Source: CBRE House View, January 2021

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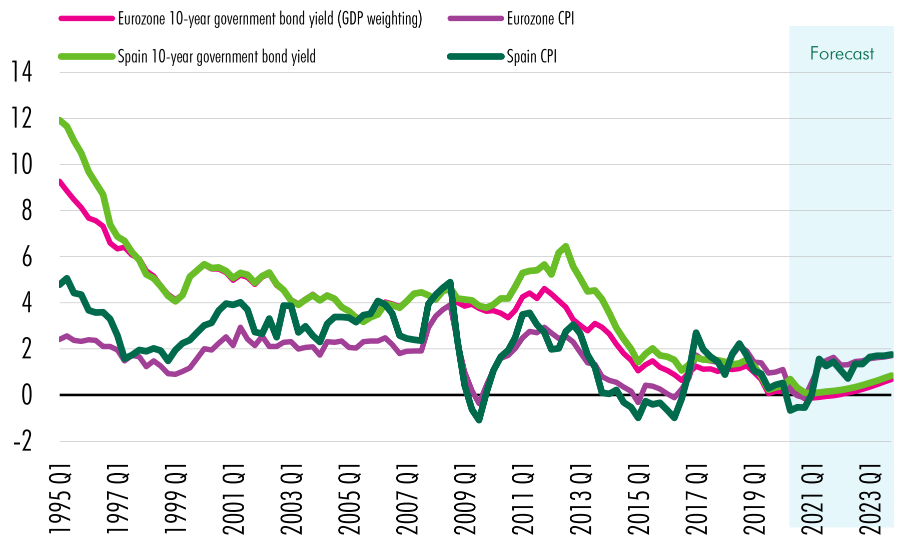
MONETARY AND FISCAL MEASURES REMAIN ROBUST

- The European Central Bank has continued to offer financial support. The deposit rate is still in negative territory and the ECB has ramped up the pace and scale of its asset purchase programme, having committed to purchasing €1,350 million in bonds by June 2021. This move seems to have brought some stability to the financial markets; long-term interest rates are at historic lows and risk spreads have snapped back to pre-pandemic levels.
- Meanwhile, the Spanish government has escalated measures to shore up the national economy. In July, it launched a new state-backed loan scheme to the tune of €40,000 million (3.2% of GDP), aimed at providing economic support to companies and the self-employed. This is in addition to the €10,000 million injected into strategically important companies to help them stay afloat. Furthermore, the national economic recovery plan unveiled in October sets out planned allocations for the €72,000 million (5.8% of GDP) that Spain expects to receive from the Next Generation EU initiative. Of this sum, €26,000 million (2.1% of GDP) has already been factored in to the 2021 budget.

FIGURE 3: CPI AND 10-YEAR SOVEREIGN BOND FORECASTS



Source: CBRE House View, January 2021

INTEREST RATES: LOWER FOR LONGER

- Amid ongoing support for the economic recovery and predictions for modest or even negative inflation (-0.3% in 2020, +1.1% in 2021 and +1.1% in 2022), we expect the European Central Bank's monetary policy to remain accommodating for a while, thus holding down short-term interest rates between now and 2023.
- Combine a sustained period of low short-term interest rates and weak inflation with a spell of intensive asset purchasing and we have a recipe for two years of subdued long-term interest rates – great news for the real estate sector, which will continue to hold opportunities for investors.

KEY TAKEAWAYS FOR 2021

- GDP contraction in Q4 2020 and Q1 2021, followed by a strong rebound in the second half of the year
  - Spirited growth as vaccines reach the bulk of the population, with GDP spiking by around 4.4% in 2021
  - Risks to GDP rebound include the chance that households and companies prove less solvent than anticipated, dragging down the recovery in demand
  - An earlier recovery of the tourism industry and swift distribution of the European Recovery Fund Programme could lead to a stronger recovery
- Both monetary policy and interest rates favour economic growth
  - Weak inflation and significant asset purchasing will continue for some time
  - Both short- and long-term interest rates will remain low
  - Real estate yields offer attractive spreads compared with long-term interest rates, auguring sustained investor interest

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MARKET OUTLOOK 2021

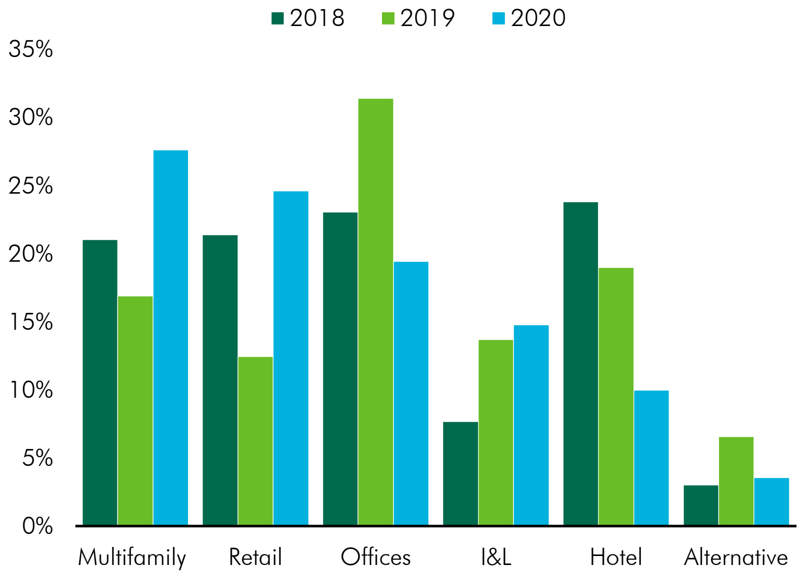
02

INVESTMENT

INVESTMENT UPLIFT FOR 2021

- In line with forecasts from our July 2020 Outlook Report, investment in the Spanish real estate sector hit €9,487 million in 2020, 24% less than in 2019. To put this in context, in Continental Europe was -20% YoY. Of the total sum for Spain, 73% is attributed to international investors.
- In Q4, investment volume reached €2,700 million, doubling the figure for Q2 – that calamitous quarter when the country virtually ground to a halt in a bid to curb the spread of covid-19. The investment market is recovering but transactions still proceed slowly.
- There are few open sales processes at present, but off-market opportunities can be found. Sellers are opting for well-defined strategies to avoid reputational risks linked to unsuccessful sales.
- We expect investment volumes to swell by 15–20% in 2021vs 2020.

FIGURE 4. ANNUAL INVESTMENT VOLUME BY SECTOR



Source: CBRE Research

A WIDE RANGE OF INVESTOR STRATEGIES

- Investors from all over the world are increasingly leaning towards the "Beds, Sheds and Meds" sectors, which have emerged from the pandemic relatively unscathed – and Spain is no exception.
- Here, 2020 was a record year for multifamily housing (rented apartments and student accommodation), which registered almost a third of total real estate investment and knocked offices off the top spot for the very first time. A lack of opportunities meant that the posted volume in the industrial/logistics sector – €1,428 million – was a poor reflection of intense investor interest, but this should more than right itself in 2021.
- Although sectors like student and senior housing faced some setbacks they should be quick to recover as they meet vital needs. These sectors hold a lot of appeal in Spain, due to a mismatch between supply and demand and the promise of a stable cash flow.
- Retail investment in 2020 was at its highest in three years, thanks to some mega shopping centres deals initiated in 2019 reached completion and a strong performance from supermarket portfolios. Supermarkets will remain highly sought-after in 2021.
- Regarding the office sector investors moving forward and entering into development, which in absence of quality product was a real possibility months ago, are receeding, unless a prelet can be secured. This may cause some projects to be delayed. Exceptions, of course, can always be found – such is the case of the sale of Repsol's plot of land in Méndez Álvaro in Madrid, just a few weeks ago.
- We do not anticipate many distress sales, most owners being in a very different financial position than they were in 2008. The hotel sector has experienced the most acute squeeze on liquidity, and so we would not be surprised to see some refinancing or recapitalisation deals as operators grapple with a world emptied of tourists and business travellers.
- On the other hand, platforms and developers in markets enjoying strong growth like the PRS/BTR sectors may receive an inflow of capital. Less mature sectors in Spain, hence falling into the "alternative" category, also present a good scenario to see corporate deals.

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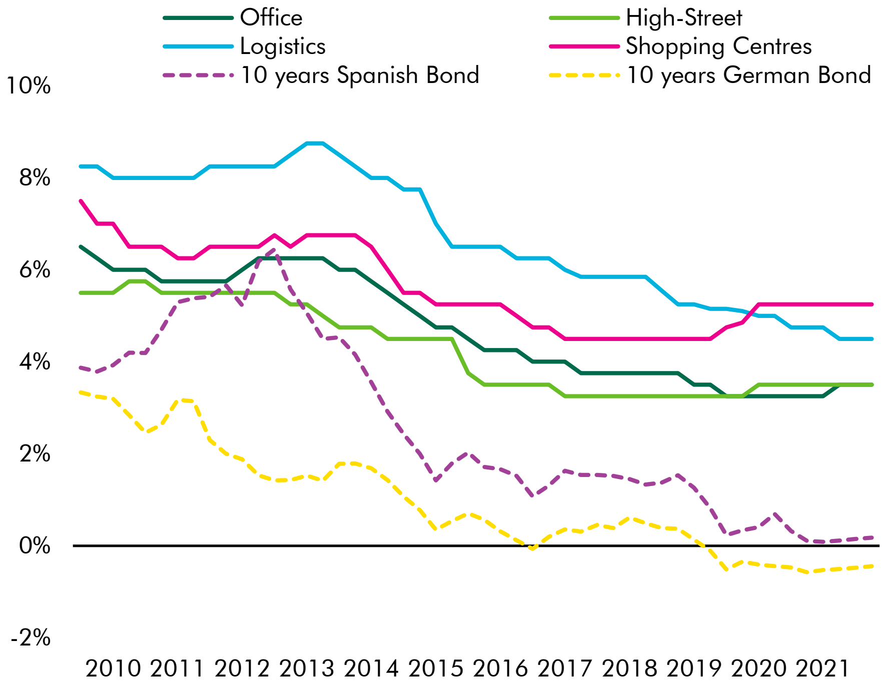
ULTRA-EXPANSIVE MONETARY POLICIES COMBINED WITH LOW INFLATION, BORROWING COSTS AND BOND YIELDS BODE WELL FOR REAL ESTATE INVESTMENT

- Ultra-low interest rates, inflation and 10-year bond yields in negative figures in certain countries, the ECB's remarkably expansive monetary policy in the face of covid-19, a striking yield advantage compared with other European countries... all of these factors will continue to usher international investors towards the Spanish real estate sector. Investors will be keeping a close watch on how economic activity responds as vaccines become available to the general population.
- Lending institutions will take a while to loosen their grip, but they will open up as soon as new pricing and underwriting levels become clearer and start to stabilise as we move through 2021.
- Market polarisation in terms of quality, location and use has been compounded by covid-19, and this trend will persist into 2021.
- In 2020, prime yields for retail property edged up slightly in all segments, with the notable exception of supermarkets. Here, the prime yield compressed by 75 basis points, coming in at 5.0%. The prime yield for logistics property hit a record low of around 4.75%, and may be pushed further still. In the office sector, the prime yield has so far defied upward pressure to hold steady at around 3.25%. Still, at current interest rates any adjustments in the prime segment should be very minor.

