

Logistics. The revolution of a rising market

March 2018

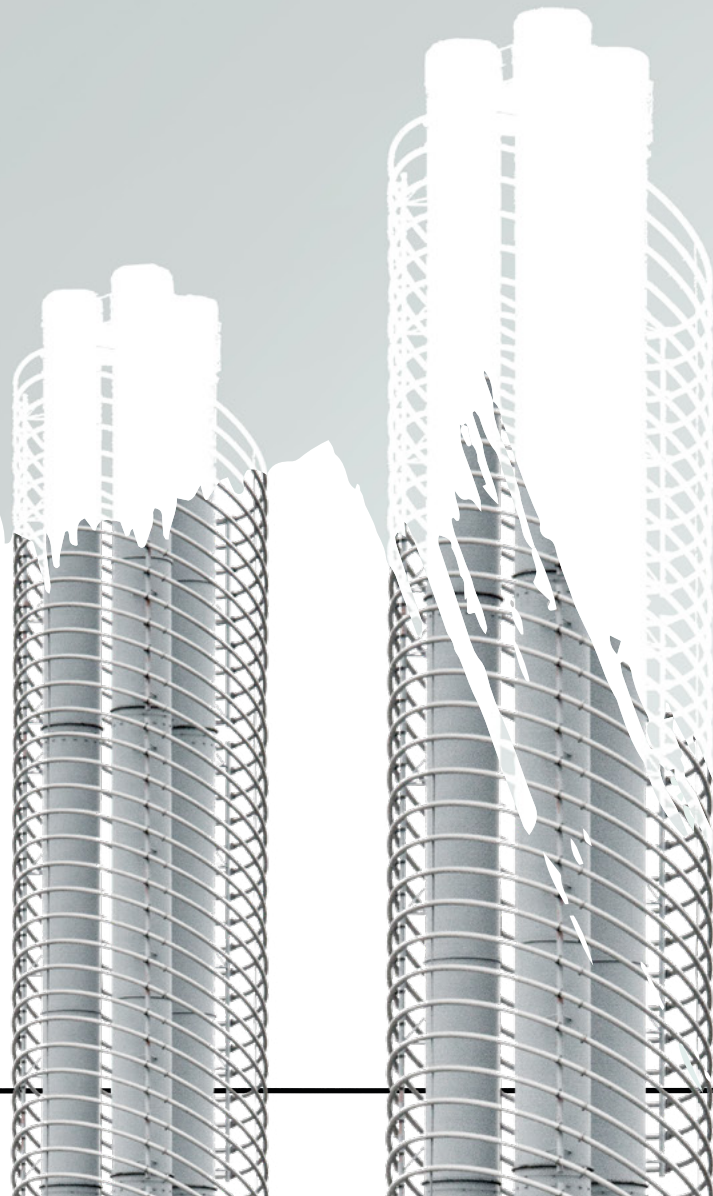




Content

1. *Economic context*
 2. *The e-commerce*
 3. *Infrastructure and transport*
 4. *Where are the leading logistics areas?*
 5. *The occupier logistic market*
 - 5.1. *Take-up of logistics spaces*
 - 5.2. *Evolution of rental levels*
 - 5.3. *Immediate and future logistics offer*
 6. *Logistics Hotspots 2017*
 7. *Investment market*
 8. *Challenges and opportunities*
 - 8.1. *IFRS 16: a new era for leases*
 - 8.2. *City logistics*
-

01. Economic context



Economic fundamentals underpin the sector growth

The Spanish economy grew at a healthy pace in 2017. GDP was up 3.1% YoY, according to Oxford Economics, which is 7 basis points higher than the EU average of 2.4% YoY.

Domestic demand was the main driver of growth in 2017, up 2.7% versus 2016. Private consumption remained strong, up 2.6% YoY, whereas gross fixed capital formation (investment) rose 4.6% YoY, according to Oxford Economics.

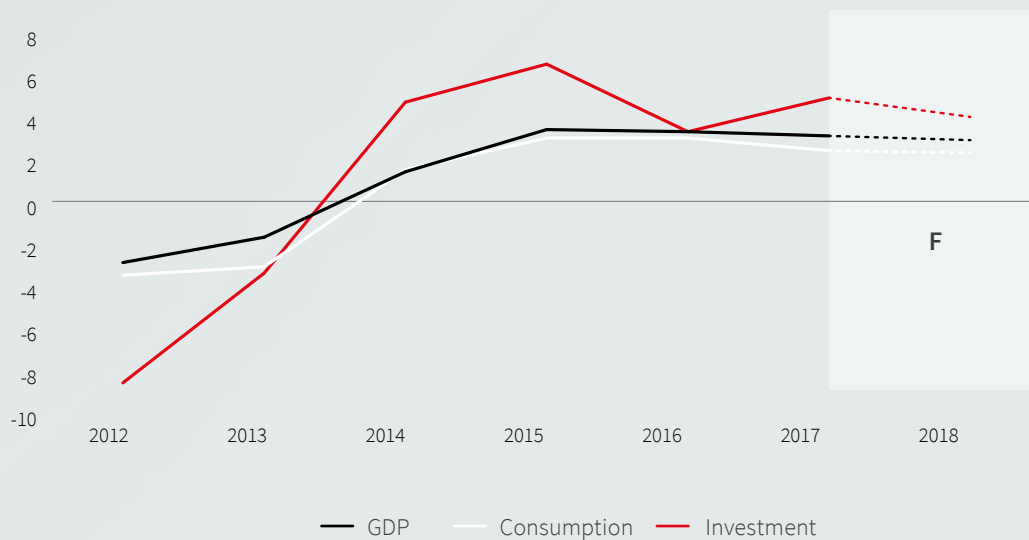
The number of people in work grew by 2.65% YoY in the last quarter of 2017, taking the unemployment rate down to 16.55%.

Industrial activity has benefited from the improved economic landscape, which is underpinned by a pick-up in consumer spending. The Industrial Production Index rose 3% over the course of the year to hit pre-crisis levels. According to data issued by Spain's National Statistics Office (INE), the figures are positive across all industrial sectors, especially consumer durables (5.6%) and intermediate goods (5.3%). The Purchasing Managers' Index picked up in December 2017, thanks to stronger

commercial activity and a robust increase in new orders.

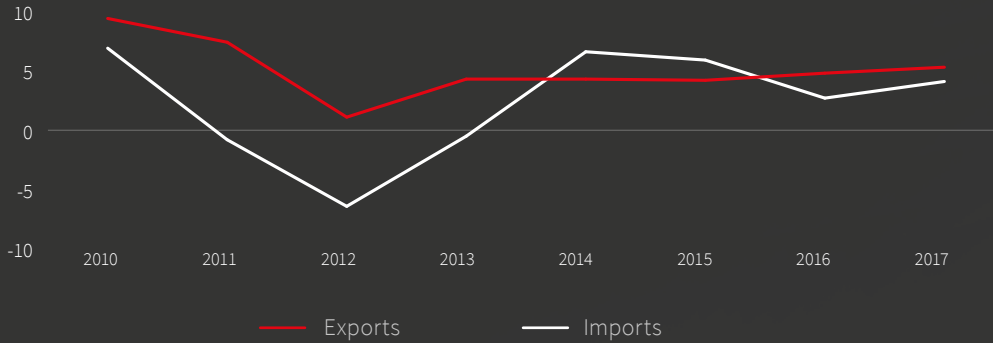
The global context remains strong and stable which, coupled with greater diversification in Spanish companies, led to a rise in exports in 2017 of 5.3% YoY, the highest growth in six years. Imports have also grown (+4.1% YoY), which has driven demand for logistics space.

GDP, consumer spending and gross capital formation in Spain*, % YoY



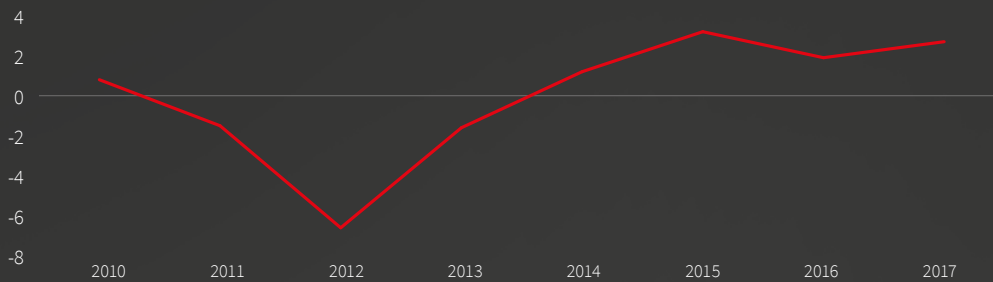
Source: Oxford Economics. *Seasonal and calendar adjusted figures.

Exports and imports in Spain (% YoY)



Source: Oxford Economics

Industrial Production Index in Spain (annual average % YoY)



Source: Oxford Economics

The logistics sector is particularly sensitive to oil prices, as they impact both supply (industrial production, services and structural concerns) and demand, owing to their impact on consumer purchasing power. The sector has benefited from oil prices, given that a barrel of Brent stood at \$66.20 at the end of 2017, still

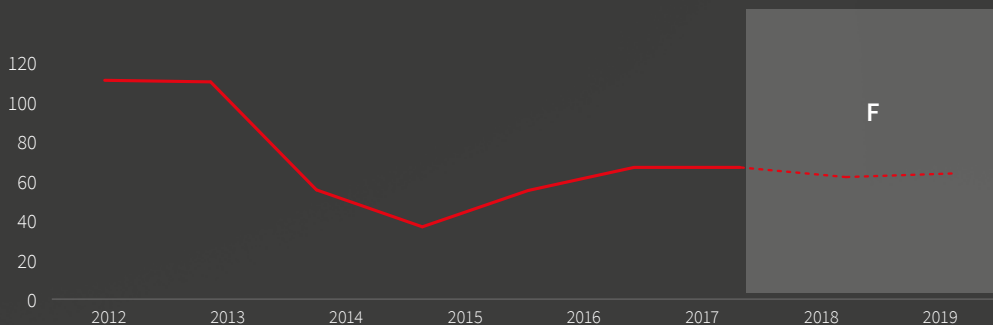
some distance from the all-time high reached in 2012.

According to INE data, inflation stood at 1.1% YoY in December, down 6 tenths of a percentage point on November, due primarily to the fall in energy prices.

The healthy economic data and the

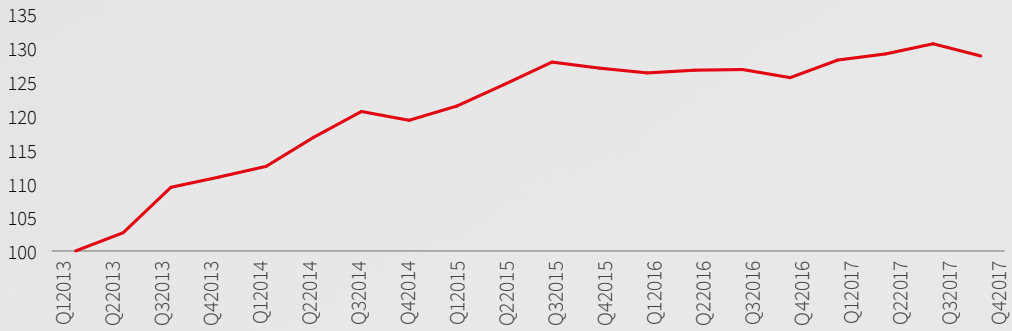
solid performance of the sector are also reflected in the confidence of industrial companies, which has grown at a good pace since 2013 to reach 128.8 points at the end of 2017.

Global oil prices: Brent, US\$/barrel, eop



Source: Oxford Economics

Industrial sector business confidence index in Spain (Q1 2013=100)



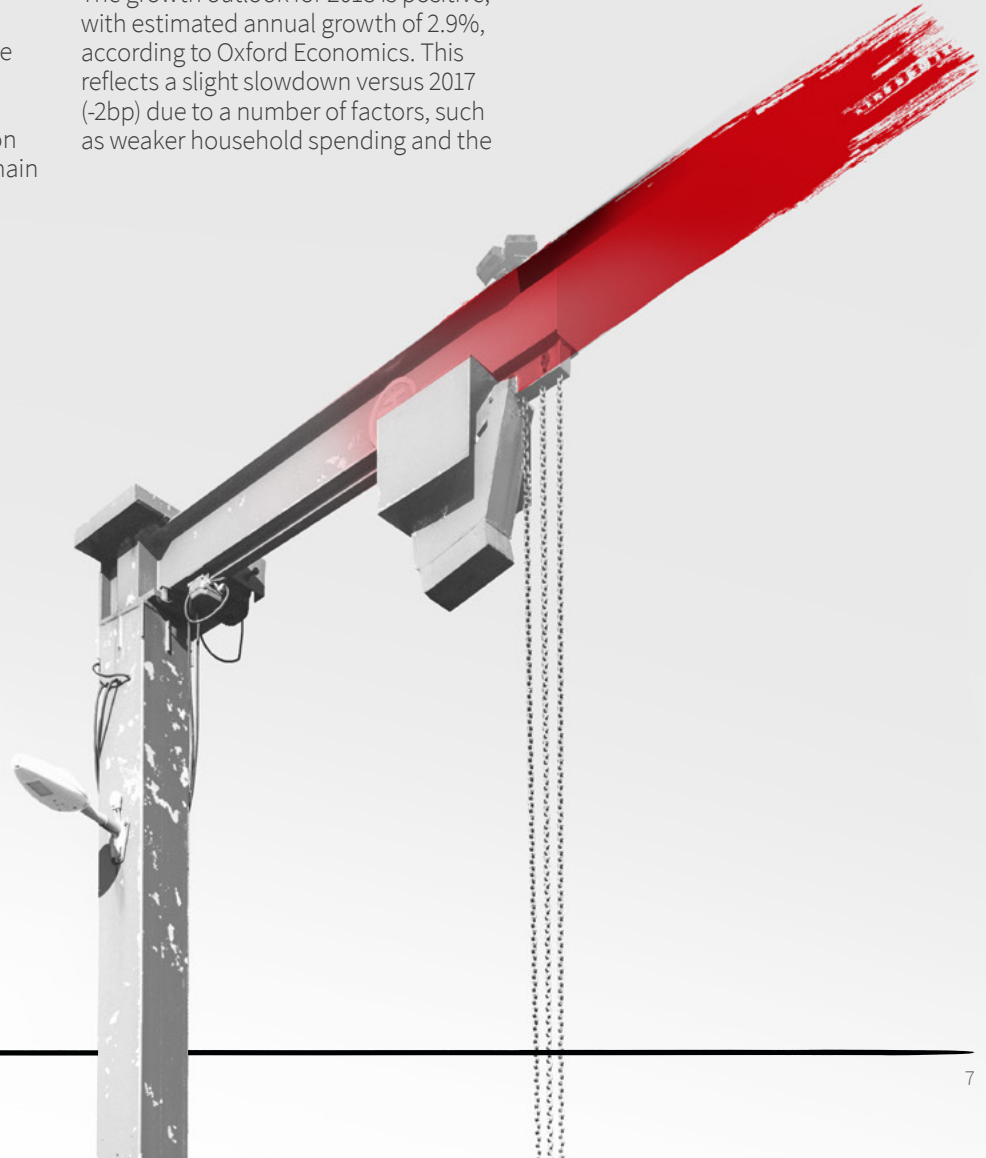
Source: National Statistics Office (INE)

Thanks to the healthy pace of the Eurozone economy, as of January 2018 the European Central Bank began to scale back its unconventional monetary policy, reducing net asset purchases from €60.000 M per month to €30.000 M. This policy will remain in place until 2018 or until the ECB Governing Council observes a sustained pick-up in inflation in line with its target of 2%. Interest rates on the main financing transactions remain unchanged at 0%, a situation that is likely to last until 2020.

The positive macroeconomic figures and healthy economic forecasts for 2018 make Spain a highly attractive market.

The growth outlook for 2018 is positive, with estimated annual growth of 2.9%, according to Oxford Economics. This reflects a slight slowdown versus 2017 (-2bp) due to a number of factors, such as weaker household spending and the

political uncertainty in Catalonia, which will put downward pressure on growth prospects should it persist.



