ICADE BUSINESS SCHOOL

SOCIMIS: THE INVESTMENT VEHICLE OF THE MOMENT

Author: Javier Martínez Vivancos

Director: Luis Garvía

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Javier
Martínez
Vivancos

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1. Abstract

The crisis of 2008 affected seriously Spain and specifically the Real Estate sector. However, as time has gone by, we have seen a tremendous recovery since that period. In fact, the Real Estate sector is one of the sectors with the highest potential growth for the analysts. This recovery has been mainly due to the appearance of new Spanish real estate investment vehicles, known as SOCIMIs (Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario), which have attracted lots of national and international investors and have pushed the IBEX 35 to reach 11.000 points, the maximum level of its history.

The RE sector was hit really hard during the crisis period and the government decided to help to boost this sector by introducing the new law regime for the SOCIMIs in 2013. The main feature of this legal regime was the corporate tax which is zero for these type of companies. The new legislation increased the interest of national and international investors for the RE sector and specifically for this type of investment vehicles. Since 2013, 33 SOCIMIs were created, reaching amongst all of them a market capitalization of EUR14.0bn.

Each SOCIMI acquired different RE assets when they first appeared in 2013-14 and now after 3 years, SOCIMIs are starting to dispose its non-core RE assets and focusing on one single RE business line (offices, logistics, hotels, high street retail and shopping centers) in order to win competitiveness. Therefore, it is expected that the M&A activity within this sector is going to exponentially increase over the following years.

The main objective of this end of master's project is to analyze the SOCIMIs market and also analyze which SOCIMIs are the best to invest in, according to the better prospects of the RE sector in Spain.

2. Introduction

The objective of this end of master's project is to analyze the SOCIMIs' market to see wether is worth to invest or not in this sector and also analyze the main Spanish SOCIMIs (Merlin Properties, Hispania, Axiare Patrimonio and Lar España) to see which SOCIMI is more appealing for me in order to invest. To achieve these main objectives I will try to solve the following topics:

a. Main differences between SOCIMIS and SICAVS;
b. Analysis of the SOCIMIs' main characteristics and legal benefits;
c. Description of the history of the SOCIMIs to see when these RE vehicles were created in other countries and in Spain;
d. Analysis of the evolution of their legislation and the impact of the new SOCIMIs' regime approved in 2012 for the Spanish RE sector;
e. Analysis of the crisis of the Spanish Real Estate to see if there has been a sustained recovery;
f. Analysis of the number of SOCIMIs that have been created since 2013 in the 3 different Spanish Stock Markets (IBEX 35, Mercado Continuo, Mercado Alternativo Bursatil);
g. Analysis of the SOCIMIs' key drivers such as rents and occupancy / vacancy rates.
h. Analysis of the Spanish Real Estate market, breaking down each different RE category (Offices, residential, logistics, hotels and High Street Retail);
i. Analysis of the biggest Spanish SOCIMIs;
j. SOCIMIs' outlook, what is expected from this sector in the future? ;
k. Analysis of the Real Estate M&A activity in Spain
l. Study case: Analysis of which SOCIMI is the best to invest money in;
m. Valuation of Merlin Properties
n. Valuation of Axiare Patrimonio

The methodology that will be used is the same than that used in Equity Research, but I will also add a few theoretical things. I will basically study the market of the SOCIMIs first doing deeply research of the Spanish RE sector and the SOCIMI's sector and I will decide which SOCIMI has a higher potential growth to invest in.

3. Index

4. Conceptual framework

4.1 Different types of investment vehicles

In order to understand what a SOCIMI is we should highlight the main investment vehicles that we can find in the Spanish Stock Exchange that are similar to a SOCIMI.

There are several ways of investing in the market. You can either invest individually as a solo investor buying shares, bonds or other financial instrument; or you can invest collectively in either financial products or in real estate assets. The financial vehicles that invest collectively in financial products are called SICAVs. According to Gentili, Jannoni and Mastrangelo (2011) a SICAV can be defined as a "public limited company whose object is to invest in financial assets". They state that these type of companies have great tax advantages such as paying corporate income tax at a rate of just 1%. Moreover, SICAVs offer personal income tax benefits and therefore you don't have to pay taxes in Spain if you decide to move from one SICAV (with origin in Spain) to another European SICAV. Nonetheless, they have to fulfill several requirements:

Figure 1

SICAVs key characteristics and requirements

Characteristics	Requirements
Number of stockholders	> 100 shareholders
Investments	They are restricted to some investments
Capital	> EUR2.4bn
Supervised	CNMV & Dirección General del Tesoro
Corporate Tax	1%

Source: Investopedia

There are two types of financial vehicles that invest in real estate assets. The first ones are called Real Estate Investment Funds. According to Robert Schamansky (2016) a real estate fund can be defined as a type of mutual fund that primarily focuses on investing in securities offered by public real estate companies. Their main characteristics are as follows:

Figure 2

Real Estate Funds key characteristics and requirements

Characteristics	Requirements
Number of stockholders	>100 shareholders
Investments	70% of the invested assets must be for rental
Capital	> EUR9.0mn

Supervised	CNMV & Dirección general del Tesoro
Diversification	The value of the asset cannot be > 35%

Source: Investopedia

The other type of vehicles that invest in real estate assets are the Real Estate Investment Trust (REIT, also known as SOCIMIs in Spain). Schamansky (2016) states that a SOCIMI is a corporation that owns or finances income-producing real estate. Their mode of operation is similar to that of a mutual fund where investors combine their capital to buy a share of commercial real estate and then earn income from their shares. REITs' taxable income is paid out as dividends to their shareholders, who then pay income tax on the dividends.

SOCIMIs must follow some legal issues which are mainly:

- They must invest 80% of their asset's gross value into real estate for renting purposes.
- At least 80% of their yearly rentals must come from renting and from capital investment dividends (capital invested in similar tax regime companies).
- They must distribute at least 80% of its Net Income into dividends.
- SOCIMIs are taxed at a rate of 0% for income tax. However, where dividends distributed to an equity holder owning at least 5% of the SOCIMI's share capital are exempt from taxation or taxed below 10%, such SOCIMI will be subject to a special charge of 19% of the dividends distributed to the said equity holder, in respect of corporate income tax.

Below we can find a summary table with their main characteristics.

Figure 3

SOCIMIs main characteristics and requirements

Characteristics	Requirements
Minimum share capital	EUR5.0mn.
Asset composition	≥ 80% in urban properties focused on rental, land for development of properties meeting this criterion (development must start within three years) and equity investments in other SOCIMIS.
Number of properties leased	8 units.
Duration of houses leased	3 years.
Rental income composition	80% must come from the lease of properties or dividends from stakes in the profits of other SOCIMIS.
Distribution profit	▪ 100% of profits obtained from dividends or stakes in the profits of other SOCIMI. ▪ 50% of the gains generated from the sale of properties and shares in other SOCIMIS. ▪ 80% of other profits
Special corporate tax income	▪ Tax rate if requirements are met: 0% on rental income from leased properties. ▪ Tax rate if requirements are not met: 30% on rental income from leased properties ▪ Tax rate: 19% of taxable income corresponding to dividends or interests in profits distributed in shareholders.

Other taxes	▪ Exemption from property transfer tax manually due on incorporation, equity issues and non-monetary contributions. ▪ Credits of 95% on the acquisition of houses for rental and land for development.

Source: BOE and own elaboration

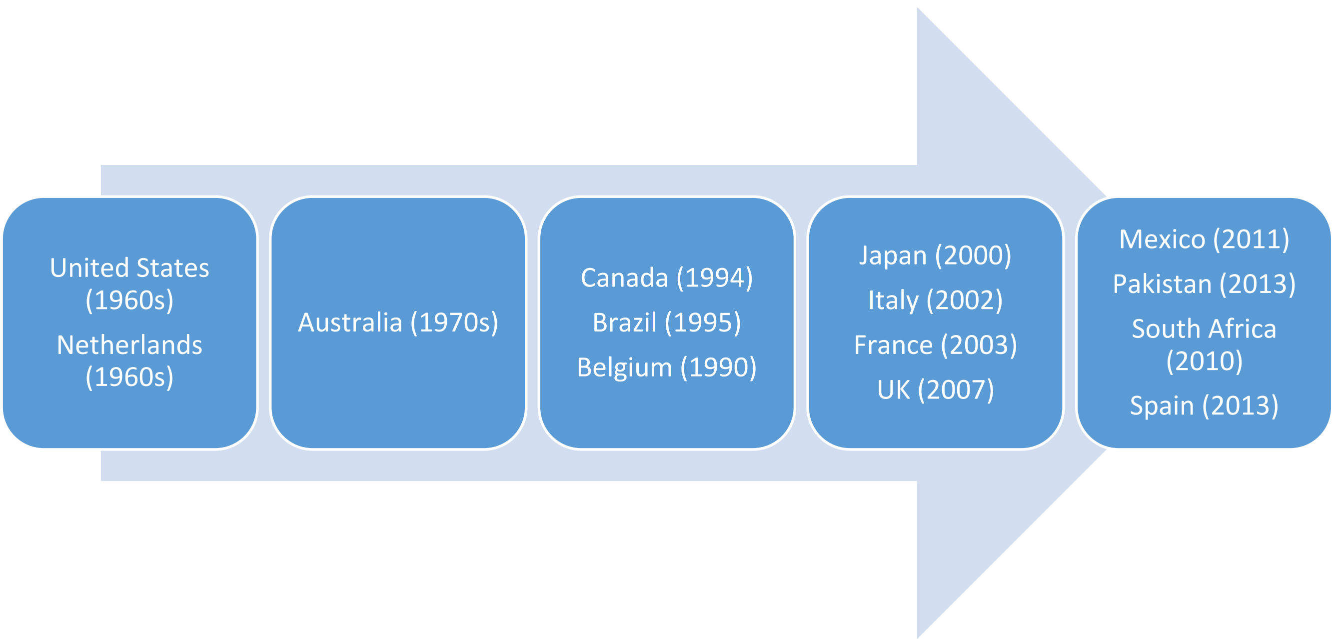
The best benefit for the SOCIMIS is that if they meet the requirements mentioned in the above table, they are entitled to pay 0% corporate tax, which saves lot of money for them each year and boosts the real estate sector.

4.2 History of the SOCIMIs

The former European figure similar to the SOCIMIS was known as REIT (Real Estate Investment Trust). These real estate vehicles first appeared in 1960 in the United States of America and allowed investors to have exposure to real estate investments without taking the risk of investing directly into these type of real estate assets which had a high risk. These vehicles continued expanding through the rest of the Countries, however, it was not until year 2013 that we started to see these vehicles in Spain. Spain has been one of the latest European Countries that have introduced these kind of vehicles in the market. Countries such as France, Italy, Germany or the UK introduced the REITs 10-15 years before Spain.

Figure 4

SOCIMIs history evolution



Source: Ivan Kaufman

Why is it difficult for investors to invest directly in Real Estate assets?

- Firstly, it is quite difficult for investors to have a huge amount of capital in order to invest in a diversified real estate portfolio, not just geographically but also in different types of real estate assets (hotels, offices, shopping centres, etc.); and it is also quite illiquid for investors.

- Secondly, direct investment in real estate requires a big amount of money and resources in order to take advantage of these assets and make them profitable. There are a lot of investors that are focused on the traditional markets of variable and fixed income and they do not want to spend their resources managing real estate assets. Furthermore, there's a lot of knowledge required in the real estate sector. When you acquire real estate assets to rent them, you must know the legislation of these assets, pay taxes, study the municipal regulation, etc. If there are more complex investments, such as desarrollo urbanistico, the level of knowledge must be even higher. Investors that don't have a deep knowledge of this sector may fail. The management team of the biggest SOCIMIs in Spain have around 25 years of experience in this sector.

- Thirdly, the last problem of real estate direct investing is that it is quite difficult to valuate these kind of investments as each real estate asset is unique, it is really difficult to truly know the price of these assets. Even though there are a few companies whose purpose is to valuate real estate assets (CBRE, Savills, etc), its valuation is not as precise as that of assets that are not unique and are listed in an organized market. For instance, listed stocks are easy to valuate, an ordinary share of Telefonica is equal to another ordinary share of Telefonica, plus they are listed in the market which makes the valuation even easier. If all the real estate assets of a city were equal and had the same characteristics, we could create a market listing these assets, but this is impossible because they are not equal, and in the case they were physically equal, each location is different and some locations are better than others.

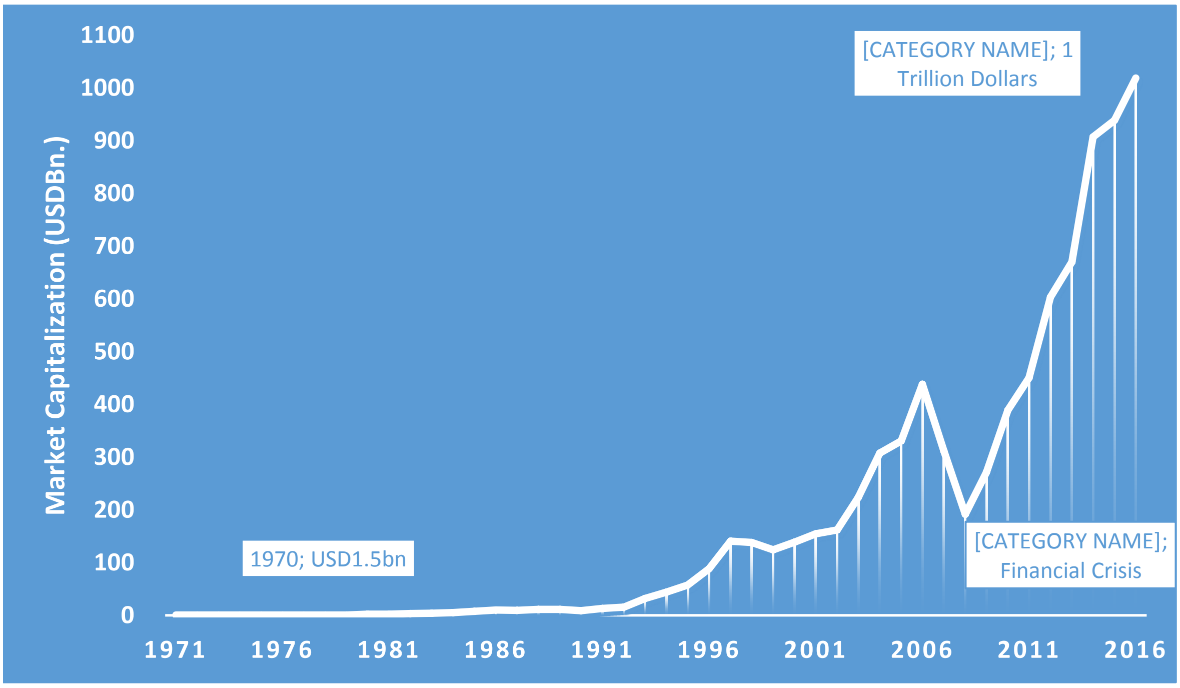
In Spain, the SOCIMIs were first incorporated in the Spanish Stock Exchange in 2010, just after the publication of the Spanish law 11/2009 of October 26th that regulated the SOCIMIS. The new real estate vehicles allowed investor to have a minimum return as SOCIMIS must distribute a high percentage of dividends. Moreover, in order to promote liquidity among investors, SOCIMIs were obliged to be listed in regulated markets such as MAB, Mercado Continuo or IBEX 35.

But it was not until 2013 until we started to see the first SOCIMIs in Spain. This was mainly due to the Real Estate crisis in Spain. It was difficult for these type of companies to be profitable in those years and in fact, the law 11/2009 was not good enough to improve the SOCIMIs growth. That's why the Spanish government decided to change the law in 2012, boosting these type of companies. The first Spanish SOCIMI that was listed in the Spanish Stock Exchange was Lar España, which is now one of the biggest SOCIMIs in Spain, having EUR900mn of market cap.

We can clearly see the success that the REIT have had in the USA and around the World since they first were created. The market cap has increased from USD1.5Bn in 1970 to above USD1.0Trillion in 2016.

Figure 5

US REIT Index



Source: Bloomberg and own elaboration

4.3 Evolution of the SOCIMIS Legislation

4.3.1 LAW 11/2009 OF OCTOBER 26th

The introduction of the Spanish law 11/2009 of October 26th was initially not very appealing for SOCIMIs and investors. It was actually quite disappointing as no SOCIMIs went listed in the market. That was mainly due to the hard crisis period in the markets and especially in the real estate sector in 2008, to the limited fiscal benefit of the SOCIMIs, to the limited maximum leverage ratio of 70% and to the fact that EUR15mn of minimum capital were necessary in order to be listed in the Mercado Continuo.

4.3.2 LAW 16/2012 OF DECEMBER 27th

The Spanish government realized that the measures stablished in the law 11/2009 were not good enough in order to promote and boost the SOCIMIs. That is why they introduced a new law in 2012 (law 16/2012 of December 27th). This was the very first moment when SOCIMIs started to benefit from fiscal benefits, at the same time that the requirement of assets, leverage ratio and minimum capital were reduced positively affecting the SOCIMIs. In fact, the new minimum capital eligible was reduced from EUR15mn to EUR5mn. In addition, the conditions to be listed in the Spanish Stock Exchange became more flexible.

In the table below we can see a comparison between both Laws.

Figure 6

Comparison Law 11/2009 vs. Law 16/2012

Requirements	Law 11/2009	Law 16/2012
Duration of leasing	7 years	3 years
Diversification	3 assets and none of them can represent more than 40% of the total assets	1 asset; no requirements
Outstanding shares	Minimum 25% of capital	Minimum 15% of capital
Number of shareholders	≥ 100	≥ 50
Financial leverage	≤ 70% of the assets	There are no requirements
Minimum capital	EUR15.0Mn	EUR5.0Mn
Benefit distribution	90% of the earnings that do not come from dividends	80% of the earnings that do not come from dividends

Source: BOE and own elaboration

4.4 Crisis of the Real Estate sector in Spain

The real estate sector has been characterized by having a cyclical behaviour all over its history in every different economy. Some authors such as Bernados (2007) suggest that an expansion period in the real estate & construction sectors is reasonably enough and normal and that for every expansion period there is always a recession period. According to him, the Real Estate sector has had four economic periods:

- First stage: Compressed between 1975 and 1984. The Real Estate sector suffered a strong recession in Spain due to the slow pace of the economy worldwide.

- Second stage: Compressed between 1985 and 1991. This period is characterized by a strong speculative boom similar to that of the crisis of 2008. This was mainly due to the fact that Spain entered into the European Union, which led to a high investment in residential housing.

- Third stage: Compressed between 1991 & 1994: The Real Estate Sector suffered another recession period characterized by a high increase in the unemployment rate.

- Fourth stage: 1995 – 2007: This period refers to the Spanish real estate bubble where Spaniards lived beyond their economic possibilities. There was a strong growth of 5% real GDP and a massive creation of new jobs which boost the employment rate and the consumption. Overall, it was a speculative period that brought lots of bad consequences in Spain.