FIGURE 5: PRIME REAL ESTATE YIELDS VS 10-Y BONDS



Source: CBRE Research

KEY TAKEAWAYS FOR 2021

- Gradual recovery is expected to be driven by a return to normality and the anticipated post-vaccine bounce.
  - Appetite for logistics assets will remain strong, rivalled only by rental housing
  - Conversely, the most opportunistic sectors at present are hotels, shopping centres and (to a lesser extent) the high street.
  - Overall, real estate is in better financial shape than at the time of the last crisis, and so distress sales should be limited.
  - Caution and security will remain most investors' watchwords. Limited financing for most asset types will create an opening for investors with minimal gearing, who will find themselves in a strong position to pounce on emerging opportunities.

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MARKET OUTLOOK 2021

03

FINANCING

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BANK FINANCING REMAINS LIMITED

- The covid-19 pandemic has triggered sweeping changes in the bank financing landscape in Spain, affecting both the appetite for lending and the conditions attached. Elevated risk associated with a declining macroeconomic outlook and mounting uncertainty are prompting banks to tighten up their terms.
- In 2020, the overall outcome was a significant rise in margins and a reduction in the levels of gearing being taken on. We do not expect this to change in 2021, at least until the virus is finally vanquished for good.
- Our view is that neither margins nor gearing will return to 2019 levels before 2022.

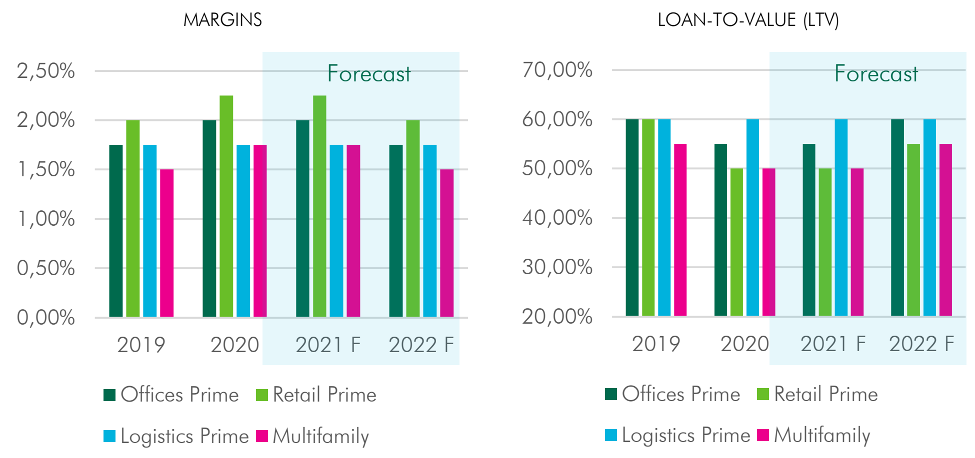
LENDING APPETITE VARIABLE BY ASSET CLASS

- Banks have become more selective in their financing commitments, and this is likely to continue in 2021. That said, there is a great deal of variation across different property types, and in certain cases there may even be a keener appetite for lending than in 2020. In any event, an uptick in real estate investment in 2021 should contribute to an overall increase in financing activity.
- Assets more resilient, including logistics and rental housing, will find it easiest to access financing on agreeable terms in 2021.
- The lending appetite for offices has waned, although there is still plenty of interest in properties in good locations. Retail asset financing, already selective prior to the pandemic hit, has been further restricted – unless they are targeting the very prime assets or the supermarket sub-sector, where interest in lending is high. The hotel sector has come off worst; bank financing is virtually impossible to obtain in the current circumstances, although we would hope for this to improve as we move through 2021.
- As far as financing for new development is concerned, lenders will continue to show a lively interest in non-speculative proposals for rental residential, logistics and certain alternative sectors, but only if the commercial risk is low. The financing of hotel and retail developments will generally be totally restricted.

EXPECT A FLURRY OF REFINANCING AND RESTRUCTURING BIDS

- The market players in some real estate sectors, particularly those related to leisure, hotels, F&B, tourism and certain retail segments, will be forced to reorganise their debt in 2021. Rising debt levels, destruction of capital and loss of solvency during the pandemic, in conjunction with the expiry of earlier financing agreements, will force many real estate companies to undertake systematic restructuring plans with creditors in 2021.
- Financial institutions, although certainly in a more solvent position than in the previous crisis, will be reluctant to restructure debt for some sectors, although they should be open to longer repayment terms and grace periods subject to a credible viability plan.
- On the other hand, in the many cases where sales have been put on hold due to the gap between sale and purchase price, owners will be obliged to seek refinancing – particularly for properties acquired with finance three or more years ago.

FIGURE 6: FINANCING MARGINS AND GEARING OVER TIME



Source: CBRE Debt Map

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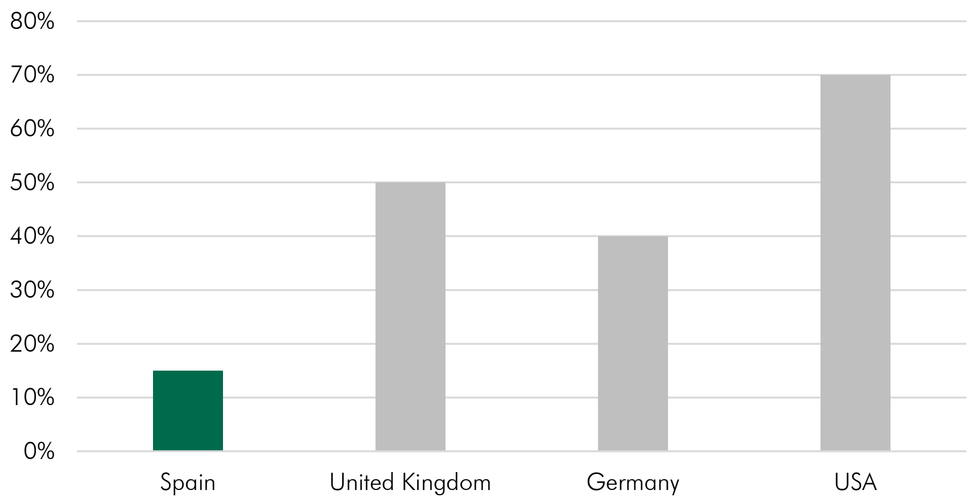
SUPPLY: A MARKET AWASH WITH LIQUIDITY

- Over the last decade the number of debt funds has shot up exponentially as institutional investors have shifted towards a more defensive approach, preferring to fund real estate investments with debt rather than equity. While equity raising volumes shrank in 2019, we believe this was only a temporary response to prevailing circumstances. In the context of covid-19, more defensive investor strategies should favour this form of capital in the coming months and years. Available data for September 2020 indicates that this has indeed been the case, with equity raising volumes growing by almost 20%.
- The majority of international debt funds regard Spain as a top-tier investment destination. At the same time, a legion of national fund managers have entered the fray. In many cases, these new funds have adapted their strategies to the Spanish market, seeking to slip into existing gaps. Typically, the banking sector would provide financing at around 2–3% and funds at over 10%, whereas these newcomers offer costs ranging from 5% to 8%.

DEMAND: HEIGHTENED DEMAND FOR ALTERNATIVE FINANCING

- At present, approximately 15% of financing in Spain happens outside of the banking sector. However, the country is still far behind countries like the UK and Germany, where alternative providers have cornered more than 40% of all financing in the system. In the USA, they have topped 70%. The covid-19 crisis has brought profound disruption to the debt market, exacerbating the need for an alternative financing system and creating an opportunity for Spain to catch up.
- Over the course of 2021, we anticipate robust demand for alternative financing for four main reasons: 1) banks will remain wary of funding certain projects/properties while the pandemic persists; 2) Spanish companies will respond to bank consolidation by turning to a more diverse range of lenders; 3) companies immersed in restructuring or refinancing efforts will need more liquidity than banks are offering; and 4) alternative providers now offer a lot more flexibility.

FIGURE 7: PENETRATION OF ALTERNATIVE FINANCING SOURCES BY COUNTRY



Source: CBRE

KEY TAKEAWAYS FOR 2021

- Slight upturn in bank financing activity
  - Bank financing remains largely out of reach for the hotel and retail sectors. However, 2021 should be somewhat easier in this respect
  - Lending appetite for logistics property and rental housing will remain strong
  - Marginally greater interest in financing new developments
  - Expect a flurry of refinancing and restructuring activity.
- Strong growth in alternative finance
  - Increase in market liquidity
  - Demand will surge as traditional banks scale back lending and borrowers find themselves in need of liquidity for refinancing and restructuring plans

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SPAIN REAL ESTATE
MARKET OUTLOOK 2021

04

OFFICES

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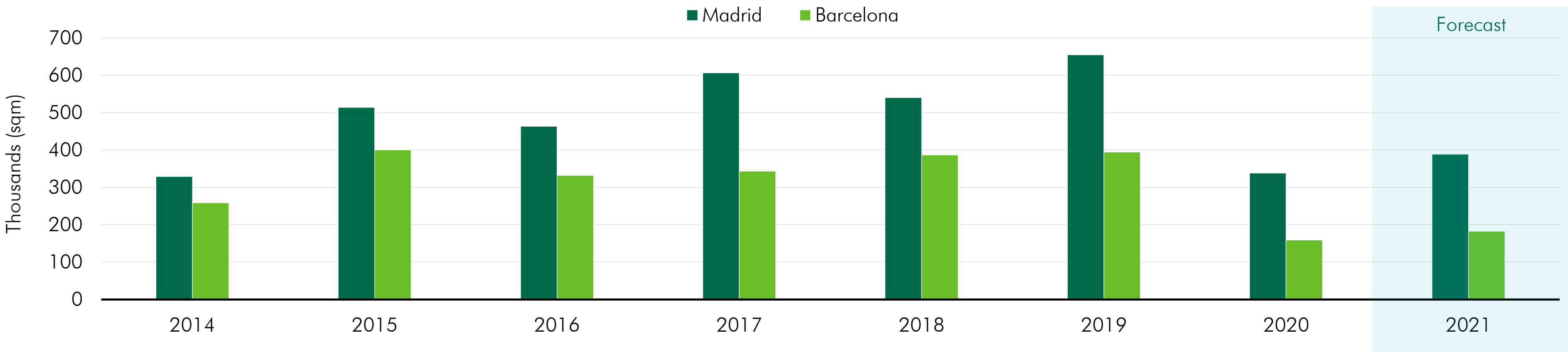
2021 TAKE-UP WILL BE BELOW PRE-COVID FIGURES

- At 338,000 sqm in Madrid and 159,000 sqm in Barcelona, office take-up slumped by 48% and 60% respectively in 2020 versus 2019 – 35% and 51% short of the five-year average for each city.
- While 2021 is shaping up to be a brighter year, with vaccines on the way, office occupiers will still be inclined to caution. We would expect that by late spring or summer, as the economy begins to turn the corner, companies will start to abandon the "wait-and-see" stance of the last few months and turned to assessing their future needs.
- A growth in take-up – a direct response to expectations for economic and employment growth, prompting occupiers to seek additional space – will also be fuelled by the considerable number of companies to have temporarily extended leases that would otherwise have expired mid-pandemic. Assuming the economy performs as expected, our forecasts for 2021 point to a low-key year-on-year uplift of around 15% in both Madrid and Barcelona, bringing the market back in line with the historic average at some point in 2022.