02. The e-commerce



Continues to break records in Spain

Technological progress and increased connectivity are driving e-commerce transactions and this situation is expected to continue in the future. The improving economic outlook, the growing focus of logistics operators on online sales, increased consumer confidence when buying online and aggressive marketing campaigns are other factors that have buoyed the development of e-commerce

E-commerce has radically changed how we look at logistics assets. It has turned the sector on its head

and will continue to generate new all-time highs going forward.

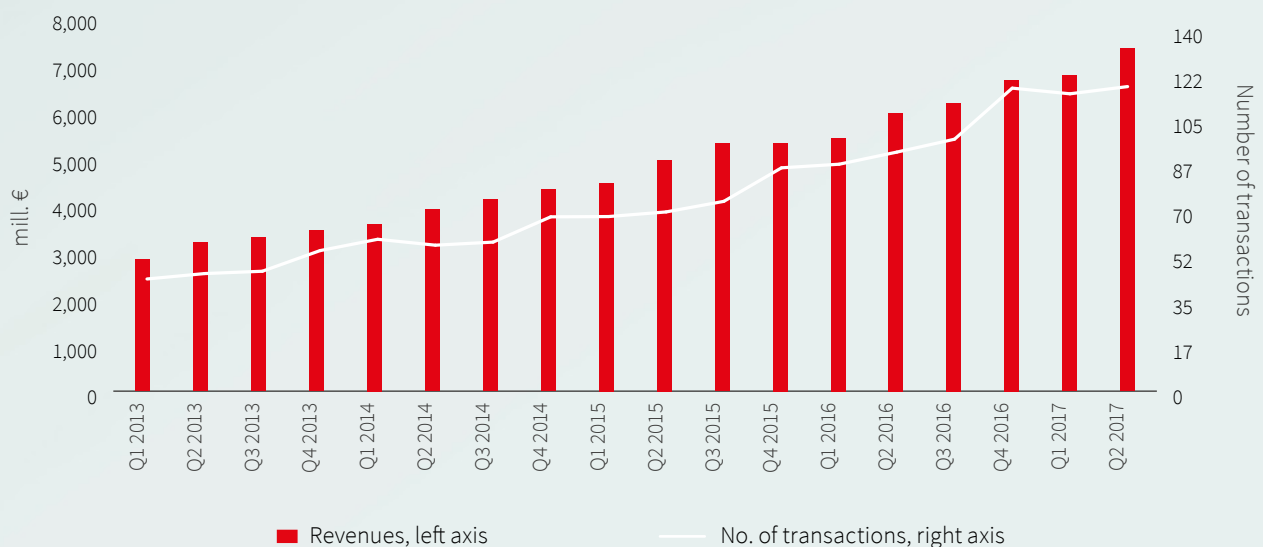
According to the latest data furnished by Spain's Competition Authority (CNMC), e-commerce sales in Spain rose by 23.4% year-on-year in the second quarter of 2017 to reach 7.34 billion euros. The second quarter of 2017 saw 118 million transactions, an increase of 27.4% on Q2 2016.

The sectors reporting the highest online revenues are travel agencies and tour operators, accounting for 14.4% of the total. Air travel comes in second at 11.9% and clothing in third place with 5.4% of total revenues. Music, books, newspapers and stationery lead the ranking by number of transactions

with 6.4% of the total, followed by land passenger travel with 6.2% and direct marketing, also with 6.2%.

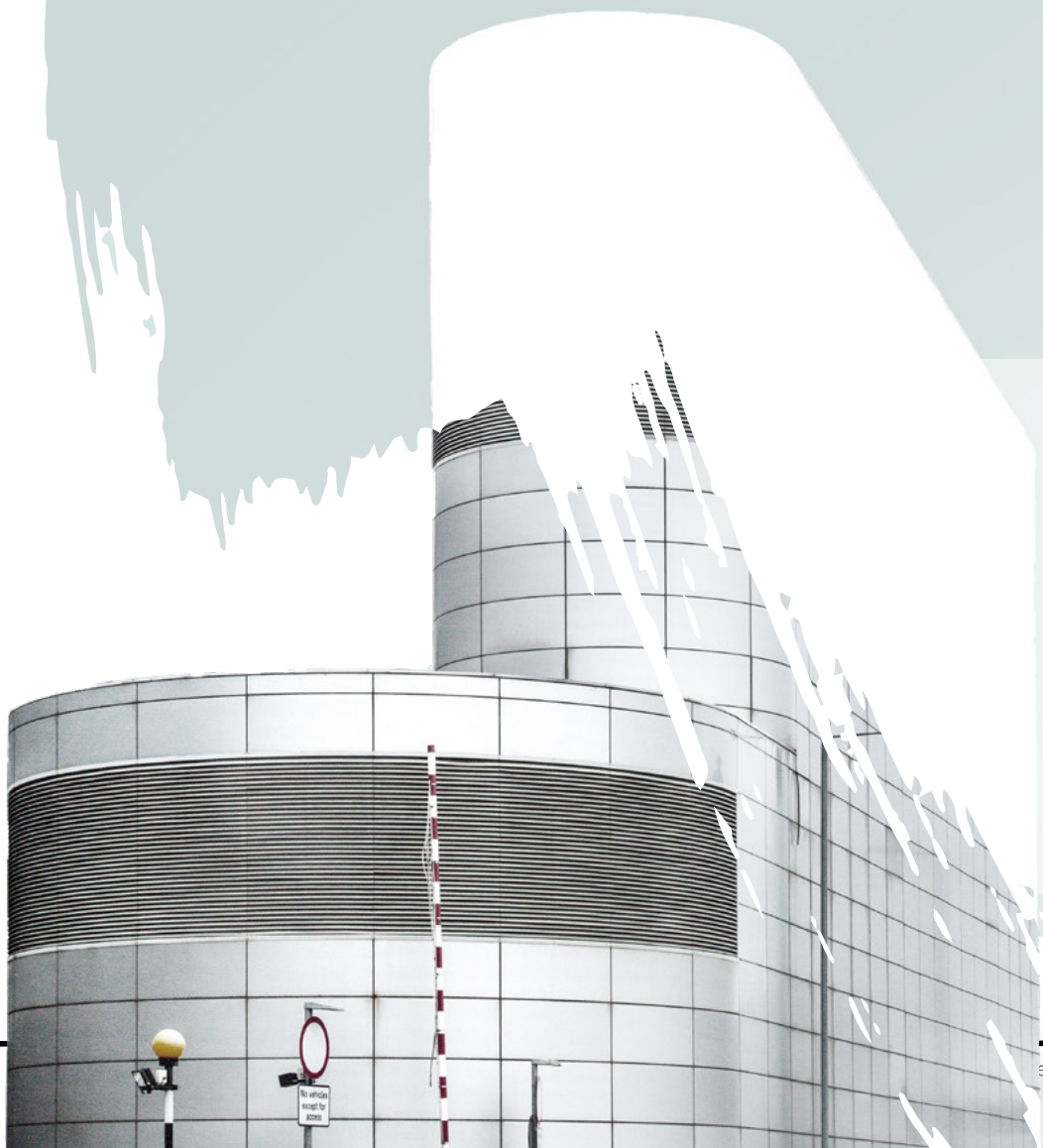
In less than a decade, online commerce has gone from a novelty to an everyday sales channel, and is set to continue growing and transforming the logistics landscape.

Quarterly change in e-commerce revenues and number of transactions in Spain



Source: CNMC (Spanish Markets and Competition Commission)

03. Infrastructure and transport



A commitment to intermodality and efficiency

Spain's transport network has become one of the most modern in the world thanks to its efficient, sustainable infrastructure, which ensures the smooth running of the economy and the delivery of products to their final market.

Its strategic location has made Spain a land· sea and air hub linking Latin America· Europe· Africa and the Middle East· Spain is committed to the construction of an excellent intermodal network· through the creation and improvement of connections between airports· ports· railways and roads¹.

Spain is connected to the rest of Europe by the Mediterranean and Atlantic Corridors, which form part of the Trans-European Transport Network (TEN-T). The aim of this pan-European system is to facilitate the movement of people and goods between European regions via modern, efficient infrastructure. They are all expected to be fully operational by 2030.

These road and rail corridors, coupled with ports and airports, are the backbone of European logistics flows. **The Mediterranean Corridor is one of the most vital freight routes due to its economic and demographic importance.**

The **Mediterranean Corridor** links the ports of Algeciras, Cartagena, Valencia, Tarragona and Barcelona. The corridor continues into south-east

France and on into northern Italy. It passes through Slovenia and Hungary before arriving at the EU border with the Ukraine. Catalonia's privileged location bordering France and at the centre of the Mediterranean Corridor makes it the ideal place for various industrial activities and logistics facilities.

The **Atlantic Corridor** links the key ports in the south-west of the Iberian Peninsula, such as Algeciras, Sines, Lisbon and Oporto in Portugal, with south-west France, passing through Le Havre and Paris before reaching the Central European cities of Mannheim and Strasbourg. Madrid is a key location on the corridor, thanks to its standing as a financial centre and an operational hub for international and national consumer goods groups.

Main Corridors and Infrastructure in Spain

Spain occupies a strategic location geographically, and the country is capitalising on this factor through the development of a world-leading intermodal transport network to position itself as an effective international hub.



Source: European Commission

¹ Ministry of Public Works and Transport

Airports

Air travel has huge growth potential, thanks to its socio-economic impact and its contribution to connectivity and accessibility. On a European level, Spain is among the top 10 countries in terms of air cargo traffic, even though it is not a particularly mature transport mode in the country. Madrid positioned itself as one of the benchmark air cargo hubs in Europe in 2016, coming in eleventh in terms of cargo traffic volumes.

According to the latest data released by Aena on air cargo traffic in Spain, Adolfo Suárez Madrid-Barajas airport led the ranking by a long way in 2017, handling 470 thousand tonnes of cargo. Madrid is followed by Barcelona-El Prat with 156 thousand. Zaragoza, with 142 thousand tonnes comes in third place.

Top 10 European Airports by cargo traffic (tonnes)

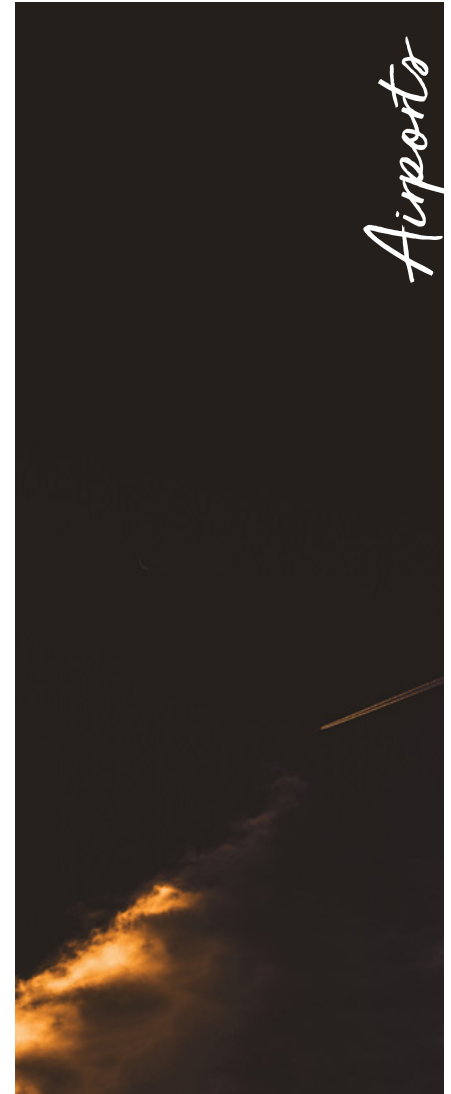
Ranking	Country	Cargo (Tonnes)	% 2016 vs 2015
1	Germany	4,467,022	3.3%
2	France	2,515,508	5.7%
3	The Netherlands	1,831,792	7.0%
4	Belgium	1,088,734	-3.3%
5	Italy	977,871	6.7%
6	Luxembourg	801,058	8.7%
7	Spain	639,237	7.5%
8	Austria	223,421	3.1%
9	Denmark	200,133	-5.0%
10	Finland	186,471	2.4%

Source: Eurostat 2016

Top Spanish Airports by cargo traffic (tonnes)

Airports	Cargo (Tonnes)	% 2017 vs 2016
Adolfo Suárez Madrid-Barajas	470,795	13.1%
Barcelona-El Prat	156,105	14.9%
Zaragoza	142,185	29.1%
Vitoria	60,484	16.0%
Gran Canaria	18,045	-3.1%

Source: AENA, December 2017



Ports

With a coastline stretching 8,000 Km, Spain offers an extensive, efficient network of state-run ports. Spain is the fourth leading European country in terms of maritime transport and one of the continent's powerhouses as regards this mode of transport.

According to data published by the Spanish Port Authority, port traffic in Spain has improved, reaching 544 million tonnes handled in 2017, up 6.9% as regards 2016. According to the ports with the highest traffic in Spain, the Port of Bahía de Algeciras tops the ranking, handling 101 million tonnes, followed by Valencia (73 million tonnes) and Barcelona (61 million tonnes).

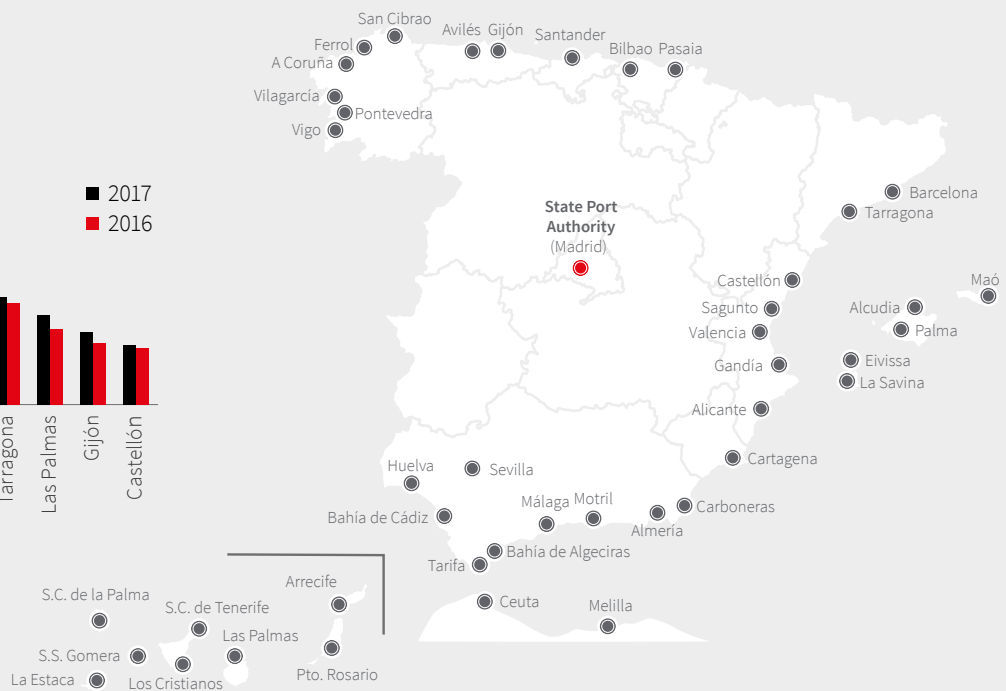
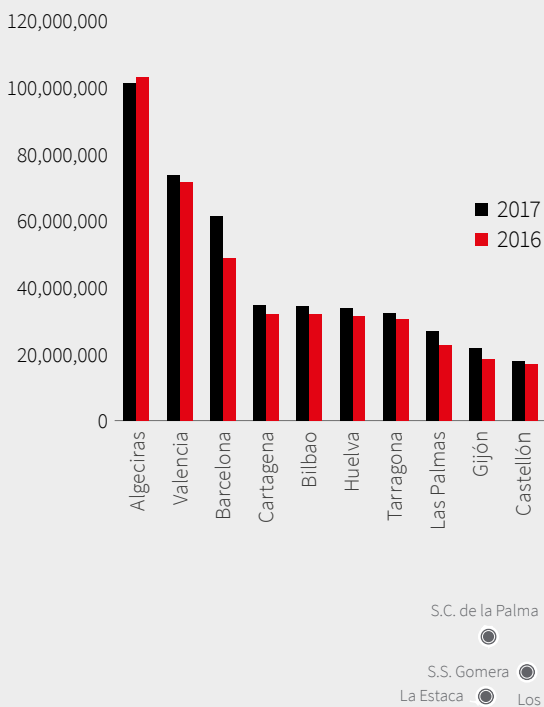


European ranking of cargo shipping (thousands of tonnes)

Ranking	Country	Cargo (thousands of tonnes)	% 2016 vs 2015
1	The Netherlands	588,772	-1%
2	United Kingdom	484,048	-3%
3	Italy	461,990	1%
4	Spain	451,255	1%
5	Turkey	425,839	3%

Source: Eurostat 2016

Port traffic in Spain (tonnes)



Source: State Port Authority, Ministry of Public Works and Transport, 2017



Railways

Spain has the fourth largest rail network in Europe by kilometres of track, with over 15,300 Km, of which 3,200 Km are high-speed corridors. **Spain is the European leader in terms of high-speed rail kilometres and the second globally, only behind China.** The valuable experience the country has gained in this segment means it is a leader in rail R&D, the integration of new

technology and rail interoperability.