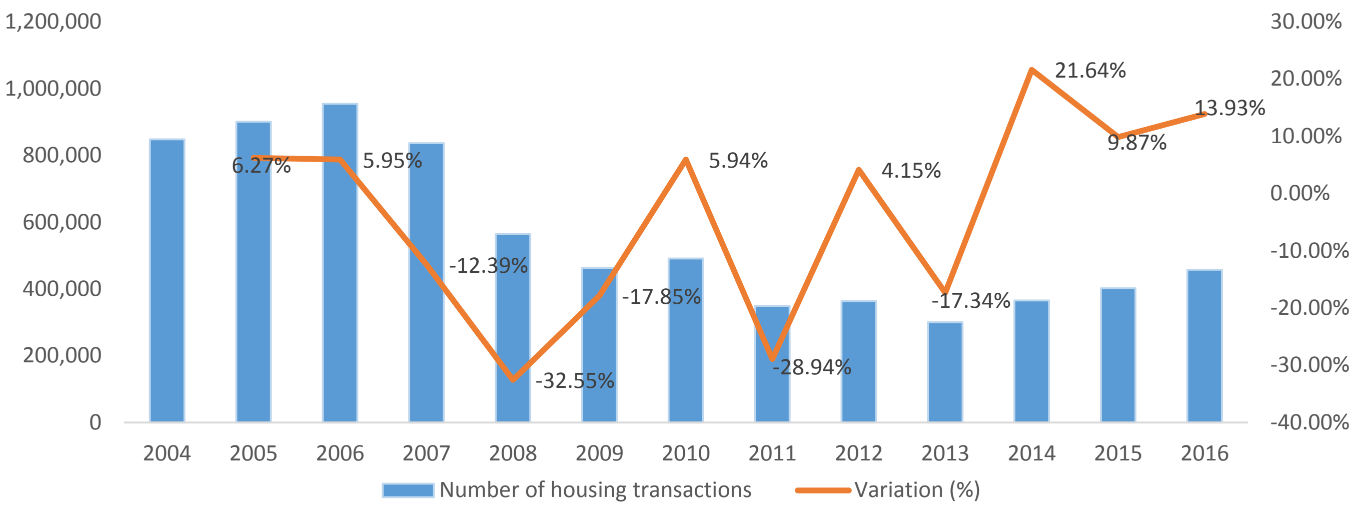
According to Bernardos (2007), the supply in the real estate sector is inelastic and it's not affected in the short term by the macroeconomic changes in the economy. This is because there's a big time between the purchase of the soil and its use, and the construction of the building. On the other hand, the demand is quite sensitive. Any small change in the macro economy or any small rumour can make a huge drop or evolution in the demand. For instance, if there are some news saying that the GDP is growing at 2%, the demand could increase thanks to the level of confidence and income.

According to Montalvo (2013) when there's an excess of supply in the market, the adjustment process consists in a decrease of the price until it reaches the equilibrium point. On the other hand, when there's an excess of demand in the market, the adjustment process consists in an increase of the price until it reaches a new equilibrium point. This is exactly what happened in the bubble created in Spain, there was a strong demand for new houses so the price per square meter of the houses increased a lot. This increase in the price leads to an increase of the supply, as it is an incentive to invest in real estate assets. As opposed to this, when the supply increases and the demand decreases it could lead to a drop in prices. However, the adjustment process in Spain was not really efficient. The market focused more on decreasing the free housing stock than decreasing prices, as it happened in other countries.

As we can see in the graph below, in 2006 there was a strong demand for buying houses. Banks were giving lots of loans to almost everyone, even to those people who did not have a permanent job, salary nor assets. Due to the strong demand in the real estate sector, the price per square meter increased by +18.52% in 2008 reaching almost EUR2.500 per square meter.

Figure 7

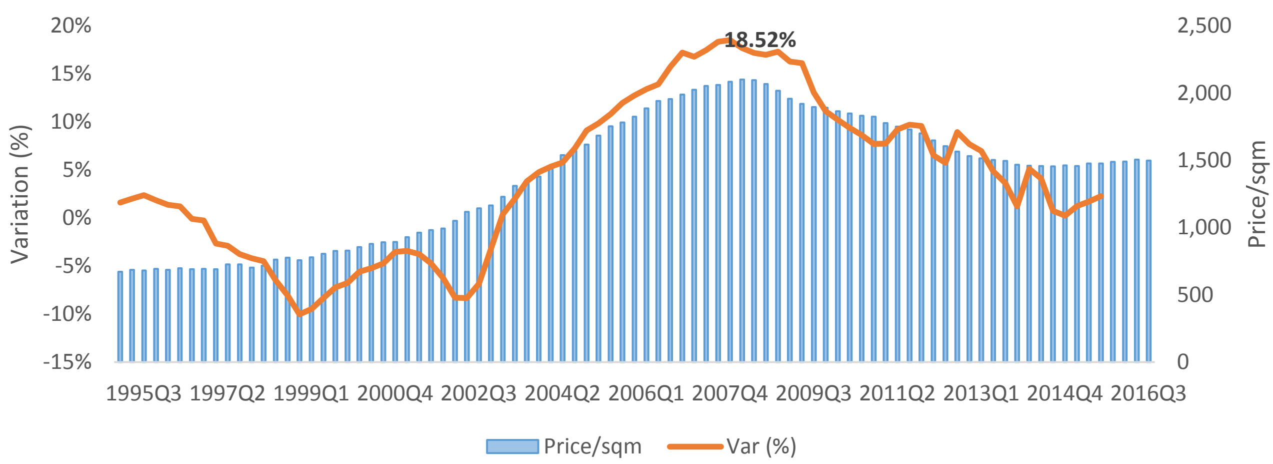
Housing demand evolution



Source: INE and own elaboration

Figure 8

Price / sqm evolution in Spain



Source: INE and own elaboration

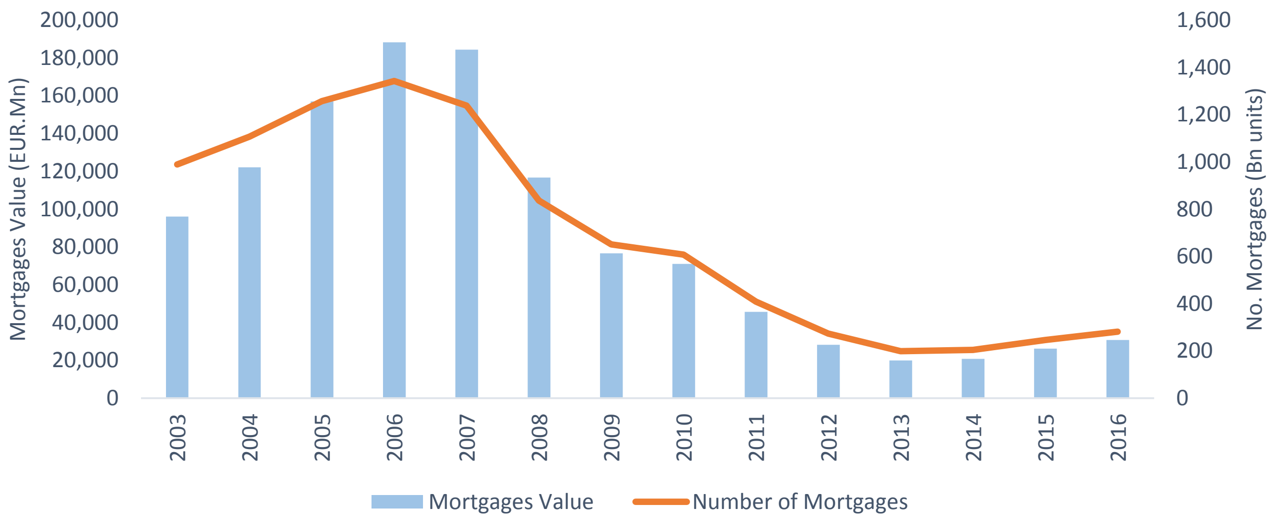
At the same time, the level of supply increased according to the level of demand. But the problem came when the bubble exploded and the level of supply surpassed the level of demand.

According to Montalvo (2013) as the level of supply had surpassed the level of demand, the price should have dropped in order to reach a new equilibrium point. However, the adjustment process in Spain was quite slow, compared to that of France or Germany. It took around 7 years to decrease the price and reach the equilibrium point. The price has dropped from around EUR2.500 per square meter in 2008 to around EUR1.500 per square meter in 2016.

Between 1998 and 2006, there was a real estate bubble, a period in which for almost 10 years there was a continuous growth, high employment rates (consequently low unemployment rates), easy financial access, good salaries, etc. Banks and saving banks were giving lots of loans to almost everyone, as the low interest rates made them have very little if none margin, so they thought that they could make more money by giving more loans to these kind of people and then they asked for higher interests.

Figure 9

Mortgages evolution in Spain



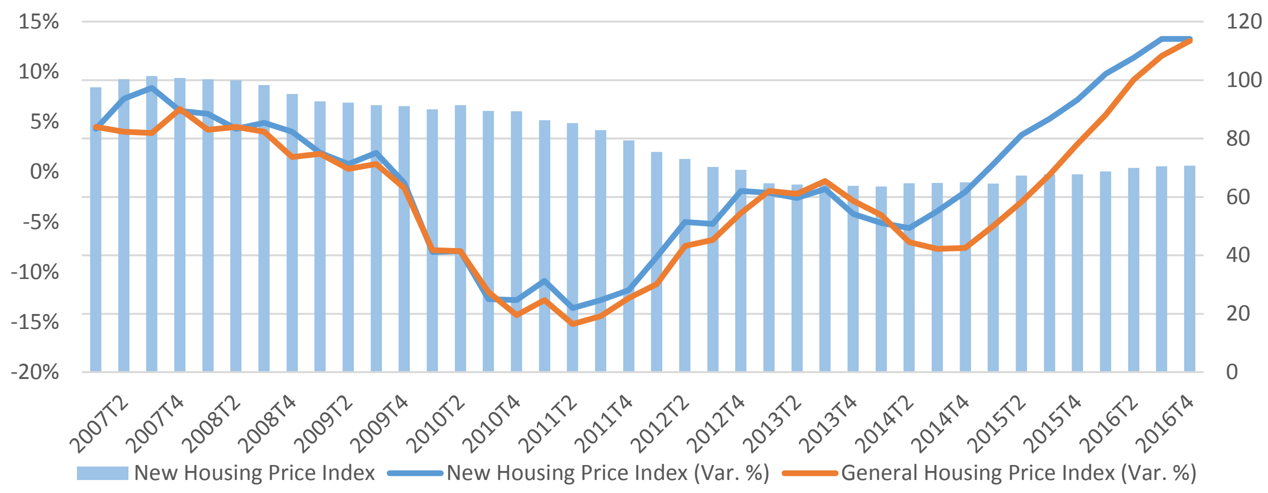
Source: INE and own elaboration

As we can see in the above graph, the number of mortgages before 2007 increase to almost 1.5 billion and after the crisis, it got reduced to around 400 million, as banks were regulated by Basel III and were asked for high quality loans. Thus, before 2008, it was a period of expansion in every sense although it was expected not to last for a very long time. According to the American economist Charles Kindleberger (1978), an economic bubble can be defined as a continuous increase of the price of an asset or set of assets. This evolution is based on speculation, as the increase of prices attracts new buyers who are expecting an increase. But the price cannot grow forever, there is a limit point where the price stops growing and the bubble explodes, as the number of buyers of the asset (demand) gets reduced. This leads to a crash, where there's a general drop in prices reaching really low levels. As we can see in the previous graph price / square meter, the price per square meter increased a lot during the speculative bubble and it got reduced dramatically after the crisis of 2008.

Another recognized author such as Nobel Price Robert.Shiller (2000), stated that the increase in prices stimulated the investments of investors and new buyers in the market who were attracted by the success and wanted to win more money. That was how the speculative bubble was created.

Figure 10

Housing Price Index evolution



Source: INE and own elaboration

4.5 Boom of SOCIMIS since 2013

There are currently 34 SOCIMs listed on Spain´s stock markets. Between them, they boast a market capitalization of over EUR14.0bn and total assets of more than EUR50bn. As we can see in the graph below, the only Spanish SOCIMI listed in the IBEX 35 is Merlin Properties, which has a market capitalization of EUR5.1bn it is currently the most liquid stock in the IBEX 35, according to Ismael Clemente (CEO of Merlin Properties). If we go to the second division, we find 4 SOCIMIs listed in the Mercado Continuo. These are Hispania (market cap. EUR1.5bn), Lar España (first listed SOCIMI with a market capitalization of EUR0.6bn), Colonial (the only listed SOCIMI with international presence in other Countries, with a market capitalization of EUR2.5bn) and Axiare Patrimonio (market capitalization EUR1.2bn).

The rest of SOCIMIs (29) are listed in the MAB and they have a total market capitalization of EUR3.5bn.

Figure 11

Snapshot of the Spanish SOCIMIs as of 11/04/2017

Name	Market	Market cap (€ m)
Merlin Properties	IBEX 35 / Mercado Continuo	5076
Hispania	Mercado Continuo	1497
Lar España	Mercado Continuo	668
Colonial	Mercado Continuo	2521
Axiare Patrimonio	Mercado Continuo	1155
GMP Property Socimi	MAB	819
Zambal Spain	MAB	559
Fidere	MAB	193
Uro Property	MAB	192
Isc Fresh Water	MAB	173
Doalca	MAB	158
Euro Cervantes	MAB	155
Trajano Iberia	MAB	147
Gore Spain Holdings	MAB	144
Asturias Retail	MAB	115
Corona Patrimonial	MAB	109
Entrecampos	MAB	102
Autonomy Spain	MAB	86
Zaragoza Properties	MAB	84
Silvercode Invest.	MAB	82
Optimum	MAB	60
Quonia Socimi	MAB	42
Vitruvio Real Estate	MAB	40
Inmofam 99 Socimi	MAB	39
Mercal Inmuebles	MAB	31
Hadley Invetments	MAB	27
Only-Apartments	MAB	24
Corpfin	MAB	23
Heref Habaneras	MAB	22
Vbare Iberian	MAB	21
Jaba	MAB	19
Corpfin Capital	MAB	15
Obsido	MAB	6

Promorent	MAB	4

Source: IBEX 35, Mercado Continuo, MAB and own elaboration

It is amazing how these companies have grown since 2013 and they have reached a market cap of EUR14.0bn in 3 years. Following the SOCIMIs regime, these type of companies must be listed at least in the MAB and must be regulated in order to protect investors, that's why the number of SOCIMIs in the MAB is higher than that of the IBEX 35 or Mercado Continuo.

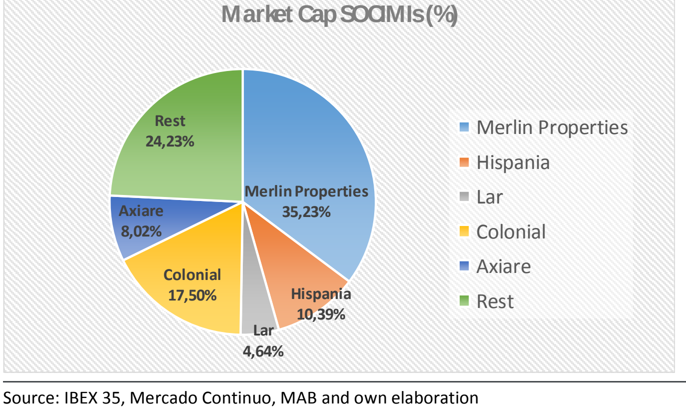
As we mentioned before, these type of vehicles have been growing rapidly over the last three years. In fact, the total market cap of the SOCIMIs listed in the MAB is higher than the rest of the Companies listed in the MAB.

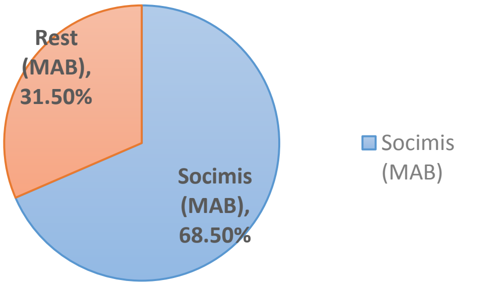
As we can see in the graph below, SOCIMIs listed in the MAB have a 68.50% of the total market cap and the Rest of the Companies have only a 31.50% of the total market cap. The total market cap of the MAB accounts for EUR5.1bn euros and the SOCIMIs which are listed in this market reach a market cap of EUR3.4bn. This shows that this kind of vehicles are sharply growing and are really important for the RE recovery.

There are lot of SOCIMIs in the MAB that have been created by big companies in order to take advantage of the growing trend and invest in the RE sector. For instance, the Spanish bank Bankinter just launched a new SOCIMI that started to be quoted in the MAB in 2017 just a couple of months ago. Another example is the SAREB (the bad bank of the Spanish government, responsible for managing assets transferred by the Spanish financial institutions) which announced its intention to create a new SOCIMI in order to dispose the assets transferred by the Spanish financial institutions.

Figure 12

Market Cap of the Spanish SOCIMIs





Source: IBEX 35, Mercado Continuo, MAB and own elaboration

4.6 SOCIMIs' main drivers

SOCIMIs main activity consists in acquiring commercial real estate assets and rent them. Its revenues come mainly from rents (remember that 80% of the revenues need to be rents in order to meet the SOCIMI regime) which depend on the economic cycle of Spain as the Real Estate sector is very cyclical. If the economy goes up (as it is and it is expected to be for the next 5 years) the RE sector grows as well. If there's a period of contraction such as the crisis, the sector goes down too.

The Spanish macroeconomics suggest that Spain will continue to grow at least until 2022e (following IMF estimates) at a 2.2% YoY. However, there are other variables such as inflation, interest rates, occupancy/vacancy rates, unemployment, etc. that can also affect the output of the SOCIMIs. I am now going to analyze each individual variable that can affect the rents and the revenues of the SOCIMIs.

4.6.1 GDP

The GDP is a useful variable that helps us to compare countries and see if they are growing at a nice pace or decreasing instead. According to Gonzalo Gómez, professor of macroeconomics at ICADE Business School, the GDP can be defined as the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

The GDP is composed of public and private consumption, government spending and exports

GDP = Consumption (C) + Private Sector Investment (I) + Public Sector Investment (G) + (Exports (X) – Imports (M))

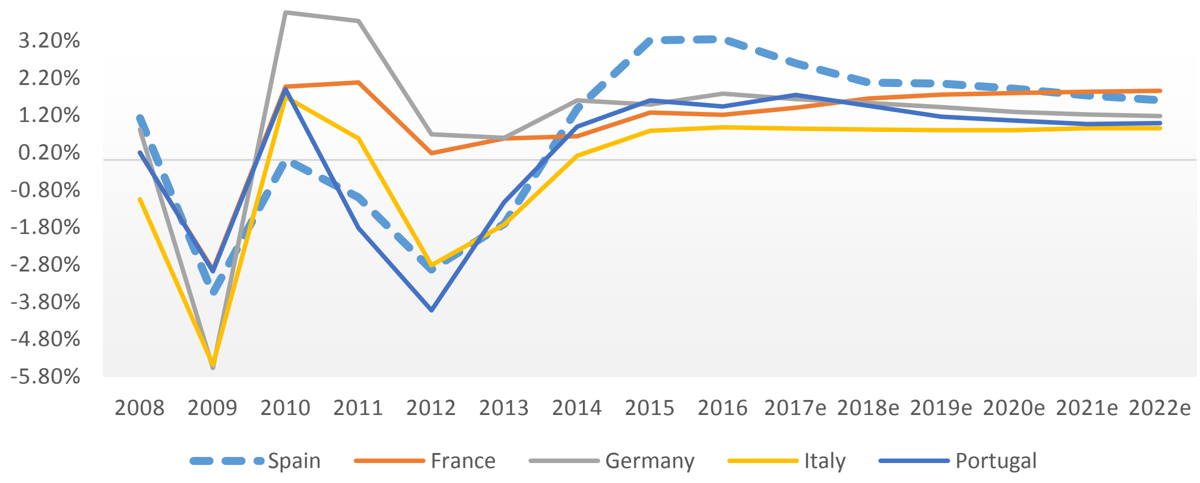
minus imports. The GDP equation is as follows:

If the GDP growth rate is positive it means that the country is expanding whereas if it is negative it means that the country is contracting.

According to the IMF estimates, the Spanish GDP will grow at an average 2.2% YoY until 2022e. In fact, the IMF expects that Spain will actually grow more than other top EU countries such as Germany or France. This clearly show us that Spain is growing so the RE sector.

