MARKETBEAT

MADRID

Offices Q4 2023

	YoY change	12 month forecast
10,10% Vacancy Rate (%)	▲	▲
90.000 Take-Up Q4 (sq.m)	▼	▬
39,00 Prime Rent (€/sq.m/month)	▲	▲

ECONOMIC INDICATORS – SPAIN Q4 2023

		YoY change
Anual change in GDP	2.40 %	▲
Spain Unemployment rate*	11.84 %	▼
C.Madrid Unemployment rate*	10.53 %	▼

Source: National Statistics Institute

**Data as at Q3 2023*

Although the closing quarter saw a softening of take-up, 2023 closed above expectations

The close of 2023 brought with it the long-awaited news of the end of interest rate hikes following 18 months of continuous increases. The year saw interest rates starting at 2.5% and closing at 4.5%. Moreover, closing Eurozone inflation data was positive and the ECB set the second half of 2024 as the starting date for a new, positive economic cycle born out of the effects of both the drop in inflation and the relaxation of financing conditions.

The most recent GDP growth forecasts for Spain are more positive than expected and above the Eurozone average, with estimates of 1.4% for 2024 and 2.0% for 2025.

The final quarter of the year saw some 90,000 sq m of office floorspace transacted. This represents a quarterly fall of 30%, driven by the lack of large-scale deals in the capital. Given that, and bearing in mind the strength of the demand side, some 130 new contracts were signed, representing quarterly growth of 7% in terms of the number of deals. The final quarter closed as one of the most dynamic in recent years.

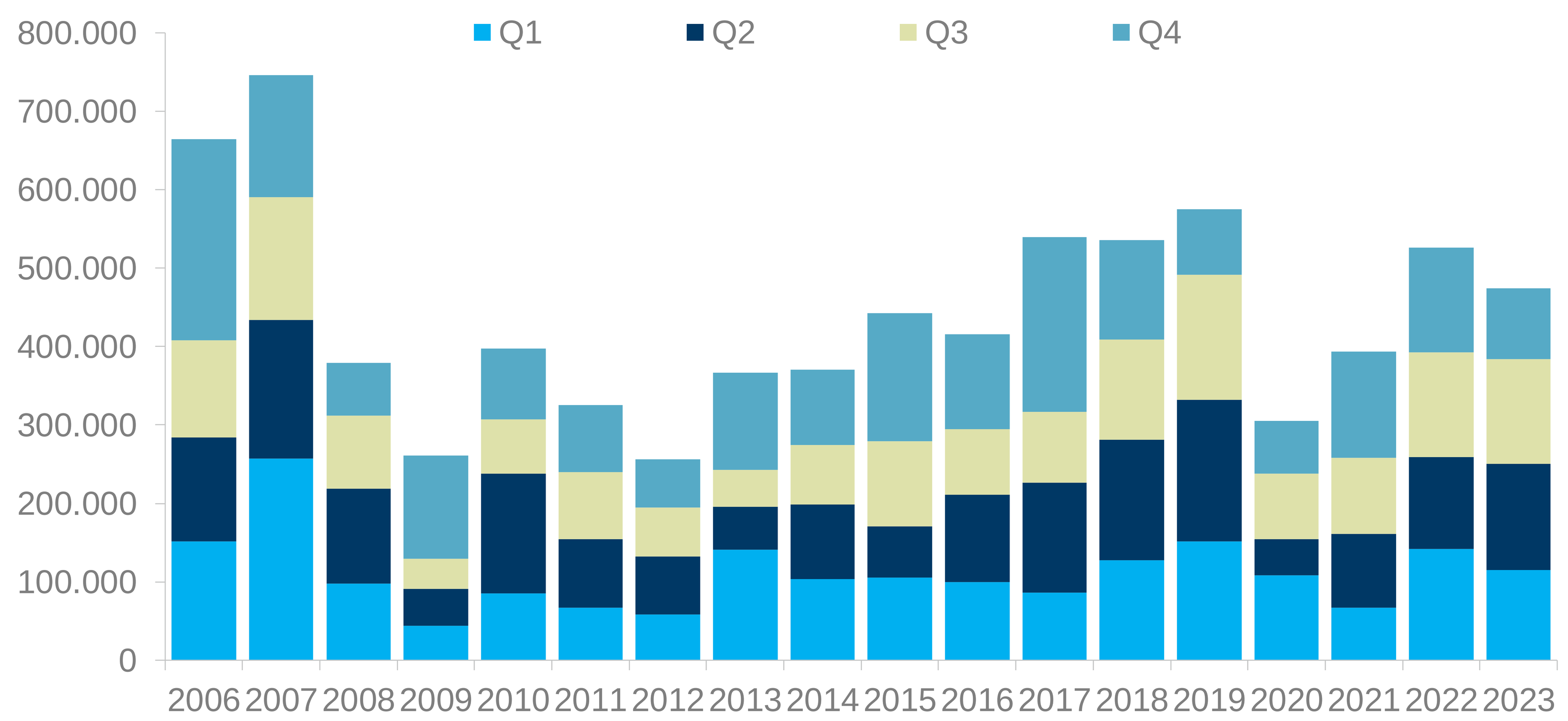
In line with the positive trend seen in 2022, office take-up in 2023 rose to 473,922 sq m. This is, nevertheless, far from the figures seen for the period 2017-2019.