However, when compared to other European countries, Spain ranks 18th in terms of the volume of freight transported by train, according to Eurostat data released in 2015.

In general terms, the increase in demand has led to an improvement in

rail freight traffic in Spain. According to the latest data published by rail operator Renfe-Operadora (attached to the Ministry of Public Works and Transport), **19.6 million tonnes were transported by train in Spain**, up 7.3% compared to 2016.

Top 10 European countries by length of rail track

Ranking	Country	Length (Kilometres)
1	Germany	38,466
2	France	28,364
3	Poland	19,132
4	Italy	16,788
5	United Kingdom	16,253
6	Spain	16,167
7	Sweden	10,882
8	Romania	10,774
9	Turkey	10,131
10	Czech Republic	9,564

Source: Eurostat, 2016





Roads

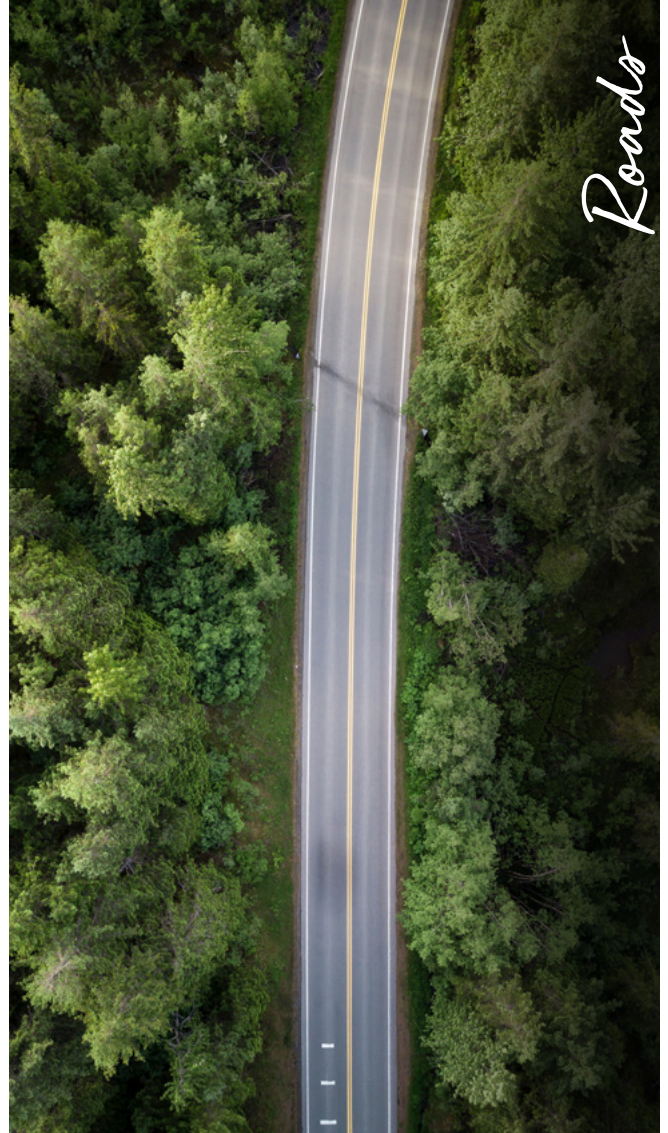
Spain's State Road Network spans over 26,000 Km, double its length 12 years ago. Of that 26,000 Km, **15,000 are motorways, the largest network of its kind in Europe²**. Spain comes in fifth in terms of road haulage in Europe by gross tonnage.

Road traffic remains the leading mode of freight transport in Spain. According to the data provided by the Ministry of Public Works for 2017, the year ended with a total of 1,409 million tonnes handled, representing an annual growth of 9.7%. Regarding road traffic figures, 94% corresponded to domestic movements and the rest to international traffic.

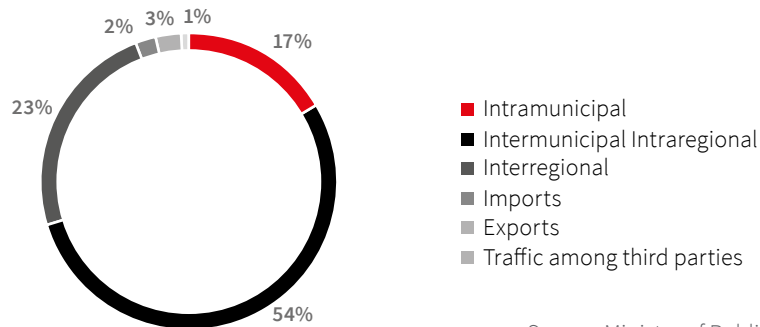
Top 5 European countries in terms of road haulage (millions of tonnes)

Ranking	Country	Freight (millions of tonnes)
1	Germany	3,111
2	United Kingdom	1,885
3	France	1,727
4	Poland	1,313
5	Spain	1,285

Source: Eurostat, 2016



Freight transport by type of movement



Source: Ministry of Public Works and Transport, 2017

²Eurostat

04. Where are the leading logistics areas?

The logistics markets in both Madrid and Barcelona are laid out in three concentric rings, each of which reflects a different type of activity or product managed by logistics platforms.

Operators are concentrated along the primary logistics routes. These include the A-2, A-3, A-4 and A-42 roads heading out of Madrid and the A-2 and AP-7 in Barcelona. These roads in both cities

pass through all three rings. Operators are located along various stretches depending on the type of freight traffic and whether they are focused on local, regional or national/international transport.

Leading logistics areas in Madrid

Ring 1

This first ring is located within the M-40 and M-50 ring roads, where activity is dominated by high-turnover products and tertiary distribution, such as couriers, parcel delivery and last-mile operators. The suburban towns of Alcobendas and San Sebastián de los Reyes on the A-1 and Barajas, Coslada and San Fernando de Henares on the A-2 are key hubs. To the east, Vallecas and Vicálvaro are the logistics hubs, as are Villaverde and Getafe in the south.

Ring 2

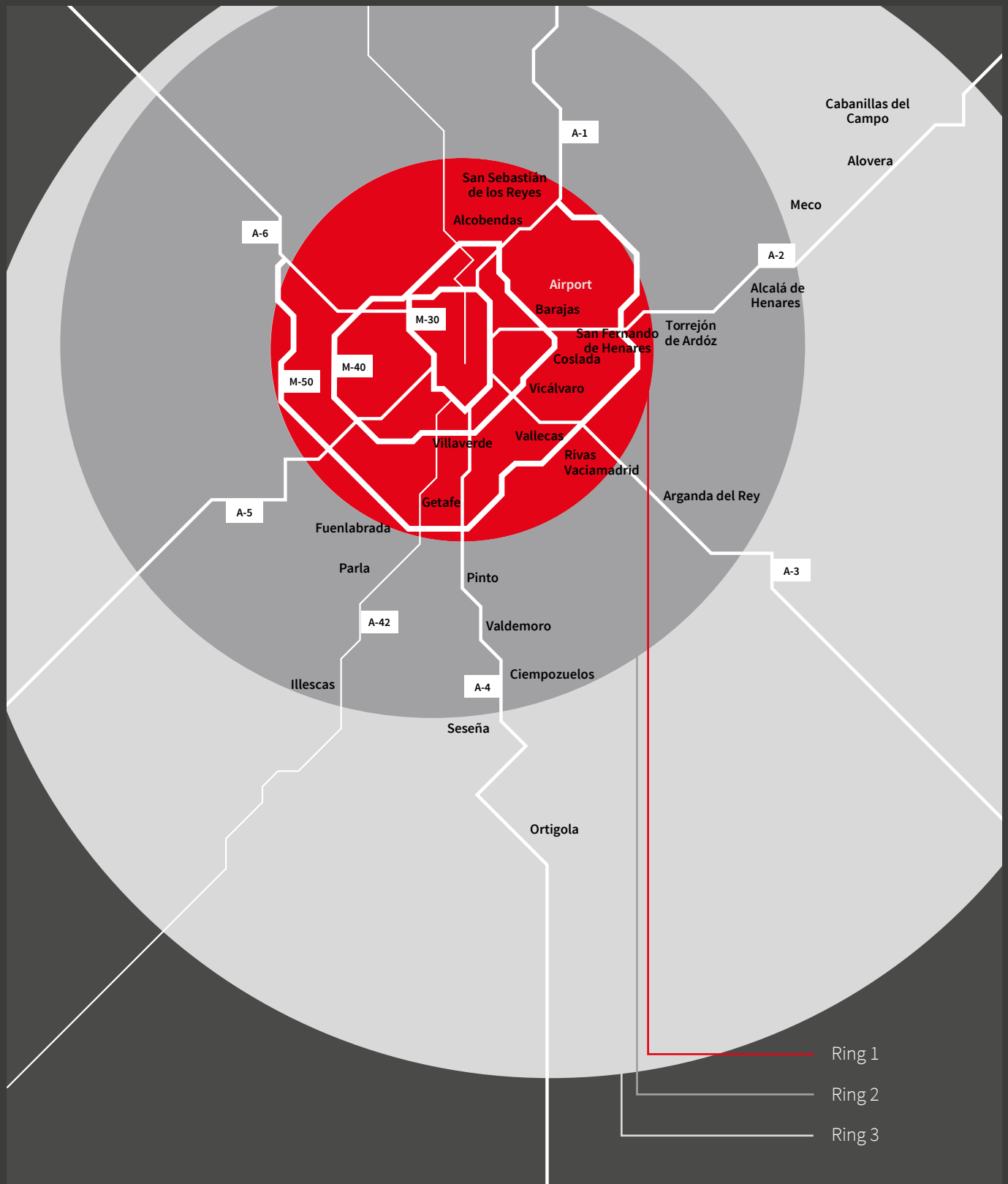
This ring is situated outside of the M-50 ring-road but within the confines of the province of Madrid. Activities are typically geared towards warehousing and the distribution of consumer goods. Products are typically of medium turnover and to be distributed regionally. The dormitory towns of Torrejón de Ardoz and Alcalá de Henares along the A-2 and Rivas and Arganda del Rey on the A-3 are prominent in this ring. To the south, logistics activity is centred around the towns of Pinto, Valdemoro and Cienpозuelos on the A-4 and Fuenlabrada, Parla and Illescas on the A-42.

Ring 3

This is the furthest belt from Madrid located outside the province and between 30 and 70 Km from the city centre. This ring is home to large-scale logistics operations for slow-moving goods with operators skewed towards regional and national distribution. The municipalities of Meco, Azuqueca de Henares, Alovera in the east, and Seseña and Ontígola to the south are the main hubs.



Logistics areas in Madrid



Source: JLL



Leading logistics areas in Barcelona

Ring 1

This is located close the port and airport and is home to the largest logistics hubs in Catalonia. The area is dominated to a large degree by intermodal operators specialising in fast-moving goods. It comprises the Port of Barcelona, the Zona Franca logistics park, the air cargo terminal, Sant Boi, Mas Blau and Viladecans. This logistics hub is the entry point for Southern Europe for goods arriving from the Middle East and Southeast Asia, allowing swift delivery to the entire Mediterranean Corridor. Cross-docking and transit activities predominate.

Ring 2

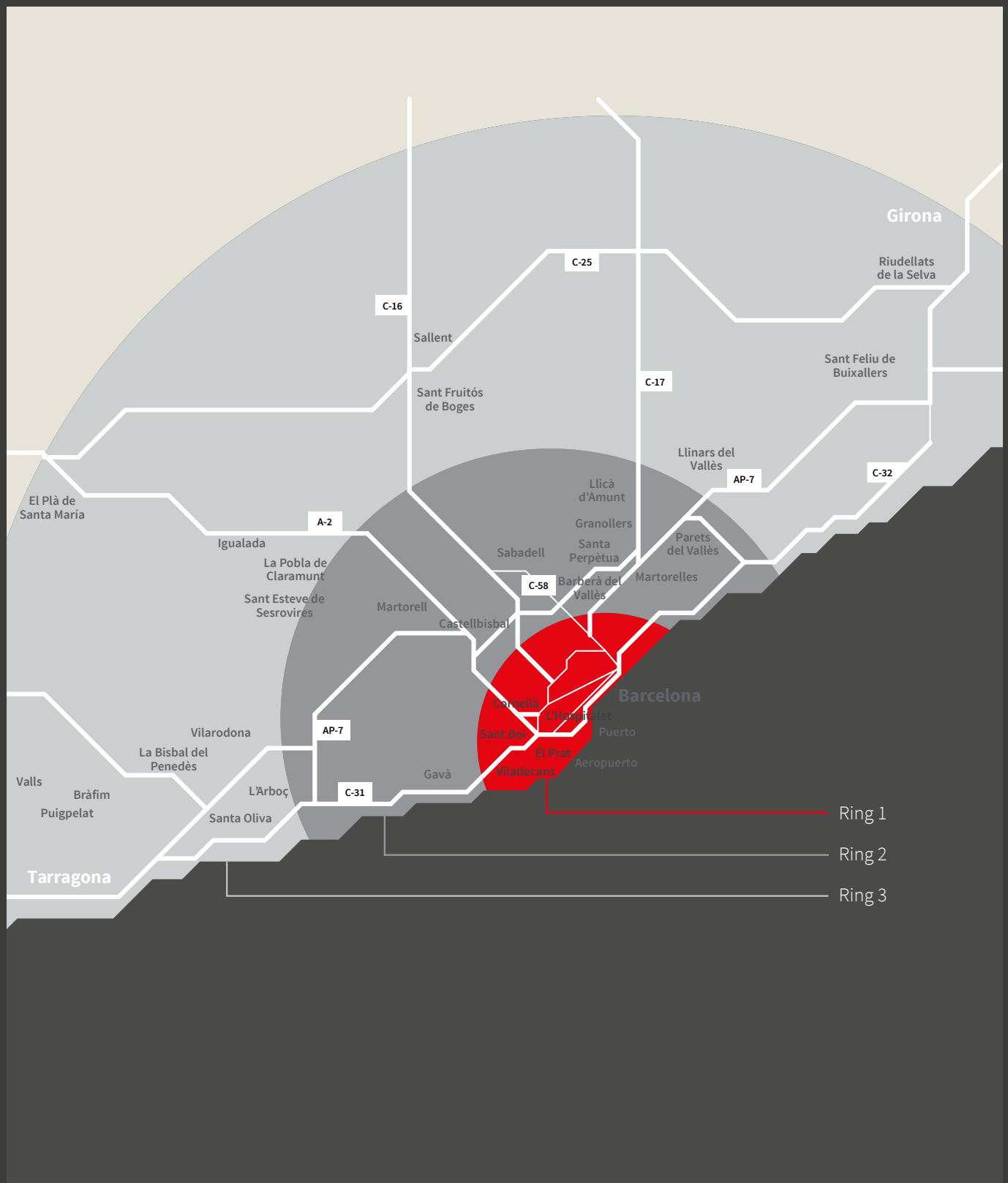
This ring straddles the route of the AP-7, the A-2 and the local C-53 and C-32 highways. The area has seen significant development of medium-sized and large logistics facilities for medium and low turnover goods. Of particular importance is the logistics hub located at the centre of the ring alongside the A-2 road, where there is a cluster of auto sector companies, including the primary manufacturing and logistics facilities of automaker SEAT.