Figure 13

European GDP growth rates



Source: IMF Outlook database 2017 and own elaboration

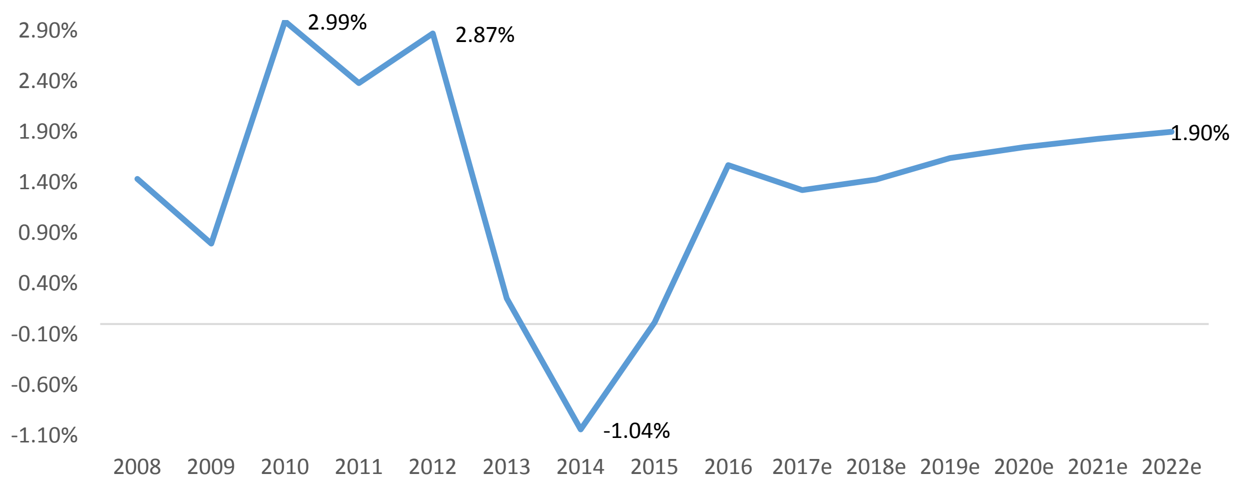
4.6.2 Inflation

According to the ECB, inflation is defined as year on year percentage change of the Harmonized Index of Consumer Prices published by Eurostat. In other words, it is a sustained increase in the general price level of goods and services in an economy over a period of time. The main task of Mr. Draggi, who is the president of the ECB, is to maintain price stability. This is defined as an annual HICP inflation rate of below, but close to 2% over the medium term.

The falling prices seen over the last two years, driven by the drop in oil prices and other commodities, have enabled families and business to increase their spending. As a result, the Spanish economy registered a 0.2% drop in prices in 2016 according to IMF. However, IMF estimations suggest that inflation will increase during 2017 at 1.8% and will be in line until 2022.

Inflation is important for SOCIMIs as all the RE contracts are subject to inflation, so if inflation increases then rents go up as well. In fact, there are some SOCIMIs such as Merlin Properties that have some contracts linked to inflation. For instance, BBVA is paying to Merlin Properties every year the high street rent multiplied by 1.8 times inflation.

Figure 14
Evolution of the inflation



Source: INE and own elaboration

4.6.3 Unemployment rate

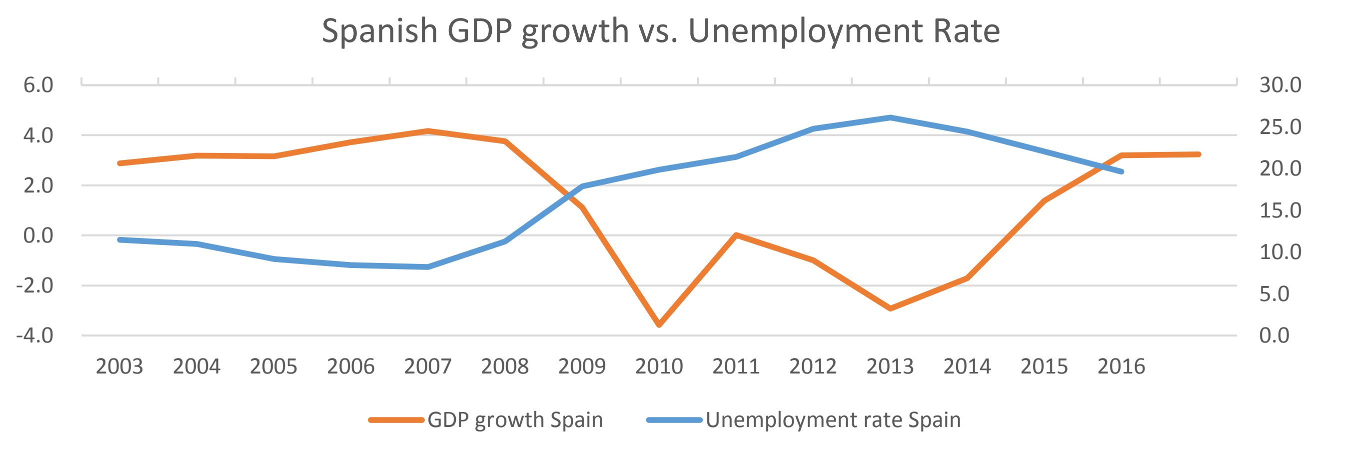
The unemployment rate is the percentage of people of the total active population that can work and is willing to work, but are not working at the moment because they have been fired or whatever other reasons.

If unemployment rate decreases then families earn more money so they are able to spend more and banks are willing to concede more credit and mortgages because they are more confident that they will get paid back. If consumption increases and companies are hiring more people perhaps they need to expand and get new buildings or offices, benefiting SOCIMIs.

2016 was a very good year for job creation. During the last year, 414.000 jobs were created according to INE. The unemployment rate decreased to 19.5% compared to 22.5% registered in 2015. In fact, the IMF expects that job creation will continue going upwards, with unemployment rate set at 18.5% in 2017. Contractual conditions and the high percentage of temporary jobs remain issues which need to be addressed.

Figure 15

Unemployment rate evolution



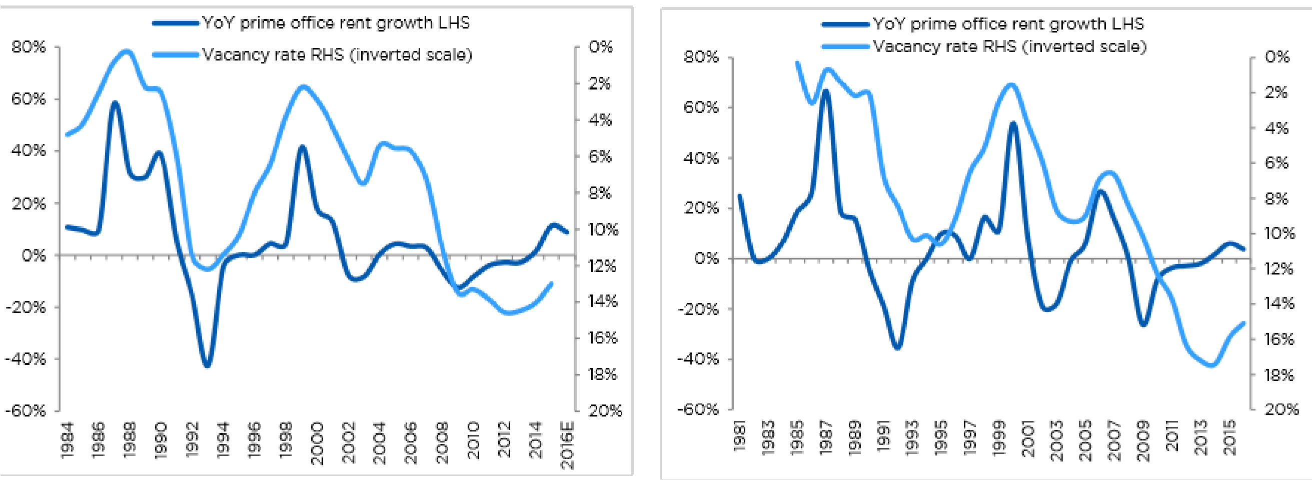
Source: IMF Outlook Database 2017 and own elaboration

4.6.4 *Vacancy rates*

Vacancy rates are really important for SOCIMIs when it comes to main drivers, as the higher the vacancy rates the lower the revenues. The vacancy rates in Spain are not as good as they could be according to Savills. In fact, following BBVA's RE report we can see that the vacancy rates in Madrid are around 15% in Madrid and 13% in Barcelona. These numbers are way higher than the main European cities where the vacancy rate levels are around 5 – 10%.

Figure 16

Prime office rent growth vs. Vacancy rates



Source: BBVA Equity Research

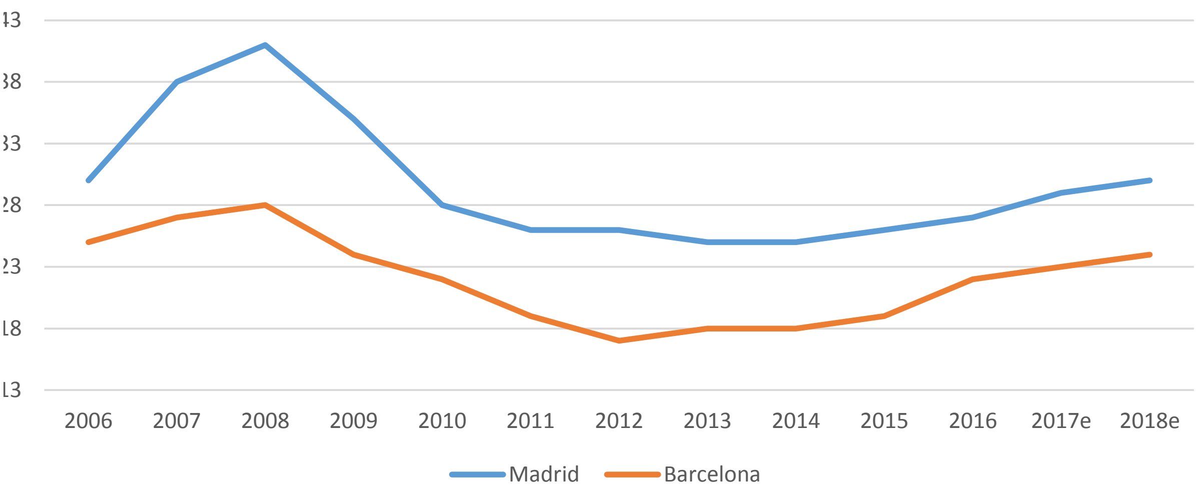
Numbers are not as good as other European cities but CBRE and JLL expect gradually drops in vacancy rates in 2017.

4.6.5 Rents

As the result of the Spanish economic recovery, we saw in 2016 that rents rose both in Madrid and Barcelona according to JLL, with the prime CBD rent standing at EUR28.25 / sqm (+13%) and EUR21.75 / sqm (+21%) respectively. JLL expects that this positive trend will continue to go throughout 2017, with an average growth rate of 5.4% YoY until 2021. In fact, Madrid is on the top of the list of European markets with the highest rental growth forecast whilst Barcelona ranks the fourth with a 3.2%.

Figure 17

Price per sqm evolution in Madrid and Barcelona



Source: CBRE and own elaboration

Madrid ranks as #2 most attractive city in EMEA during 2016 According to a survey for EMEA countries by CBRE published in February (when Brexit was only a remote possibility), Madrid was appointed the 2nd most attractive city in Europe for property investment in 2016. At a country level, Spain screened as the 3rd most attractive country to invest in.

4.7 Brexit could be something positive for the Spanish RE sector

One of the factors to take into consideration is what could happen when the UK leaves the EU. There are currently various potential scenarios, but with the possibility of a "Hard Brexit", many companies are likely to look for alternative locations in order to continue operating in the EU. The sectors that could be most affected are the finance and technology sectors.

In this regard, Spain is one of the locations under consideration. Amongst others, some of the factors attracting these companies to Spain are: the excellent infrastructure and transport network; the high quality of life; the wide range of international schools on offer and high number of prestigious businesses; the accessible housing market; and the low rents for offices compared to other European cities.

The government of Madrid has set up a strategy to try to attract multinational companies potentially affected by Brexit. Madrid argues that it has good infrastructures, good quality of living, available office space (current and potential) and lower rental levels than its peers. Madrid competes with other cities like Paris, Milan or Frankfurt on attracting British companies. At this point, it is not possible to assess the potential impact of an eventual move like this, as the negotiations for Brexit have not been initiated yet. However, Brexit could be a potential opportunity for office demand, which could have a major impact on Madrid office rents if only a portion of the teams move to Madrid. According to recent press news (El Confidencial 21/11/16; Expansion 19/01/17) Citigroup and UBS are both holding preliminary talks with Spanish authorities with a view to transfer part of their teams to Madrid post Brexit.

5. Analysis of the Spanish Real Estate Market

Nearly all SOCIMIs decided to invest in different real estate assets when they were first created in 2013 in order to have a diversified portfolio and reduce their risks. Now that the minimum leasing's length has finished (3 years), SOCIMIs are starting to dispose their non-core assets and are focusing on one single specific business line.

SOCIMIs can only be benefited from their legal regulation if at least 80% of its revenues come from rental income. Therefore, the commercial real estate assets that SOCIMIs can acquire and rent are: Offices, Logistics, High Street Retail, Shopping Centers, Residential and Hotels.

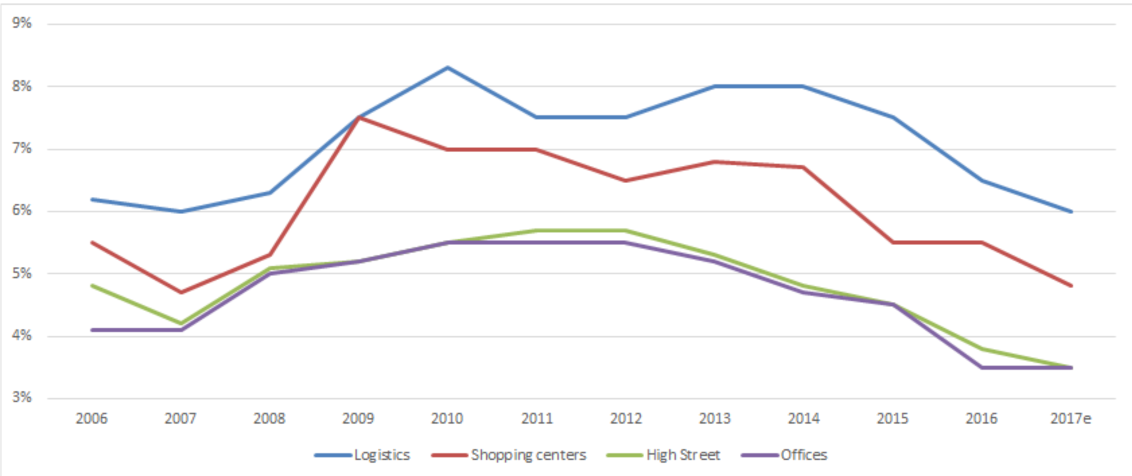
I am now going to analyze the Spanish Real Estate Market in order to understand better the different real estate assets and see which one has a higher potential growth.

5.1 Spanish Real Estate Market Overview

According to CBRE, there is a low-yield climate in the majority of European cities, so prime yields have virtually no room left for any further tightening. With the aim of enhancing their returns, investors are confident that rental levels will realize their potential uplift and increase in 2017 as part of their natural recovery cycle, as has already happened in the majority of European Markets. Below we can find a graph showing the yield levels of each RE asset:

Figure 18

RE yields evolution



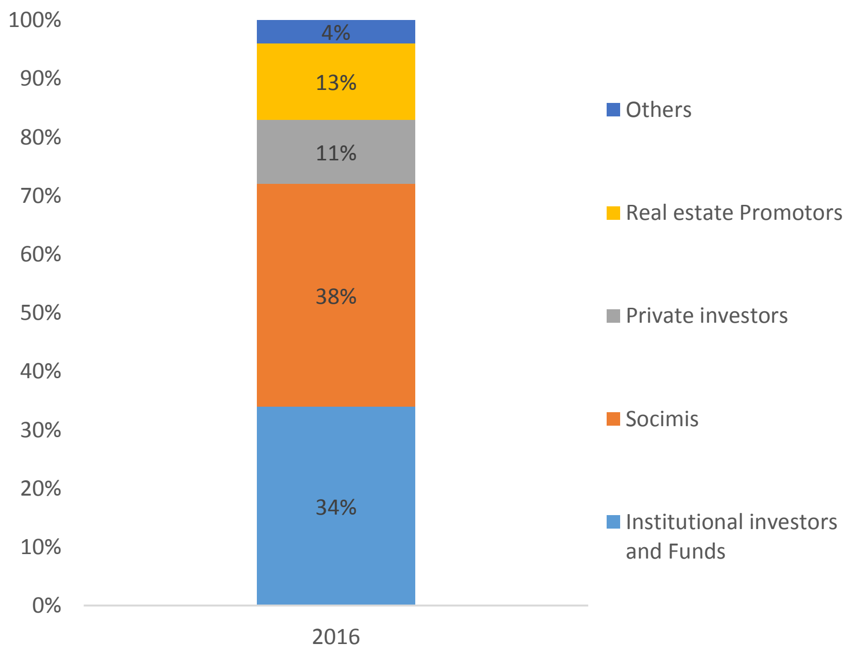
Source: JLL

In terms of type of investors, international investors remained very active, accounting for 40% of the total investment figure, with US investors being on the top of the list.

The breakdown of the real estate investment in Spain follows as:

Figure 19

Real Estate investment breakdown in Spain



Source: CBRE and own elaboration

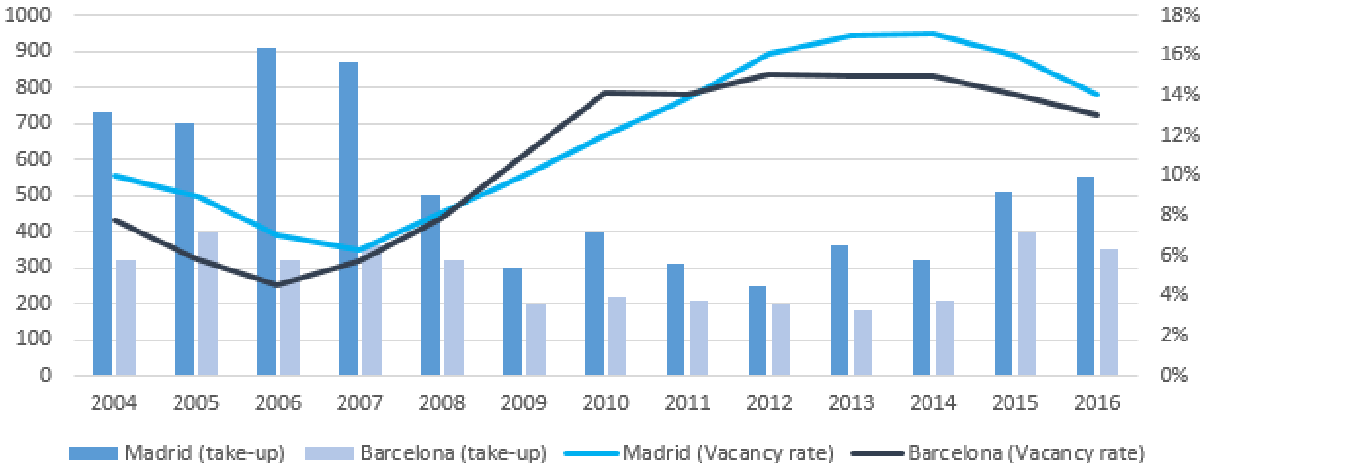
5.1.1 Offices

According to CBRE, since 2013 Madrid and Barcelona's office market has been recovering from the crisis as the economy and the job market has been increasing during these last 5 years. Both Barcelona and Madrid are the cities with the highest increase. The business growth expectations and macroeconomic variables have led to an increase of the space of the offices. CBRE affirms that offices rents are at their lowest in the property cycle in almost every area of the city but in the Core-Prime area. During the most difficult years of the crisis, firms focused on reducing costs and space. However, this situation is being reverted back as the Spanish economy is improving and companies are growing and investing more. In fact, companies are now trying to take more space in the same building where they operate or even in other buildings. This situation has led to a new scenario where companies require more square meters and Real Estate companies are benefiting from this as their vacancy rates are decreasing and their occupancy rates increasing. Both the vacancy rate and availability are dropping.