THE GREAT UNKNOWN: THE IMPACT OF REMOTE WORKING ON OFFICE DEMAND

- There can be no question that, for the office sector, one of covid-19's most far-reaching effects has been the mass switch to remote working. Out of caution, many companies have decided to opt out of the lockdown/release cycle by simply delaying the return to the office until well into 2021.
- Among other economic and market variables, two opposing forces are reshaping office demand: the need to allocate more space per employee and, should remote working become a permanent norm, a rethink of overall real estate needs. Between a higher space-to-workstation ratio and a need for more collaborative workspace, requirements will not necessarily have to change in a quantitative sense.
- A recent CBRE study (Potential Impact of Remote Working on the Office demand) estimates than in a scenario where the office space allocated to each employee is increased by 15%, the variation in overall take-up, depending on intensity of remote working penetration, could be between -3.70% and +4.25%. One thing is certain: businesses will always need offices, as they promote innovation, creativity, teamwork and brand image, and play a key role in attracting and retaining talent. Having said that, it is still too early to get a sense of how demand will respond in the medium-to-long term..

FIGURE 8: OFFICE TAKE-UP 2014–2020 AND 2021 FORECAST



Source: CBRE Research

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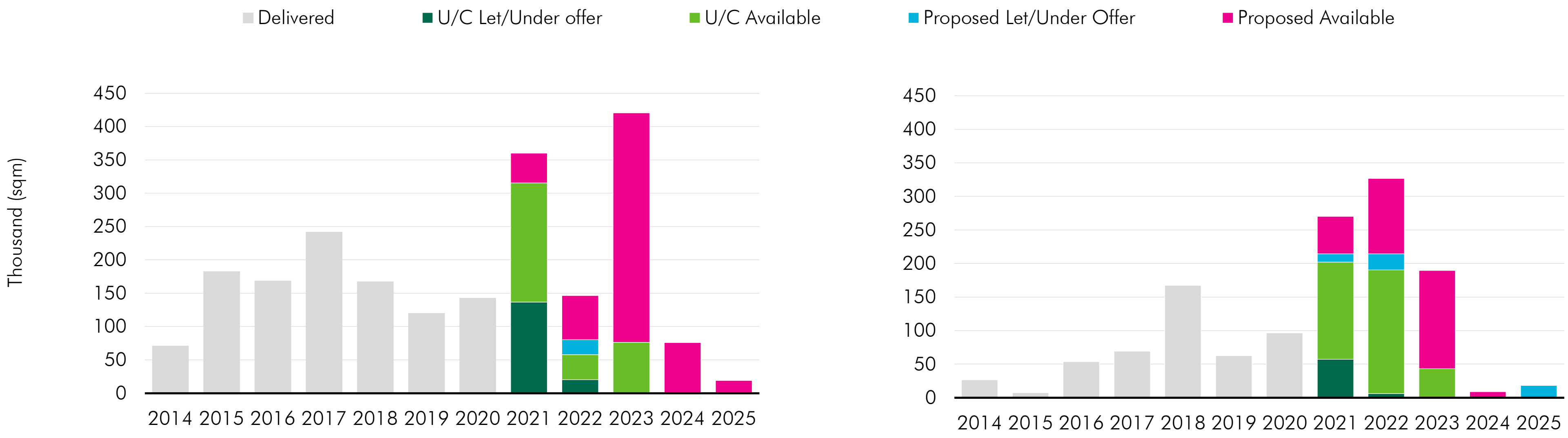
EXPANDING SUPPLY

- Vacancy rates rose by 1.9 pp in Madrid and 1.1 pp in Barcelona, to close the year on 10.9% and 7.8% respectively. This can be attributed to the completion of a handful of new development projects, together with second hand space being returned to the market – the result of companies either downsizing at the end of their lease or subletting excess space. Subletting has not been of relevance in the Spanish office market, but covid-19 seems to have changed the trend.
- Historically, there tends to be some lag before economic recovery shows up in real estate indicators, which is why we foresee a further rise in vacancy rates in the first few months of the year. This should then level off, potentially starting to stabilise in Q4 2021 or early 2022. In any case, vacancy rates will remain higher than they were before the pandemic began.
- Office stock is set to expand throughout 2021, with the largest amount of new space being released to the market in a decade. The Madrid market will see the completion of approx. 360,000 sqm (2.9% of total stock) in 2021, 38% of it already pre-let. About 33% of this space will be located in the CBD, with the A-2 corridor the next to benefit with 25% out of the total. Meanwhile, Barcelona will complete 269,000 sqm (4.6% of current stock), of which approximately 200,000 sqm is still to let. More than half of new projects are in 22@, the most dynamic area for new development by far.
- Occupiers are becoming increasingly demanding in terms of building quality, sustainability criteria and well-being features offered, which will continue to drive landlords to renovate their portfolios. Cutting-edge technology, healthy workspaces and collaborative working will be top of the priority list.

FIGURE 9: FUTURE SUPPLY MADRID AND BARCELONA OFFICE MARKETS



Source: CBRE Research

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OFFICES

PRIME RENTS POISED FOR CORRECTION

- Covid-19 put a damper on the protracted upward trend in office rents. While the most premium properties still register high rents, the gap between new and refurbished spaces in established locations vs. those of just average quality has increased in recent months.
- Landlords are trying to secure occupancy in their buildings, so incentives to attract tenants are gaining in importance. It is now common for occupiers approaching the end of their lease term to be offered an extension of one or two years – period in which landlords and tenants are confident enough to have greater visibility over future moves..
- Completion of new office space is also a major factor here. The last few years have brought a striking rise in pre-lets, particularly in Barcelona, but current uncertainty makes this type of transaction difficult.
- We believe that 2021 will see a slight downwards adjustment in prime rents, in the region of -1% to 3% depending on location. However, this will be only a temporary blip; as demand starts to grow over the course of 2022, rents should start edging upwards once again. Rental adjustments will be most pronounced in areas where demand is weaker and supply more plentiful, but quality will be the real decider.

LOCATION, QUALITY AND INCOME SECURITY

- Investment in the office sector plummeted by 53% year-on-year in 2020, and 47% compared to the five-year average. The number of transactions fell by 29%, with the greatest impact felt midway through the year.
- Despite the pandemic, investors focused on the office sector remain interested but are more selective. Thanks to their location, quality and income security, the most prime properties continue in high demand, although supply is very scarce. In this asset segment, yields have held stable. Meanwhile, the value-add market has lost some of its shine, partly due to more challenging financing conditions. Furthermore, the gap between buyer and seller price expectation is making it harder to strike a deal in many cases.
- In our opinión investor preferences will not change significantly in 2021, a year that will be marked by continued uncertainty around the evolution of the pandemic, the impact of new, more agile ways of working on office space demand and the effects of a shifting supply and demand curve on rents.

KEY TAKEAWAYS FOR 2021

- Although office take-up will again be more muted than in previous years, we expect some improvement in 2021, with both Madrid and Barcelona closing the year around 15% up on 2020.
- The vacancy rate will continue to rise, an ongoing response to the effects of the economic crisis and widespread corporate cost-cutting as well as an inflow of new stock.
- An expanding supply will inevitably have an impact on rents. Prime rents may slip slightly in the first months of the year, losing between 1% and 3% depending on submarket.
- The office market is growing increasingly polarised on both occupier and investor sides. The gap between the highest-quality properties and the rest will widen further.

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05

RETAIL

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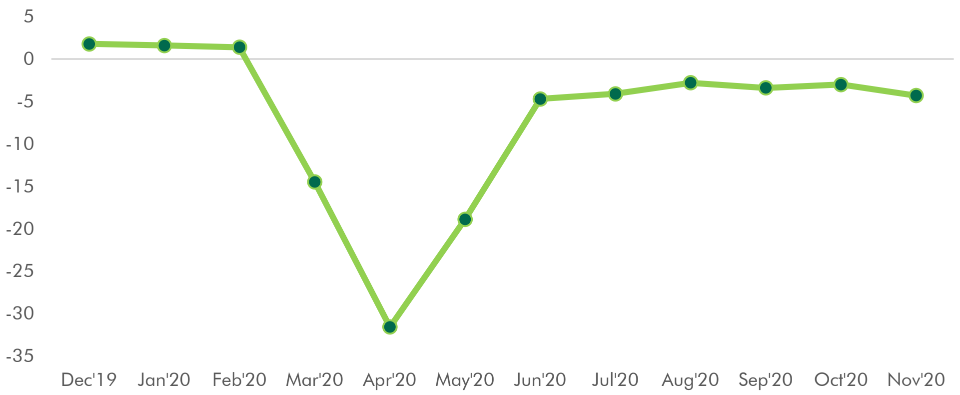
SOME SECTORS FARING BETTER THAN OTHERS AS PANDEMIC AFFECTS SALES

- Spanish retail sales took a historic tumble in the spring (-14.5% in March and -31.6% in April, according to data from the INE), only to bounce back strongly in May and June. Since then, the trend has been generally positive, although in November 2020 the Retail Trade Index was still down 4.3% on the same period of 2019.
- From June 2020, as stores reopened, footfall across CBRE's portfolio of managed shopping centres recovered rapidly (from -94% year-on-year in April to -38% in June), and has continued to rise ever since. Looking at the year as a whole (until November), footfall was down 40% y-o-y, although average spend per visitor rose by 5%. In the same period, sales at shopping centres in our portfolio dropped 22.5% y-o-y, while occupancy dipped slightly to 93.8% – still a healthy result.
- When we look at the portfolio's sales figures, we find that performance varied widely between sectors. Grocery and supermarket sales proved most resilient (even seeing a 1.2% y-o-y bump in sales), followed by homewares (-1.6%), electronics (-10.1%) and sporting goods (-13.4%). The worst affected were leisure (-52.0%), F&B (-30.1%) and fashion (-27.6%).

SPIRITED CONSUMER COMEBACK IN 2021

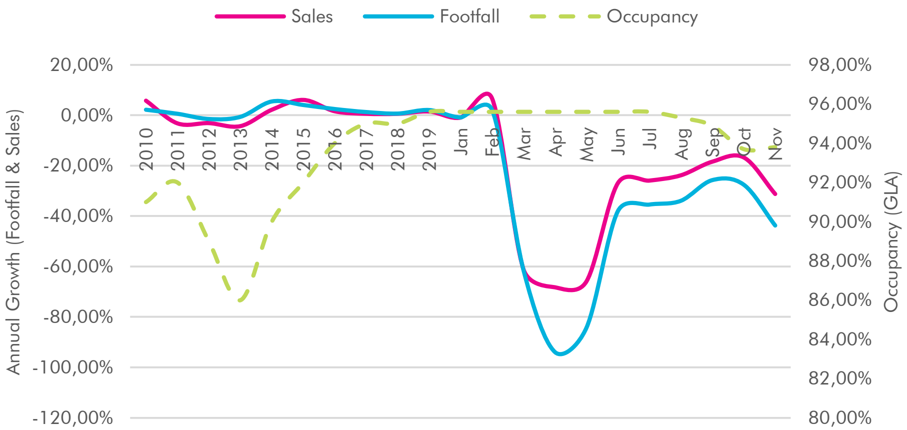
- Now that vaccines are being rolled out, we expect to see a progressive (but gradual, given the general economic climate) recovery in both footfall and sales. The change will be most marked in the hardest-hit sectors, such as leisure and F&B. Here, there is a good chance of recouping 2019 levels in H2 2021, whereas most sectors will have already seen a return to form by the end of Q1.
- In a climate of heightened uncertainty, the Consumer Confidence Index (CCI) for December 2020 remained below pre-pandemic levels, coming close to the historic lows recorded in 2008 and 2012. Still, there are some grounds for optimism as we move into 2021: December's CCI signalled an improvement on the month before, and we expect this trend to continue over the next few months.
- With vaccination campaigns kicking in from the start of the year, a gradual return to regular travel patterns, the lifting of restrictions and the release of pent-up demand, we foresee a spirited comeback for household consumption in 2021 (+6%, according to forecasts from Oxford Economics), following an estimated slump of 13.4% in 2020.