Ring 3

This area follows the A-2 corridor heading to Zaragoza and Madrid and the AP-7 Mediterranean coast road heading towards Valencia. The ring is home to large-scale logistics operations for national and regional distribution. This ring, composed to a large degree of the Valles Oriental and Occidental areas to the north, is one of the most important logistics hubs on the peninsula. Its influence encompasses France and is a springboard to Southern Europe. Many companies choose the northern stretches of the AP-7 to locate their European distribution facilities. The area is renowned for its large warehouses.



Logistics areas in Barcelona



Source: JLL

05. The occupier logistic market



Take-up of logistics spaces

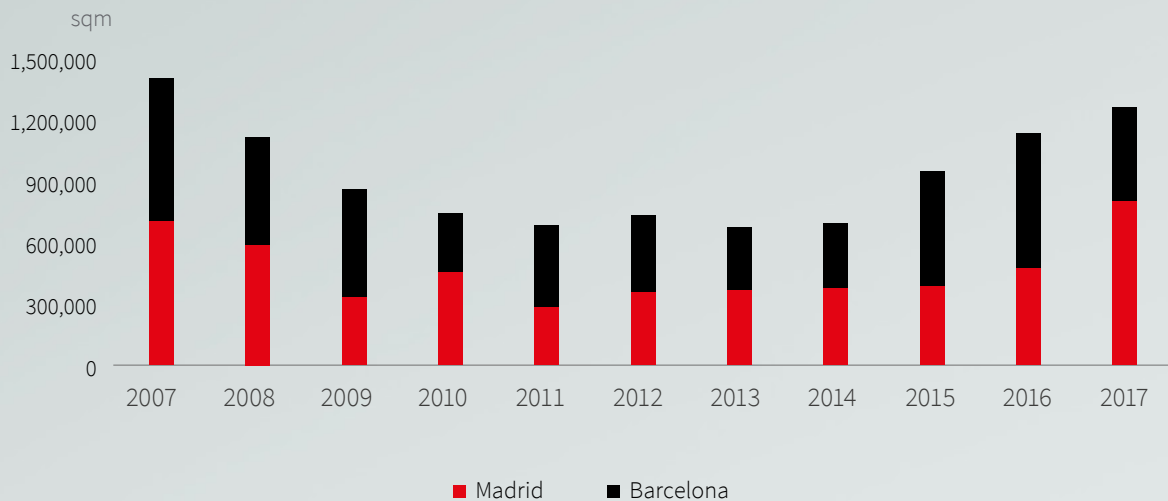
Logistics take-up has been driven by the sound economic data, exceeding one million square metres leased in 2017 in Madrid and Barcelona. The exact figure was 1,260,000 sqm, which represents an increase of 12% on the volume leased in 2016.

The strong demand in 2017 led to the best logistics take-up figures for the last 10 years.

Madrid hit an all-time high, with deals signed for 800,000 sqm, double the 2016 figure. This is mainly due to the high number of transactions closed in the period, which totalled over 64, compared to 43 the previous year. The most salient deals last year included the 103,000 sqm leased in Illescas

(Toledo) by Amazon and the 60,000 sqm taken up by Leroy Merlín in the Mecó Industrial Estate, near Madrid.

Take-up in Madrid and Barcelona



Source: JLL

In Barcelona, take-up levels were down slightly on previous years due largely to the lack of supply and the fact that there were no large deals signed at all. Some 460,000 sqm was taken up in 2017, down 30% versus last year. ID Logistics' 55,000 sqm deal in Bisbal del Penedés was one of the major deals signed last year, as was the leasing of 35,000 sqm by Alfil

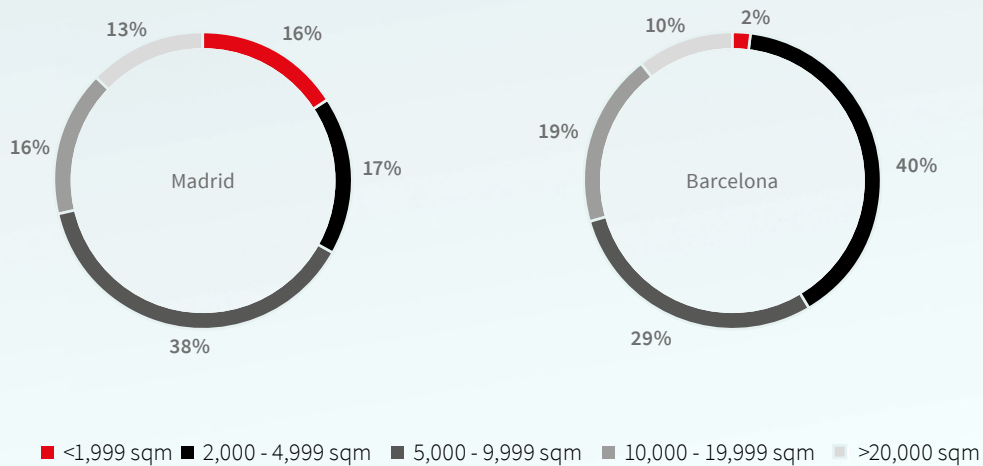
Logistics in Barcelona's ZAL II.

With a view to the year ahead, we expect to see a rise in turnkey projects and pre-let deals owing mainly to the lack of quality completed warehouses and the active demand.

By deal size, the Madrid market is dominated by occupiers seeking

medium-sized floor areas of between 5,000 and 10,000 sqm, representing 38% of total deals. Barcelona, however, is currently characterised by the lease of small floor areas of between 2,000 and 5,000 sqm, which accounted for 40% of transactions.

Take-up by city and floor space in 2017



Source: JLL

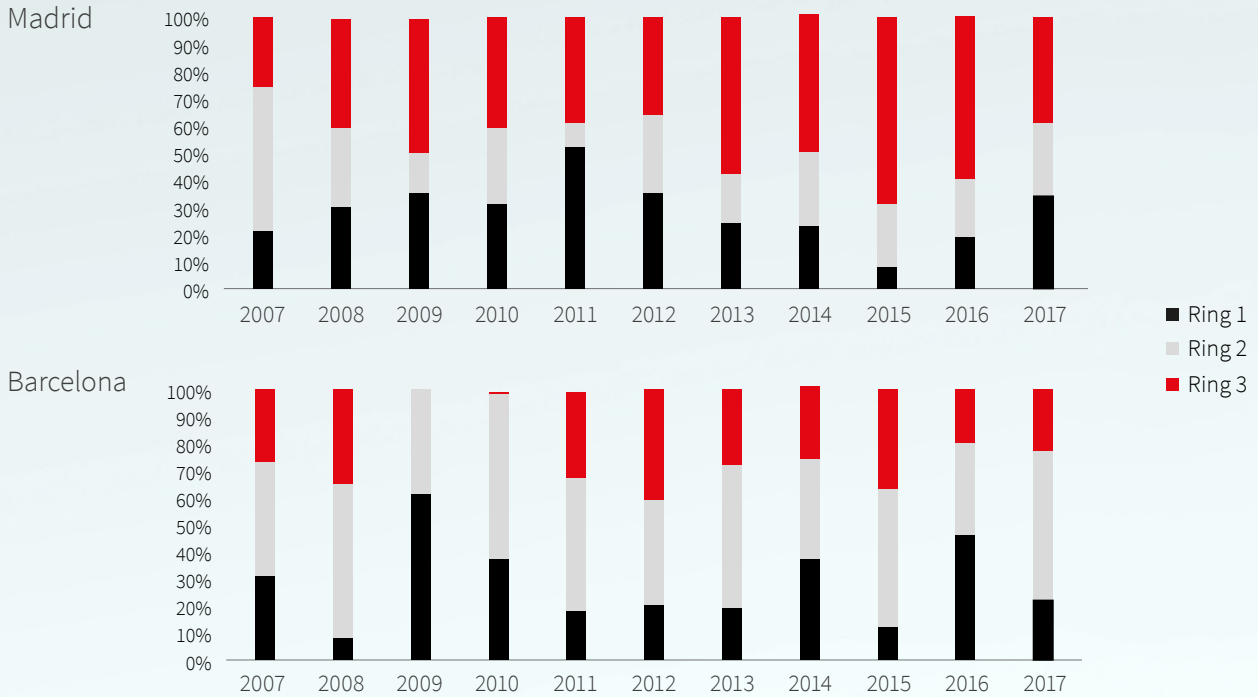
In Madrid, most of the floor space taken up in 2017 is still concentrated in the third ring (39%), although the first ring saw a healthy upturn, accounting

for 34% of take-up versus 19% in 2016. The second ring in Barcelona was particularly active in 2017, accounting for 55% of take-up. The take-up in the

areas furthest from the city centre is explained by the greater availability of large surface areas.



Take-up by submarket in Barcelona (per floor space)



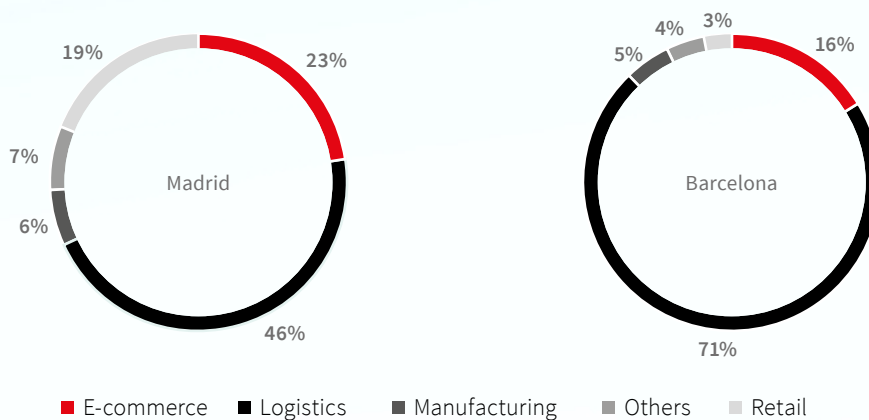
Source: JLL

Logistics companies led the take-up of space in 2017, accounting for 46% and 71% of total space leased in Madrid and Barcelona, respectively. The buoyancy of the third-party logistics

sector can be explained by the activity of e-commerce and retail operators, which are often unable to meet their own logistics needs and have to turn to logistics suppliers to handle the

delivery of goods and products to customers. A good example of this is the growing demand for facilities aimed at cross-docking activities closer to major cities.

Take-up by activity in Madrid – Barcelona in Spain (per floor space)



Source: JLL



Evolution of rental levels

The rise in take-up levels has led to a moderate up-tick in rental levels. Since the economic recovery got underway in 2014, prime rental levels in Madrid have grown by 9% to stand at €5.00/sqm/month at 2017 year end; prime rents in Barcelona have now reached €6.75/sqm/month. Rental levels are forecast to continue trending upwards, with estimated annual growth of 3.5% and 2.1% in Madrid and Barcelona, respectively, over the next 4 years.

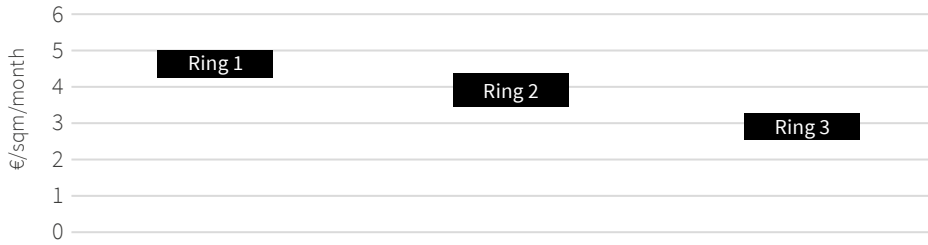
Rental growth 2018-2021 (% per annum)

Top 10



Source: JLL

Range of rents by Madrid rings



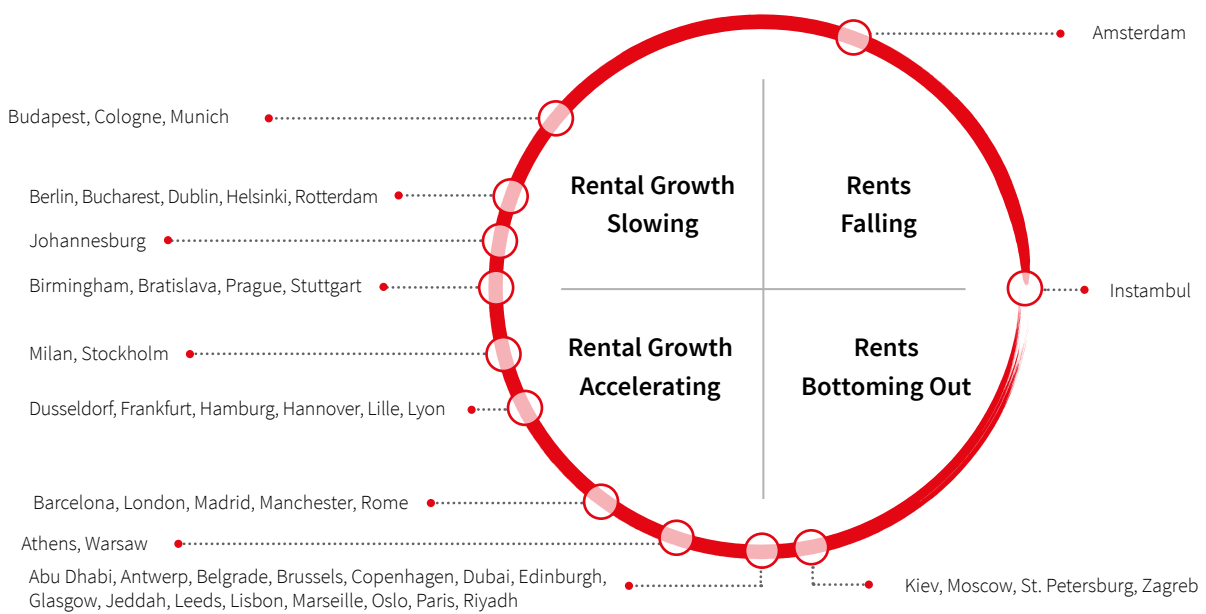
Source: JLL

Range of rents by Barcelona rings



Source: JLL

Rental growth clock 2018-2021 (% per annum)



Source: JLL

Immediate and future logistics offer

Immediate availability

A turnaround in demand has led to a falling logistics vacancy rate.

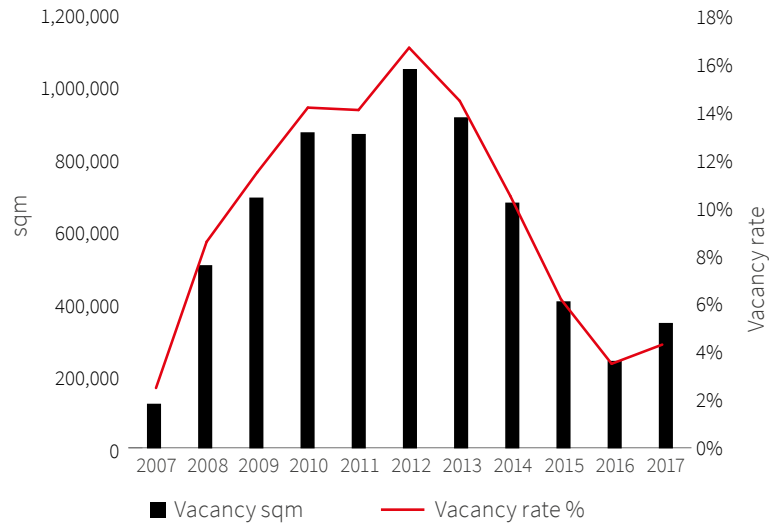
Although the vacancy rate declined in Madrid over the course of 2017, there was a slight increase in the fourth quarter, to 4.21%. This was mainly due to certain warehouses becoming available in the third ring and the relocation of tenants to areas closer to the city. The third ring, which currently has a vacancy rate of 6.68%, has the most available space, coming in at 174,621 sqm, while at the other end of the spectrum, the second ring has a vacancy rate of 2.27%, with just 66,509 sqm available to let.

