Dynamics of the Spanish rental housing market

Key findings

Neinor Homes S.A.
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Agenda

1. Economic Outlook
2. The Inflation Conundrum
3. House prices in Spain vs Europe
4. Demand fundamentals
5. Madrid & Barcelona vs Europe
6. Spain leading rental housing growth across Europe
7. Shifting behaviour
8. From oversupply to undersupply
9. Vacancy Rates
10. Rental supply
11. Fragmented market
12. BTR Structure Scheme
13. Residential investment volume in Spain
14. Comparison with Germany
Spanish economy is expected to rebound in 2022 outperforming the average EU growth
Policy measures and lockdown restrictions have enabled Spaniards to build up savings

Euro Area & UK Economic GDP Forecasts 2022

Households Cumulative Excess Savings*

European Funds allocation by country 2020

* Household savings from 2020 Q1 to 2021 Q1 or latest quarter available, exceeding expected savings based on a calculated linear trend from Q12017 to Q42019 for each country

Source: IMF World Economic Outlook (October 2021)

Source: European Commission (11th November 2021 Forecasts)

Source: European Union countries’ recovery and resilience plans
Inflation adds uncertainty although it is expected to moderate in H2 2022

According to EU Commission, inflation in largest European economies will return to pre-pandemic levels in the second half of 2022.

Spain: inflation and forecast*

Source: INE, National Statistics Institute – Consumer Price Index
European Commission Forecasts (November 11, 2021)

* Annual forecasts have been interpolated on a quarterly basis

Euro Area: market inflation expectations*

Source: European Commission Forecasts (November 11, 2021) and Bloomberg

Inflation expectations derived from implied forward inflation linked swap rates (5y forward 5y ahead)

Market-based long-term inflation expectations have increased since summer, but remain anchored below 2%, still suggesting that markets interpret the current elevated inflation rates largely as transitory.
Spanish housing prices are growing at a lower pace than the current EU average

Despite low interest rates, lending policies are driving out low-equity home buyers

**Mortgage Burden vs Housing Price in Spain / Gross Household Income in Spain**

**Source:** Euromonitor – General Statistics. Building and housing. Housing affordability. Housing prices

**House Price Index – Quarterly data in Europe**

(Base 100 = 2015)

**Source:** Gross income per household | Bank of Spain.
Demographic macro-trends are shaping future housing demand

Smaller average households, increasing urban population and evolving needs through life cycle are drivers for the future housing demand.
Madrid & Barcelona are the 2nd and 5th largest metropolitan areas in EU

Spanish main cities are expected to attract a significant population inflow

**Largest European Metro areas & 2020 vs 2015 population growth**

- **Paris**
- **Madrid**
- **Barcelona**
- **Berlin**
- **Milan**
- **Amsterdam**
- **Lisbon**

**2020 vs 2015 (Growth %)**

- **Madrid City Population**
  - Expected growth up to 2030 (Eurostat)
- **Barcelona City Population**
  - Expected growth up to 2030 (Eurostat)

**Sources:** Eurostat. Demographics and Population

**Largest Spanish cities: expected population growth up to 2040**

- **Madrid**
- **Barcelona**
- **Valencia**
- **Zaragoza**
- **Seville**
- **Malaga**
- **Murcia**
- **Palma, Mallorca**
- **Las Palmas, Gran Canaria**
- **Bilbao**

**Share of urban population 2019**

- **2019**
- **2040**

**% of urban population**

**Population, k**

**Sources:** National Statistics Institute. Demographics and Population Projections 2020-2040
Spanish housing rental market records the highest growth in Europe

Despite 2020 COVID significant setback more than 300k new renting households were created between 2014 and 2020

KEY FINDING 6 – SPAIN LEADING RENTAL HOUSING GROWTH ACROSS EUROPE

Net Household Growth in European Rental Market (2020 vs 2014)

Growth 2014-20 (%)

Source: Eurostat - Distribution of population by tenure status, type of household and income group - EU-SILC survey

Net Rental Household Growth in Spain 2014 -2020

Source: National Statistics Institute – Number of main dwellings by tenancy regime and usable floor area
Renting is perceived as the most viable option among youngsters

According to Ipsos & CBRE’s Survey, 48% of people under 40 years old live with their parents and 54% consider renting as a tenure option.

More than half (62%) out of youngsters living with their parents (48%) plan to move in the medium term and half (54%) want to rent a home.