Demand was driven by the search for high specification assets, with A/B+ rated buildings cornering some 65% of square metres transacted. Due to the high demand for these types of offices, vacancy rates are falling to minimums, the year closing at less than 5% in markets such as the CBD where continued falls are anticipated throughout 2024.

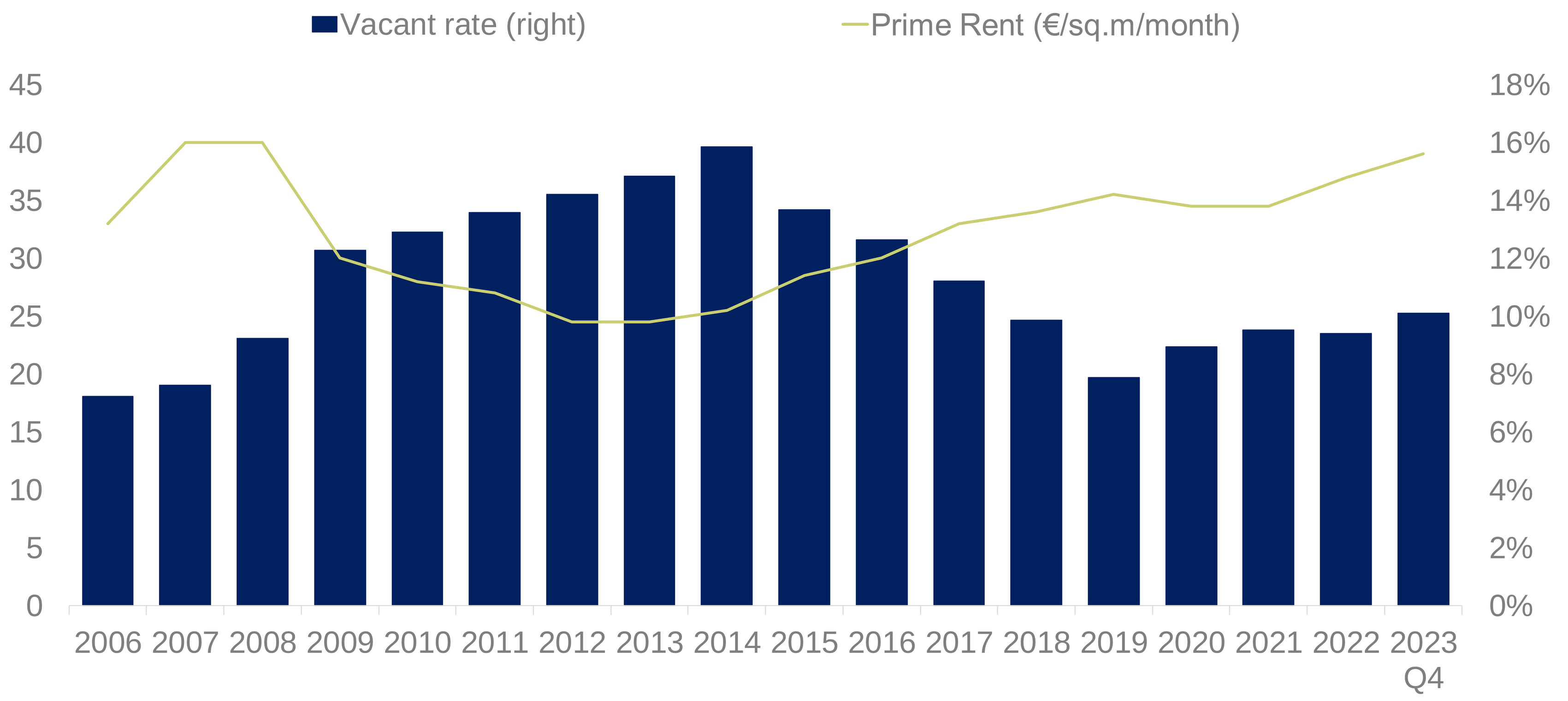
Prime rents in the CBD and prime CBD continue to rise, reaching €39.00/sq m/month at the close of 2023. Prime rents also rose throughout the year for assets in certain sub-markets where demand remains strong, seeking out recently refurbished or new buildings that meet the most exacting quality specifications. Rents in another sub-markets, however, remained stable in comparison with 2022.

Madrid's vacancy rate remained stable at around 10% throughout the year. This rises with distance from the metropolitan area, reaching 15% in areas such as the decentralised zone driven by deliveries across different micro-markets that have increased the availability rate.