The vacancy rate tightened in Barcelona last year, falling 104 basis points to 3.20%, or 228,345 sqm, despite the completion of new logistics developments during that time. Vacancy rates in the first ring are even lower, coming in at 1.5%, which is just 27,554 sqm of lettable space, whereas the third ring offers the greatest amount of free surface area, at 108,721 sqm.

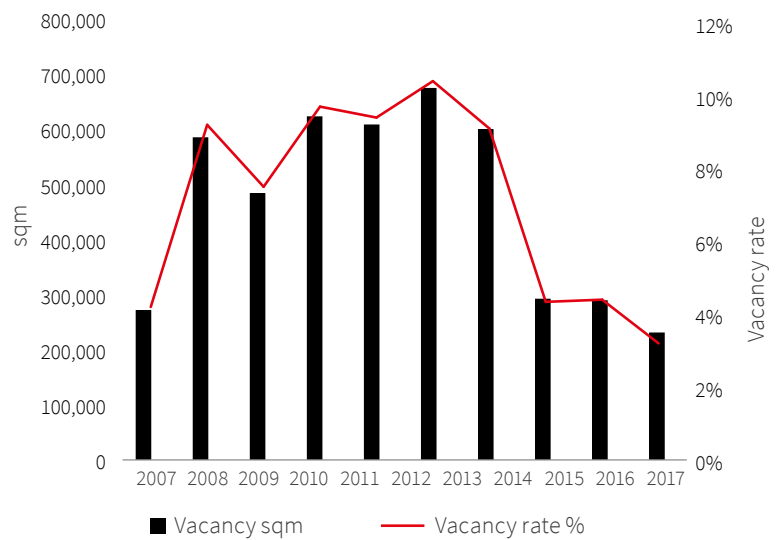
The lack of supply and the healthy economic outlook are leading to a recovery in warehouse construction.

Availability and vacancy rate

Madrid



Barcelona



Source: JLL

	Ring 1	Ring 2	Ring 3
Madrid	3.92%	2.27%	6.68%
Barcelona	1.50%	3.47%	4.28%

Future Supply

According to a survey conducted by JLL with 30 investors at the SIL 2017 event, in view of the current lack of supply, 98% of those surveyed envisage the possibility of developing new logistics facilities,

with half of those asked preferring well-established logistics areas.

Approximately 744,500 sqm and 441,200 sqm currently under construction in Madrid and Barcelona are expected to be completed in 2018. Tenants have already been

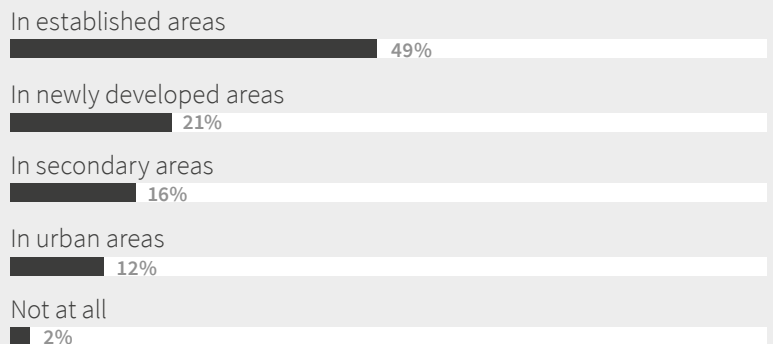
secured for 30% of future supply under construction in Madrid, and the remaining 70% are speculative developments. The reverse can be observed in Barcelona, where 80% already has a tenant and 20% is speculative.

	Madrid	Barcelona
Projects under construction	744, 500 sqm	441, 200 sqm
Already has a tenant	30%	80%
Speculative	70%	20%
Owner-occupied projects	FM Logistics: 40,000 sqm Jaguar: 15,000 sqm Amazon: 103,000 sqm	Amazon: 200,000 sqm Markwins International: 8,000 sqm



What does the market think?

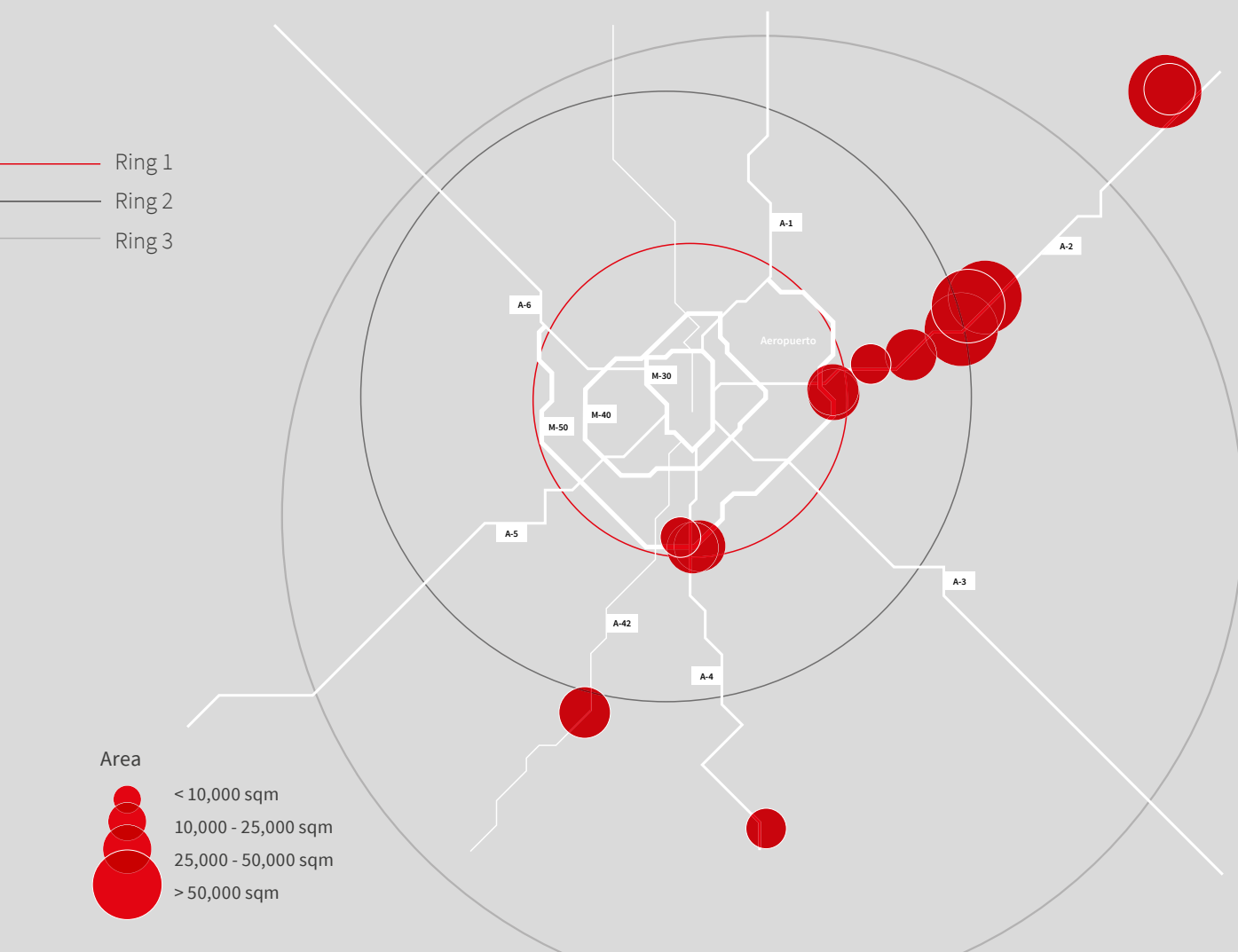
Would you consider the possibility of investing in the development of new logistics facilities?



Source: JLL

Future industrial supply

Madrid

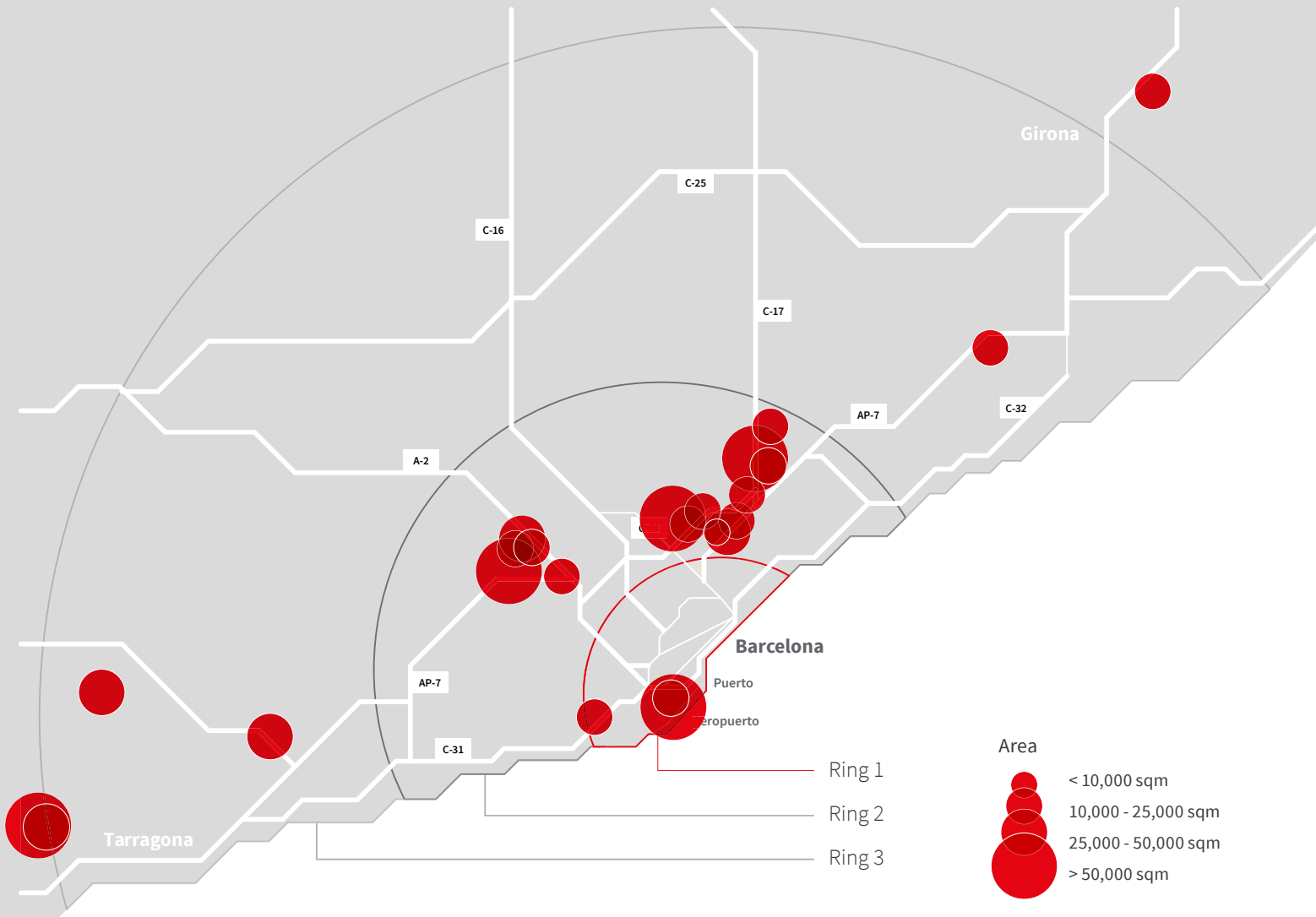


The record lack of logistics land in the Barcelona metropolitan area has led to significant growth in areas like Martorelles to the north of the city and Sant Esteve de Sesrovires to the south, driven by the demand for space among logistics operators. A clear example of this new development was the decision by the world's largest e-commerce company to set up shop at the SEGRO Logistics Park in Martorelles. SEGRO

aims to build modern, high quality assets for tenants on long-term leases. We have only chosen strategic locations in Spain's most vibrant areas, as our objective is to create and develop innovative, high quality warehouses and business parks for our clients by building Class A facilities that are environmentally friendly for urban distribution and logistics activities.

David Alcázar
Managing Director of SEGRO
in Spain

Barcelona



Land prices:

The sale of land and the development of logistics projects grew both in Madrid and Barcelona in 2017, attracting logistics operators and end users to these new facilities. Land prices have therefore held steady, but increases in value are expected across the board going forward. In Madrid, these new developments have been welcomed, especially in the Henares Corridor, where take-up rates have hit a new high. Land

remains very tight in the Barcelona market, especially for well-connected plots in strategic logistics locations. In conclusion, there is a lack of available land with planning permission, but new developments will come onto the market in late 2018 and the first half of next year.



Prime land prices

<u>Maximum</u>	<u>Minimum</u>
Madrid 200 €/sqm	Madrid 140 €/sqm
Barcelona 400 €/sqm	Barcelona 150 €/sqm



06. Logistics Hotspots 2017



Key Locations in Madrid:

Getafe

Illescas

San Fernando de Henares

Cabanillas del Campo

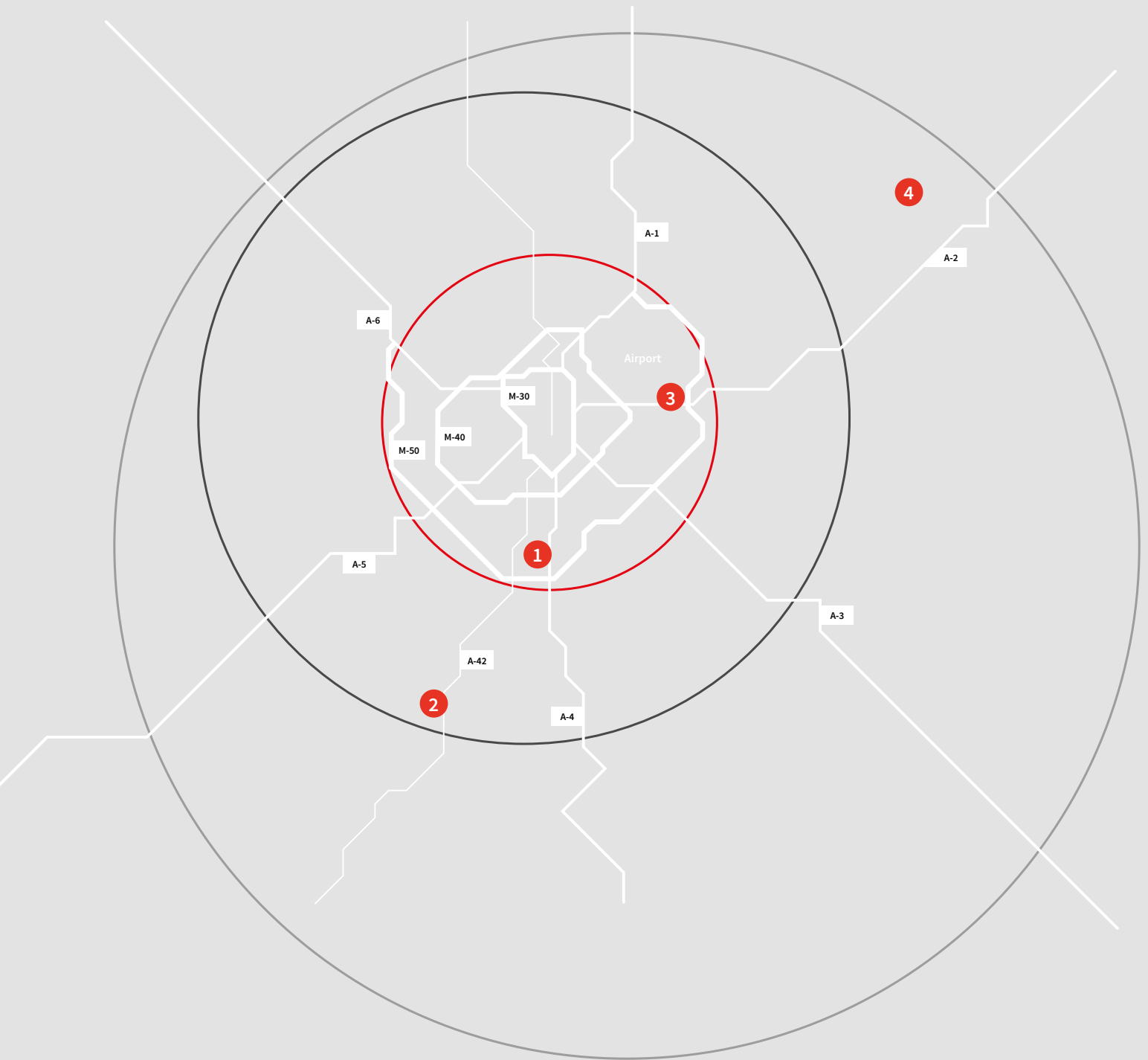


Key locations in Barcelona

PI Can Margarit, Sant Esteve de Sesrovires

Lliçà d'Amunt

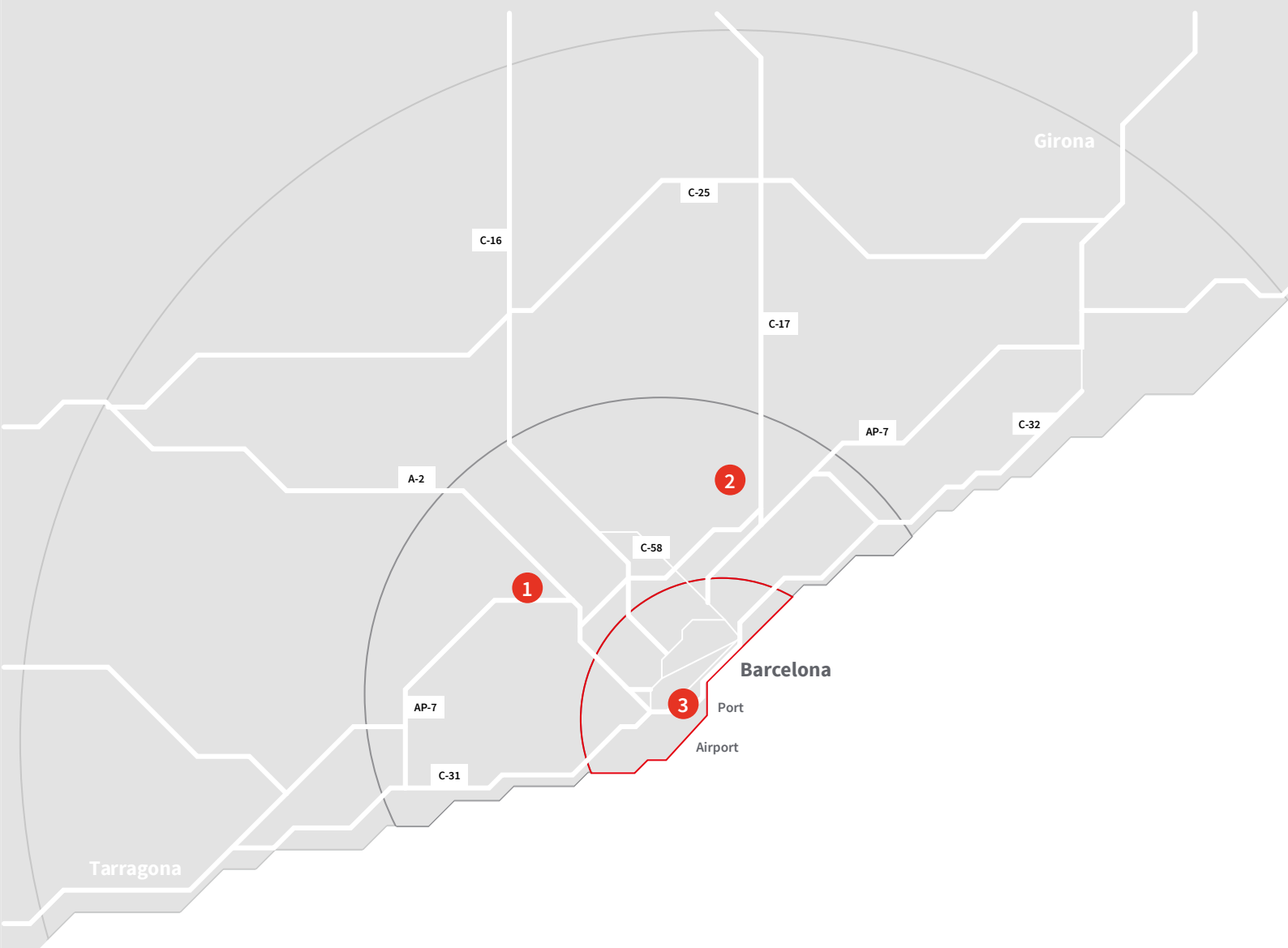
Port BCN – ZAL – BZ



Madrid

Logistics Hotspots 2017

1. Getafe
2. Illescas
3. San Fernando de Henares
4. Cabanillas del Campo



Barcelona

Logistics Hotspots 2017

1. PI Can Margarit, Sant Esteve de Sesrovires
2. Lliçà d'Amunt
3. Port BCN – ZAL – BZ

1. Getafe

Getafe is located within the Madrid metropolitan area (inside the first ring) at the junction of two major arteries, the A-4 and M-50, just 15 minutes from the city centre and Atocha railway station. Developers, investors and Socimis, including Invesco, Merlin Properties, Rockspring and Segro, are developing high quality logistics platforms, attracting tenants of the likes of Amazon to the area. The Logistics Supply Area (CLA in Spanish) is also witnessing strong activity, thanks

to the arrival of companies like Saltoki and Fedex, which have set up shop in the area. La Carpetania Business Park is also expanding; companies such as Neinver are planning to develop logistics platforms, while new tenants like CBL have moved to the area. Getafe is shaping up as the prime area in southern Madrid, where maximum rental levels are in the region of €4.75/sqm/month.

2. Illescas

Illescas is located in the second Madrid logistics ring. Even though it is actually in the province of Toledo, some 36 Km from Madrid, it enjoys direct access via the A-42. It is also linked by road to Algeciras and Valencia, Spain's largest ports by volume of cargo handled. Central Iberium developed a logistic park last year offering the greatest supply of logistics and industrial land in central Iberia. Spanning over 700,000

sqm (all phases), it is already attracting final users, such as Michelin, FM Logistics, Amazon and Mission Foods. Investors and developers like MountPark and P3 Logistics are building other logistics facilities in the area. Maximum rental levels in Illescas now stand at €3.20/sqm/month.

Madrid

3. San Fernando de Henares

Located just 18 Km from Madrid and less than 8 Km from the city's airport, the town has direct access to the A-2 and M-50. Its strategic location in the first ring makes San Fernando de Henares a highly sought-after area for distribution and transport processes, as companies are able to reduce costs and delivery times to the Spanish capital. In 2017, Prologis, VGP, Talus and Axiare built logistics platforms and cross-docking facilities, which attracted tenants of the likes of Rhenus Logistics, Transaher, Thyssen Group

and Amazon to the area, which has ramped up activity and added value to the industrial estate. Over 436,000 sqm are expected to be built over the next two years, which has led to companies specialising in e-commerce, transport and distribution to consider the location as a possible candidate for their new facilities. Maximum rental levels in San Fernando now stand at €4.85/sqm/month.

4. Cabanillas del Campo

Cabanillas is located in the third ring in the province of Guadalajara, just 50 Km from Madrid. It is the municipality with the highest economic potential in the Henares corridor, where leading logistics and storage operations have established their base. The town offers over 2 million sqm of industrial land. The strong demand for large-scale logistics spaces in 2016 and 2017 have led companies like Merlin Properties and

developers like Montepino to develop large logistics platforms, attracting operators like Luis Simoes, XPO, DSV. These moves have strengthened Cabanillas' position as a prime logistics hub, with industrial estates housing large warehouse properties. Maximum rental levels in the area now stand at €3.5/sqm/month.

The Henares Corridor, which forms part of the first logistics ring around Madrid, is seeing considerable growth currently. Companies such as Amazon, TNT and XPO Logistics have chosen the area for their new facilities. The first speculative project at the VGP Park San Fernando de Henares completed at the end of 2017, for example, has been a runaway success and has already attracted two global blue-chip tenants

– Rhenus Logistics and ThyssenKrupp – to occupy the entire facility. Both these tenants were signed up even before construction was complete. These projects are highly valued by potential tenants in the first ring, thanks to their outstanding locations and the high standard of the finished product.

Joan Lacosta
Country Manager VGP
Spain

Barcelona



1. PI Can Margarit, Sant Esteve de Sesrovires

Developer Goodman triggered renewed interest in the area located in Barcelona's second ring, which hitherto had not seen logistics projects. Goodman built 200,000 sqm to the south of the municipality, where users such as Decathlon and Leventon have led turnkey projects. The area

is attracting significant attention, as it is one of the few areas of Barcelona where large logistics surface areas have been developed. Rental levels in this logistics hub have reached the upper end of the scale for this ring of between €4.50 and €4.75/sqm/month.

2. Lliçà d'Amunt

This recently industrialised area in the second ring did not have major logistics platforms until the arrival of Mango, which established its Southern European distribution centre there (180,000 sqm). VGP is now planning two major new developments of 30,000 and 40,000 sqm in the area, which is expected to lure in third-party logistics players.

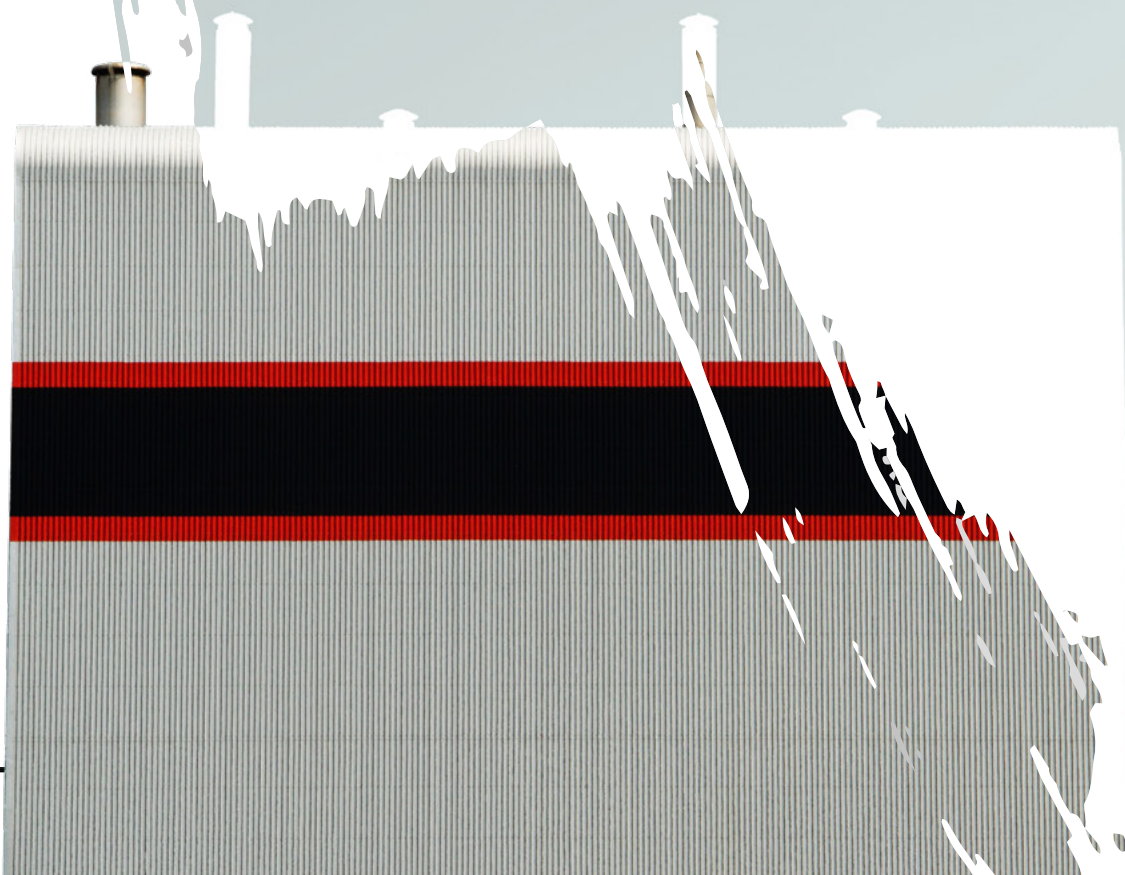
Another key factor in the regeneration of the locality was the acquisition of Mango's logistics centre by VGP. Mango stayed on in the facility as a tenant. Rental levels in the area now stand at €5.25/sqm/month.

3. Port BCN – ZAL – BZ

The ZAL – the Port of Barcelona's logistics platform and one the largest facilities of its kind in southern Europe – is considered prime land where most of the major logistics projects in the first ring will be located. Cilsa and Merlin are set to develop around half a million

square metres over the next four years. The high levels of activity, intermodality and transport connection make this a major focus for both investors and users. This logistics hub at the port has the highest rental levels in Barcelona, at €6.75/sqm/month.

07. Investment market



Logistics investment volume peaks in 2017 at an all-time high

Investment in Spanish commercial real estate (offices, retail, logistics and hotels) reached a volume of close to 11.4 billion euros in 2017, up 30% versus 2016. It was a strong year for

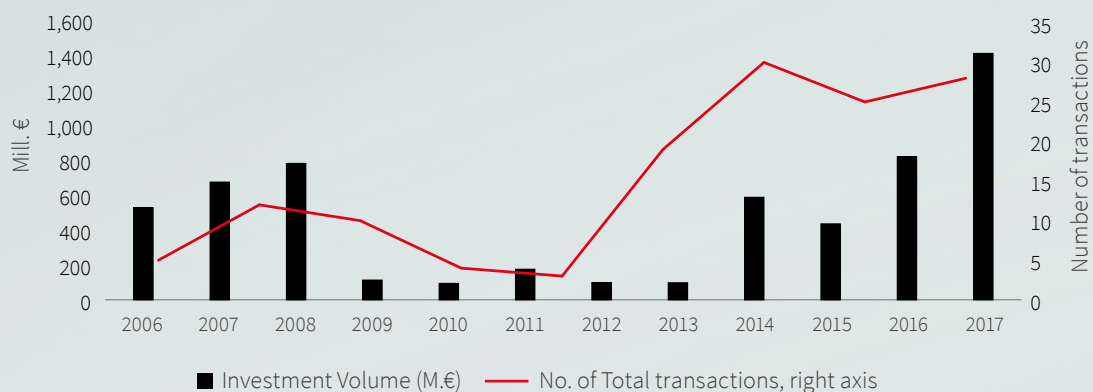
real estate investment, with volumes comfortably exceeding the pre-crisis highs reached in 2006.

Logistics accounted for 12% of commercial property investment in Spain in 2017, reaching 1.41 billion euros.

Last year saw an all-time high in terms of investment in logistics property

in Spain, reaching 1.4 billion euros, up 72% versus 2016. A total of 28 investment deals were signed, of which 40% corresponded to logistics portfolio deals. The last quarter of the year was the most active, with 833 million euros invested through 7 deals, including 3 portfolio transactions.