In 2016, investors showed a clear interest in all sectors, however, as in 2015, offices proved the most attractive asset class (40% of total RE investment), posting an investment volume of only over EUR4.8bn. However, this figure was below the level reached in 2015 (EUR5.5bn), in contrast to all other sectors where the volumes for 2016 were higher than those seen in 2015.

Figure 20

Offices take –up in Madrid and Barcelona



Source: CBRE and own elaboration

According to JLL, the CBD areas of Madrid where the square meters are more demanded and the price is higher are: Paseo de la Castellana and its nearby areas. On the other hand, Barcelona's CBD areas are: La Diagonal and Gran Vía de las Corts Catalanes and its nearby areas.

Below we can find the different prime rents in Madrid and Barcelona depending on the zone, being CBD the best area (centric) and periphery (outside the center)

Figure 21

Sqms and prime rents in Madrid

Zone	Sqm	%total	Take-up	%total	Vacancy Rate	Prime Rent	YTD increase
CBD	3436	28%	38,9	32%	10,82%	27,25	1,90%
Secondary Centre	2472	20%	21	17%	11,40%	18,5	2,80%
A1 Motorway	2432	20%	16,3	14%	18,74%	14,75	0%
A2 Motorway	2336	19%	36,9	31%	19,52%	14,25	0%
A6 Motorway	1142	9%	5,8	5%	10,44%	14	1,80%
Periphery	545	4%	1,2	1%	28,21%	7,75	0%
Total Madrid	12363	100%	120,1	100%	16,52%		

Source: JLL and own elaboration

Figure 22

Sqms and prime rents in Barcelona

Zone	Sqm	%total	Take-up	%total	Vacancy Rate	Prime Rent	YTD increase
CBD	801	14%	12,64	16%	6,00%	21,25	1,50%
City Centre	2404	43%	29,385	37%	9,00%	17,5	1,00%
NBA	1175	21%	26,21	33%	19,00%	18	1,00%
Periphery	1207	22%	11,78	15%	19,00%	10,5	0,50%
Total Barcelona	5587	100%	80,015	100%	13,25%		1,00%

Source: JLL and own elaboration

Figure 23

CBD areas in Madrid and Barcelona

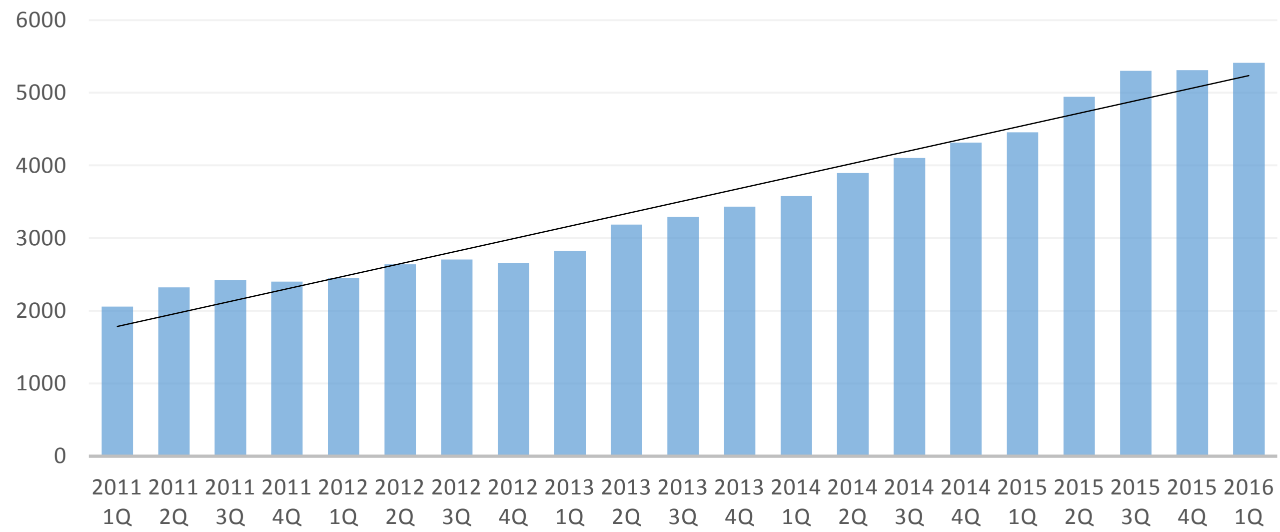
Source: BBVA Equity Research

5.1.2 Logistics

In 2017 the increase in e-commerce will continue to improve the logistics sector in Spain. Given the strong e-commerce figures in Spain (+150% YoY from 2011 to 2016), it is clear that the logistics sector will have to adapt to this new demand. That's why the number of warehouses and companies that need warehouses is increasing every year in Spain.

Figure 24

e-Commerce in Spain (units in thousands €)



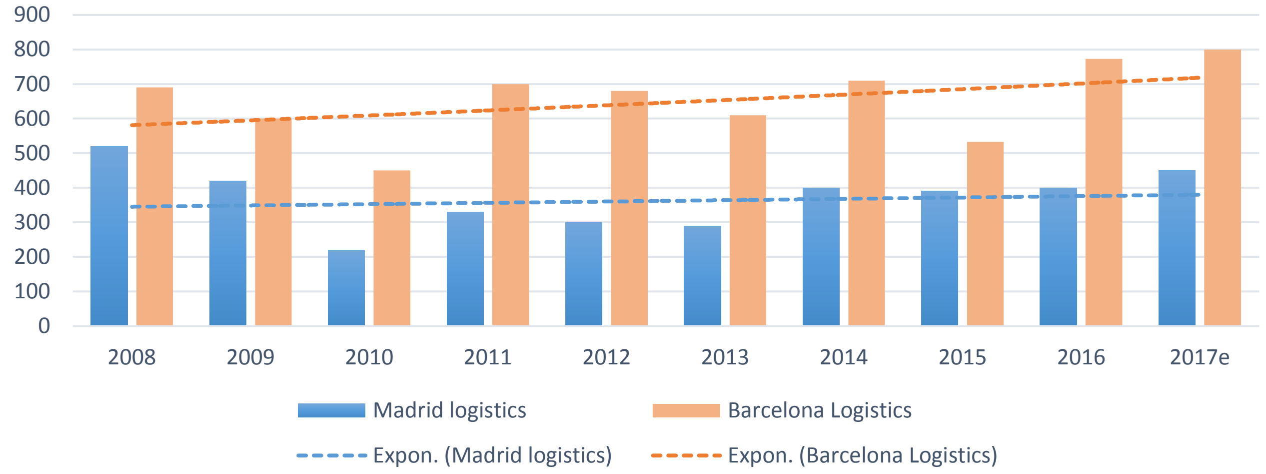
Source: INE and own elaboration

In 2015 the logistics market started to recover from the financial crisis and it has been increasing since then, reaching EUR1.4bn in investment.

According to Knight Frank, Barcelona continued to be the number one logistics hub in Spain, achieving a record take-up of 773.000 sqm in 2016 (+45% compared to 2015). On the other hand, Madrid remained at similar levels to the ones registered in 2015 at 400.000 sqm, although CBRE expects that this figure will increase to 450.000 sqm in 2017.

Figure 25

Madrid and Barcelona logistics take-up (units in thousands of sqm)



Source: Knight Frank and own elaboration

The other Spanish cities that have registered good levels are: Valencia (130.000 sqm) and Zaragoza (60.000 sqm). The rest of the Spanish cities do not have very high levels of sqm in the logistics sector.

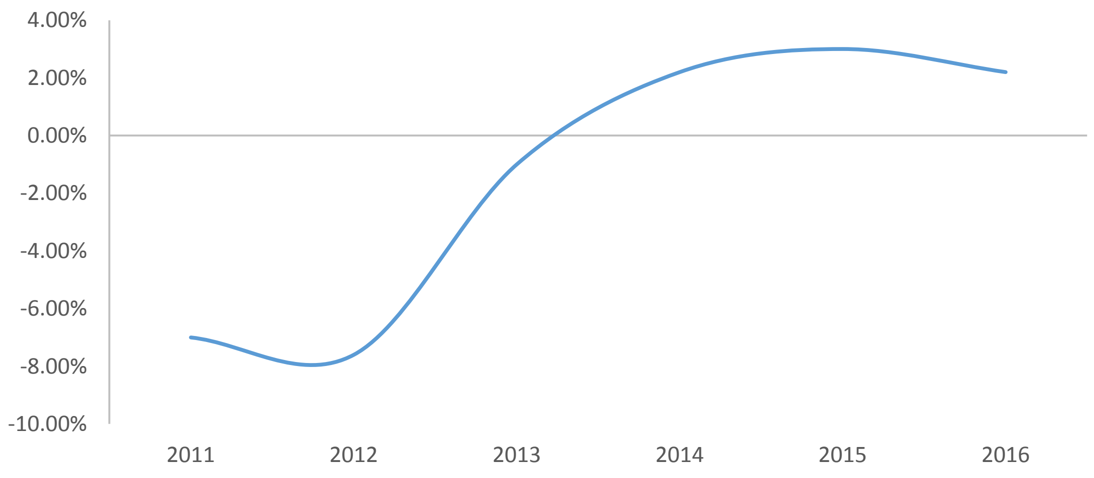
The featuring logistics projects that have been registered in 2016 have been: two turn-key projects in San Fernando de Henares for Amazon and XPO in Madrid and the new Amazon warehouse in El Prat de Llobregat (Barcelona). As we have said previously, we can clearly see how important is e-commerce for logistics and how important are these type of companies such as Amazon or Argos.

5.1.3 Retail (Shopping Centers + High Street)

The recovery of the Spanish economy and the improvement of retail sales have led to an increase of 3.6% in the Retail sector in Spain. According to JLL, these fundamentals are expected to remain favorable, although growth will remain a bit slower than in previous years. All Retail sectors have grown with the exception of the luxury sector.

Figure 26

Retail sales growth



Source: CBRE and own elaboration

The slowdown in activity by big players can open the door for new brands to enter the Spanish high street. According to CBRE, the retailers are expected to focus not only in Madrid and Barcelona but also in other cities. Therefore, cities such as Malaga, Seville, Bilbao or Valencia will start seeing an increase in both rents and investment in the high street retail sector.

The sector is also innovating in terms of ways of shopping. For instance, new methods of delivery such as Click&Collect or Drop-Off points and new methods of payment such as via internet or mobile have been implemented in the last 5 years. It is expected that these type of innovations will continue in the forthcoming years.

Furthermore, companies are becoming every day more and more digitalized. In fact, companies are focusing on studying consumer's habits and behaviors. Here it is where Big Data plays a key role to make these analysis.

The registered Retail investment reached EUR3.8bn thanks to the acquisition of Metrovacesa by Merlin Properties, which brought a large portfolio of Shopping Centers with it.

The shopping center market is expected to remain with no changes. Last year, 7 shopping centers were opened (306.000 sqm) which accounts for the same amount that the last 2 years together.

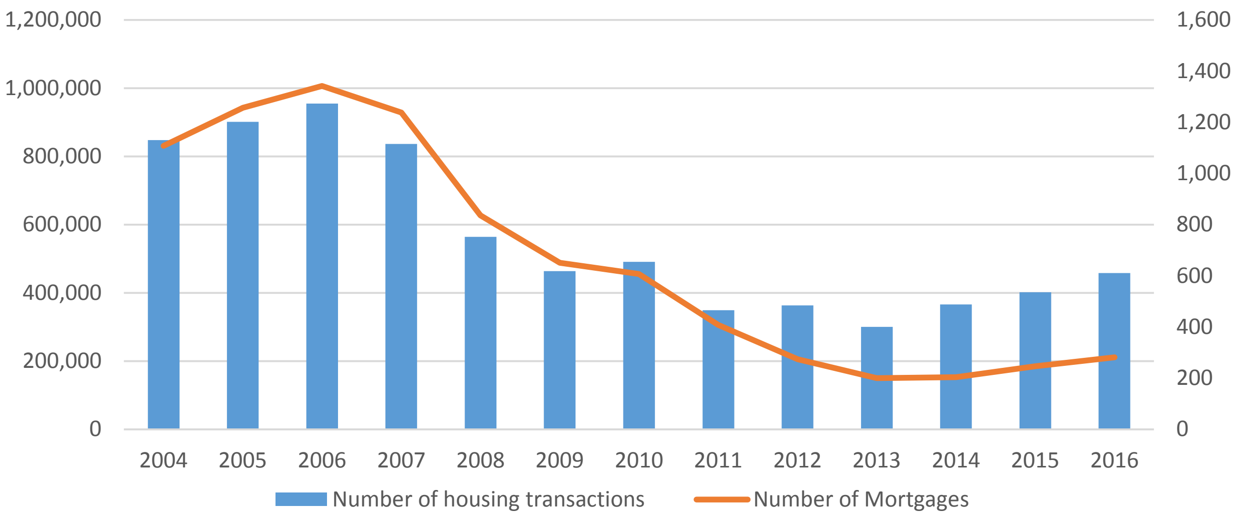
Retail high street investment activity is also optimistic thanks to demand from family offices and private investors.

5.1.4 Residential

In 2016 the housing demand increased compared to 2015. The positive economic environment that Spain is going through has help this improvement. With less unemployment rate, people are able to consume more and banks are more likely to give mortgages as the economy is going upwards. According to INE, the number of housing transactions during 2016 registered 400.000 transactions, reaching the same level as in 2010. In addition, the number of mortgages has been increasing slowly, reaching levels similar to those of 2012.

Figure 27

Housing transactions and mortgages



Source: INE and own elaboration

According to INE, the housing prices has increased in 2016 in all the Spanish regions, although they were more marked in Madrid, Catalonia and Baleares with increases of 6%. According to CBRE, the residential average price will increase in 2017 of around 5%, especially in Madrid and Barcelona. Low interest rates as well as consumer deleveraging and improved economic forecasts are driving residential investment in Spain.

According to CBRE, potential new-build housing demand in Spain will stand at around 170.000 - 180.000 units per year and approximately 15% will be built in Madrid where new-build housing demand will be the highest.

5.1.5 Hotels

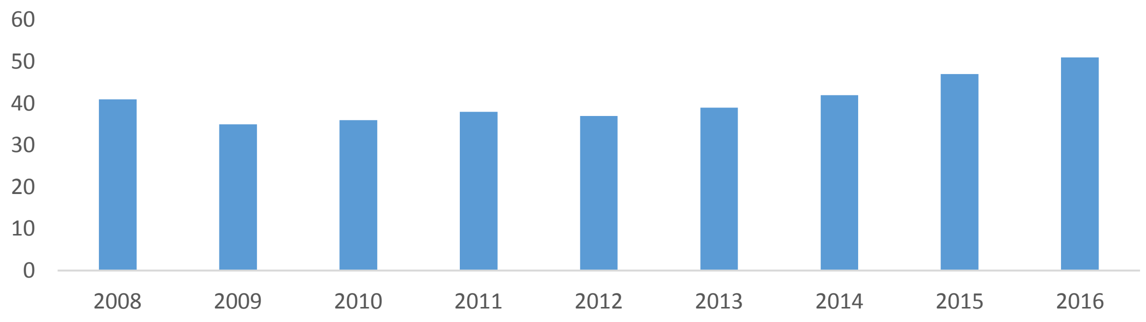
According to INE, tourism in Spain has received a record number of visitors registering 75mn. Domestic tourism also posted a positive performance due to the Spanish economic recovery.

Regarding the nationality of the tourists, the UK continues to be the greatest source of tourists in Spain and even though the pound has devaluated since the Brexit, the total British spending has increased by 12% (INE).

In terms of most visited regions, Catalonia and the Balearic Islands were on the top of the list, followed by Madrid. Due to the increasing tourism demand, the RevPAR (revenue per available room) increased by 10%, reaching levels of EUR52.

Figure 28

RevPAR (units measured in units €)



Source: INE and own elaboration

In terms of investment, the total amount suffered a slightly drop compared to the previous year according to CBRE. This was not because investors were not appealed but because the number of hotels for sale was smaller.

6. Analysis of the biggest Spanish SOCIMIs

In this section, I am going to analyze and compare the asset portfolios and strategies of the biggest SOCIMIs in Spain. I am also going to analyze Colonial, even though it is not a SOCIMI yet (but it will be soon) but it has recently been quoted in the IBEX 35 (replacing Banco Popular) and its market share is important in the RE sector in Europe. I am going to focus on the composition of their portfolios, specifically in each of their segments (offices, retail, hotels, logistics and residential).

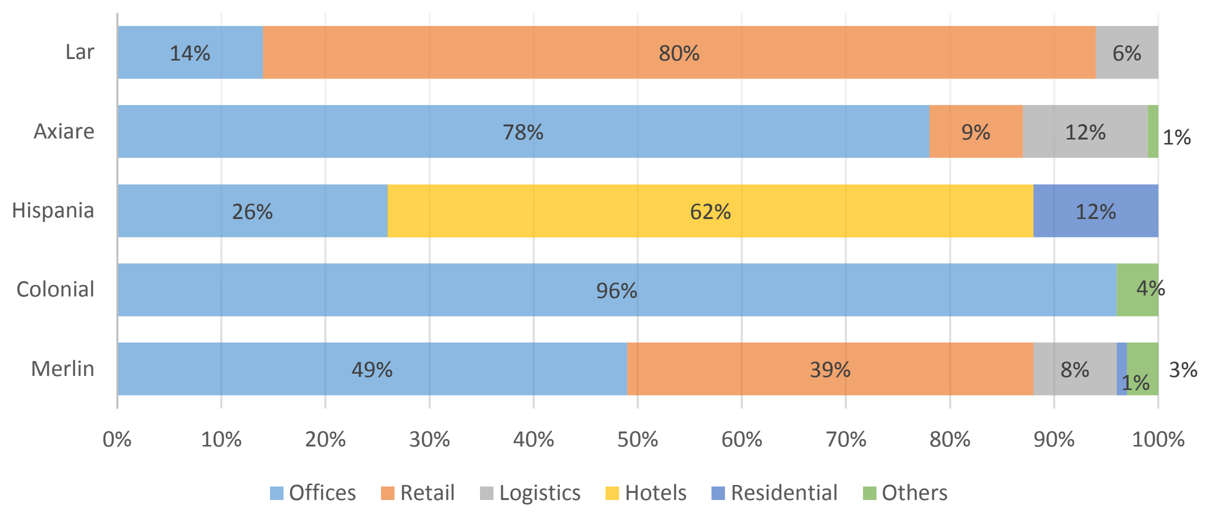
I am also going to take into consideration their cost structures and financing structure. Finally, we look at generic metrics such as GAV and NAV, portfolio yield and occupancy rates.

6.1 Overall portfolio:

Merlin has become the market leader in Spain following its acquisition of bulk portfolios (Testa, Metrovacesa, Saba logistics, Tree, etc.) plus individual assets in the last three years. This has been mainly due to its strong M&A strategy during this period. The other four players (Hispania, Axiare, Colonial and Lar) follow at a considerable distance, with portfolios between EUR1.0 - 2.0bn.