- **48%** are living with their parents
  - Gen. Z 18-25 y.o.: 23%
  - Millennials 26-33 y.o.: 42%
  - Millennials 34-40 y.o.: 78%

- **62%** are planning to leave their parents’ home in the next 3 years
  - Planning on living:
    - Alone: 30%
    - Partner: 50%
    - Friends: 14%
    - Other: 3%

- **54%** are planning to rent a home

Value more their home after the pandemic: 44%
Feel it is important that their homes provide a sense of comfort: 93%
Considers house sustainability and its impact a key attribute: 88%
Prefer to live far from the city centre: 70%
Having outdoor spaces is one of the things they value the most: 53%
Want to move to a house with an outdoor space: 14%
Refer that spaciousness has gained more importance: 28%
Values space distribution: 16%

Source: CBRE People Insights & Ipsos Research (October 2021) – Gen. Z and Millennials and Residential Market Base 1000 responded people
New house completion is at its lowest level since 1991

Since 2013 new housing supply remains below 100k units/yr. New housing construction per capita well under selected EU markets.
Housing surplus following the GFC* (2007-2009) has been mostly absorbed
There was a net decrease of non-principal dwellings over the last decade

*Non-Principal Dwellings apply to a category of housing unit in which there are no recognizable household living on a regular basis (such as but not only Secondary, vacation or empty housing units).
**KEY FINDING 9 – VACANCY RATES**

There is a moderate rental housing vacancy rate

According to rental listings, COVID has influenced vacancy rates. Diminishing rental listings since 2Q 2021 indicates a recovery trend.
Quality of rental housing units is lower than owner occupied stock

Almost 58% of people are renting housing units built before 1970. Tenants tend to be critical about housing quality.
Multifamily (BTR+PRS) market is highly fragmented
Top 10 players manage less than 1% of total rental housing stock

<table>
<thead>
<tr>
<th>Company</th>
<th>Units</th>
<th>Manager /Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>TESTA</td>
<td>6,500</td>
<td>Blackstone</td>
</tr>
<tr>
<td>FIDERE PATRIMONIO SOCIMI</td>
<td>5,920</td>
<td>Blackstone</td>
</tr>
<tr>
<td>ALBIRANA PROPERTIES SOCIMI</td>
<td>7,464</td>
<td>Blackstone</td>
</tr>
<tr>
<td>VIVENIO</td>
<td>3,567</td>
<td>TPG Real Estate Partners</td>
</tr>
<tr>
<td>TÉMPORE PROPERTIES SOCIMI</td>
<td>2,564</td>
<td>Blackstone</td>
</tr>
<tr>
<td>NEINOR HOMES (*)</td>
<td>540</td>
<td>Orion European Real Estate Fund, ADAR, Cohen &amp; Steers, Columbia Thread Needle</td>
</tr>
<tr>
<td>GRUPO ORTIZ PROPERTIES SOCIMI</td>
<td>484</td>
<td>Grupo Ortiz</td>
</tr>
<tr>
<td>VBARE Iberian Prop SOCIMI</td>
<td>346</td>
<td>Meitav Dash Provident Funds and Pension</td>
</tr>
<tr>
<td>Almagro Capital</td>
<td>88</td>
<td>Alcor Sociedad Estrategica</td>
</tr>
<tr>
<td>BARCINO</td>
<td>154</td>
<td>Various</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>28,020</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Note:* This is just for comparison purposes as Neinor Homes is not a BTR SOCIMI.

Source: Prepared by CBRE with information from public and published information of the companies (annual reports, company presentations..)

Top 10 Companies’ rental housing stock
Over total housing stock in Spain

<table>
<thead>
<tr>
<th>Total Rental housing stock</th>
<th>3,470k units</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOP 10 Main players</td>
<td>28k units</td>
</tr>
</tbody>
</table>

Source: Prepared by CBRE with information from public and published information of the companies (annual reports, company presentations..)

MFH BTR units by investor typology in Spain

- Other Landlords (Public Housing, Private Entities, Family trusts...)
- Individual Private Landlords

Source: Prepared by CBRE with information from Treasury Ministry and other public and published information of the companies (annual reports, company presentations..)
Multifamily (BTR) is the preferable strategy among institutional investors in Spain.
Since 2019 institutional investors have been expanding their footprint through forward purchases and JV in BTR projects.

**Expected residential units under BTR projects (2022-2024) in Spain**

<table>
<thead>
<tr>
<th>Year</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>3,174u</td>
</tr>
<tr>
<td>2023</td>
<td>6,052u</td>
</tr>
<tr>
<td>2024</td>
<td>12,461u</td>
</tr>
</tbody>
</table>

*Source: Figures above are not forecasts, they are based on information obtained from the most recent operations registered and companies' publications prepared by CBRE.*

+21k Residential units  
11% of future housing stock

Estimated BTR units for the next 3 years account only for 11% out of the 190k building permits (Visados) registered by MITECO over the last 24 months.