Investment volumes and total number of deals in the logistics sector in Spain

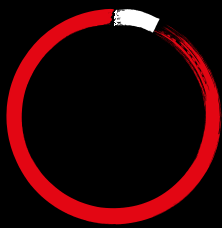


Source: JLL

**Investor
nationality**

Domestic

7%



International

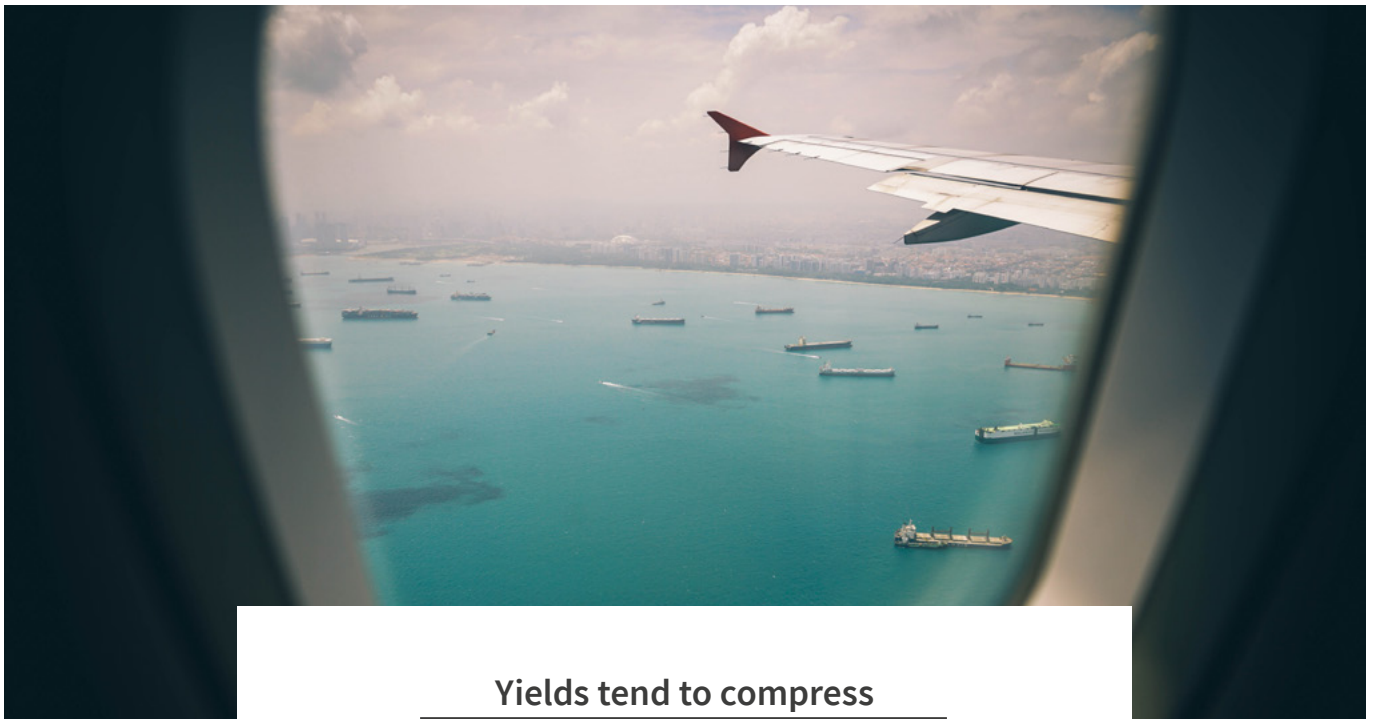
93%

International players stole the limelight in 2017, accounting for over 90% of the total. The largest deal last year was led by China Investment Corporation (CIC), which bought Logikor – the biggest owner of logistics assets in Spain with over one million square metres – from Blackstone. Another active fund last year was Greenoak, which has resumed acquisitions after selling its portfolio. P3 Logistics Parks, which netted the Greenoak assets, continues to expand its portfolio. Other funds like Barings also played a major role. New players from Central Europe and the United States also took steps to gain a foothold in the Spanish market.

By type of investor, over 70% of the volume invested was by Manager funds, whereas REITs took a step back last year and only accounted for 10%.

In addition to Madrid and Barcelona, investors also set their sights on Valencia, Zaragoza, Bilbao, Seville and Malaga, either due to their strategic location or growth prospects.

Despite the political uncertainty, Spain remains an attractive real estate investment destination. This is especially the case in the logistics sector, which has strong upside potential thanks to its solid fundamentals, coupled with the growth of e-commerce.

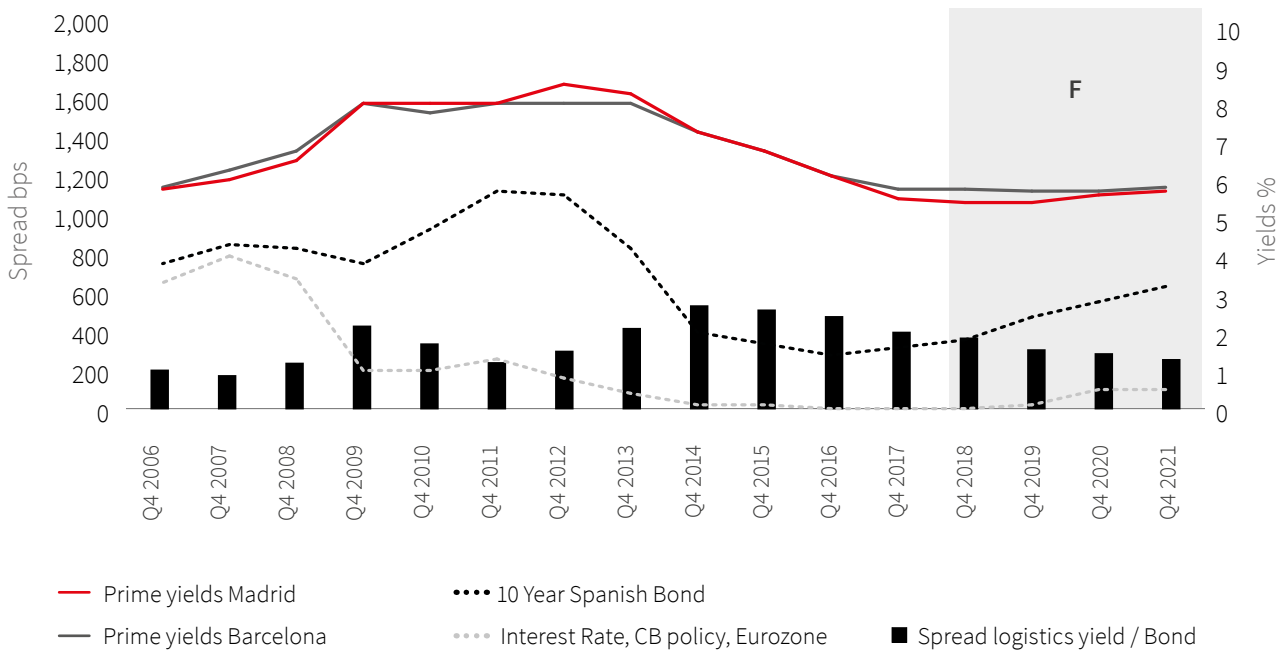


Yields tend to compress

Prime yield levels continued to tighten over the course of 2017 – 50 basis points in Madrid and 35 points in Barcelona – to stand at 5.5% and 5.75%, respectively.

These figures are the lowest on record, although the spread with respect to the 10-year Spanish bond still paints a very healthy picture (above 380 basis points). In 2018, we expect prime yields to continue to contract in Madrid to

5.4%. Logistics is the only real estate sector in the city where we still expect them to fall against a more general backdrop of yield stabilisation.



The Spanish logistics sector is still attractive to investors, offering better yields than other European markets, such as Paris (4.75%), Berlin (3.5%) and London (3.75%).

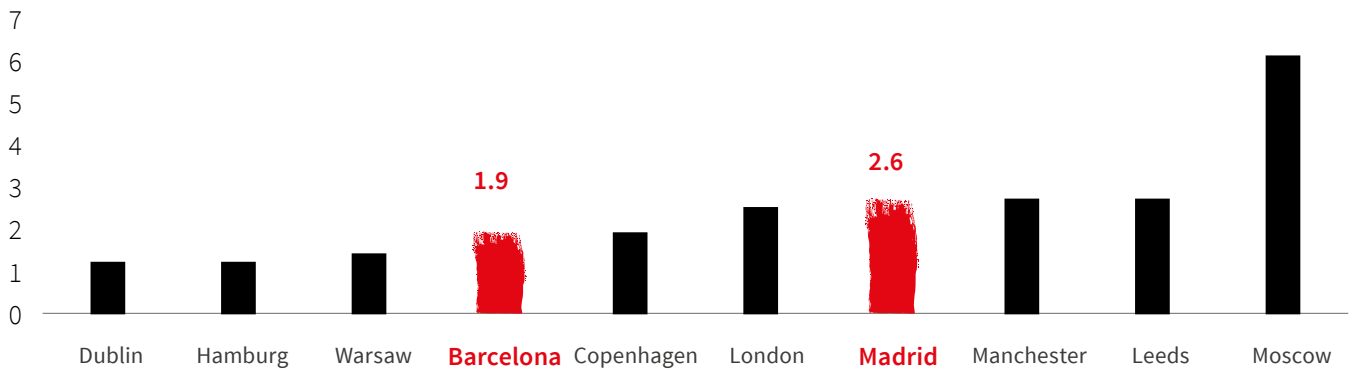
Faced with a lack of investment opportunities, many investors are seeking less conventional deals, such as the acquisition of assets still under

construction, and are even prepared to take on sales and marketing expenses if the asset is located in a well-established area. In fact, we've even seen recent cases where investors have entered the process at the land acquisition stage to become the real driver of the project.

We expect logistics market values in Madrid and Barcelona to continue growing over the next 5 years, registering rises of 2.6% and 1.9%, respectively. Madrid ranks fourth in the European market value growth top 10, while Barcelona comes in seventh.



Top 10



Source: JLL

The logistics sector is underpinned by solid fundamentals which give it huge future potential. The rise in consumer spending, the buoyant economic picture, the growth in e-commerce, the arrival of new firms in Spain and new distribution methods, along with the need for modern warehouse space to meet the needs of large companies, are all factors that are causing investors to set their sights on the Spanish logistics market.

International investors focused heavily on our sector last year, not just because of the reasons I've just outlined, but also because Spain offers better yields compared to other more-established markets, where yields are lower. The logistics sector is also a good way to diversify portfolios and increase average yields.

Rental levels are rising, but are still some distance from their all-time highs, as are the asset values, which means

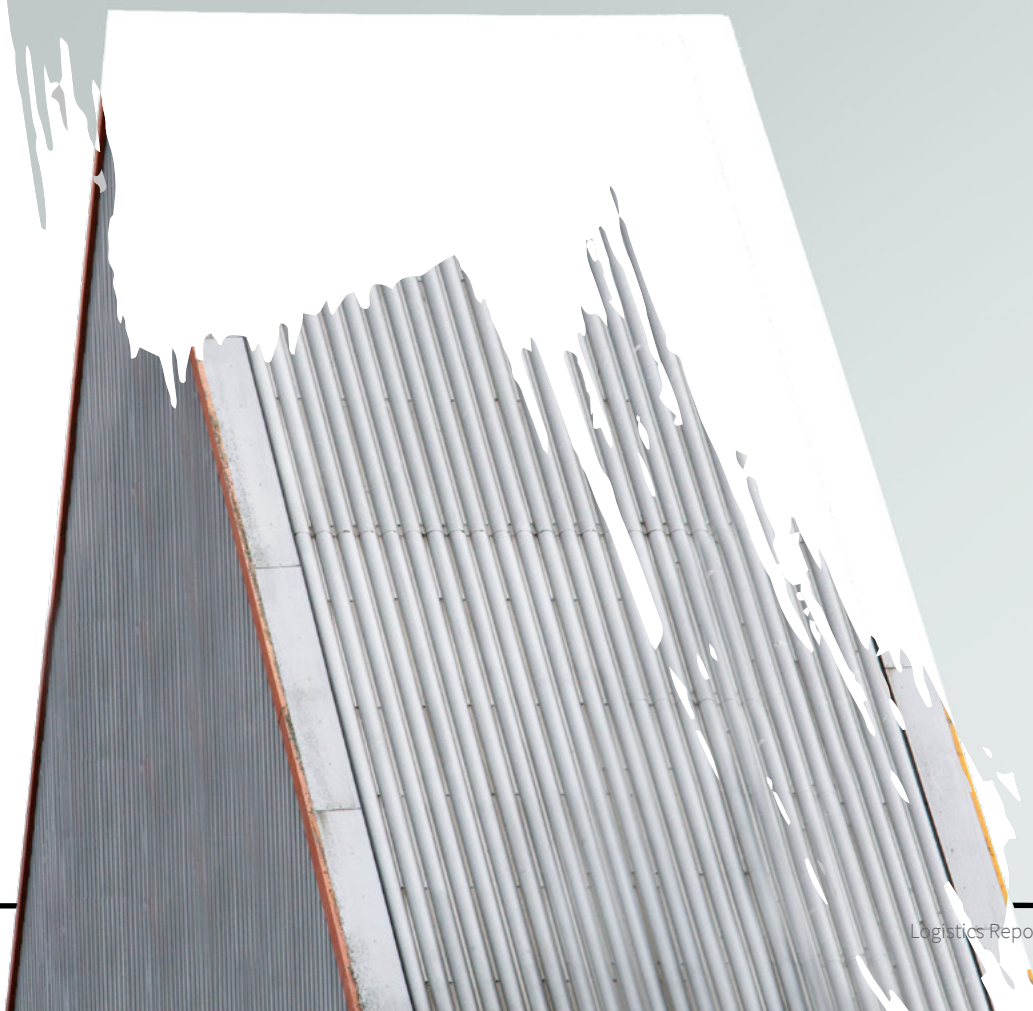
investors still see some future potential.

We expect this trend to continue this year and that the logistics sector will continue to attract many investors. Of all the Southern European countries, Spain has the most solid economy and greatest legal certainty, which is vital to be a good investment destination.

Gustavo Rodriguez
Head of Logistics
Capital Markets



08. Challenges and opportunities





IFRS 16:

A new era

for leases

New accounting standards are set to include leases on companies' balance sheets, which means real estate decisions will be subject to increased scrutiny by the CFO, CEO and shareholders of listed companies. Real estate directors will have to be fully up to speed on the imminent changes, not just to make the right real estate decisions, but also to train colleagues in the financial, accounting, legal departments, as well as senior management.

What changed?

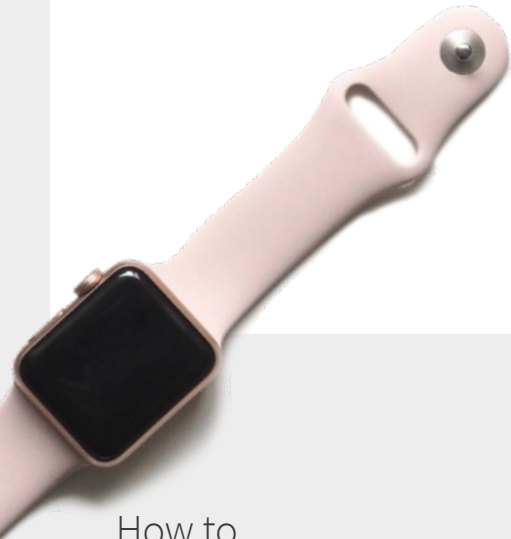
At the beginning of 2016, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) based in the US published their definitive guidelines on the new accounting standards concerning leases. In both cases, the new standards oblige companies to disclose on their balance sheets any lease transaction with a term of over 12 months as a right-of-use asset, as well as the corresponding liability. This move will hike the disclosed debt levels for many companies, as lease obligations on property, plant and equipment will now

be considered balance sheet items, rather than being recognised in profit or loss.

The two sets of accounting standards are following a parallel calendar. As of 2019, all listed companies reporting their results according to US GAAP and IFRS must meet the new requirements and disclose information on a like-for-like basis with previous accounting periods. This means that the new process entered into effect on 1 January 2017 for listed companies whose accounting period coincides with the calendar year. Unlisted companies have a little more time to adopt these standards, which will apply for accounting periods commencing after 15 December 2019 and provide a retrospective comparison for the previous year.

Guidelines for disclosure of information under IFRS

All lease transactions on property, plant and equipment will be recognised on the income statement as finance leases (currently known as operating leases). Amortisation and depreciation costs related to the right-of-use assets and interest expenses liabilities will also have to be duly disclosed. Expenses will be higher during the first few years of the lease term, just as mortgage interest payments are higher in the first few years of the term before decreasing in subsequent years. The higher costs in the first few years of the lease term will impact earnings when the new standards come into force.



How to prepare

- Reducing the lease term could seem like the ideal solution to scale back the financial impact of the new standards. However, the short-term gains must be compared and contrasted with other related impacts.
- Renewal or extension clauses are an important factor to take into account, as the financial impact on the balance sheet will be considerable upon application of the new accounting standards.
- Operating expenses on lease agreements will also have to be carefully scrutinised, as these expenses will not be recognised on the balance sheet under the new standards.