FIGURE 10: RETAIL SALES TO NOVEMBER 2020 (last 12 months)



Source: INE

FIGURE 11: MAIN KPIs FOR SHOPPING CENTRES MANAGED BY CBRE. 2010–2020 (November)



Source: CBRE Portfolio

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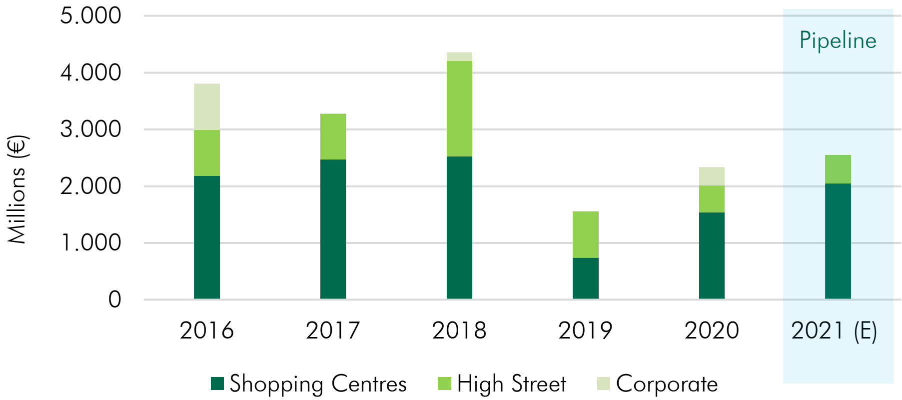
SUSTAINED INVESTOR ACTIVITY IN 2021

- After a lacklustre 2019, when activity hit a low not seen since the start of the 2014 recovery, the tumultuous events of 2020 were not enough to deter investors, who poured more than €2,300 million into the market. Activity in the supermarket segment was particularly brisk. Sale & leaseback transactions dominated the field, intended to help finance heavy CAPEX spending on digitalisation, supply chain adjustments and e-commerce rollouts, as demanded by the times.
- Prime shopping centre yields stood at around 5.5% in 2020, compared with 5.25% in 2019. Forecasts indicate that yields will hold steady in 2021 due to lingering pandemic impacts, with sales and rents gradually finding their way back to normal levels. With the rent rebound anticipated for 2022, the prime yield could revert to around 5.3% this year.
- On the high street, prime yields edged up from 3.25% to 3.5%, with slow but steady growth projected for the next few years (3.6% in 2022).
- Our view is that 2021 will be a lively year for investment, as the market takes heart from the return of consumers and their wallets to the nation's main shopping streets, expected to claw themselves back in 2021. There are currently around €2,000-million's worth of deals in the pipeline for the shopping centre and retail park sector, plus another €500 million for the high street.

FIGURE 12: INVESTMENT VOLUME 2016–2020 (November)



Source: CBRE Research

KEY TRENDS: OMNICHANNEL RETAILING AND PLACEMAKING

- The share of total sales completed online grew by 23% in 2020, according to data from Euromonitor. While this may shrink in 2021 as the covid effect disperses, the penetration rate of online shopping is expected to rise unrelentingly over the next few years, climbing from 5.38% in 2019 to close to 8% in 2024 (Euromonitor 2020). These forecasts are a reflection of the e-commerce market's as-yet untapped potential in Spain. Accordingly, operators have brought forward plans to optimise their portfolios and supply chains for a stronger, more all-embracing and engaging omnichannel customer experience, trying to strike just the right balance between on- and offline formats.
- In this new world, technology is more vital than ever. Shopping centres are pivoting swiftly as they try to offer visitors a safe and enjoyable experience, introducing click & collect services and smart systems for monitoring capacity. Meanwhile, retailer strategies are focused on building customer loyalty and optimising their store networks – by scaling back their physical footprint, renegotiating rents and enhancing their omnichannel offering – to help them survive and thrive over the long haul.
- The future of retail will be marked by adaptation to new kinds of shopping behaviour, to keep customers coming back for more. The ultimate vision is for shopping centres, and some key urban retail hubs, to flourish as social spaces, offering a range of exclusive shopping experiences along with new leisure and entertainment options and a blend of other uses. That way, they have every chance of retaining their landmark status in the consumer landscape of the twenty-first century.

KEY TAKEAWAYS FOR 2021

- Rebound in footfall and household spending in response to the vaccination campaign and a loosening of pandemic restrictions in H1 2021.
- Investors will continue to view supermarkets as a safe haven.
- We will see even more real estate investors doubling down on big data for fundamental analysis and calculating sustainable rents.
- New consumption patterns, priorities and interests will energise the shift towards omnichannel retailing and placemaking.

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06

LOGISTICS

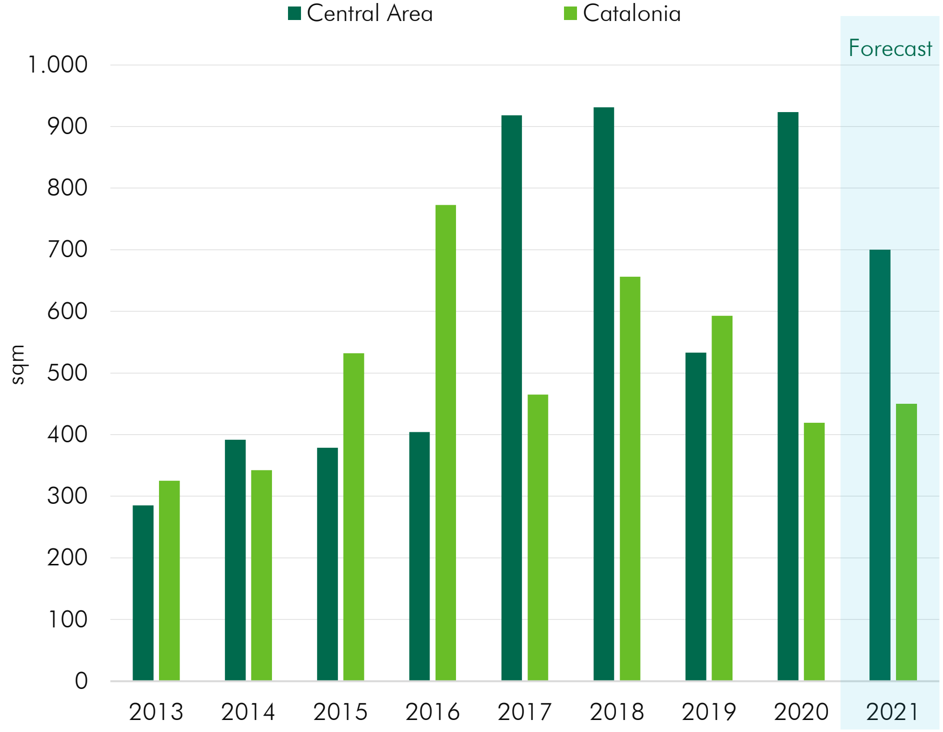
DEMAND FROM ALL SECTORS, ESPECIALLY E-COMMERCE

- The logistics sector proved its resilience in 2020, particularly in the letting market, which posted a solid performance in spite of COVID-19. The Central Area had an outstanding year, with activity buoyed by growth in e-commerce. Here, logistics take-up reached 923,000 sqm, the second-highest figure since 2011. Catalonia had cause to regret a shortfall in supply, with take-up coming in at 420,000 sqm. Among other logistics hubs, Valencia and Zaragoza stood head and shoulders above the rest, closing out the year on 224,000 sqm and 110,000 sqm respectively.
- We expect that 2021 activity will be similarly brisk, both in the Central Area and in Catalonia. Strong activity in sectors such as groceries, pharmaceuticals and healthcare, technology and sporting goods will fuel demand for logistics space in 2021, as will retailers' ongoing efforts to develop their online channels. Both of these trends will prod operators into expanding their existing space or looking to new premises. In Catalonia, the steady drip of turnkey projects into the lettings markets will add to the supply of XXL platforms, where availability is currently very limited.
- Other logistics hubs are also on track for a strong 2021, although in certain cities, such as Malaga, a lack of quality supply will continue to be a block on take-up.

NEW SUPPLY WILL BE SNAPPED UP QUICKLY

- Developers have shown a great deal of interest in acquiring land in all categories for speculative development. In the Central Area, some 363,000 sqm of speculative projects are under construction and scheduled for delivery in 2021. Most have not yet found a taker, but we expect this new supply to be quickly absorbed amid the teeming activity predicted for 2021.
- In other logistics hubs, such as Catalonia and Malaga, available supply remains limited and the lack of land is a barrier to new projects. As a result, we will see increasing refurbishment and conversion activity over the course of 2021.

FIGURE 13: LOGISTICS TAKE-UP AND FORECAST



Source: CBRE Research

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- In cities like Valencia and Zaragoza, it is expected that the supply of high-quality logistics space increases in 2021 as new product comes onto the market. In Seville, where a large number of land transactions were closed in 2020, the new large logistics platform project to be developed by Aquila Capital stands out.

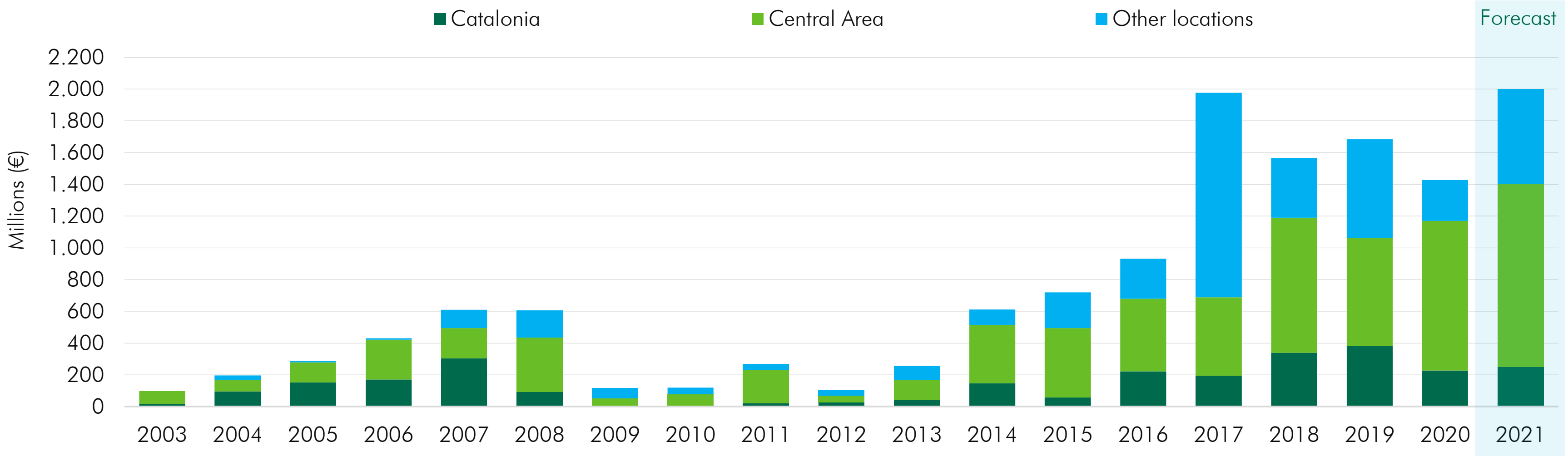
RENTAL STABILITY

- Rents held steady in most logistics markets in 2020, and that includes prime rents in Madrid (€5.50 per sqm per month) and Barcelona (€7.00 per sqm per month). This trend will be an ongoing theme in 2021. The reason is that despite strong demand, an inpouring of new space to the market has limited any upward motion in rents and will continue to do so.
- Throughout 2021, we will again find more owners adding incentive clauses to new lease agreements and offering help with fit-outs, perpetuating a trend induced by covid-19.