Figure 29

Breakdown of the main Spanish SOCIMIs portfolio



Source: Company webpage and own elaboration

According to Haitong research, portfolio strategies in real estate can generally be classified as:

a) **Core or Core-Plus**: assets with good quality and location, and solvent tenants, with low risk and low return expectations.

b) **Value Added**: assets that need some active management (refurbishment, renegotiation of tenant contracts or financial restructuring), with medium risk/return expectations;

c) **Opportunistic**: assets that require major action (new developments, major restructuring) or that are situated in non-established areas, with a higher risk/return relationship.

6.2 Different types of strategies of the main Spanish SOCIMIs

- Colonial. Its portfolio is mostly Core. It is just focused on offices, having presence in three cities: Paris (61%), Madrid (22%) and Barcelona (14%). In addition, its assets are mainly located in the prime central business areas of the three cities.

- Merlin. At the IPO, Merlin defined itself as Core/Core-Plus. Merlin's main strategy is based on M&A transactions, having grown its assets from 0 to EUR10.0bn in 3 years. With the acquisitions made over this period, especially Metrovacesa, the average quality of the portfolio has diluted so it can be called less Core than in the beginning. From the segment point of view, Merlin has a diversification strategy, with a strong presence in offices, street retail, shopping centers, and logistics. Due to its large size, Merlin has a leading position in these segments, and a capacity to influence the market. It also has exposure to residential, hotels and car parks, coming from the companies acquired, but these are treated as non-core and are being sold. In fact, Merlin has already sold its hotel portfolio to Fonciere des Murs for EUR535mn.

- Hispania. At the IPO, Hispania defined itself as a diversified real estate company looking for a presence in residential, offices and hotels, with an opportunistic approach. Initially, it was not a SOCIMI, as it wanted to preserve flexibility to make opportunistic investments. It became a SOCIMI in 2016 and currently it focuses on Spanish hotels.

- Axiare. This company was mainly focused on a diversified portfolio strategy, with exposure in offices, logistics, retail and hotels. The company currently has the largest exposure to new projects and refurbishments, although recently it has made two acquisitions that correspond more to the definition of 'core' assets. Axiare is reducing its presence in retail and hotels and is focusing more on offices and logistics.

- Lar España. The company had a diversified portfolio strategy, especially focusing on shopping centres. Lar has exposure to residential, logistics and offices. It is expected that Lar will focus mainly on shopping centres and reduce its presence in the other segments.

6.3 Net Rental Yield

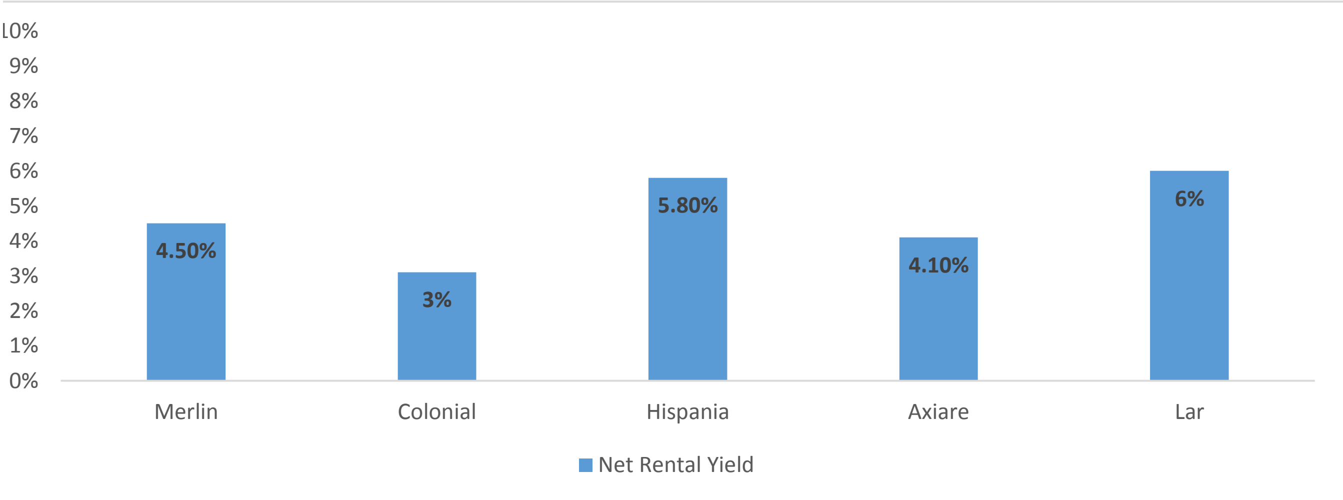
Lar and Hispania have the highest yield (6.0% and 5.8% respectively). On the other hand, Colonial has the lowest yield with a 3.1%. Lower yields can be a reflection of either:

a) A low risk profile - quality assets in good locations - this is the case of Colonial

b) Lower rents than normal. This can happen because there are low occupancy rates or lease contracts which are under-rented. On the other hand, a high net rental yield means either a high risk profile (in asset quality, location or asset segment) or an over-rented portfolio.

Figure 30

Net Rental Yield comparison



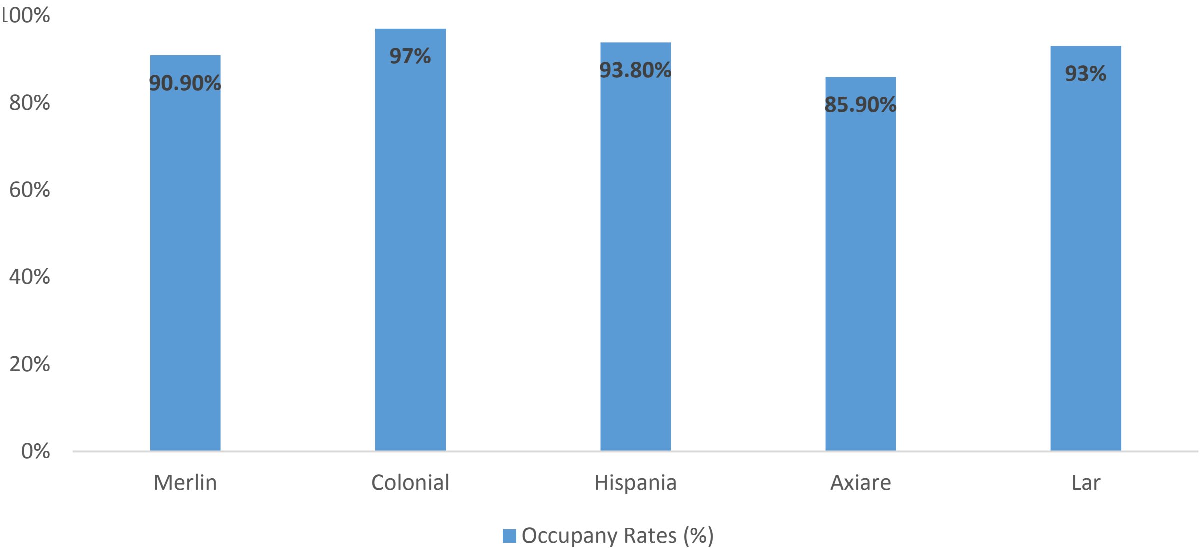
Source: Company webpage and own elaboration

6.4 Occupancy Rates

In terms of occupancy, Axiare and Merlin have lower ratios than the rest. In the case of Axiare, the low level of occupany rate is mainly due to the renewed buildings that has finished recently. In the case of Merlin, the vacancy corresponds mainly to the Metrovacesa's portfolio, which has worsen the overall occupancy ratio of its portfolio. The rest of the companies have a occupany rate average of 95%.

Figure 31

Occupancy rates comparison



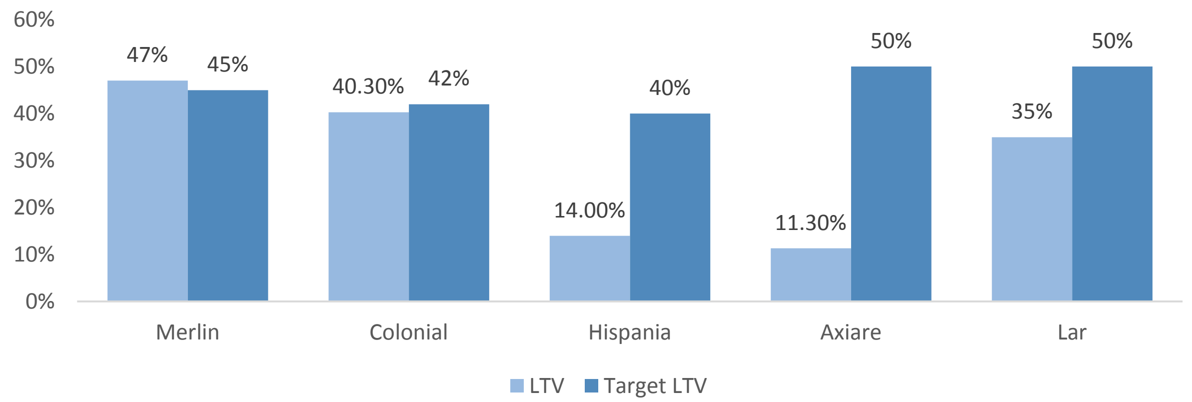
Source: Company webpage and own elaboration

6.5 Debt structure

The five companies have defined target loan-to-value ratios of 40% to 50%. According to EPRA, this is a bit more aggressive than the 38% average LTV for the European listed real estate companies. Merlin and Colonial already have a normalized debt structure, with LTV of 47% and 40%, respectively, in September 2016.

Figure 32

LTV Comparison



* LTV: % of debt used to acquire an asset

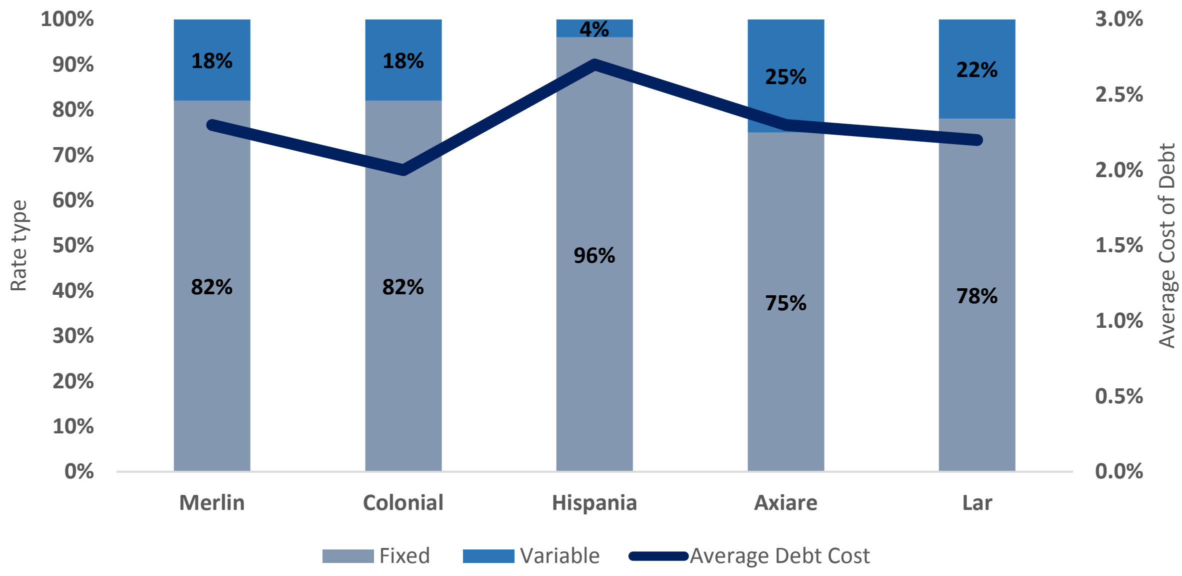
Source: Company webpage and own elaboration

The other three companies are still below their targets as their portfolios are still being built up. This means that these 3 companies may have a higher potential growth than Merlin and Colonial. However, it may also end up being risky for these 3 companies, as the market is much more competitive than 3 years ago, and they are “obliged” to invest in order to keep growing and reach their Target LTV.

Axiare has recently announced some acquisitions (Capgemini headquarters, offices in Madrid and Barcelona) of around EUR140mn, raising its LTV from 11% to around 35%.

Figure 33

Debt structure comparison



Source: Company presentation and own elaboration

As we can see in the graph, the companies’ debt structure is composed of more fixed costs than variable costs. The average fixed cost for the five companies is around 80% compared to the variable cost which is around 20%. Thus, if there is a potential increase in interest rates, these companies won’t be affected that much as most of its debt costs are fixed. The company that would suffer the least if interest rates increase would be Hispania, having variable costs of 4%. In terms of average cost of debt, Colonial has the lowest cost of debt (2%) compared to Hispania that has the highest (2.5%). Overall, the average cost of debt for the 5 SOCIMIs is around 2.3%, which is really low.

Figure 34

Overhead costs comparison

	General expenses	Cash bonus to senior management	Senior management remuneration	Calculation	Payment
Merlin	Overheads < 0.6% NAV (0.55% from 2020)	Only limited by the overheads cap	FY16: EUR9mn (10 managers)	If they achieve a 6% return for the shareholders	Paid anually in shares
Axiare	Overheads < 1% of raised capital	Max 25% of fixed salary	FY16: EUR6mn (6 managers)	If they achieve a 10% return for shareholders	Paid anually in shares
Colonial	-	Max 100% of fixed salary	FY16: EUR3mn (6 managers)	Based on meeting cashflow objectives	Paid anually in shares

Source: Company presentation and own elaboration

6.6 Portfolios Comparison

I will now compare the portfolios, segment by segment, starting with offices, and using the latest data of 2016.

6.6.1 OFFICES

Merlin is the largest player in Spain, with a good quality portfolio. However, the merger with Metrovacesa has diluted the average quality of its portfolio as Metrovacesa has more peripheral assets than Testa. Merlin has a very strong presence in Madrid's N-I area, which is the most likely to benefit if there is a strong rise in demand, although we do not think this will be imminent. The occupancy rate in offices was 85%, and the average rent level was EUR16.5/sqm/month.

Figure 35

Offices comparison

	Merlin	Colonial	Hispania	Axiare	Lar
GAV (Eur Mn)	**4.173**	**1.899**	**444**	**543**	**137**
GLA, sqm	1.159.750	422.876	153.621	150.807	20.345
# Assets	**84**	**38**	**25**	**12**	**5**
Occupancy rate %	**85%**	**96%**	**84%**	**77%**	**85%**
GLA/assets sqm	13.807	11.128	6.145	12.567	4.069
GAV/assets €mn	50	50	18	45	27
NRI yield %	**4,1%**	**3,8%**	**2,7%**	**3,7%**	**4,3%**
Madrid (%)	82%	63%	78%	88%	85%
Barcelona (%)	18%	37%	22%	12%	15%

Source: Company presentation, company webpage and own elaboration

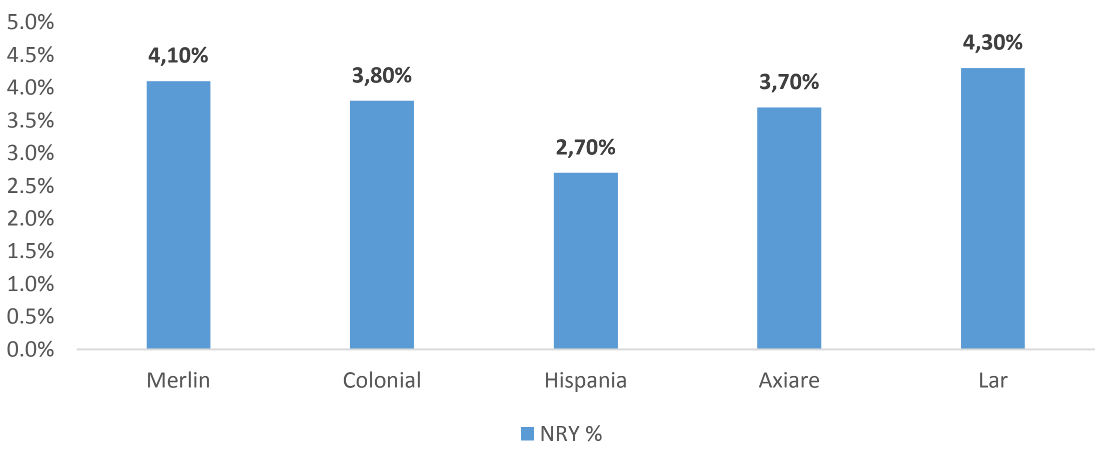
Colonial has the best office portfolio in Spain. Most of the assets are located in the CBD of Madrid or Barcelona (60%), which are the cities with the highest demand, and its occupancy rate is the highest (96%). Furthermore, the net rental yield (NIY 3.8%) is lower than Merlin's. Colonial has a bigger presence in Barcelona (37%) than the others, which reduces its average rent level (EUR16.3/sqm/month) as Barcelona rents are around 25% lower than Madrid rents, according to CBRE.

Axiare' office assets have been acquired individually, instead of bulk portfolios. Most of these assets have been recently refurbished as we mentioned before. The average rent and value per sqm are very similar to Merlin's. Its occupancy rate is low at 77%, although it is expected to grow in 2017, as these assets have already been refurbished.

Hispania and Lar have smaller office portfolios, and more exposed to peripheral locations, with only 20% and 10% respectively located in the CBD, on our criteria. They also have smaller buildings and lower rent levels compared to the other three companies.

Figure 36

Offices net rental yields comparison



Source: Company presentation, company webpage and own elaboration

6.6.2 RETAIL

I am going to compare the retail portfolios of Merlin, Lar and Axiare. Hispania and Colonial do not have a presence in this business line. Merlin has two types of retail assets: high street retail and shopping centers.

Merlin's high street assets are mainly composed of the BBVA branch portfolio, which provides high stability and recurrent cash-flow, with triple-net rents that are revised annually at a multiple of 1.5x EU inflation. This portfolio consists of 880 bank branches and five buildings leased to BBVA on a long-term contract mandatory until 2030, extendable to 2040. This is the most valuable item for Merlin as the average rent in this portfolio is Eur18/sqm, which is over-rented at current market levels (+ 20%). Apart from the BBVA branches, Merlin acquired a portfolio of 33 supermarkets leased to Caprabo until 2023. Overall, the high street portfolio yields a 4.8%.

Figure 37

High Street Retail comparison

	Merlin Retail	Lar Retail	Axiare Retail
GAV (Eur Mn)	**2040**	**847**	**121**
GLA, sqm	450.611	353.709	68.490
# Assets	**919**	**16**	**4**
Occupancy rate %	**100%**	**93%**	**96%**
GLA/assets (sqm)	490	22.107	17.123
GAV/assets (Eur Mn)	2,2	52,9	30,3
NRI yield %	**4,8%**	**6,2%**	**5,4%**
Lease period (years)	20	3	4

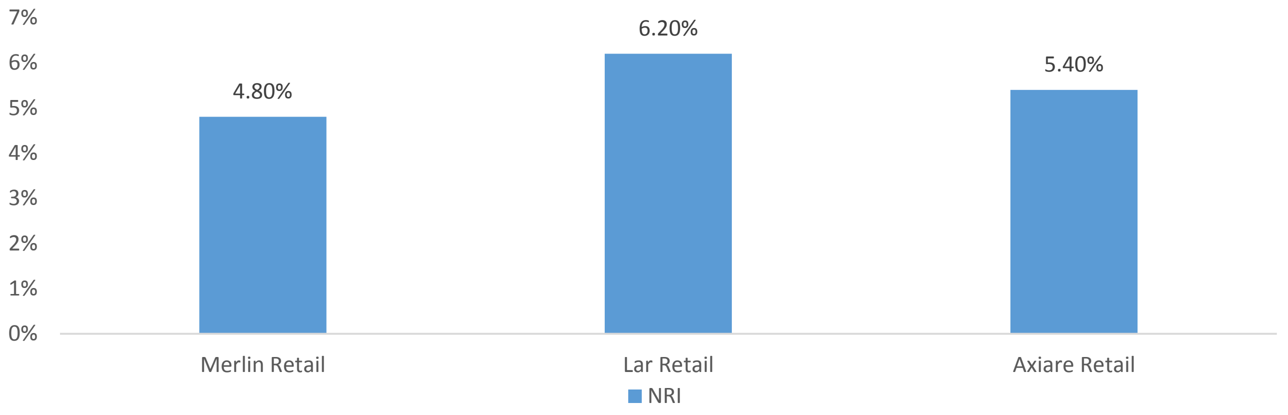
Source: Company presentation, company webpage and own elaboration

On shopping centers, Merlin is the #2 player in Spain, behind Unibail Rodamco. The acquisition of Metrovacesa increased its size although with a lower quality than its previous retail portfolio: smaller assets, with more vacancy and lower rent levels.

