

3 November 2021

A draft of a new Spanish federal housing law was recently approved by the Cabinet and is now being sent to Congress for a vote, likely to take place before year-end. The multifaceted policy was spearheaded by the Socialist Party and their coalition partner Unidas Podemos, while the conservative Popular Party (PP) vowed to oppose the legislation. Final approval would likely occur in 2H22, and if passed, **enforcement would be left to regional and municipal authorities**. The PP are currently coalition leaders in five of Spain's 17 autonomous communities (including Madrid) and have made clear their intention to not implement any of the policy's initiatives. Currently, rent control in Spain only exists in Catalonia, which passed its own law in 2020. This law (which would likely be replaced by the federal version) is being challenged on the grounds that autonomous communities don't have the power to impose such restrictions, like was the case with Berlin's repealed rent freeze law.

### Proposed Measures

- The law would regulate large/institutional landlords differently than “mom and pops” – a trend that seems to be gaining traction across several European cities with tight housing markets
- Rent caps on new leases and in-place rent escalations:
  - Can apply in regions designated as “áreas tensionadas” where rents have risen >5% above CPI over the last five years (cumulatively) and where rent is >30% of median HHI
  - Large landlords (those which own 10+ units or >1,500 sqm) would see caps on in-place lease rent escalations and initial rent setting based on a newly formed reference index
  - Language suggests that these rent caps might not just slow the pace of rent *growth*, but **could potentially reduce nominal rents from current levels**
- New residential developments would be required to reserve 30% of units for social housing purposes, with half of those (15% of total) being allocated for *rented* social housing
  - Could taper supply growth, a plus for long-term NRI growth
- Large landlords (defined as owning 4+ units, in this case) with units that have been vacant for 2+ years without good cause would be assessed a 150% IBI (property tax) surcharge
- More favourable income tax rebates for landlords that rent units below market rates
- Social housing (currently ~2% of stock) would be protected from privatization into perpetuity

Green Street's Rental Regulation framework currently scores Barcelona as “Very Restrictive” (i.e., landlord-unfriendly) and Madrid as “Average”; these scores contribute to our Market Grades which determine market **long-term NRI growth**. Given regulation already exists in Barcelona, the passage of the proposed national law would likely screen Barcelona only marginally worse in our framework. The proposed rent caps are largely in-line with existing provisions in Barcelona but incremental changes would arise from other proposed measures, such as the social housing requirements and stepped up IBI surcharges – adding incremental risk to our current estimates. Meanwhile, changes to Madrid's Rental Regulation score are unlikely (even if the law is passed) given the PP's strong political clout in the region. Even with the existing restrictive policies, Barcelona ranks as a top residential market in Green Street's risk-adjusted IRR framework while Madrid sits in the middle of the pack.

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# Green Street

## Europe MRPO Data

| Company               | Symbol | Current PO | Prior PO | Prior PO First Published |
|-----------------------|--------|------------|----------|--------------------------|
| Balder                | BALD   | HOLD       | HOLD     | 2022-01-04               |
| Deutsche Wohnen       | DWNI   | HOLD       | HOLD     | 2021-11-30               |
| Grainger              | GRI    | BUY        | BUY      | 2021-11-01               |
| Grand City Properties | GYC    | HOLD       | HOLD     | 2022-01-04               |
| Kojamo                | KOJAMO | BUY        | BUY      | 2021-11-01               |
| LEG Immobilien        | LEG    | SELL       | SELL     | 2021-11-01               |
| TAG Immobilien        | TEG    | BUY        | BUY      | 2021-11-30               |
| Unite Group           | UTG    | SELL       | SELL     | 2021-11-01               |
| Vonovia               | VNA    | HOLD       | HOLD     | 2021-09-01               |

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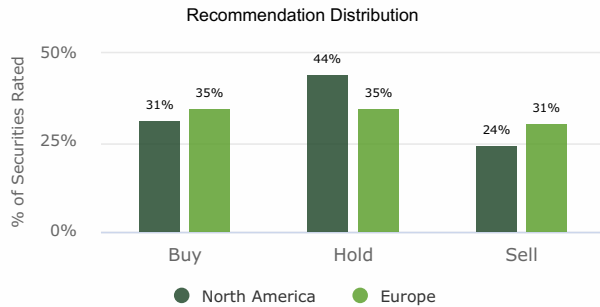
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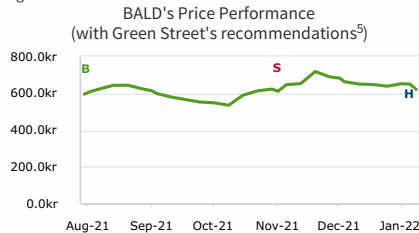
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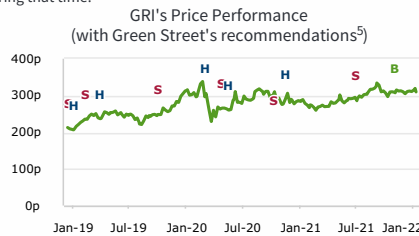
Green Street's "BUYs" have historically achieved far higher total returns than its "HOLDs", which, in turn, have outperformed its "SELLs"