2021 COULD BE A RECORD YEAR FOR LOGISTICS INVESTMENT

- Forecasts published at the start of 2020 had logistics investment pushing €1,600 million. Patently, these were overtaken by events, with some unfolding transactions delayed for several months. Even so, the logistics sector put in a stalwart performance in the final stretch of the year, as some national portfolio deals were revived – defying expectations and pushing investment volume to around €1,428 million.
- It is now in an excellent position to attract institutional capital, and it is likely that in 2021 we will see new investors entering – some of them retail investors – as well as a significant rise in sale & leaseback transactions.
- The e-commerce surge triggered by covid-19 has inevitably created a barrage of demand for last-mile logistics infrastructure. This has been reflected in a sharper investor appetite for last-mile platforms in cities of more than 100,000 inhabitants, and this trend will keep on running throughout 2021.

FIGURE 14: LOGISTICS INVESTMENT VOLUME



Source: CBRE Research, 2021

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- We also predict continued investment in speculative developments – and not only in the Central Area's local distribution zone and Catalonia's first and second tiers. Investors are also sizing up projects in the Basque Country, Malaga, Seville and Alicante, where a lack of new logistics space and more moderate growth in land prices have caught their attention.
- In a market increasingly shaped by e-commerce, 2021 is set to be a phenomenal year for investment in industrial and logistics property. Strong demand from prospective buyers, combined with the release of some major portfolios to the market, will drive investment volume above €2,000 million nationwide.

CHALLENGES AND OPPORTUNITIES FOR THE POST-PANDEMIC ERA

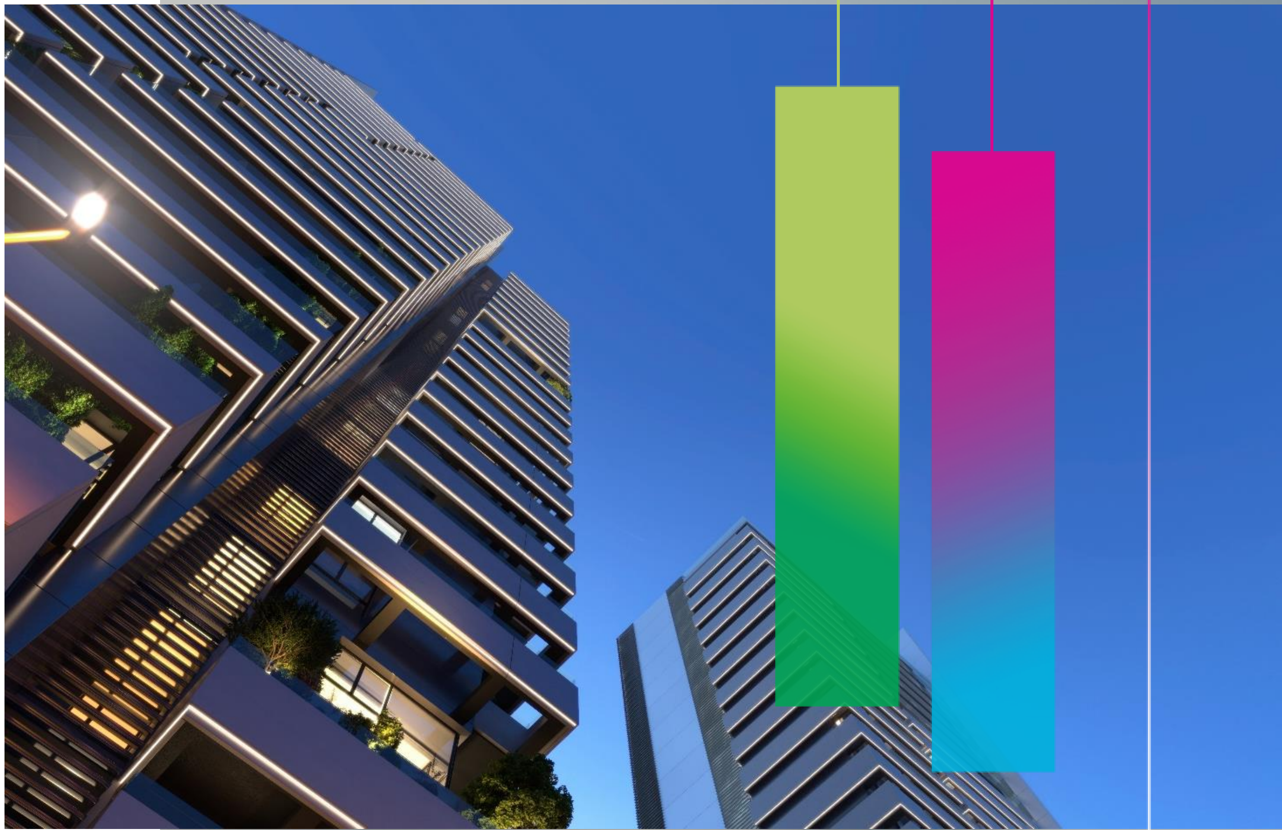
- As a result of the covid-19 crisis, for a lot of logistics operators the arrival of 2021 has been overshadowed by concerns relating to uncertainty, market volatility and a demand-side squeeze on prices, among other looming threats. Nevertheless, all of these factors could be seen as opportunities for firms to raise their game and boost their competitiveness within the sector, by offering value-added services to existing customers or expanding into international markets.
- Furthermore, covid-19 and the e-commerce boom have forced companies to confront a series of challenges, with implications for transport, distribution and warehousing. As a result, many are beginning to overhaul their supply chains.
- In 2021, we will continue to see continuous developments in automation, more emphasis on last-mile logistics to serve the end consumer, a tighter focus on sustainability and employee well-being and growing demand for cold-storage warehouses.

KEY TAKEAWAYS FOR 2021

- We expect strong logistics demand in 2021, as e-commerce goes from strength to strength.
- New speculative developments will be added to the market, destined to be absorbed by rising demand.
- With buildable land hard to come by, some former factories and other obsolete premises will be repurposed as logistics platforms.
- Rental prices will remain stable, and more new leases will be sweetened with incentives.
- It will be an extraordinary year for logistics investment, with major portfolios and last-mile facilities generating the most interest.
- Greater automation of logistics platforms and a tighter focus on sustainability.

07

RESIDENTIAL

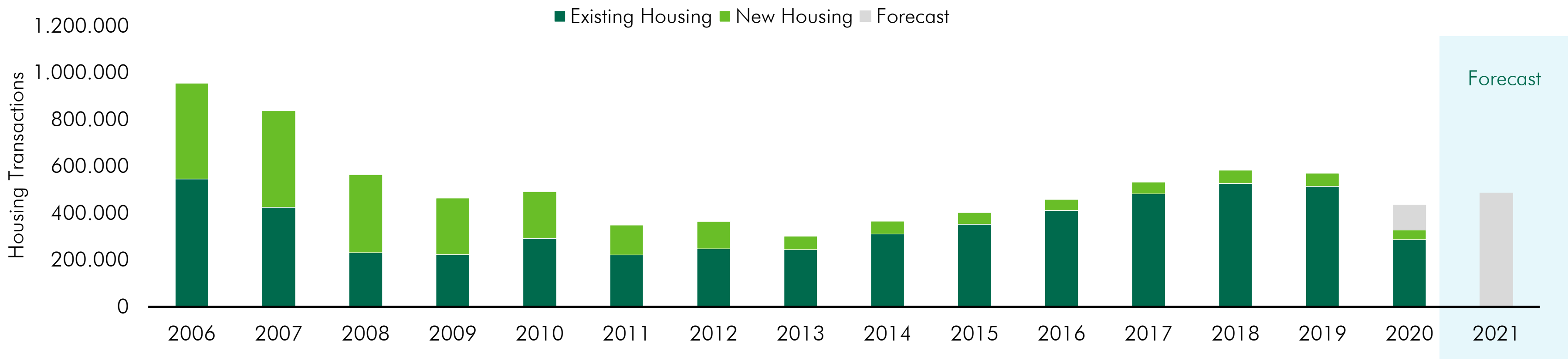


CBRE

POST-COVID PRICE ADJUSTMENT FOLLOWED BY MODEST REBOUND IN 2021

- Residential sales fell 21% year-on-year over in the first nine months of 2020, with a total of just under 327,000 transactions. CBRE estimates that overall housing sales could have fallen by 25% y-o-y in 2020 as a whole, with total sales dropping to 425-450,000 (compared to a pre-pandemic estimate of 600,000). As we move into 2021, there should be a modest rebound of around 15%, taking total sales to 475,000-500,000 units.
- Existing housing sales are expected to be more affected than new-build housing, along with second homes in certain locations such as the Costa del Sol, Balearic Islands, Canary Islands and Levante, where Brexit is also taking a toll on prices. Madrid and Barcelona will get off much more lightly thanks to the combination of stronger demand and more limited supply.
- The impact of covid-19 on housing prices will vary by location and property type. At CBRE, we estimate a drop of between 2% and 3% in new-build prices in 2020 (based on figures from the Spanish Development Ministry).
- In 2021, we expect this downward curve to flatten a little (-1% to -3%), but it all depends on the public health situation, the unemployment rate, vaccination and prevailing market sentiment.
- However, it is expected a sharper decline in existing housing prices than new-build due to the downturn of the labour market., the urge for homeowners to sell and the increased supply available on the market. New-build prices are expected to remain stable in 2021.
- On the supply side, it is likely that around 80,000 new-build construction permits were issued in 2020, with another 70–80,000 units to be approved in 2021, within striking distance of the five-year average (80,000 permits). A great many planned projects scheduled to break ground from March 2020 were forced to postpone until 2021.
- One of the most striking consequences of covid-19 has been a heightened demand for new-build housing with immediate availability. With the spectre of further lockdowns hanging over them, buyers were not prepared to wait, and demand for immediately (or imminently) available properties should remain strong in 2021. We would not rule out price rises over the course of 2021 in areas most hard-pressed for supply.