Lar is a shopping center specialist and has become one of the top 3 Spanish players, with an asset by asset acquisition strategy. Its portfolio includes 12 shopping centers with 353k sqm plus 4 retail warehouses with 39k sqm. Lar's shopping centers are situated mainly in secondary cities in Spain (Alicante, Albacete, Lugo, Vigo, etc.) with less competing centers. Lar's portfolio has the highest net rental yield (6.1%).

Figure 38

High Street Retail net rental yields comparison



Source: Company presentation, company webpage and own elaboration

For Axiare, retail is not a core segment. It owns 1 shopping centre in Villalba, Madrid, and 3 retail warehouses, with a total of 68,000 sqm. It offers a net yield of 5.4%, which is in between Merlin's and Lar's.

6.6.3 HOTELS

Hotels are not as common as the other assets in real estate investment, but they are becoming more dynamic in Spain due to a growing demand in tourism in Spain in the last ten years. Investors traditionally focused on urban hotels in big cities such as Madrid or Barcelona. Hispania focuses on resort hotels rather than urban hotels. Hispania is the only big SOCIMI that focuses on these type of assets. Merlin had hotels previously but they were sold to Fonciere des Murs in December 2016. Hispania's hotels provide a net yield of 8.3%

Figure 39

Hispania hotel portfolio

	Hispania
GAV (Eur Mn)	1020
# Assets	**32**
# rooms	9170
NRI yield %	**8%**
WAULT	11
Rent / room	**815**

% urban	9%
% resort	**99,9%**

Source: Company presentation, company webpage and own elaboration

6.6.4 LOGISTICS

Logistics is a complementary segment for Merlin, Axiare and Lar, representing 8%, 12% and 2% of their respective portfolios. This asset class has gained interest in the last few years with the growth in e-commerce and home deliveries. Logistics can work as a hedge to retail real estate assets. Merlin has the largest logistics portfolio of the three with a gross asset value of EUR479mn and a number of 19 warehouses.

Figure 40

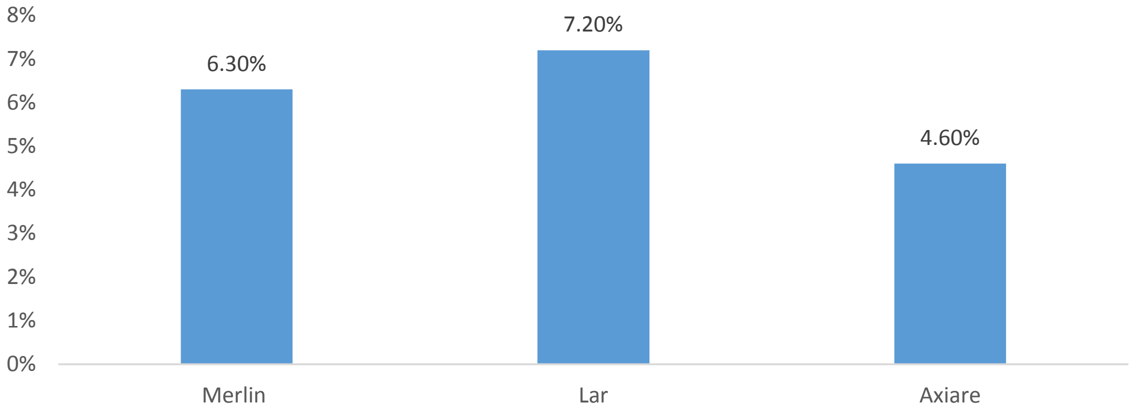
Logistics portfolio comparison

	Merlin	Lar	Axiare
GAV (Eur Mn)	**479**	**74**	**147**
GLA, sqm	450.611	353.709	68.490
# Assets	**19**	**5**	**9**
Occupancy rate %	**98%**	**100%**	**88%**
GLA/assets (sqm)	23.716	70.742	7.610
GAV/assets (Eur Mn)	25	15	16
NRI yield %	**6,3%**	**7,2%**	**4,6%**

Source: Company presentation, company webpage and own elaboration

Figure 41

Logistics net rental yields



Source: Company presentation, company webpage and own elaboration

6.7 Comparison by Multiples

If we compare the Spanish SOCIMIS amongst them in terms of multiples, Merlin is the one which is trading at a better P/E ratio. Its P/E ratio for 2017 is 18.7x and for the following year it is 15.9x. These multiples are lower than the average (22.7x in 2017 and 16.7x in 2018). This means that analysts are expecting that Merlin will post higher earnings in the following years and that the company won't invest as much as the other SOCIMIs. This reflects the LTV of 45-50% that Merlin has already achieved. We can say that Merlin's stock is cheap compared to the others.

In terms of dividend yield, Lar España is expected to post solid dividend yields of 4.7% in 2017 and 7% in 2018, according to the analysts, which are higher than the mean (3.8% in 2017 and 5.3% in 2018). Merlin will also register solid dividend yields of 4.2% in 2017 and 4.7% in 2018.

In regards to ND/EBITDA, Hispania and Axiare have the lowest ratios, as their level of debt is much smaller than the rest of the SOCIMIs. As we said previously, their LTV ratios are around 20% which means that they have just needed 20% of debt to get their real estate assets. It is expected that this two companies will increase their LTV ratios as they have a clean debt structure and they are able to get financed in order to grow and get more assets.

Figure 42

Comparison by multiples between Spanish SOCIMIs and European/US REITs

Name	Market cap. (EUR mn)	EV/EBITDA		EV/EBIT		P/E		ND/EBITDA		P/BV		DY	
		2017e	2018e	2017e	2018e	2017e	2018e	2017e	2018e	2017e	2018e	2017e	2018e
Socimis (Spain)		**24.5x**	**22.2x**	**21.4x**	**19.7x**	**23.0x**	**18.3x**	**10.9x**	**10.3x**	**1.0x**	**1.0x**	**4.1%**	**4.9%**
MERLIN PROPERTIE	5,407.1	25.2x	23.3x	26.4x	23.2x	19.2x	17.2x	12.3x	11.5x	1.0x	1.0x	4.1%	4.6%
INMOBILIARIA COL	2,943.5	32.7x	30.1x	33.4x	31.3x	27.9x	25.7x	15.2x	14.1x	1.1x	1.0x	2.3%	2.6%
LAR ESPANA REAL	715.2	23.7x	21.0x	12.6x	11.6x	22.0x	10.5x	10.8x	10.1x	0.8x	0.8x	4.9%	7.3%
HISPANIA ACTIVOS	1,603.7	16.4x	14.5x	13.3x	12.7x	23.0x	19.9x	5.4x	5.2x	1.1x	1.0x	5.3%	5.0%
AXIARE PATRIMONI	1,236.5	28.3x	22.4x	20.7x	18.8x	25.5x	25.0x	9.5x	8.3x	1.1x	1.1x	1.9%	2.6%
EUROPE		**22.7x**	**22.1x**	**22.6x**	**21.9x**	**13.9x**	**13.2x**	**8.4x**	**8.4x**	**0.7x**	**0.7x**	**4.5%**	**4.7%**
UNIBAIL-RODAMCO	23,232.2	25.9x	25.2x	25.9x	25.0x	0.2x	0.2x	9.3x	9.0x	0.0x	0.0x	4.6%	4.9%
KLEPIERRE	11,808.8	22.2x	21.5x	21.4x	20.6x	0.2x	0.1x	8.6x	8.4x	0.0x	0.0x	5.1%	5.4%
GECINA SA	8,674.7	29.7x	28.0x	29.8x	28.2x	27.5x	25.6x	10.1x	10.1x	1.0x	0.9x	3.7%	3.8%
ICADE	5,490.9	18.8x	18.0x	18.7x	18.2x	16.0x	15.3x	8.5x	8.4x	1.7x	1.8x	5.6%	5.8%
LAND SECURITIES	9,450.5	21.9x	21.5x	21.7x	21.2x	22.2x	20.8x	5.8x	6.0x	0.7x	0.8x	3.5%	3.8%
BRIT LAND CO PLC	7,391.6	18.0x	18.6x	18.0x	18.2x	17.1x	17.4x	8.4x	8.4x	0.7x	0.8x	4.6%	4.8%
USA		**18.5x**	**17.8x**	**29.0x**	**27.4x**	**17.6x**	**18.7x**	**3.8x**	**3.7x**	**2.2x**	**2.1x**	**4.2%**	**4.4%**
SIMON PROPERTY	42,826.3	18.8x	17.8x	23.4x	21.5x	23.6x	21.9x	6.5x	6.1x	5.6x	5.1x	4.6%	4.8%
PUBLIC STORAGE	32,612.5	22.2x	21.2x	28.5x	27.2x	28.1x	26.5x	0.2x	0.4x	1.7x	1.7x	3.9%	4.1%
BOSTON PROPERTIE	16,807.4	21.0x	19.9x	38.5x	35.2x	0.5x	0.4x	6.3x	6.1x	0.0x	0.0x	2.5%	2.6%
LASALLE HOTEL PR	3,034.2	12.1x	12.3x	25.5x	25.8x	18.0x	25.8x	2.3x	2.4x	1.4x	1.5x	5.9%	5.9%

Source: Bloomberg best estimates and own elaboration

If we compare the main Spanish SOCIMIs with the most important REITs of Europe (Germany, France and United Kingdom) and the USA we find that both the US/EU REIT markets trade at better multiples than in Spain, being the US the best market. This makes sense, as REITs were introduced in the US in 1970 whereas SOCIMIs where introduced in Spain in 2009/13 and they are still growing.

As shown in the below graph, the European REITs are the cheapest companies, trading at 13-14x P/E, followed by the US REITs (18-19x P/E) and the Spanish SOCIMIs (19-23x P/E). In terms of dividend yield, the 3 markets offer more or less the same dividend although the EU offers a slightly higher dividend yield (+4.5-5% vs. 4-5% in Spain and 4-4.5% in the US). With regards to net debt, the American REITs are the ones less indebted, reaching multiples of 3.5x ND/EBITDA whereas the Spanish SOCIMIs are the ones with higher amount of debt. Finally, if we have a look at the market capitalization, we see that the Spanish SOCIMIs are much smaller (EUR0.7-5.4bn) than the European (EUR5.5-23bn) and the American (USD3-43bn).

6.8 Overhead costs as a threat for investors

One of the biggest threats for investors is the way SOCIMIs pay the management team in concept of "Management Bonus". This is something that needs to be taken into account as investors need to be aware of how the management team may behave in order to get a higher bonus. Merlin Properties is the SOCIMI that pays higher bonuses to the management team (EUR20mn in 2016), followed by Axiare (EUR10mn) and Colonial (EUR3mn). All the payments are made in shares and on an annual basis.

Merlin pays a higher bonus because the way Merlin calculates the payment is much more flexible than the other SOCIMIs. Merlin uses a 0.6% of the Net Asset Value as overhead costs in order to maintain and fix some assets. However, Merlin doesn't spend the whole amount of overheads and the money which is left, goes directly to the management team only if the company achieves a 6% hurdle return for the shareholders, which is easily achievable. The risk for the investor here is that the management team might be tented to invest in riskier assets in order to increase the Net Asset Value and increase the bonus.

Below we can find a table that explains the main differences among the management bonus distribution programs.

Figure 43

Overhead costs comparison

	General expenses	Cash bonus to senior management	Senior management remuneration	Calculation	Payment
Merlin	Overheads < 0.6% NAV (0.55% from 2020)	Only limited by the overheads cap	FY16: EUR9mn (10 managers)	If they achieve a 6% return for the shareholders	Paid anually in shares
Axiare	Overheads < 1% of raised capital	Max 25% of fixed salary	FY16: EUR6mn (6 managers)	If they achieve a 10% return for shareholders	Paid anually in shares
Colonial	-	Max 100% of fixed salary	FY16: EUR3mn (6 managers)	Based on meeting cashflow objectives	Paid anually in shares

Source: Company webpage, annual presentations and own elaboration

6.9 Expectations for 2017

It is expected that the number of SOCIMIs will continue to increase in 2017. However, given the fact that there are a lot of SOCIMIs competing in a limited market, it is expected that the number of M&A transactions of these vehicles will increase during this year. According to Spanish newspaper Expansion, due to the fact that the market is quite limited, SOCIMIs are pressured to increase its size and have the necessity to specialize in one of the different areas of real estate in order to obtain competitive advantages. Therefore, it is expected that the number of M&A transactions and the selling of non-core assets will increase exponentially in 2017.

The SOCIMIS will start selling the assets that are not interested in as the minimum leasing requirement (3 years) has expired, therefore they can start selling its non-core assets. Following CBRE's report, it is expected that investment vehicles coming from family offices and private banking vehicles will be acquired by the SOCIMIs in 2017, increasing the value for the shareholders.

In terms of investment, 2016 has been an incredible year for the real estate sector. According to Spanish newspaper Expansion, the activity of the real estate sector has reached its maximum levels in Spain in 2016, reaching EUR14.0bn. According to CBRE, the real estate market is still quite appealing for investors and it is expected to continue in line with 2016. CBRE expects that 2017 will continue to be an active year, reaching higher numbers than EUR10.0bn due to the higher appealing returns of the real estate market compared to other investments, the estimated economic growth in Europe and the better conditions for getting financed.

We have already seen the first strategic movements of the main SOCIMIs in Spain. For instance, Merlin Properties decided to divest its hotels business line and sold it to Fonciere des Regions (a French REIT) for EUR535mn. Merlin actually wants to focus on offices, high street retail and logistics. It has recently acquired the emblematic building "Torre Agbar" in Barcelona, paying EUR142mn. Hispania wants to focus on the hotel business line and it has started to sell its residential and office portfolio. Following the guidance of the main SOCIMIs, we can observe in the following graph how the SOCIMIs want to specialize in 2017.

M&A activity in the RE sector in Spain in 2016

Date	Target / Acquirer	Seller	Deal size (EURmn)
21/06/2016	Commercial Portfolio / Merlin	Banco Santander SA	1,673.00
27/12/2016	Hotels portfolio / Fonciere des Murs	Merlin Properties Socimi SA	542.00
02/12/2016	Adequa Office Building complex / Merlin	Adequa	380.00
15/09/2016	Gran Via Centrum Holdings SAU / Lar	Gran Via Centrum	145.00
19/10/2016	Axiare Patrimonio SOCIMI SA / Colonial	Axiare	135.66
12/12/2016	Office Building / Axiare	n.a	123.45
30/09/2016	Societe Fonciere Lyonnaise SA / Colonial	Reig Capital Group	110.65
14/03/2016	Two office buildings / Merlin	n.a	103.33
05/02/2016	Portfolio of logistics properties / Neinver SA	Zaphir Logistic Properties SA	87.00
20/09/2016	3 Shopping Centers / Activum SG Capital Management	Klepierre	61.00
27/09/2016	Teatro Coliseum & Teatro Lope de Vega / Stage Entertainment BV	Teatro Coliseum	58.00
26/01/2016	Suecia Hotel / Internos Global LLP	Explotadora de Hoteles EDTL SL	44.94
24/11/2016	McKinsey & Co Spanish HQ / Axiare	Mckinsey	41.80
27/12/2016	Calle Juan Ignacio Luca de Tena / Axiare	n.a	34.97
21/07/2016	Inversiones Inmobiliarias Oasis Resort SL / Hispania	CaixaBank SA	28.00
01/03/2016	3 Retail Parks / Ascencio	Sonae SGPS SA	27.30
18/04/2016	Portfolio of 4 retail warehouses / Axiare	n.a	19.96
02/12/2016	2 logistics warehouses / Axiare	n.a	14.16
18/07/2016	Later Deroser SL / Hispania	Later Deroser	11.00
			3,641.22

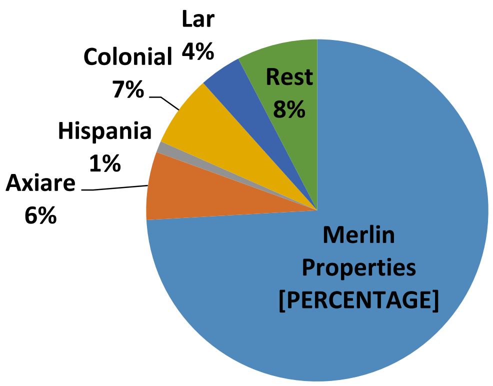
Source: Bloomberg M&A deals and own elaboration

The Real Estate M&A activity in Spain in 2016 was really solid, with deals of EUR3.6bn, 70% higher than last year (EUR2.2bn). So far, the Real Estate M&A activity in 2017 amounts by EUR1.4bn, although it is expected that it will reach around EUR4.0bn by the end of the year.

The most active player was Merlin Properties either buying companies/assets or selling portfolios with a total M&A amount of EUR2.7bn (representing 74% of the total M&A), followed by Colonial (EUR246mn, 7%) and Axiare (EUR234mn, 6%).

Figure 44

Main M&A players in the Spanish RE sector in 2016



Bloomberg M&A deals and own elaboration

7. Which SOCIMIs are best to invest in?

As we have previously analyzed, the RE sector in Spain has strongly recovered from the RE crisis suffered in 2008 and it is expected that it will continue to grow as the macroeconomics of Spain are very positive. We have also analyzed that the RE business lines that are performing the best are offices and logistics. Offices represent around 40% of the total RE investment in Spain and even though logistics represents much less than offices, it is expected that this RE business line will increase more than shopping centers, retail and hotels in the next forthcoming years in Spain due to the increasing demand evolution of the e-commerce.

Taking into account that these 2 business lines are expected to perform best, we should analyze which SOCIMI has invested the most in these 2 business lines in order to understand better their potential growth.

We can eliminate directly Hispania as this SOCIMI mainly focuses on hotels investments (80%) and Lar España as this company mainly focuses on shopping centers (60%). Therefore, we only have left 2 SOCIMIs: i) Merlin Properties which focuses on almost every business line but hotels (Offices 50% and logistics 8%); and ii) Axiare Patrimonio, whose portfolio is mainly composed of offices and logistics (Offices 80% and logistics 12%)

Therefore, I believe that these 2 SOCIMIs have higher potential growth than the others according to their invested portfolio. However, we should deeply analyze the financial statements of both companies in order to have a better understanding of their financial situation and see their potential growth with numbers.

7.1 Valuation of Merlin Properties

The valuation methodology that I used in deriving a target price for Merlin Properties is the Dividend Discount Model, due to the company's characteristics. As we know, the dividend stock valuation model is appropriate when:

- The company has a history of dividend payments. As a SOCIMI, Merlin is required to pay out 80% of taxable income as dividends. Although Merlin in that manner is quite conservative, and pays its shareholders eighty percent of their FFO instead of applying it to the Net Income. However, the level of dividends has increased to 90% in 2017 and it is expected to remain at this level in the following years.

In addition, I have also done a SoTP (DCF) valuation in order to see the value of the different business lines of Merlin.