| Total Return of Green Street's Recommendations <sup>2</sup> |             |             |            |                       |
|---|-------------|-------------|------------|-----------------------|
| Year <sup>3</sup>   | Buy         | Hold        | Sell       | Universe <sup>4</sup> |
| 2021  | 33%         | 22%         | 15%        | 23%                   |
| 2020  | 5%          | -27%        | -16%       | -14%                  |
| 2019  | 41%         | 26%         | 23%        | 29%                   |
| 2018  | 2%          | -7%         | -21%       | -8%                   |
| 2017  | 31%         | 19%         | 11%        | 20%                   |
| 2016  | 5%          | 2%          | -2%        | 2%                    |
| 2015  | 23%         | 14%         | 10%        | 16%                   |
| 2014  | 36%         | 28%         | 24%        | 30%                   |
| 2013  | 16%         | 8%          | 9%         | 11%                   |
| 2012  | 40%         | 29%         | 17%        | 30%                   |
| 2011  | -8%         | -8%         | -13%       | -9%                   |
| 2010  | 13%         | 0%          | 8%         | 9%                    |
| 2009  | 10%         | 6%          | 2%         | 7%                    |
| <b>Cumulative Total Return Annualized</b>                   | <b>765%</b> | <b>153%</b> | <b>71%</b> | <b>250%</b>           |
|   | <b>20%</b>  | <b>8%</b>   | <b>5%</b>  | <b>11%</b>            |

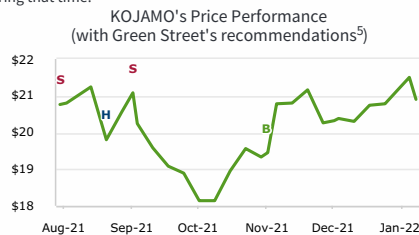
The chart below shows BALD's price performance since August 2021, along with Green Street's recommendations during that time.



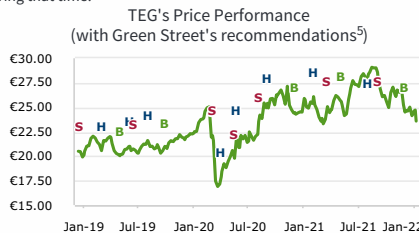
The chart below shows GRI's price performance over the last three years, along with Green Street's recommendations during that time.



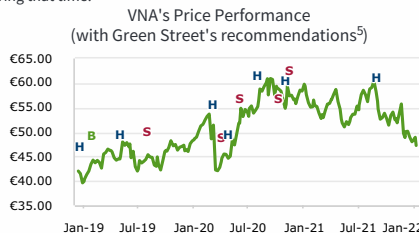
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The chart below shows TEG's price performance over the last three years, along with Green Street's recommendations during that time.

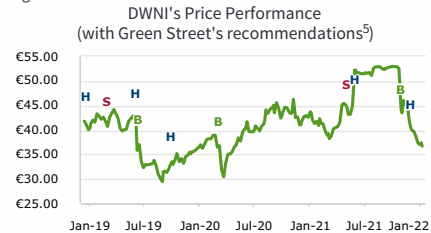


The chart below shows VNA's price performance over the last three years, along with Green Street's recommendations during that time.

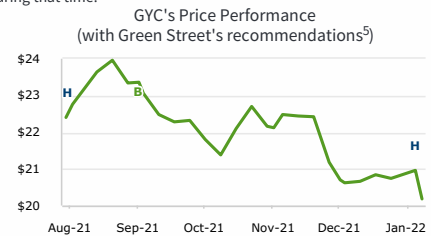


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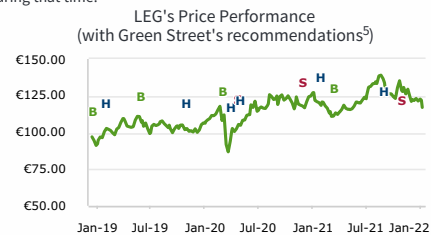
The chart below shows DWIN's price performance over the last three years, along with Green Street's recommendations during that time.



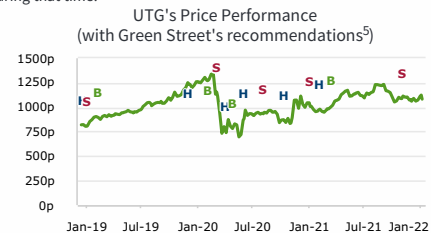
The chart below shows GYC's price performance since August 2021, along with Green Street's recommendations during that time.



The chart below shows LEG's price performance over the last three years, along with Green Street's recommendations during that time.



The chart below shows UTG's price performance over the last three years, along with Green Street's recommendations during that time.



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