FIGURE 15: HOUSING SALES 2004-Q3 2020 AND 2021 FORECAST



Source: CBRE Research and Data Science

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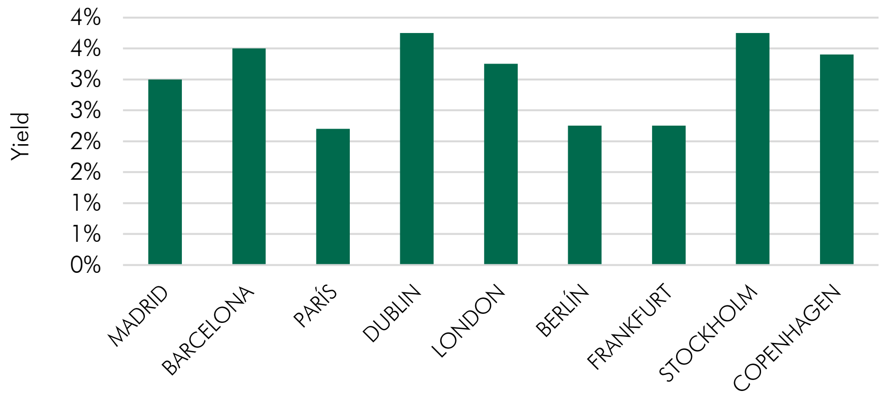
SCARCITY OF CONSOLIDATED URBAN PLOTS DRIVES INCREASE IN LAND WITH PENDING PLANNING PERMISSIONS

- In Spain, most major landowners fall into one of three categories: developers, investors and private individuals (40%); funds and financial institutions (40%); and public authorities (20%).
- However, in the post-covid-19 world, demand for land will be driven by one crucial factor: location.
    - Madrid, Barcelona, the Basque Country, Navarre, Valencia, Malaga and Seville will continue to draw in investment.
    - Meanwhile, Cantabria, Galicia and Zaragoza may experience a return to their pre-pandemic form.
    - Coastal and island locations will see activity levels wane due to an oversupply of land and completed developments as well as a fall in foreign demand.
- The scarcity of consolidated urban plots in primary markets will drive up demand for land with pending planning permissions in proximity to major cities. As the only land investment opportunity likely to arise in the medium-to-long term, this will whip up investor interest in areas undergoing expansion, where demand will naturally grow.
- Access to traditional bank financing is one of the barriers to acquiring land at present, which will push more and more investors towards alternative financing options.
- Meanwhile, average land prices will start to moderate nationwide, but particularly in coastal and island markets.

MULTIFAMILY HOUSING WILL CONTINUE TO BOOM WITH GROWING INTEREST IN BUILD TO RENT (BTR)

- Over €2,600 million was invested in multifamily housing in 2020, making it the most popular asset class among Spanish investors. Of this, more than €1,700 million went to the PRS (Private Rented Sector) and BTR (Build to Rent) segments. Indeed, the favour bestowed on BTR in 2020 was remarkable: its 2019 investment volume was more than doubled (€1,400 million vs €675 million), largely due to a lack of opportunities in PRS.
- Activity clustered around Madrid and Barcelona, although a number of other, secondary locations have been attracting a lot of interest. Highlights included Repsol's sale of land destined for future BTR development in Méndez Álvaro, with CBRE advising the seller. The plot, purchased by Vivenio, will eventually feature 250 homes built for the rental market.
- In terms of investor profile, the current heavyweights are mainly investment funds, institutional investors and SOCIMIs. North American funds are the main leaders in both the BTR and PRS sectors. This will continue to be the trend in 2021.
- Prime yields in Madrid and Barcelona are stable at 3% and 3.5% respectively, with no significant change anticipated for 2021. This yield stability is a common theme across a number of major European cities. Prime yields were similarly stable in both Madrid and Barcelona at the end of 2020 (€22/sqm/month and €24/sqm/month respectively), and again this trend is expected to persist in 2021.

FIGURE 16: PRIME YIELDS IN MADRID AND BARCELONA VS OTHER EUROPEAN CITIES (Q4 2020)



Source: CBRE Research

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MAIN DRIVERS OF MULTIFAMILY

- Rise in demand. The shift from ownership to renting evident since 2005 has continued unbroken, with 24% of households renting their homes in 2019. At CBRE, our view is that as we emerge from the covid-19 crisis the number of renters will keep on growing, reaching five million in 2024 or a little over 27.3% of all households.
- Despite a general toughening of financing conditions, traditional banks are still keen to fund PRS projects, subject, of course, to satisfactory scores for both the sponsor and the proposed location.
- The new Statement of Compliance should inject some extra agility into the new-build development process. This, together with a trend towards industrialisation, will help shorten time frames and bring down costs, two decisive factors for investors and developers negotiating BTR deals.
- The outlook for multifamily housing in 2021 is very positive, with all indicators pointing to burgeoning demand and intense institutional investor interest.

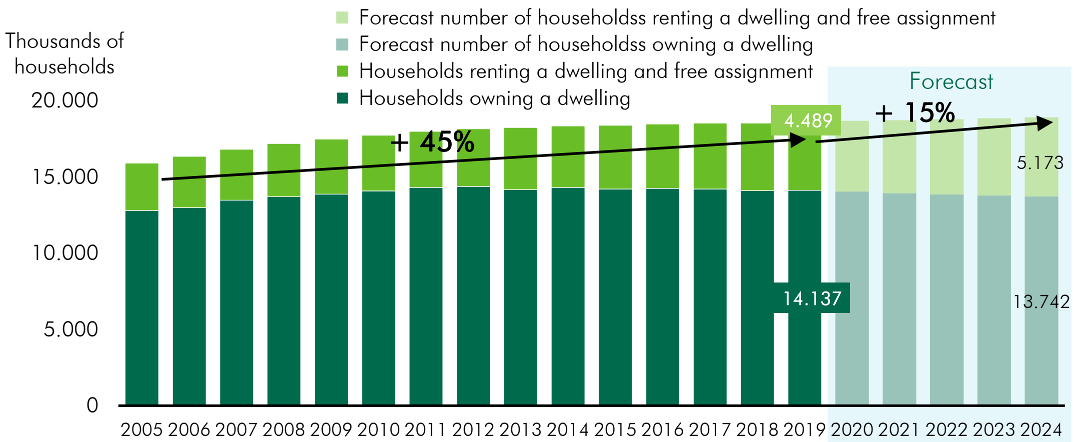
CHALLENGES AND OPPORTUNITIES FOR THE MULTIFAMILY SEGMENT

- Among the greatest challenges for this segment are rent controls and public sector intervention in rental prices. The new legislative decree brought in by Catalonia's Generalitat is predicted to have a counterproductive effect, feeding the shadow economy and driving up rents in a context of dwindling supply. The potential for similar measures elsewhere, given the various autonomous regions' particular powers over housing matters, remains to be seen.
- One option for expanding the rental housing stock is public–private collaboration agreements. Madrid's Plan Vive and Catalonia's Habitatge Metròpolis Barcelona (HMB) could serve as case studies in this respect.

TECHNOLOGY AND SUSTAINABILITY

- Digitalisation will continue apace in 2021, bringing new management solutions for the rental housing stock and increasing use of predictive analysis to inform strategic plans.
- Energy efficiency and the sustainability of the built environment, along with green mortgages, will remain trend topics in 2021, offering potential for optimising resource consumption.

FIGURE 17: HOUSEHOLD RENTING FORECAST



Source: CBRE Data Science

KEY TAKEAWAYS FOR 2021

- According to CBRE forecasts, the number of housing sales will grow by 15% year-on-year in 2021.
- There will be a slight adjustment (between -1%/-3%) in residential prices in 2021, particularly for existing property and second homes.
- A scarcity of consolidated urban plots will increase investor demand towards new development projects and land with pending planning permissions.
- The multifamily segment is expected to perform positively in 2021, spurred on by predictions of increased demand and strong investor interest.

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SPAIN REAL ESTATE
MARKET OUTLOOK 2021

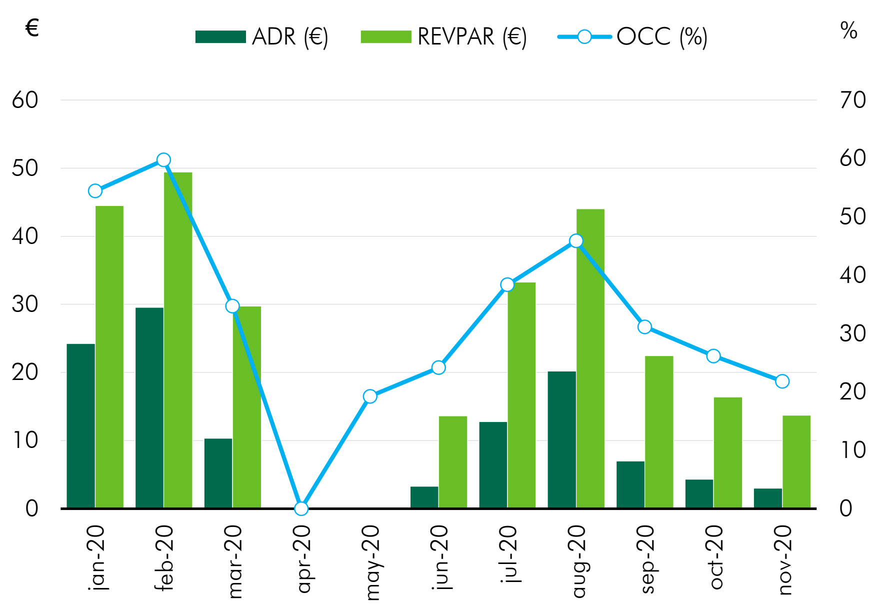
08

HOTELS

2021: A YEAR OF STRUCTURAL CHANGE AND PATCHY RECOVERY

- In 2019, CBRE was predicting the start of a new business cycle in tourism and hotels – but nobody could have imagined we would soon be living through one of the strangest, most extraordinary years in modern history. Covid-19 sent shock waves through the hotel sector, which suffered the most in 2020. The structural changes wrought by the crisis have left the industry contemplating a very different future, at least in the short term.
- With demand plunging to unprecedented lows and hotels forced to close their doors for a good part of the year, virtually every industry player was tested to the limit in 2020. Although many hotel groups are in a very different position than they were in previous crises (less debt, less exposure to bricks and mortar, fewer tired assets, etc.), the reality is that nine months with essentially zero income and an increasingly competitive market have put paid to a sustained spell of growth, albeit one that was starting to run out of road.
- Sadly, the creativity demonstrated by the hotel sector in recent months has not been enough to plug the gap left by government support measures, most notably ICO loans and forlough schemes (ERTEs), which in many cases have proved insufficient. We must not forget that ICO loans will need to be repaid from Q1 2021 (unless the government steps in to extend the deadline), that the expiry date for forlough schemes (ERTEs), is fast approaching and that a lot of landlords will require rent deferments to be made up over the course of the next few months.
- However, despite all of this, now that 2020 is finally over it is time for the sector to look to the future and focus on the year ahead. Fortunately, there is every indication that 2021 will bring something of a hotel revival. Although it is still very early to be making predictions, we believe that the vaccination campaign will allow for a gradual easing of travel restrictions, while months of lockdown and limited freedom will have left consumers with a thirst for travel. From the summer, then, we would hope to see hoteliers' fortunes start to turn. Our forecast is for a patchy recovery, beginning with rural and nature tourism and mainland beach resorts, followed by island markets, business travel and, finally, the MICE segment.
- In any event, all players will be feeling their way through an uncertain landscape, where change is coming at them thick and fast and decisions need to be made almost on the spot. The challenge is particularly acute in a sector that is so dependent on multiple external variables: the recovery of demand in European and non-European markets, the commercial strategies adopted by airlines and tour operators, the degree of coherence between government policies and actions in different countries, the success of national marketing campaigns launched by central government, the allocation of European funds to support tourism, the amount of financial support provided by the banking sector, and so on.