7.1.1 Rent analysis

I have recalculated the rent that Merlin is going to receive in the following years, basing my estimations in the WAULT figure given by the company. The WAULT is the duration of the contracts that Merlin has with its Clients. I have calculated the rent/sqm that the company is receiving at the moment and the passant rent that Merlin will get once Merlin renews its contracts. It follows as:

Figure 45

Rent analysis

	WAULT	Rent/sqm in 2016	Passant Rent	Rent/sqm in 2020e
Offices	3,5 years	13,38	16	16,10
Logistics	4 years	3,67	4	4,49
High Street	22 years	22,33	18	23,88
Shopping Centers	2 years	16,32	18,6	20,71
Others	2 years	10,99	n.a	11,71

Source: Own elaboration

Merlin will increase its rents in every business line once it renews its contracts, as the rent/sqm that is receiving now is much lower than the passant rent levels. The only business line which is paying more than the market price is High Street Retail. High Street is Merlin Properties' most valuable asset, as it is a long term contract with BBVA until year 2039, which is paying EUR22/sqm. The rent received by BBVA is linked to a multiplicator of the inflation of 1.5. This means that if inflation increases by 2%, BBVA will actually pay 3% more. I consider that BBVA won't break this contract as there are strong penalties and it is not convenient for BBVA.

7.1.2 Overhead Management Bonus

The management bonus of Merlin is something very controversial for investors as it is something which is not well seen. Merlin spends 0.6% of its GAV in its overhead costs. However, Merlin doesn´t spend all this money in overheads; and the money which is left goes directly to the management team. In fact, Merlin spends around 30% in overheads and the 70% left is the bonus. This may incentive the management team to invest in risky assets in order to increase the GAV and get a higher bonus. However, Merlin has decided to reduce the overhead to 0.55% in 2018 and intends to reduce it even more to 0.5% in 2021. In my valuation, the management bonus accounts for EUR20mn in 2017e and EUR18mn from 2018e onwards.

7.1.3 Main Assumptions for the DDM model

The main assumptions that I have used in our DDM model are:

- Risk Free Return of 3.5%, being the 10-year Spanish Bond average of the last 5 years.
- Risk Premium of 5% as this is what the implied return for the market.
- Beta of 0.7 as I believe this company is less risky than the market. The Beta has been calculated with a Beta matrix. I have given ranks from -1 (being no risky) to +2 (being very risky) and calculated the average Beta.
- Cost of equity of 7%. This has been calculated using the CAPM model.
- Growth rate of 0% as I consider that Merlin is already big and it's quite difficult to look for growing alternatives.
- Debt/Equity structure of Debt (45.5%) and Equity (54.4%), considering the LTV of 45.5% reported by the company.
- Capex of EUR200mn, due to the recent acquisitions of the Torre Agbar and offices renewals in Barcelona. I have considered a CAPEX of 150 for the following years.
- The D&A has been calculated as a % of the total gross asset value.

Below is how I calculated the Beta. I have given different ranks from -1 (being no risky) to +2 (being very risky) and I have analyzed each of the main variables that I consider that are important for this company. I obtained an average Beta of 0.7, which means that Merlin is actually less risky than the market.

Figure 46

Beta Matrix calculation

Beta Matrix	**-1**	**-0,5**	**0**	**0,5**	**1**	**1,5**	**2**	
Management Team		×						
Sector						×		
Level of Debt					×			
Management fees						×		
Diversification	×							
CF Generation				×				
Liquidity			×					**Average Beta**
Total	**-1**	**-0,5**	**0**	**0,5**	**2**	**3**	**n.a**	**0,7**

Source: Own elaboration

7.1.4 Valuation using the DDM

I reached a target price of EUR11.73 / share using the DDM model, which implies a 4% upside potential. I have considered that Merlin will be in line with the FY17 guidance provided in 4Q16 and will give 90% of its FFO as dividends.

Figure 47

DDM valuation

		2017e	2018e	2019e	2020e	Terminal Value
Net Profit		455	431	457	481	
D&A		46	49	52	56	
% of sales		11,9%	11,3%	10,9%	10,3%	
FCFE		501	480	509	536	
Capex		-200	-150	-150	-150	
% of sales		-52,2%	-34,8%	-31,2%	-27,6%	
WC		-53	-63	-65	-2	
EFCF		248	267	294	384	5.895
Dividends		207	225	235	249	6.144
Discount factor		1,0	0,93	0,87	0,82	0,76
PV		207	211	205	203	4.687

Source: Own elaboration

Figure 48

DDM valuation price

Initial flow s	826
Final flow	4.687
EV	**5.513**
ND/(cash) inc. factoring	0
Equity value	**5.513**
Number of shares (million)	469,8
Target price (EUR/share)	11,73
Current price (EUR/share)	11,32
Upside potential	3,7%
Recommendation	Outperform

Source: Own elaboration

7.1.5 Main assumptions for the SoTP (DCF) valuation

The main assumptions that I have used in my model are different for each business line.

Figure 49

Main assumptions

	Offices	Shopping centers	High Street	Logistics	Hotels + Others
Growth rate	1%	1,5%	0,5%	2,0%	0,0%
Beta	0,9	0,8	0,65	1	1,2
WACC	5,3%	4,8%	5,4%	5,7%	6,2%

Source: Own elaboration

I believe that Shopping centers and Logistics are the two business lines which are going to increase the most as per the macroeconomics that I have mention in the previous section. In terms of Beta, I see that High Street is the less risky as per the occupancy rates which are 100% and the long-term contract until 2039 with BBVA.

7.1.6 Valuation using SoTP

I reached a target price of EUR12.02/share, which implies a 6% potential increase. I consider that the Office Business Line accounts for EUR5.2bn, the High Street Business Line accounts for EUR2.2bn, the Shopping Center Business Line accounts for EUR1.8bn, the Logistics Business Line accounts for EUR800mn and finally, the Other Business Line accounts for EUR241mn.

Figure 50

SoTP valuation

SoTP	Initial Flow	Final Flow	Enterprise Value
Offices	427	4.867	5.295
Shopping centers	150	1.670	1.819
High Street	339	1.871	2.210
Logistics	74	763	837
Hotels + Others	22	219	241
TOTAL	**1.012**	**9.390**	**10.402**

Source: Own elaboration

Figure 51

SoTP price

SoTP Analysis	
Initial flow s	1.012
Final flow	9.390
EV (Gross Asset Value)	**10.402**
ND/(cash)	-4.758
Equity value (Net Asset Value)	**5.644**
Number of shares (million)	469,8
Target price (EUR/share)	12,02
Current price (EUR/share)	11,32
Upside potential	6,1%
Recommendation	Outperform

Source: Own elaboration

7.1.7 Valuation Conclusion

I have reached 2 different prices with each type of valuation. The final target price will be the average of the 2 of them. My final target price is EUR11.88 / share which implies a 5% upside potential. My recommendation is outperform as I believe that even the limited potential growth of Merlin, its solid cash flow generation, strong dividend policy, good diversification and strong market share are very appealing to both domestic and international investors.

Figure 52

Final target price

Final Valuation	
DDM	11,73
SoTP	12,02
Price	**11,88**
Current market price	11,32
Recommendation	Outperform
Potential increase	5%

Source: Own elaboration

7.2 Valuation of Axiare Patrimonio SOCIMI

The valuation methodology that I used in deriving a target price for Axiare Patrimonio is the same that I used for Merlin Properties, due to the company's characteristics.

7.2.1 Rent analysis

I have recalculated the rent that Axiare is going to receive in the following years, basing my estimations in the WAULT figure given by the company. It follows as:

Figure 53

Rent analysis

	WAULT	Rent/sqm in 2016	Passant Rent	Rent/sqm in 2020e
Offices	2 years	10,20	14	13,50
Logistics	2 years	2,21	4	4,91
Others	3 years	10,14	n.a	13,29

Source: Own elaboration

Axiare will increase its rents in every business line once it renews its contracts, as the rent/sqm that is receiving now is much lower than the passant rent levels.

7.2.2 Overhead Management Bonus

The management bonus of Axiare is as controversial as Merlin's due to the implied risks that it implies. The annual cash bonus for senior management is capped at 25% of the fixed salary and depends on a series of objectives, which are not disclosed. Senior management is entitled to stock remuneration if the shareholder return is >10% (NAV growth plus dividend). Management can receive 20% of the NAV outperformance above 10%, in shares, with a lock-up of one year. The CEO gets 50% of the plan and other managers the other 50%.

In my valuation, the management bonus accounts for EUR10mn in 2017e and EUR12mn from 2018e onwards.

7.2.3 Main Assumptions for the DDM model

The main assumptions that I have used in our DDM model are:

- Risk Free Return of 3.5%, being the 10-year Spanish Bond average of the last 5 years.
- Risk Premium of 5% as this is what the implied return for the market.

- Beta of 0.9 as I believe this company is slightly less risky than the market but riskier than Merlin. The Beta has been calculated using the same approach used for Merlin's.
- Cost of equity of 8%. This has been calculated using the CAPM model.
- Growth rate of 1.5% as I consider that Axiare has a high potential growth within the office and logistics business lines.
- Debt/Equity structure of Debt (38%) and Equity (62%), considering the LTV of 38% reported by the company.
- Capex of EUR116.4, due to the recent acquisitions of 400 parking spaces, an office building in Madrid's prime CBD and the Capgemini headquarters.

Below is how I calculated the Beta. I obtained an average Beta of 0.9, which means that Axiare is actually slightly less risky than the market.

Figure 54

Beta calculation

Beta Matrix	**-1**	**-0,5**	**0**	**0,5**	**1**	**1,5**	**2**	
Management Team		×	×					
Sector						×		
Level of Debt					×			
Management fees						×		
Diversification				×				
CF Generation				×				
Liquidity					×			**Average Beta**
Total	**0**	**-0,5**	**0**	**1**	**2**	**3**	**n.a**	**0,9**

Source: Own elaboration

7.2.4 Valuation using the DDM

I reached a target price of EUR18.21 / share using the DDM model, which implies a 21% upside potential. I have considered that Axiare will continue to invest as its LTV has not reached 50% yet, which is the target that the company has set for the following years.

Figure 55

DDM Valuation ouflows

	2017e	2018e	2019e	2020e	Terminal Value
Net Profit	54	68	87	108	
D&A	0	0	0	0	
% of sales	0,0%	0,0%	0,0%	0,0%	
Capex	-116	-60	-10	-10	
% of sales	-30,4%	-14,0%	-2,1%	-1,8%	
WC	0	1	1	1	
EFCF	-62	9	77	99	1.755
Dividends	24	28	32	40	1.794
Discount factor	1,0	0,93	0,86	0,80	0,74
PV	24	26	27	32	1.331

Source: Own elaboration

Figure 56

DDM Valuation Target price

Initial flows	108
Final flow	1.331
EV	**1.439**
ND/(cash) inc. factoring	0
Equity value	**1.439**
Number of shares (million)	79,1
Target price (EUR/share)	18,21
Current price (EUR/share)	15,05
Upside potential	21,0%
Recommendation	Outperform

Source: Own elaboration

7.2.5 Main assumptions for the SoTP valuation

The main assumptions that I have used in my model for each business line follows as:

Figure 57

Main assumptions

	Offices	Logistics	Others
Growth rate	1%	2%	0%
Beta	0,9	1,0	1,2
WACC	5,6%	6,0%	6,7%

Source: Own elaboration

I believe that Logistics has a higher potential growth (+2%) than offices (+1%) although I believe that it is a bit riskier than Offices.

7.2.6 Valuation using SoTP

I reached a target price of EUR17.08/share, which implies a 13.5% potential increase. I consider that Offices accounts for EUR1.0bn whilst Logistics accounts for EUR500mn and Others accounts for EUR162mn.

Figure 58

Value of each business line

SoTP	Initial Flow	Final Flow	Enterprise Value
Offices	50	981	1.032
Logistics	10	491	501
Others	6	161	168
TOTAL	**66**	**1.634**	**1.700**

Source: Own elaboration

Figure 59

SoTP Analysis

SoTP Analysis	
Initial flows	66
Final flow	1.634
EV (Gross Asset Value)	**1.700**
ND/(cash)	-350
Equity value (Net Asset Value)	**1.350**
Number of shares (million)	79,1
Target price (EUR/share)	17,08
Current price (EUR/share)	15,05
Upside potential	13,5%
Recommendation	Outperform

Source: Own elaboration

7.2.7 Valuation Conclusion

I have reached 2 different prices with each type of valuation. The final target price will be the average of the 2 of them. My final target price is EUR17.64 / share which implies around 20% upside potential. My recommendation is outperform as i) Axiare still has to reach the 50% LTV target imposed by the management team and I believe that it can make further acquisitions in the near future; ii) its solid cash flow generation; iii) strong dividend policy; and iv) its strategy is focusing on Logistics and Offices which in my view are going to increase the most whilst is disposing its residential portfolio.

Figure 60

Final Valuation

Final Valuation	
DDM	18,21
SoTP	17,08
Price	**17,64**
Current market price	15,05
Recommendation	Outperform
Potential increase	17%

Source: Own elaboration

8. Conclusions

The RE sector in Spain has sharply recovered from the financial crisis of 2008 as the Spanish economy has improved, posting a GDP growth rate of 3% in 2016 (which is above the other European countries), with inflation levels hitting around 2% and with a good decrease in the unemployment rate which is at levels below 20%.

The RE sector was hit really hard during the crisis period and the government decided to help to boost this sector by introducing the new law regime for the SOCIMIs in 2013. The main feature of this legal regime was the corporate tax which is zero for these type of companies. The new legislation increased the interest of national and international investors for the RE sector and specifically for this type of investment vehicles. Since 2013, 33 SOCIMIs were created, boosting the RE sector and pushing the IBEX to reach 11.000 points, its maximum levels ever.

The main SOCIMIs in Spain are Merlin Properties, Lar España, Colonial, Hispania and Axiare, which invest in all different types of RE assets (offices, residential, shopping centers, high street and logistics) and have the biggest piece of the RE cake in Spain.

Offices account for 40% of the total RE investment in Spain and although it has been losing weight lately, it is still clearly the preferred option for investors. The increase in e-commerce in Spain is making logistics too take-up due to the fact that companies need more warehouses to place their inventories. Following the analysis of the different RE business lines, we can conclude that offices and logistics have better prospects than hotels, residential and high street.

The 2 SOCIMIs which focuses on this 2 business lines are Merlin Properties and Axiare Patrimonio. Merlin has 50% of its portfolio in offices and 8% in logistics whereas Axiare has 80% in offices and 12% in logistics. The other main SOCIMIs (Lar and Hispania) focus their investments in hotels and shopping centers.

Following the 2 valuations done we can conclude that the SOCIMI that we should buy is Axiare Patrimonio with a target price of EUR17.7 and around 20% potential growth. For Merlin Properties I only reached a 5% potential growth which in my opinion is not as appealing as Axiare.

Merlin is already a big company and although it generates solid cash flows and it is very well diversified, its potential growth is much smaller than Axiare. Merlin has reached a LTV of 49%

and the company set its LTV target to 50% so it is expected that Merlin won't invest in more assets in the short term.

On the other hand, Axiare is much smaller than Merlin and although it strongly depends on offices, its potential growth is higher than Merlin's as Axiare's LTV is still at levels of 38% so it expected that the company will continue investing in logistics and offices. In fact, Axiare has just signed a capital increase of EUR90mn in order to keep investing.

However, the level of risk of investing in Axiare is higher than in Merlin as Axiare is less diversified than Merlin, with only 2 business lines (offices and logistics) and it strongly depends on the recovery of the offices sector, which I believe it will be accomplished. Moreover, as Axiare hasn't reached its LTV target, the company might be tented to invest in riskier assets in order to look for growing opportunities. I believe that Merlin would be the ideal company for a foreigner investor that wants to invest in the Spanish RE sector having very little risk.

I strongly recommend to invest in the RE sector in Spain and I specifically suggest to buy Axiare Patrimonio as my valuation shows an appealing 20% upside potential with a target price of EUR17.7. For more conservative investors, I suggest to buy Merlin Properties as even though the potential growth is smaller (+5%), the company's solid CF generation, strong dividend policy (90% of the FFO) and well diversification, makes Merlin Properties to be a secure investment in the RE sector.

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10. Appendix

10.1 Merlin financial analysis:

	2015	2016	2017e	2018e	2019e	2020e
Offices						
Rent	**63,3**	**138,4**	**165,1**	**186,7**	**214,3**	**259,1**
% var.		*118,6%*	*19,3%*	*13,0%*	*14,8%*	*20,9%*
Total Sqm	554,4	1.246,5	1.371,1	1.508,2	1.659,0	1.824,9
Sqm occupied	498,7	1.096,1	1.234,0	1.330,3	1.463,3	1.609,6
Price/Sqm	**12,70**	**12,63**	**13,38**	**14,03**	**14,65**	**16,10**
Inflation	2,0%	2,0%	2,0%	2,0%	1,9%	1,9%
GDP			3,0%	2,4%	1,9%	1,5%
Occupancy rate	90,0%	87,9%	90,0%	88,2%	88,2%	88,2%
OPEX	**-3,8**	**-16,6**	**-20,2**	**-23,3**	**-27,3**	**-33,7**
% of sales	*6,1%*	*12,0%*	*12,2%*	*12,5%*	*12,7%*	*13,0%*
% var.		*332,1%*	*21,7%*	*15,3%*	*17,1%*	*23,3%*
Net operating Income	**59,5**	**121,8**	**144,9**	**163,4**	**187,0**	**225,5**
% of sales	*93,9%*	*88,0%*	*87,8%*	*87,5%*	*87,3%*	*87,0%*
% var.		*104,8%*	*19,0%*	*12,7%*	*14,5%*	*20,6%*
D&A	**-1,7**	**-17,5**	**-19,2**	**-21,1**	**-23,2**	**-25,5**
% of sales	*-2,6%*	*-1,4%*	*-1,4%*	*-1,4%*	*-1,4%*	*-1,4%*
% var.		*949,3%*	*10,0%*	*10,0%*	*10,0%*	*10,0%*
EBIT	**57,8**	**104,4**	**125,7**	**142,3**	**163,8**	**199,9**
% of sales	*91,3%*	*75,4%*	*76,1%*	*76,2%*	*76,4%*	*77,2%*
% var.		*80,5%*	*20,5%*	*13,1%*	*15,1%*	*22,1%*
Taxes	**-8,3**	**-1,7**	**-2,5**	**-2,8**	**-3,3**	**-4,0**
Effective Tax rate	*-14,4%*	*-1,7%*	*-2,0%*	*-2,0%*	*-2,0%*	*-2,0%*
Net Profit	**49,5**	**102,6**	**123,2**	**139,4**	**160,5**	**195,9**
CAPEX			**-200,0**			
	2015	2016	2017e	2018e	2019e	2020e
Shopping Centers						
Rent	**29,3**	**52,6**	**63,2**	**74,5**	**83,5**	**87,7**
% var.		*79,2%*	*20,3%*	*17,8%*	*12,1%*	*5,0%*
Total Sqm	172,0	418,0	430,6	443,5	456,8	470,5
Sqm occupied	160,7	370,3	387,5	399,1	411,1	423,4
Price/Sqm	**18,25**	**14,19**	**16,32**	**18,66**	**20,32**	**20,71**
Inflation	*2,0%*	*2,0%*	*2,0%*	*2,0%*	*1,9%*	*1,9%*
GDP			*3,0%*	*2,4%*	*1,9%*	*1,5%*
Occupancy rate	93,4%	88,6%	90,0%	90,0%	90,0%	90,0%
OPEX	**-1,8**	**-6,3**	**-7,7**	**-9,3**	**-10,6**	**-11,4**
% of sales	*6,1%*	*12,0%*	*12,2%*	*12,5%*	*12,7%*	*13,0%*
% var.		*254,2%*	*22,7%*	*20,1%*	*14,4%*	*7,1%*
Net operating Income	**27,6**	**46,3**	**55,5**	**65,2**	**72,9**	**76,3**
% of sales	*93,9%*	*88,0%*	*87,8%*	*87,5%*	*87,3%*	*87,0%*
% var.		*67,9%*	*20,0%*	*17,5%*	*11,8%*	*4,7%*
D&A	**-0,5**	**-5,9**	**-6,1**	**-6,3**	**-6,6**	**-6,9**
% of sales	*-1,8%*	*-1,4%*	*-1,4%*	*-1,4%*	*-1,4%*	*-1,5%*
% var.		*1033,9%*	*4,0%*	*4,0%*	*4,0%*	*4,0%*
EBIT	**27,0**	**40,4**	**49,4**	**58,9**	**66,3**	**69,4**
% of sales	*92,2%*	*76,9%*	*78,1%*	*79,0%*	*79,4%*	*79,2%*
% var.		*49,4%*	*22,3%*	*19,1%*	*12,6%*	*4,7%*
Taxes	**-3,9**	**-0,7**	**-1,0**	**-1,2**	**-1,3**	**-1,4**
Effective Tax rate	*-14,4%*	*-1,7%*	*-2,0%*	*-2,0%*	*-2,0%*	*-2,0%*