**Foreign Investors in the BTR Sector**

- **Patrizia**: PATRIZIA AG has forward purchased a BTR turnkey development in the greater Barcelona area, for €52m, on behalf of its institutional clients.
- **Tectum**: Tectum will develop a land in Torrejón de Ardoz with a local developer 86 resi units which will be added to the 1,300 units existing portfolio.
- **DWS**: DWS entered in the resi BTR market in Spain in 2020, acquiring since then 11 buildings with 1,555 units in Madrid.
- **Ares**: ARES, in association with AEDAS, has created a JV (Dorsono) to build and operate 3,565 resi BTR units in a 50y concession.
- **Nuveen**: Nuveen & Kronos created STAY, a BTR JV with a portfolio of 5,000 units (Córdoba, Tarragona, Valencia, Barcelona & Madrid) to be developed in the next 5 years.

*Source: Prepared by CBRE with information obtained from the most recent operations registered and companies' publications. (public media)*
KEY FINDING 13 – RESIDENTIAL INVESTMENT VOLUME IN SPAIN

Residential investment volumes increased from 1.1 Bn to almost 2Bn in 2016-2021 period driven by BTR strategies due to lack of standing investment

Residential prime gross yields stand at 3% in Madrid and 3.25% in Barcelona as per end of Q3 2021, above mature markets in the largest cities in Germany, France, Netherlands and Austria

Q3 2021 - Spanish Prime Yields vs European markets Prime Yields

Source: CBRE Research

Residential Investment Evolution 2016 – Q3 2021 in Spain

+28% growth Q3 2021 vs Q3 2020

As of Q3 2021, Investment in BTR highlights, amounting € 1,012 M transacted (2/3 of total Residential investment in the period)
Home Rental Regulation Price comparative view

### Spanish Laws
- **Spanish Civil Code**
- **Ley de Arrendamientos Urbanos (LAU)**
- **State Housing Law (Pending Approval)**

### German Laws
- **German Civil Code**
  - Specific provisions for residential tenancy law are regulated in BGB §549 onwards

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#### Rent Price Cap
- **Spain**: ONLY Large Landlords local benchmark reference index for delimited area. (Only for Catalonia)
- **Germany**: ALL Landlords: for new contracts, determined by the establishment of a reference price for housing rental (by local/regional authorities). For newly or completely refurbished apartments there is no rent cap

#### Stressed area
- **Spain**: Regional authorities for a 3-year period (Cataluña) upon municipal request.
- **Germany**: Regional governments ("länder") concede to municipalities capacity to delimit area and set price references. The status as stressed area must be reviewed every 5 years by the state authorities

#### Rental Price Variation and Exceptions
- **Spain**: Rental price in new contracts, are bound to previous lease. Additional increases under certain circumstances.
- **Germany**: Landlords are not allowed to increase rent throughout the first year of your lease, or by more than 20%, or 15%, in stressed areas in a three-year period

#### Which Geographical Areas Are Affected

#### Rental leasing conditions
- **Spain**: Rental leasing conditions
  - The tenants sign a compulsory 5 years lease (7 years for Corporate Landlords) + 2 years optional extension. Minimum of 1 year holding (6 months indemnity in case of earlier leave.
  - Lease Term: The tenants sign a compulsory 5 years lease (7 years for Corporate Landlords) + 2 years optional extension. Minimum of 1 year holding (6 months indemnity in case of earlier leave.
  - Contract Cease: There are limited causes for landlords to break the lease agreement. Unpaid rent triggers an eviction process (usually lasts between 6 and 8 months depending on judiciary delays)

#### End of contract earlier by landlord (Fast Way)
- **Spain**: Lease Term; Open-ended and close-ended lease term options. The tenant can always terminate the contract through a three-month notice. The notice period is extended by 3 months after 5 and 8 years of renting the property

#### End of contract earlier by tenant
- **Spain**: Contract Cease; Limited causes (2) for breaching the contractual obligations of the landlord; Unpayment and personal need for the landlord. Rent unpayment for 2 consecutive months triggers eviction proceedings (normally between 3 and 5 months)

### Sources
- Ley de Arrendamientos Urbanos and Anteproyecto de Ley por el derecho a la vivienda (26 October 2021, pending parliamentary approval)
- German Civil Code (Bürgerliches Gesetzbuch or BGB) which includes general lease contract law (535-548), housing lease law (549-577a), and law of Obligations 55.

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CBRE does not advise on legal matters and any legal advice should be provided by specialized law firms
CBRE Research Proprietary Data Bases on Commercial Real Estate investment transactions
Germany. German Civil Code (Bürgerliches Gesetzbuch or BGB), Tenancy Law Reform Act (Mietrechtsreformgesetz) which includes general lease contract law (535-548) and housing lease law (549-577a).


Spain. Ley 36/2003 I Ley 27/2014 de 27 noviembre del Impuesto sobre sociedades I Ley de Arrendamientos Urbanos (LAU)

For further inquiries please contact:

Álvaro Martin Guerrero
alvaro.martin@cbre.com

Carlos González Castelló
carlos.gonzalezc@cbre.com