FIGURE 18: HOTEL DEMAND IN SPAIN OVER TIME



Source: CBRE

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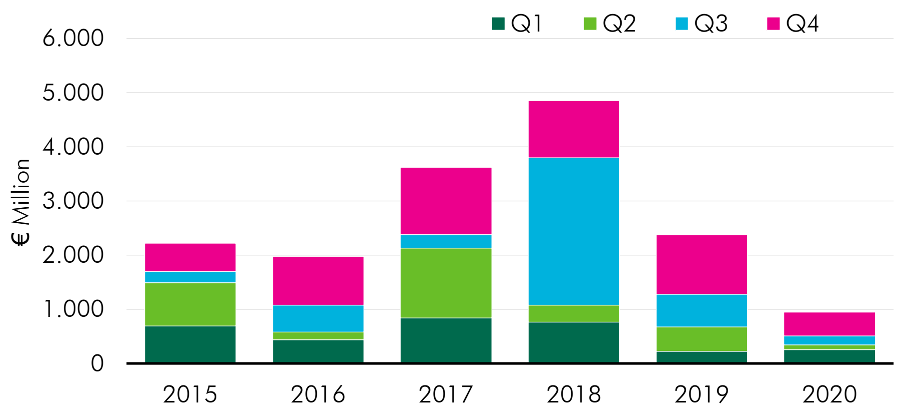
INVESTMENT 2021: THE SUN STILL SHINES ON SPAIN

- Transaction activity took a nose-dive in 2020, reaching levels reminiscent of the financial crash. While the year began on a more encouraging note than 2019, the eruption of the pandemic soon whipped up a perfect storm: nonexistent or severely limited bank financing, extreme uncertainty as to the time scale for recovery, an abrupt halt to trading, a majority of owners and managers exclusively focused on rent renegotiations, public health measures and a daily struggle to make ends meet, the sudden paralysis of refurbishment and construction activity, an ever-widening expectation gap between buyers and sellers and a reluctance among operators that have traditionally leased their premises to agree to terms demanded by more conservative investors. The result was a total investment volume of approximately €950 million, 61% less than the 2019 figure.
- Still, there are some signs that the investment market may be starting to shake off the torpor of the last few months. One of these signs was the spurt of major transactions that came through in Q4 2020, including the sale of Hotel Formentor in Mallorca, Hotel Nobu in Barcelona and the Gema Hotels portfolio in Tenerife. These very different deals all point to the same conclusion: that the investment market still has faith in the Spanish hotel sector's fundamentals.

FIGURE 19: HOTEL INVESTMENT VOLUME



Source: CBRE Research, 2021

- This uptick in investment activity inspires hope for continued improvement over the months to come, for a number of reasons. First, the cashflow headaches that have been plaguing hoteliers since March, the start of the repayment period for ICO loans, the end of rent-free periods and, in some cases, other problems carried over from before the pandemic hit (stemming, for instance, from the collapse of Thomas Cook) could urge some hoteliers who were reluctant to sell at a discount in 2020 to release their grip in 2021, at least when it comes to their less strategic assets.
- Second, in recent months, a number of significant sales processes have left CBRE more convinced than ever that a majority of hotel investors continue to show a lively interest in the Spanish hotel sector, emboldened by a climate of low interest rates and extreme stock market volatility. Consequently, pressing need on one side and keen interest on the other will surely encourage buyers and sellers to play ball, leading us to expect a substantial upturn in transaction activity in 2021. This trend will only intensify from the middle of the year, as deals are done and comparables and market data become more readily available.
- Although we fully expect to see a correction in pricing levels, we are equally certain that investor confidence in a fiercely resilient country with solid tourism fundamentals and an abundance of brokering expertise will keep a lid on discounting, at least in the case of properties regarded as strategically valuable or at the upper end of the prime segment.
- We have seen evidence just recently that a great many international investors have been focusing on raising capital over the last few months, with a view to acquiring hotel properties in Spain – a sure sign of continued commitment to the sector and a vote of confidence in its prospects for recovery. Some of these investors will enter the market by way of sale & leaseback or sale & management deals, allowing sellers to retain control of their business while releasing capital. Others will opt for more corporate transactions, aimed at giving strategic partners a stake in a hotel company's capital and forging joint ventures. It is also possible that we will see the odd portfolio deal, as family firms, lacking an heir apparent or confronted with heavy debts, start looking around for a buyer. Indeed, this was already starting to happen in H2 2019.

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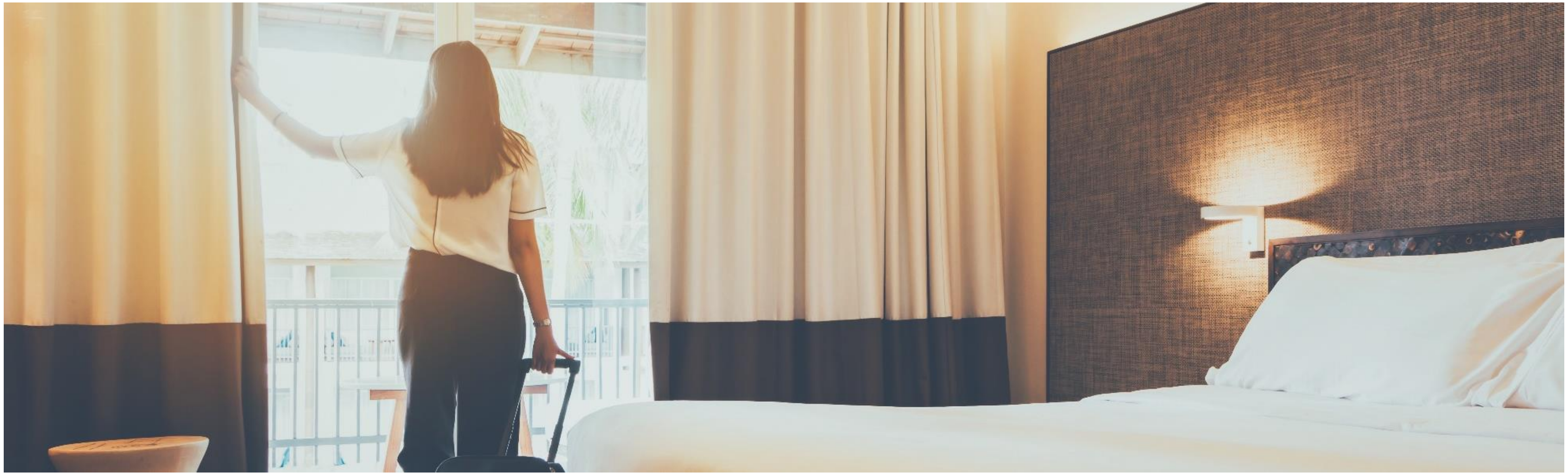
BIG CHALLENGES, BIG OPPORTUNITIES

- In short, despite the sector's most gruelling year for decades and the fact that full recovery is not expected before 2023–2024, we are optimistic that the first glimpses of light at the end of this long, dark tunnel will very soon appear. As history reminds us, the "new normality" will undoubtedly bring challenges, but great opportunities as well: new expansion and refurbishment projects and the revival of some of those stymied by the crisis; corporate agreements between different groups through mergers, acquisitions and strategic alliances to boost their presence and competitiveness; the development of blended products and formats designed for a new reality with new client needs (coworking, coliving, workation, long stay, flex space, bleisure, etc.); new F&B concepts that appeal to a more local clientele; the entry of international players with no current presence in Spain and the penetration of new brands; more hybrid lease agreements allowing the owner to capture a share of market growth and the operator to offset operational risk – and many more.

KEY TAKEAWAYS FOR 2021

- The hotel sector took a real battering during the pandemic, forcing it into structural changes that, in the short term, will almost certainly send it down a very different path to the one it would otherwise have taken: expect to see mergers, acquisitions and strategic alliances; new blended products and formats; new F&B concepts; the entry of new international players; a rise in hybrid lease agreements, etc.
- We anticipate a patchy recovery in 2021, beginning with rural and nature tourism and mainland beach resorts, followed by the island markets, business travel and, finally, the MICE segment.
- Although a correction in pricing levels is inevitable given the circumstances, investor confidence in Spain is bound to keep a lid on discounting, at least in the case of properties regarded as strategically valuable or at the upper end of the prime segment.



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09

ALTERNATIVE SECTORS

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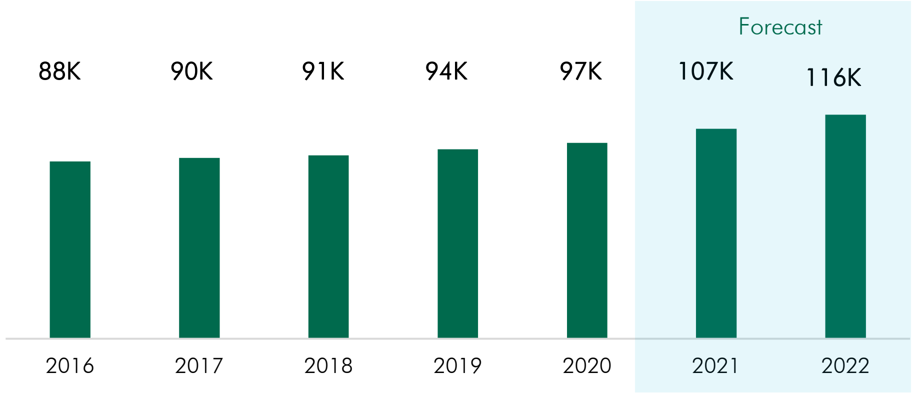
THE ALTERNATIVE SECTOR: A SAFE HAVEN FOR DEFENSIVE INVESTORS

The alternative sector continues to see investment volumes surge on the back of sociodemographic trends, changing societal needs and attractive returns compared with traditional investment products. This is a defensive sector that will continue to grow in 2021, primarily due to a critical shortage of supply vs pent-up demand.

STUDENT ACCOMMODATION: CONSOLIDATION IN 2021 AFTER THE WRITE-OFF OF 2020

- After a 2020 mired in covid-19-induced uncertainty and investor caution, we expect this sector to consolidate further in 2021, bolstered by the resilience it displayed in the first few months of the 2020/21 academic year.
- There is still a huge gap between supply and demand: at the moment there are more than 15 students for every available bed, and most of those are in poor-quality, outdated buildings.

FIGURE 20: NO. OF BEDS IN SPAIN (2016–2022E)



Source: CBRE Research, 2021

- Although investment volume doubled between 2019 and 2020 (>€1,000 million), the number of transactions fell dramatically, with figures inflated by Brookfield's acquisitions of Temprano CP and assorted properties from WP Carey right at the start of the year (approx. €800 million).
- Also worth mentioning is JV Greystar/AXA/CBRE GI's acquisition of a portfolio of four properties (two student residences in Madrid, one in Malaga and one in Valencia) and approximately 1,000 beds in Invesco properties for a sum of approximately €150 million.
- While deals in this sector have been scant since the start of the pandemic – attributable not to a loss of interest but to a more cautious investor attitude amid great uncertainty – we believe that 2021 will put it back on track mainly due to:
    - Universities welcomed students back to either fully on-site or blended learning, with none opting to go exclusively online. As a result, there has been little or no change in the demand for beds
    - The Spanish PBSA sector differs from that of other countries, such as the UK, in that it has very limited exposure to international students (<10%)
    - Most operators have not lost out on occupancy, with levels stable at around 95%, and some have even raised their prices – further evidence of the resilience we saw at the time of the 2008 crisis
- There is still plenty of scope for consolidation in this sector, which remains a fragmented landscape; between them, the ten biggest players control just 35% of all student beds in Spain. Our view is that 2021 will continue in the same vein as 2019, as investors with a more core profile make their first moves in the sector – a trend quashed in 2020 by the onset of the pandemic.
- Investors will remain focused on Tier I (Madrid and Barcelona) and Tier II cities (Valencia, Seville, Granada, Malaga, Bilbao, Pamplona, Salamanca and San Sebastián). That said, slim pickings in Madrid and ongoing political risk in Barcelona are likely to persuade investors to set their sights on other Tier II and Tier III cities in 2021.
- As for yields, the compression recorded in 2020 (from 5.0% to 4.75% in Tier I cities and from 5.50% to 5.25% in Tier II) is likely to intensify if, as we envisage, the sector consolidates further.