Net Profit	**23,1**	**39,7**	**48,4**	**57,7**	**65,0**	**68,0**
CAPEX			**-10,0**	**-10,0**	**-10,0**	**-10,0**
	2015	**2016**	**2017e**	**2018e**	**2019e**	**2020e**
High Street Retail						
Rent	**91,1**	**99,9**	**108,3**	**117,3**	**125,9**	**135,1**
% var.		*9,6%*	*4,5%*	*4,5%*	*6,0%*	*6,0%*
Total Sqm	437,4	460,5	484,9	510,5	537,5	565,9
Sqm occupied	437,4	460,5	484,9	510,5	537,5	565,9
Price/Sqm	**20,83**	**21,68**	**22,33**	**22,99**	**23,43**	**23,88**
Inflation		*2,0%*	*2,0%*	*2,0%*	*1,9%*	*1,9%*
Occupancy rate	100%	100%	100,0%	100,0%	100,0%	100,0%
Vacancy	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
OPEX	**-5,5**	**-12,0**	**-13,3**	**-14,6**	**-16,0**	**-17,6**
% of sales	*6,1%*	*12,0%*	*12,2%*	*12,5%*	*12,7%*	*13,0%*
% var.		*116,7%*	*10,6%*	*10,5%*	*9,5%*	*9,5%*
Net operating Income	**85,6**	**87,9**	**95,0**	**102,7**	**109,9**	**117,6**
% of sales	*93,9%*	*88,0%*	*87,8%*	*87,5%*	*87,3%*	*87,0%*
% var.		*2,7%*	*8,1%*	*8,1%*	*7,0%*	*7,0%*
D&A	**-1,3**	**-6,4**	**-6,9**	**-7,3**	**-7,8**	**-8,2**
% of sales	*-1,4%*	*-1,4%*	*-1,4%*	*-1,4%*	*-1,4%*	*-1,5%*
% var.		*391,3%*	*6,3%*	*6,3%*	*6,3%*	*6,3%*
EBIT	**84,2**	**81,4**	**88,2**	**95,4**	**102,1**	**109,3**
% of sales	*92,5%*	*81,5%*	*81,4%*	*81,3%*	*81,1%*	*80,9%*
% var.		*-3,3%*	*8,3%*	*8,2%*	*7,1%*	*7,0%*
Taxes	**-12,1**	**-1,4**	**-1,8**	**-1,9**	**-2,0**	**-2,2**
Effective Tax rate	*-14,4%*	*-1,7%*	*-2,0%*	*-2,0%*	*-2,0%*	*-2,0%*
Net Profit	**72,1**	**80,1**	**86,4**	**93,5**	**100,1**	**107,2**
CAPEX			**-5,0**	**-5,0**	**-5,0**	**-5,0**
Logistics						
Rent	**12,7**	**23,6**	**27,8**	**31,8**	**35,7**	**39,3**
% var.		*86,0%*	*10,0%*	*10,0%*	*10,0%*	*10,0%*
Total Sqm	454,8	755,1	792,8	832,5	874,1	917,8
Sqm occupied	425,2	720,0	756,0	793,8	833,5	875,2
Price/Sqm	**2,99**	**3,28**	**3,67**	**4,00**	**4,28**	**4,49**
Occupancy rate	93%	95%	95%	95%	95%	95%
OPEX	**-0,8**	**-2,8**	**-3,4**	**-4,0**	**-4,5**	**-5,1**
% of sales	*6,1%*	*12,0%*	*12,2%*	*12,5%*	*12,7%*	*13,0%*
% var.		*267,7%*	*19,9%*	*16,7%*	*14,5%*	*12,4%*
Net operating Income	**11,9**	**20,8**	**24,4**	**27,8**	**31,1**	**34,2**
% of sales	*93,9%*	*88,0%*	*87,8%*	*87,5%*	*87,3%*	*87,0%*
% var.		*74,2%*	*17,3%*	*14,1%*	*12,0%*	*9,8%*
D&A	**-1,4**	**-10,6**	**-11,2**	**-11,9**	**-12,6**	**-13,4**
% of sales	*-10,7%*	*-1,4%*	*-1,4%*	*-1,4%*	*-1,4%*	*-1,5%*
% var.		*674,8%*	*6,1%*	*6,1%*	*6,1%*	*6,1%*
EBIT	**10,6**	**10,2**	**13,2**	**15,9**	**18,5**	**20,8**
% of sales	*83,2%*	*43,3%*	*47,4%*	*50,1%*	*51,9%*	*53,0%*
% var.		*-3,3%*	*28,9%*	*20,9%*	*16,4%*	*12,4%*
Taxes	**-1,5**	**-0,2**	**-0,3**	**-0,3**	**-0,4**	**-0,4**
Effective Tax rate	*-14,4%*	*-1,7%*	*-2,0%*	*-2,0%*	*-2,0%*	*-2,0%*
Net Profit	**9,0**	**10,0**	**12,9**	**15,6**	**18,2**	**20,4**
CAPEX						
Others (Hotels + Others)						
Rent	**18,0**	**36,9**	**16,0**	**17,1**	**18,4**	**19,7**
Hotels	11,4	26,9	0,0	0,0	0,0	0,0

Others	6,6	10,0	16,0	17,1	18,4	19,7
% var.		*51,7%*	*50,0%*	*5,0%*	*5,0%*	*5,0%*
Total Sqm	122,8	121,1	181,7	190,7	200,3	210,3
Sqm occupied	122,8	92,6	145,3	152,6	160,2	168,2
Price/Sqm Others	**5,35**	**10,75**	**10,99**	**11,23**	**11,47**	**11,71**
Inflation		*2,0%*	*2,0%*	*2,0%*	*1,9%*	*1,9%*
Others potential growth		*0,2%*	*0,2%*	*0,2%*	*0,2%*	*0,2%*
Occupancy rate	100%	76%	80%	80%	80%	80%
OPEX	**-1,1**	**-1,3**	**-2,1**	**-2,2**	**-2,4**	**-2,6**
% of sales	*13,0%*	*13,0%*	*13,0%*	*13,0%*	*13,0%*	*13,0%*
% var.		*17,6%*	*64,3%*	*7,3%*	*7,2%*	*7,2%*
Net operating Income	**16,9**	**35,6**	**13,9**	**14,9**	**16,0**	**17,1**
% of sales	*94,0%*	*96,6%*	*87,0%*	*87,0%*	*87,0%*	*87,0%*
% var.		*110,6%*	*-61,0%*	*7,3%*	*7,2%*	*7,2%*
D&A	**-0,5**	**-8,1**	**-9,2**	**-9,5**	**-9,8**	**-10,1**
% of sales	*-2,5%*	*-22,0%*	*-57,4%*	*-55,2%*	*-53,1%*	*-51,2%*
% var.		*1680,3%*	*12,7%*	*3,3%*	*3,2%*	*3,2%*
EBIT	**16,5**	**27,5**	**4,7**	**5,4**	**6,2**	**7,1**
% of sales	*91,5%*	*74,6%*	*29,6%*	*31,8%*	*33,9%*	*35,8%*
% var.		*67,1%*	*-82,8%*	*15,0%*	*14,2%*	*13,5%*
Taxes	**-2,4**	**-0,5**	**-0,1**	**-0,1**	**-0,1**	**-0,1**
Effective Tax rate	*-14,4%*	*-1,7%*	*-2,0%*	*-2,0%*	*-2,0%*	*-2,0%*
Net Profit	**14,1**	**27,1**	**4,6**	**5,3**	**6,1**	**6,9**
CAPEX						

	2015	2016	2017e	2018e	2019e	2020e
Group						
Occupancy rate	95%	90%	91%	91%	91%	91%
High Street Retail	91	100	108	117	126	135
Shopping Centers	29	53	63	74	84	88
Offices	63	138	165	187	214	259
Logistics	13	23	28	32	36	39
Hotels	11	27	0	0	0	0
Residential	6	8	16	17	18	20
Others	1	2	3	3	3	3
Gross rental Income	**214**	**351**	**383**	**430**	**481**	**544**
Var%		64%	9%	12%	12%	13%
Other income	5	12	20	20	20	20
Total Revenues	**219**	**363**	**404**	**451**	**501**	**564**
Var%		66%	11%	12%	11%	13%
OPEX	-13	-39	-47	-53	-61	-70
% of sales	*-6%*	*-11%*	*-12%*	*-12%*	*-13%*	*-13%*
% var.		*200%*	*20%*	*14%*	*14%*	*15%*
Net Rental Income	**206**	**324**	**357**	**397**	**440**	**494**
Margin	*96%*	*92%*	*93%*	*92%*	*92%*	*91%*
Corporate Overheads	-20	-20	-18	-18	-18	-18
Recurrent Ebitda	**186**	**304**	**339**	**379**	**422**	**476**
Non-Recurrent Ebitda	-25	-43	-50	-50	-50	-50
EBITDA	**161**	**261**	**289**	**329**	**372**	**426**
Ebitda Margin	75%	74%	75%	77%	77%	78%
D&A	**4**	**42**	**46**	**49**	**52**	**56**
EBIT	**157**	**219**	**243**	**281**	**320**	**370**
% of sales	*73%*	*62%*	*64%*	*65%*	*67%*	*68%*
Interest Expense	-54	-71	-79	-91	-104	-120

Change in FV Financial instruments	-68	61	100	100	100	90
Net financial Result	-122	-10	21	9	-4	-30
Other	13	301	200	150	150	150
Pre-tax profit	**48**	**510**	**465**	**440**	**466**	**490**
Taxes	-8	-10	-9	-9	-9	-10
Effective tax rate	-17%	-2%	-2%	-2%	-2%	-2%
Minorities	0	0	0	0	0	0
Net Profit	**40**	**500**	**455**	**431**	**457**	**481**
FFO		**190,0**	**210,2**	**238,5**	**268,6**	**306,2**
Recurrent FFO	**133,1**	**232,7**	**260,2**	**288,5**	**318,6**	**356,2**
Dividends Pay-out ratio	*80%*	*80%*	*90%*	*90%*	*90%*	*90%*
Dividends	***106***	***186***	***207***	***260***	***287***	***321***
DPS	**0,3**	**0,40**	**0,44**	**0,6**	**0,6**	**0,7**
EPS	**0,12**	**1,06**	**1,0**	**0,9**	**1,0**	**1,0**

10.2 Axiare financial analysis:

	2015	2016	2017e	2018e	2019e	2020e
Offices						
Rent	**20,8**	**25,0**	**30,9**	**38,7**	**49,7**	**61,2**
% var.		*20,2%*	*23,4%*	*25,5%*	*28,4%*	*23,1%*
Total Sqm	248,4	289,1	322,0	386,4	463,7	533,2
Sqm occupied	207	245	280,0	328,4	394,1	453,2
Price/Sqm	**10,05**	**10,20**	**11,02**	**11,79**	**12,62**	**13,50**
Inflation	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%
GDP			*3,0%*	*3,0%*	*3,0%*	*3,0%*
Occupancy rate	80,0%	82,0%	85,0%	85,0%	85,0%	85,0%
OPEX	**-2,6**	**-2,7**	**-3,6**	**-4,5**	**-5,8**	**-7,2**
% of sales	*12,7%*	*10,7%*	*11,7%*	*11,7%*	*11,7%*	*11,7%*
% var.		*1,3%*	*35,0%*	*25,5%*	*28,4%*	*23,1%*
Net operating Income	**18,2**	**22,3**	**27,2**	**34,2**	**43,9**	**54,0**
% of sales	*87,3%*	*89,3%*	*88,3%*	*88,3%*	*88,3%*	*88,3%*
% var.		*22,9%*	*22,0%*	*25,5%*	*28,4%*	*23,1%*
D&A	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
EBIT	**18,2**	**22,3**	**27,2**	**34,2**	**43,9**	**54,0**
% of sales	*87,3%*	*89,3%*	*88,3%*	*88,3%*	*88,3%*	*88,3%*
% var.		*22,9%*	*22,0%*	*25,5%*	*28,4%*	*23,1%*
Taxes	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
Effective Tax rate	*-14,4%*	*-1,7%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*
Net Profit	**18,2**	**22,3**	**27,2**	**34,2**	**43,9**	**54,0**
CAPEX			**30,0**	**35,0**	**5,0**	**5,0**

	2015	2016	2017e	2018e	2019e	2020e
Logistics						
Rent	**10,0**	**9,0**	**12,6**	**16,9**	**22,7**	**30,5**
% var.		*-10,0%*	*40,2%*	*34,2%*	*34,2%*	*34,2%*
Total Sqm	366,0	451,1	518,8	570,6	627,7	690,5
Sqm occupied	305,0	406,4	466,9	513,6	564,9	621,4
Price/Sqm	**3,28**	**2,21**	**2,70**	**3,30**	**4,02**	**4,91**
Inflation	*2,0%*	*2,0%*	*2,0%*	*2,0%*	*2,0%*	*2,0%*
Occupancy rate	80,0%	89,0%	90,0%	90,0%	90,0%	90,0%
OPEX	**-1,3**	**-1,0**	**-1,5**	**-2,0**	**-2,7**	**-3,6**
% of sales	*12,7%*	*10,7%*	*11,7%*	*11,7%*	*11,7%*	*11,7%*
% var.		*-24,2%*	*53,3%*	*34,2%*	*34,2%*	*34,2%*
Net operating Income	**8,7**	**8,0**	**11,1**	**14,9**	**20,1**	**26,9**
% of sales	*87,3%*	*89,3%*	*88,3%*	*88,3%*	*88,3%*	*88,3%*
% var.		*-7,9%*	*38,6%*	*34,2%*	*34,2%*	*34,2%*
D&A	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
EBIT	**8,7**	**8,0**	**11,1**	**14,9**	**20,1**	**26,9**
% of sales	*87,3%*	*89,3%*	*88,3%*	*88,3%*	*88,3%*	*88,3%*
% var.		*-7,9%*	*38,6%*	*34,2%*	*34,2%*	*34,2%*
Taxes	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
Net Profit	**8,7**	**8,0**	**11,1**	**14,9**	**20,1**	**26,9**
CAPEX						

	2015	**2016**	**2017e**	**2018e**	**2019e**	**2020e**
Others (Hotels + Others)						
Rent	**4,5**	**8,0**	**10,3**	**12,1**	**14,2**	**16,7**
% var.		*77,8%*	*50,0%*	*5,0%*	*5,0%*	*5,0%*
Total Sqm	65,7	80,5	96,6	106,2	116,9	128,5
Sqm occupied	63,2	78,9	94,6	104,1	114,5	126,0
Price/Sqm Others	**7,12**	**10,14**	**10,85**	**11,61**	**12,42**	**13,29**
Inflation		*2,0%*	*2,0%*	*2,0%*	*2,0%*	*2,0%*

Occupancy rate	96%	98%	98,0%	98,0%	98,0%	98,0%
OPEX	**-0,6**	**-0,9**	**-1,2**	**-1,1**	**-1,5**	**-1,6**
% of sales	*12,7%*	*10,7%*	*11,7%*	*11,7%*	*11,7%*	*11,7%*
% var.		*46,5%*	*41,3%*	*-10,5%*	*34,9%*	*7,4%*
Net operating Income	**3,9**	**7,1**	**9,0**	**11,0**	**12,8**	**15,2**
% of sales	*86,9%*	*89,2%*	*88,1%*	*91,0%*	*89,7%*	*90,6%*
% var.		*82,5%*	*26,8%*	*21,5%*	*16,0%*	*18,9%*
D&A	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
EBIT	**3,9**	**7,1**	**9,0**	**11,0**	**12,8**	**15,2**
% of sales	*86,9%*	*89,2%*	*88,1%*	*91,0%*	*89,7%*	*90,6%*
% var.		*82,5%*	*26,8%*	*21,5%*	*16,0%*	*18,9%*
Taxes	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
Net Profit	**3,9**	**7,1**	**9,0**	**11,0**	**12,8**	**15,2**
CAPEX						

	2015	2016	2017e	2018e	2019e	2020e
Group						
Occupancy rate	80%	88%	91%	91%	91%	91%
Offices	21	25	31	39	50	61
Logistics	10	9	13	17	23	30
Others	5	8	10	12	14	17
Gross rental Income	**35**	**42**	**54**	**68**	**87**	**108**
Var%		19%	28%	26%	28%	25%
OPEX	-5	-5	-6	-8	-10	-12
% of sales	*-13%*	*-11%*	*-12%*	*-11%*	*-11%*	*-11%*
% var.		*0%*	*40%*	*21%*	*31%*	*24%*
Net Rental Income	**31**	**38**	**47**	**60**	**77**	**96**
Margin	*87%*	*89%*	*88%*	*89%*	*89%*	*89%*
Corporate Overheads	-5	-6	-10	-12	-12	-12
EBITDA	**26**	**31**	**37**	**48**	**65**	**84**
Ebitda Margin	73%	74%	70%	71%	75%	78%
D&A	**0**	**0**	**0**	**0**	**0**	**0**
EBIT	**26**	**31**	**37**	**48**	**65**	**84**
% of sales	*73%*	*74%*	*70%*	*71%*	*75%*	*78%*
Interest Expense	-72	-136	-160	-160	-160	-160
Change in FV Financial instruments	69	129	150	150	150	150
Net financial Result	-3	-7	-10	-10	-10	-10
Other	-6	-5	-7	-7	-7	-7
Pre-tax profit	**86**	**149**	**170**	**181**	**198**	**217**
Taxes	0	0	0	0	0	0
Effective tax rate	0%	0%	0%	0%	0%	0%
Minorities	0	0	0	0	0	0
Net Profit	**86**	**149**	**170**	**181**	**198**	**217**
FFO	**22,6**	**24,1**	**27,4**	**35,6**	**48,7**	**64,6**
FFO/ Share	**0,32**	**0,3**	**0,3**	**0,5**	**0,6**	**0,8**
Dividends Pay-out ratio	*13%*	*53%*	*86%*	*78%*	*65%*	*61%*
Dividends	***3***	***13***	***24***	***28***	***32***	***40***
DPS	**0,04**	**0,18**	**0,30**	**0,35**	**0,40**	**0,50**
EPS	**1,20**	**2,08**	**2,16**	**2,29**	**2,50**	**2,75**
Gross Asset Value	859	1343				
Net Debt	-23	-375				
Net Asset Value	836	968				
CAPEX	-326	-20,8	-116,4	-60,3	-10	-10
Number of shares	71,50	71,5	71,5	79,06	79,06	79,06