- Triple net leases, whereby the lessee agrees to pay a fixed lease payment to cover all expenses, including property taxes, insurance, upkeep and repair, remove this administrative burden.
- Reviewing contractual clauses to determine whether a contract meets the definition of a lease agreement is now more than important than ever.
- Reconsidering which entities enter into lease agreements is another strategy aimed at minimising the financial impact of the accounting standards related to leases

Consider alternatives

- Variable lease agreements subject to turnover, which link the lease payments to the in-situ sales income of the lessee, offer the advantage of possibly being excluded from the balance sheet.
- Avoiding new leases through creative co-working options could be another solution for companies.

Leasing vs buying

The changes to the accounting standards will eliminate some of the capital efficiency benefits inherent to lease agreements, forcing large companies to rethink fundamental questions as to whether it is more advantageous to lease or buy real estate assets. With both options having an adverse impact on balance sheet debt under the new rules, the financial difference between leasing or owning a building will become less significant in the future.

However, the main drivers that would sway the decision one way or another will continue to be the capital allocation strategy, economic aspects, portfolio flexibility and operational requirements. The only change will be the need to pay close attention to the impact on the financial reporting information and the organisation's sensitivity to uncertainty.

The main aspects that must be examined ahead of the new accounting standards include the following:

- Is the lease liability greater than the value of the underlying assets?
- How would the lease agreement be structured and how do the related obligations affect the data to be disclosed on the balance sheet?
- To what extent is it important to have control over the asset?



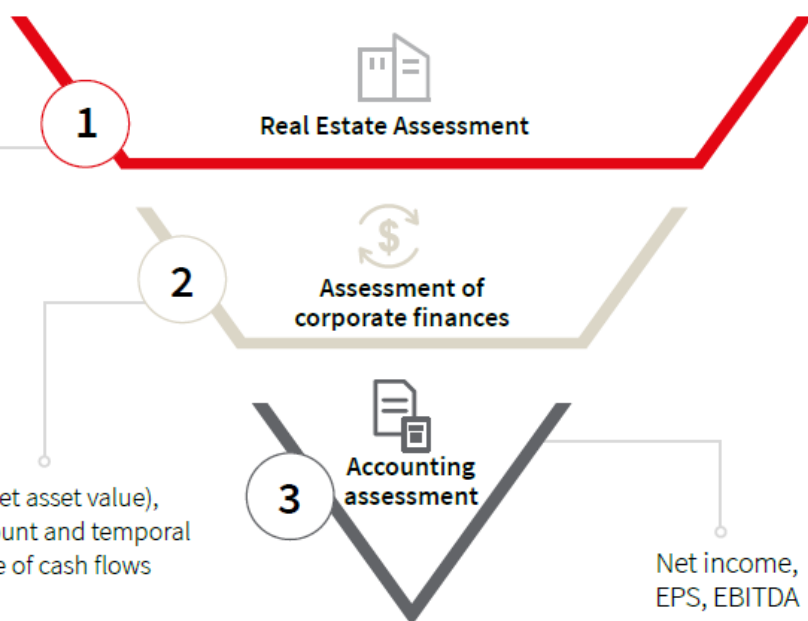
How to tackle a Corporate Real Estate decision

Recommended hierarchy to address the decision.

What's the economic justification and strategic logic to make the decision?

NAV (net asset value), total amount and temporal profile of cash flows

Net income, EPS, EBITDA



Trends



2018
The Urban Logistics



City logistics is attracting increasing attention from developers and investors, thanks to the increase in demand for facilities aimed at last-mile distribution for e-commerce and Internet shopping operators.

According to a JLL study among 30 investors at the SIL 2017 event, 72% of those asked were considering investing in urban logistics assets, highlighting centralised click and collect facilities, for example.

The growth in e-commerce and ever tighter delivery times have added an extra layer of complexity to the city logistics sector. It has effectively fragmented last-mile distribution and multiplied the number of delivery points.

Urban logistics facilities and peripheral warehouses often form part of the same supply chain, so a wider perspective that goes beyond the urban realm is needed to gain a proper understanding of the challenges and opportunities posed by city logistics.

As society changes, so do shopping habits and how the public interacts with its surroundings, a factor that also has an impact on the real estate market. Online shopping is increasingly popular and this new situation does not only affect the retail market, it is also having an influence on the logistics sector, where there is higher demand for city logistics spaces. Companies are seeking to move closer to their end consumers and reduce product delivery times.

We're facing a new supply chain approach, where the "last mile" will be increasingly important, generating fresh challenges and opportunities.

That's why we need to find new city logistics models that are sustainable and efficient, while minimising adverse environmental and social impacts, such as air pollution, noise and congestion in large cities. Making a clear commitment to technological development will be key in the future, as will night-time deliveries to maximise the efficiency of transport networks. Prioritising logistics aspects in the fields of town planning and building design will also gain traction going forward.

These are times of huge challenges which will translate into major opportunities, both for real estate developers and investors.

Pere Morcillo
Head of Industrial &
Logistics





Sustainability as a future challenge for cities

**“...revolutionising
mobility and town
planning...”**

Cities pose material logistics challenges as the urban population and economic activity expands. Demand for transport and merchandise storage is all set to rise, which will lead to greater congestion and pollution and dwindling land resources.

Municipal authorities are under pressure to improve the local environment and cut emissions, which is revolutionising mobility and town planning. One such example are the so-called “superblocks” in Barcelona and the restrictions imposed on vehicle access to the city centre, which is already standard practice in Madrid.

Madrid is also participating in CIVITAS ECCENTRIC, a European research project that tests out innovative approaches to improving sustainable mobility in the outskirts and city centre freight transport. The Eccentric project includes the introduction of electric vehicles, the development of a consolidation centre and the creation of a prototype for an ultra-low emissions vehicle.

Companies are also under pressure to find new, more efficient and sustainable logistics models. Electric vehicles are set to become increasingly prominent in urban logistics settings, and this will need to be accompanied by considerable investment in vehicle charging facilities.



Source: More than the last mile, JLL, 2017



Technology at the service of city logistics

Smart cities aim to use digital technology to efficiently manage space and infrastructure, with the resulting improvement in mobility, sustainability and standards of living. However, there are very few genuinely smart cities in Europe, or globally for that matter. Nevertheless, there are other ways technology can be harnessed to improve how infrastructure and other assets are utilised to relieve the pressure on cities.

“...there are other ways technology can be harnessed to improve how infrastructure and other assets are utilised to relieve the pressure on cities.”

MaaS and WaaS

One such solution is the development of Mobility as a Service, or MaaS, and its logistics counterpart WaaS, or Warehouse as a Service. Both concepts revolve around matching demand for transport and warehousing with supply in real time. One area that has truly taken on board the MaaS concept is the home delivery of food, with operators like Deliveroo and UberEats now operating in Spain.

EMT, Madrid's Municipal Transport Company, has announced that it will launch a MaaS application at the beginning of 2018. The new service will pool together all mobility and transport services, such as car-sharing, motorcycle-sharing, taxi, bike-sharing, metro and buses in the region.

Warehouse as a Service is shaping up as a feasible option to feed city logistics systems. Various providers already offer short-term shared storage options to cover demand. One such option is TimoCom, the largest provider of its kind in Europe, which operates loading and storage platforms in Spain and a further 43 countries across Europe.

Automation of the last mile

Another possible solution made possible by technology are autonomous delivery robots, like those developed by Starship Technologies, which are already working with companies like Just Eat in the UK and the Swiss Post Office. These machines allow for swift, smart and cheap last-mile delivery.

Delivery by drone is another possible autonomous solution, although there are legal and operating constraints, as well as question marks around to its financial viability.

3D Printing

3D printing is another technology that has the potential to transform urban freight transport.

Big Data and predictive analytics

Technological advances in manufacturing and distribution provide for a much more efficient use of supply chain elements, through the development of production programmes and shorter transportation routes based on data and predictive analytics. Big Data offers the opportunity of moving from a supply chain to a demand chain model through predictive analysis of end-client demand, which optimises the use of distribution networks. According to DHL Supply Chain, better demand forecasts can allow inventory stocks to be reduced by between 20 and 30%.

The potential of Big Data is such that the European Union has launched the Transforming Transport project, one of the largest projects financed within the **Horizon 2020 EU Framework Programme for Research and Innovation**, which has a budget of 18.7 million euros and comprises 47 partners working to demonstrate and quantify the transformation that Big Data will bring to the mobility and logistics fields.

Transforming Transport will address seven pilot fields of major importance to the mobility and logistics areas in Europe:

1. Smart highways.
2. Sustainable connected vehicles.
3. Proactive rail infrastructure.
4. Ports as intelligent logistics hubs.
5. Smart airport turnaround.
6. Integrated urban mobility.
7. Dynamic supply networks.

New algorithms based on existing Big Data technology will be developed and tested in each of these seven areas. Valladolid in Spain is to be home to one of the pilot urban mobility schemes.

Source: More than the last mile, JLL, 2017



Redesigning urban logistics: new concepts/ a broader variety of spaces

Concern around environmental matters and the quest to improve logistics efficiency are giving rise to significant changes in logistics operations, with demand rising for different logistics asset types.

"Concern around environmental matters and the quest to improve logistics efficiency are giving rise to significant changes in logistics operation."

Goods transfer points

As cities gradually regulate and phase out diesel vehicles, more transfer points will be needed to offload freight from these types of vehicles onto those powered by other means, especially electric vans and trucks. These facilities can range from shared roadside transfer points to buildings dedicated to this type of activity.

Shared delivery consolidation centres

Urban consolidation centres are logistics facilities located fairly close to the centre of a city, which channel deliveries to create an integrated logistics system. They offer storage, classification, consolidation and deconsolidation functions. Interest in this sort of asset is on the rise, especially in town and country planning circles, as these centres can reduce traffic congestion and provide a series of logistics advantages, such as better inventory control, product availability and customer service. The Madrid Consolidation Centre (which forms part of the Eccentric project) is already a reality. Part of the new consolidation centre draws on existing logistics infrastructure, in this case the ADIF Villaverde Logistics Centre. Distribution services using electric, hybrid and gas vehicles are already using this new facility.

Local facilities to cover the last mile, including click and collect points

The urban storage point is a logistics warehouse located in the city centre that serves one or more companies to optimise distribution processes in terms of timescales and delivery costs, as well as being a way to increase proximity to customers. Various companies have implemented these warehouse options on a small scale for their own distribution processes. For example, Amazon in the UK has acquired a number of buildings in London and Birmingham for its “Prime Now” service. In Spain, the e-commerce giant also has urban warehouses at Legazpi in Madrid and El Eixample in Barcelona for last-minute deliveries.

The growth in same-day last-mile distribution and deliveries has increased the demand for local centres and this trend is set to go on as e-commerce continues to expand. In the future, many of these centres will have to adapt to the new delivery robots.

In addition to local delivery centres, centralised pick-up points also have potential. These locker-based facilities are located in urban settings such as railway and underground stations. These smart-locker services are already up and running in Spain, provided by companies like Correos, Pudo, Citibox, Hapiick, Mayordomo and Lavalocker. They are located in neighbourhood centres, offices, underground stations and petrol stations, allowing online purchases to be collected when it suits the customer.

Multimodal logistics platforms and alternative transport options

Multimodal logistics platforms offer vast opportunities for cities, as they can help to reduce congestion and pollution. Trains can transport goods to urban railway stations, which can double as urban logistics platforms.

Multilevel warehouses connected by ramps

Given the space constraints in city centres and rising land prices, there is growing interest in multilevel warehouse facilities shared by several users with the different floors connected by ramps. Although this type of warehouse is yet to be developed in Spain, Amazon’s logistics platform at Prat de Llobregat is a clear example of this new type of building of interconnected floors.

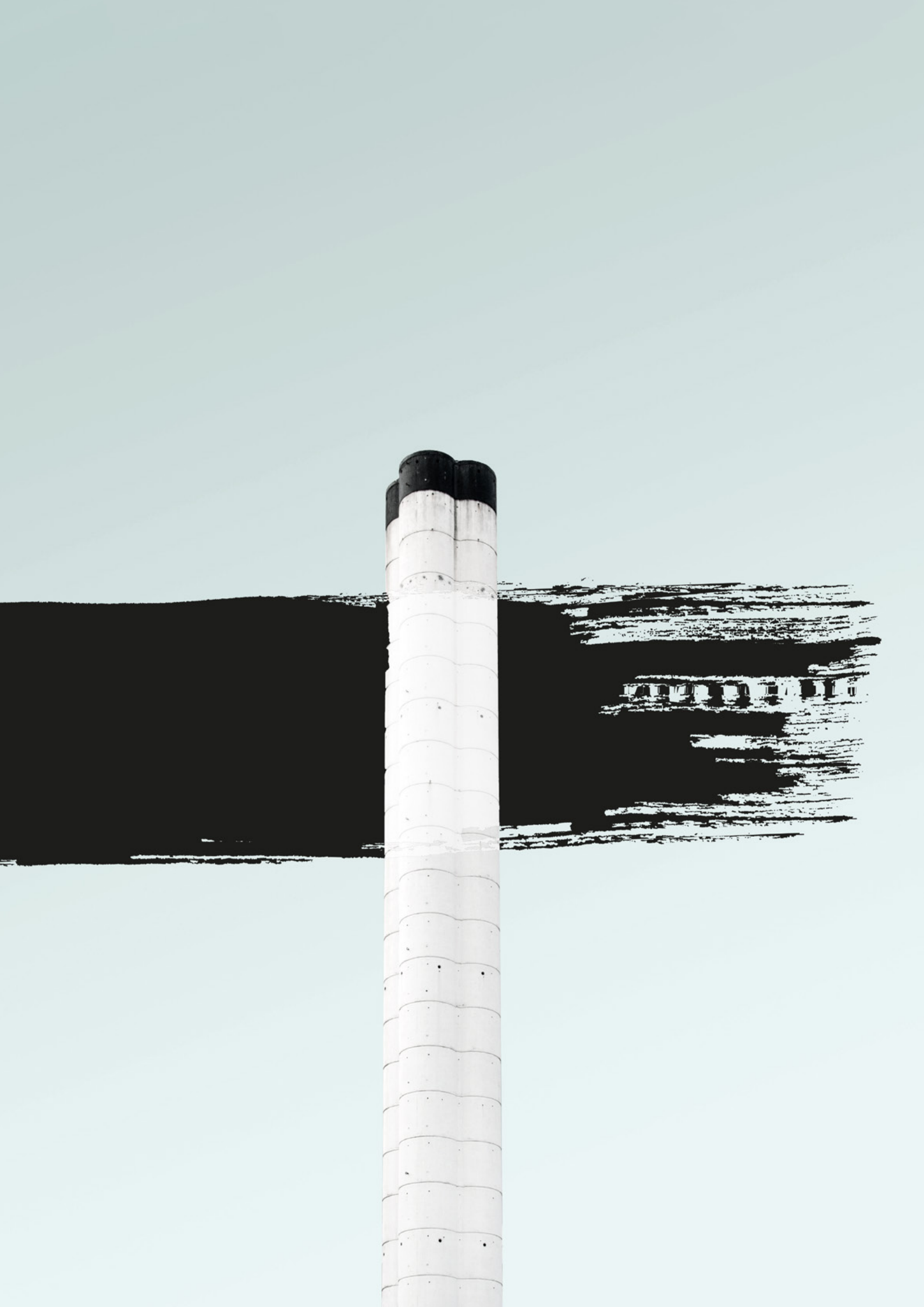
Underground facilities

Rather than building up, building down is another possibility, like the use of underground car parks. Many of these car parks will become redundant if private car use in cities falls, offering huge potential to be reconverted into urban logistics spaces in the heart of towns and cities. In Barcelona, the city’s Urban Ecology Agency is studying the installation of an urban distribution centre (UDC) in one of the underground levels at the Abacería municipal market. The use of this facility is aimed at shops, businesses and hauliers in the Gràcia superblock. This UDC is earmarked for the unloading, storage and distribution of goods for businesses signed up to the scheme, which will use zero-emissions vehicles.

City logistics pose a series of challenges that need to be addressed using a polycentric approach, where the authorities design and implement coordinated strategies with the business community that allow for a more efficient system of loading, unloading and transporting goods, via a sustainable, environmentally-friendly model.

Source: More than the last mile, JLL, 2017





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