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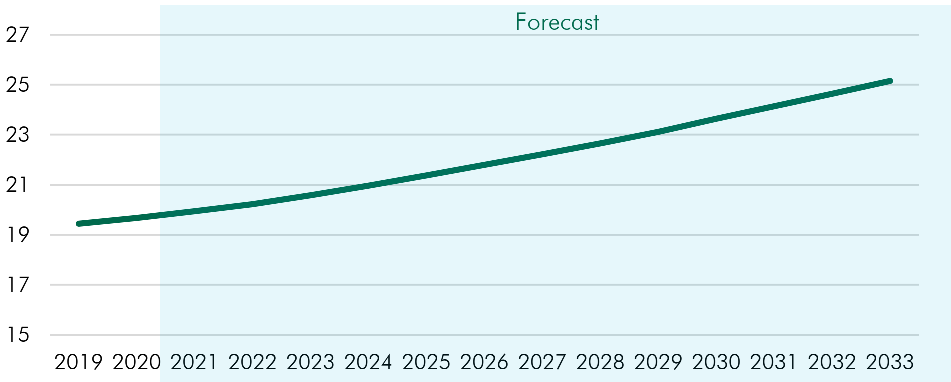
HEALTHCARE – SENIOR HOUSING: TOWARDS THE INSTITUTIONALISATION AND CONCENTRATION OF THE MARKET

- Despite the ravages of covid-19, senior housing has emerged resilient, thanks to the mismatch between supply and demand. Latent demand will keep building throughout 2021, due to rising life expectancy and the affordability of senior housing to this segment of the population.
- Most operators have been focusing exclusively on managing the health crisis in 2020, and have given little thought to expansion plans. Nonetheless, we are starting to see deals being struck on both operator and real estate sides, and this is set to continue in 2021. The vast majority of investors interested in this sector see the crisis as a catalyst that will accelerate the shift towards concentration and institutionalisation.
- Life expectancy in Spain is rising every year. According to the latest figures from the National Statistical Institute (INE), the percentage of the Spanish population that is over the age of 65 – currently 19.6% – will reach 25.1% in 2033. This, combined with the dearth of beds in Spain and the low coverage rate advised by WHO (5%, compared to Spain's 4.3%), will drive up transactions of both existing senior housing and land for new development in 2021, and for another 30 years to come (between €750 million and €1,000 million per year).

FIGURE 21: LIFE EXPECTANCY POPULATION OVER 65 -Spain



Source: INE

- Still, as far as 2021 is concerned, we need to keep a close watch on a number of risks:
  - **Operational risks:** Income may drop as a result of covid-19-related deaths (with places taking longer to fill) coupled with increased operating expenses (new healthcare staff, disinfection procedures, additional equipment, etc.).
  - **Reputational risks:** The image of senior housing has been badly tarnished, and providers that have come off worst will face an uphill struggle to get their cash flow up and recruit more staff.
  - **Regulatory risks:** These include the possibility of further legally enforced social distancing measures, requirements for more individual rooms and extra medical equipment. Persistent uncertainty will increase the need for facilities designed to be as future-proof as possible.
- As far as value is concerned, residences that meet the requirements stipulated by major operators will hold their value well. There is plenty of liquidity in the market and no shortage of interest in this kind of opportunity, and so value should not be significantly affected. Portfolio deals will become more and more frequent, drawing in both core and core+ investors – primarily those looking for long-term opportunities with a low capital cost, with the capacity to invest 5% in prime properties. The entry of these more specialised investors is encouraging a greater transparency in lease agreements and driving further institutionalisation.
- Small and medium-sized owners with fewer than three properties represent 55% of all players in this space, followed by non-profits (religious institutions, local authorities and foundations) with 35%. On the other hand, the ten largest operators (those managing more than 1,000 beds) control 27% of the market by turnover. The biggest firms will be looking to propel the institutionalisation of the market by acquiring the smaller companies. Operating margins will tighten and new investment will be in high demand (in order to fit out infirmaries or purchase respirators, for example), and so owners in the small-to-middling bracket will have fewer resources and may be tempted to sell to larger investors and operators.
- In terms of yields, we have seen compression in the prime segment (from 6% to 5%) as institutionalisation has progressed, and we can expect this to continue in 2021.

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HEALTHCARE – HOSPITALS: STRENGTH THROUGH ADVERSITY

- In the wake of covid-19, hospitals have shown that they are now much better equipped for future outbreaks or new pandemics.
- Hospitals have been hailed as the "new infrastructure", with 2019 yields below 5% and core real estate funds, or even infrastructure funds, studying this segment with interest even before the pandemic reached our shores. covid-19 has shown that these properties are as about essential as they come, and this will be reflected in more sale & leaseback transactions in 2021, allowing hospital operators to focus on their core business and raise capital for expansion through M&A activity and greenfield investment.

COLIVING: A RISE IN PROJECTS IN 2021

- Both domestic and international operators have ambitious plans for expansion in Spain, thanks to strong business fundamentals and an imbalance between current supply and potential demand for the coliving model. Currently, there are no more than 500 beds in the entire Spanish mainland.
- From an investment standpoint, there is an opportunity to replicate operational models that have found success in the USA and Asia, been imported to the UK and Germany and begun to gain traction in southern Europe. These kinds of properties are poised to benefit from future yield compression as the market grows more institutionalised, promising a tempting return at moderate risk (investors can count on stable cash flows and occupancy rates of around 90%). Although there are too few comparable transactions to draw conclusions, going by investor sentiment we would argue that a property managed as a coliving space can be expected to yield a consistent 3.50% with a fixed lease agreement and 4.00% under a management contract. Yields will also vary by location.
- As in other countries, the coliving concept has made inroads in Spain without a clear legal framework, popping up in both residential properties and hotels. Catalonia, on the other hand, has lead the way, recently moving to regulate new construction undertaken specifically for this purpose on small, privately-owned plots, with minimum floorspace requirements for shared facilities in both residential and community spaces.
- In Spain, the sector is at an "equity raising" stage, and 2021 will see the arrival of international players keen to develop larger platforms, not only in Madrid and Barcelona, but also in Tier II cities (the Valencia region, Alicante, Malaga and potentially Seville and Bilbao).
- Covid-19 has served as a catalyst for a host of trends relating to technology, flexibility and community, which is why 2021 is set to be a year of extraordinary expansion for the coliving model.

KEY TAKEAWAYS FOR 2021

- The alternative sector will resume its growth streak in 2021, driven by the gap between supply and demand.
- Joint ventures between international investors and operators and/or local developers will continue in the student housing market, with concentration picking up pace.
- Demand for senior housing will keep on growing in 2021. Larger companies will seek to drive market institutionalisation via acquisition of smaller companies.
- Large international coliving operators are expected to enter the market in 2021, with a view to launching large platforms in Tier I and II cities.

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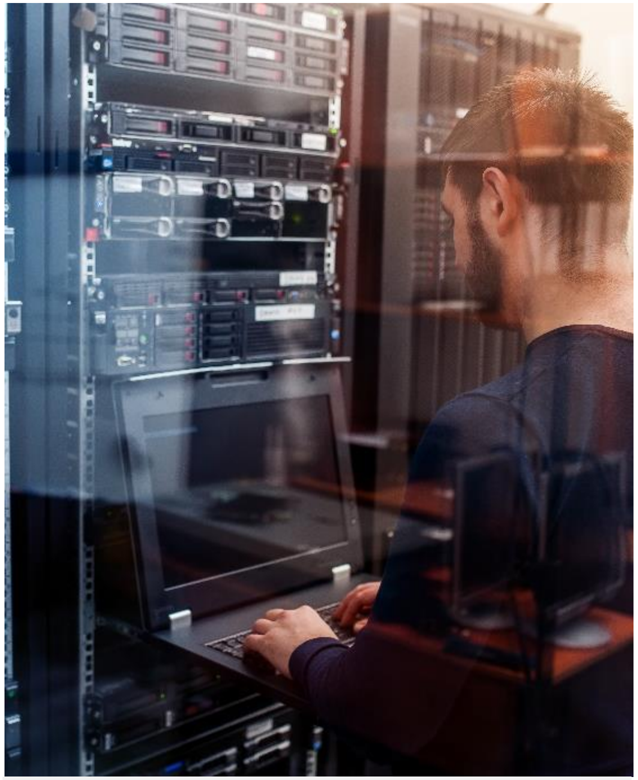
DATA CENTRES

INTRODUCTION

- At the crossroads of the digital economy and real estate, data centres have emerged as a new asset class destined to make a real splash on the sector. covid-19 has left us acutely aware of our growing dependence on digital infrastructure and, in turn, data centres have proved their resilience in challenging times. Traditional business models are being reassessed, and the need for agility and adaptability in a new environment has highlighted our reliance on new technologies (cloud services, AI, IoT, 5G, etc.) in day-to-day life. All of these technologies are hosted on data centres strewn across the world.
- With more and more of us confiding our data to the cloud, for private storage or sharing with others, cloud service providers will continue to expand their reach into new markets, prompting colocation providers to pursue new projects throughout the EMEA region. With growth will come new challenges; in fact, we can already spot limitations in certain markets that will have a direct effect on the industry. These range from restrictions on energy availability and use, to concerns over location choices and our dependence on data centres to sustain the modern economy.

THE SPANISH MARKET

- Spain's existing infrastructure (data centres and network) is of a high quality, one of the key factors sparking investor interest. The EllaLink, Marea and 2Africa undersea cable projects (scheduled for completion in 2022) have done a great deal to position Spain as a global data centre hotspot. New transport routes are helping Spain cast itself as a natural gateway to Africa and Latin America.
- Colocation data centres mushroomed in 2020 at a rate never seen before in Spain (primarily in Madrid and Barcelona) with new projects set to add an estimated 80 MW of IT capacity in the next 24 months. This will double the country's existing colocation capacity and change the very nature of the facilities being developed. Data centre operators have gone down the "hyperscale" route, planning projects with over 30 MW of capacity (one example being the new expansion of Interxion's data centre, gunning for 34 MW of IT capacity), with a view to meeting future demand for cloud hosting and other services. Meanwhile, based on record lettings activity in 2020, international colocation operators are betting on cloud service providers intensifying their presence in our lives.
- Developers are still faced with certain challenges when hunting down large plots of land in Madrid and Barcelona, sufficiently close to high-voltage power sources and the fibre-optic network. These two crucial factors, along with planning approval and the elimination of physical risks, are basic prerequisites for data centre development.
- This sector will continue to grow in 2021, particularly around Barcelona, where the imminent arrival of the "2Africa" undersea cable is stirring up interest among data centre operators. The Spanish market is clearly ripe for growth, and we predict that new major operators will soon swoop in.



KEY TAKEAWAYS FOR 2021

- New data centre operators, strongly motivated to invest in Spain, will close in on the market
- Data centre operators expanded their presence in 2020
- Madrid and Barcelona are on track for further growth
- Strong demand from potential occupiers

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SPAIN REAL ESTATE
MARKET OUTLOOK 2021

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This report was prepared by the CBRE Spain Research Team, which forms part of CBRE Research –a network of preeminent researchers who collaborate to provide real estate market research and econometric forecasting to real estate investors and occupiers around the globe.

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