DEMAND FOR FLOORSPACE (sq m)



OVERALL VACANCY AND PRIME RENT



MARKETBEAT

MADRID

Offices Q4 2023

CBD adjusts for lack of availability, but continues to lead in take up

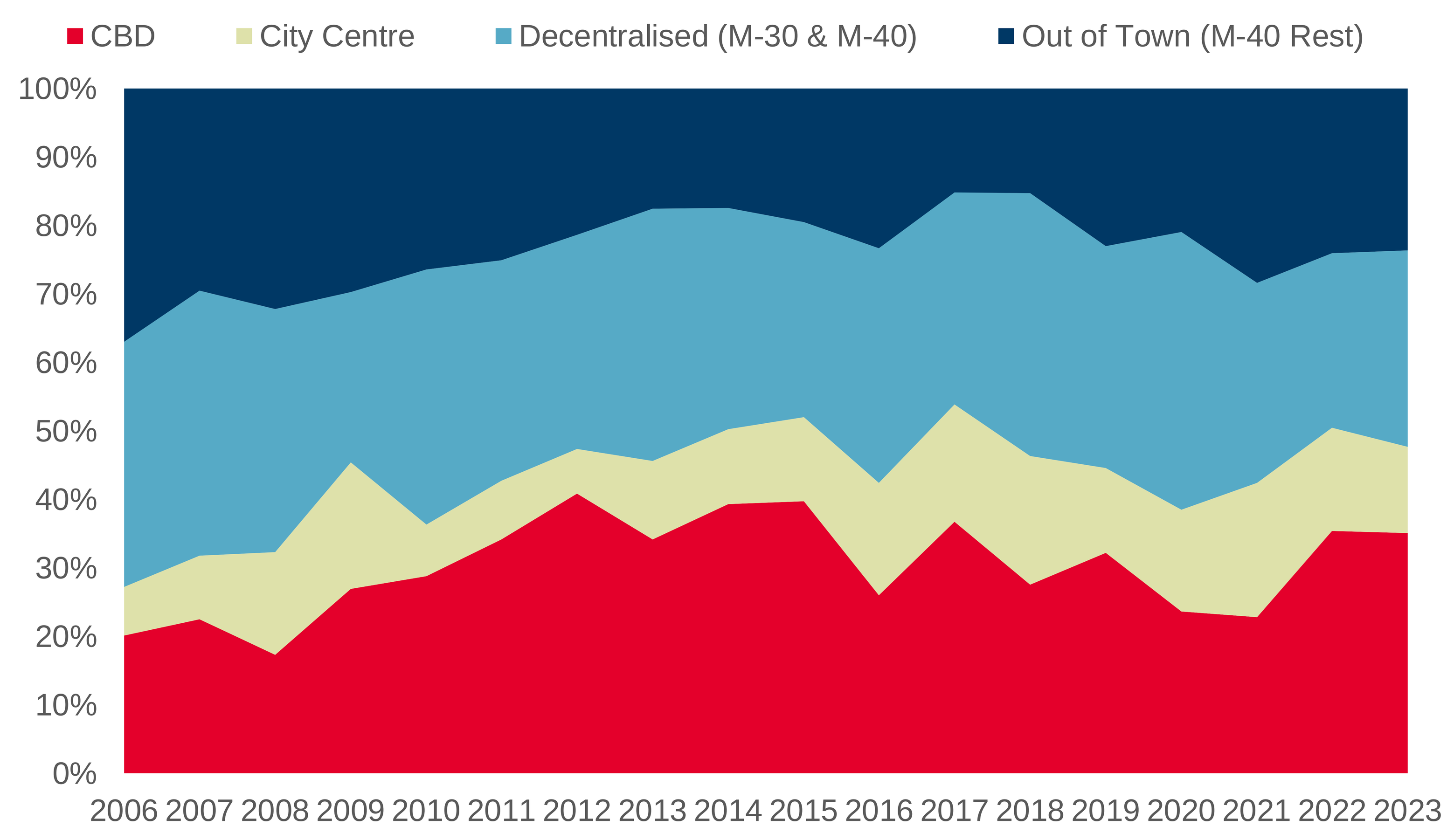
Analysing take-up according to sub-market, demand was spread equitably during 2023 in terms of both new contracts and floor area both within and beyond the M-30 ring-road. All sub-markets have seen an overall softening of take-up in comparison with 2022, the exception being the moderate growth enjoyed by the decentralised zone.

The CBD followed the trend seen over recent quarters, cornering 35% of the floorspace transacted and 40% of deals struck (200). Within the CBD it is worth highlighting the 4 Torres area as one of the year's most dynamic, with 100% growth in terms of the number of contracts and more than 15,000 sq m transacted. The reasons for the growth in the figures corresponding to this micro-market are largely based on the contribution of the services offered in the Torre Caleido to the area and the fact that the scarcity of vacancies has pushed up rents in other market niches such as the CBD Prime, Chamartín and Azca. Noteworthy transactions in Azca in Q4 2023 include the Bluetab Solutions and Grupo Seidor deals, increasing the occupancy of the Ruiz Picasso building to 85% (still under comprehensive refurbishment).

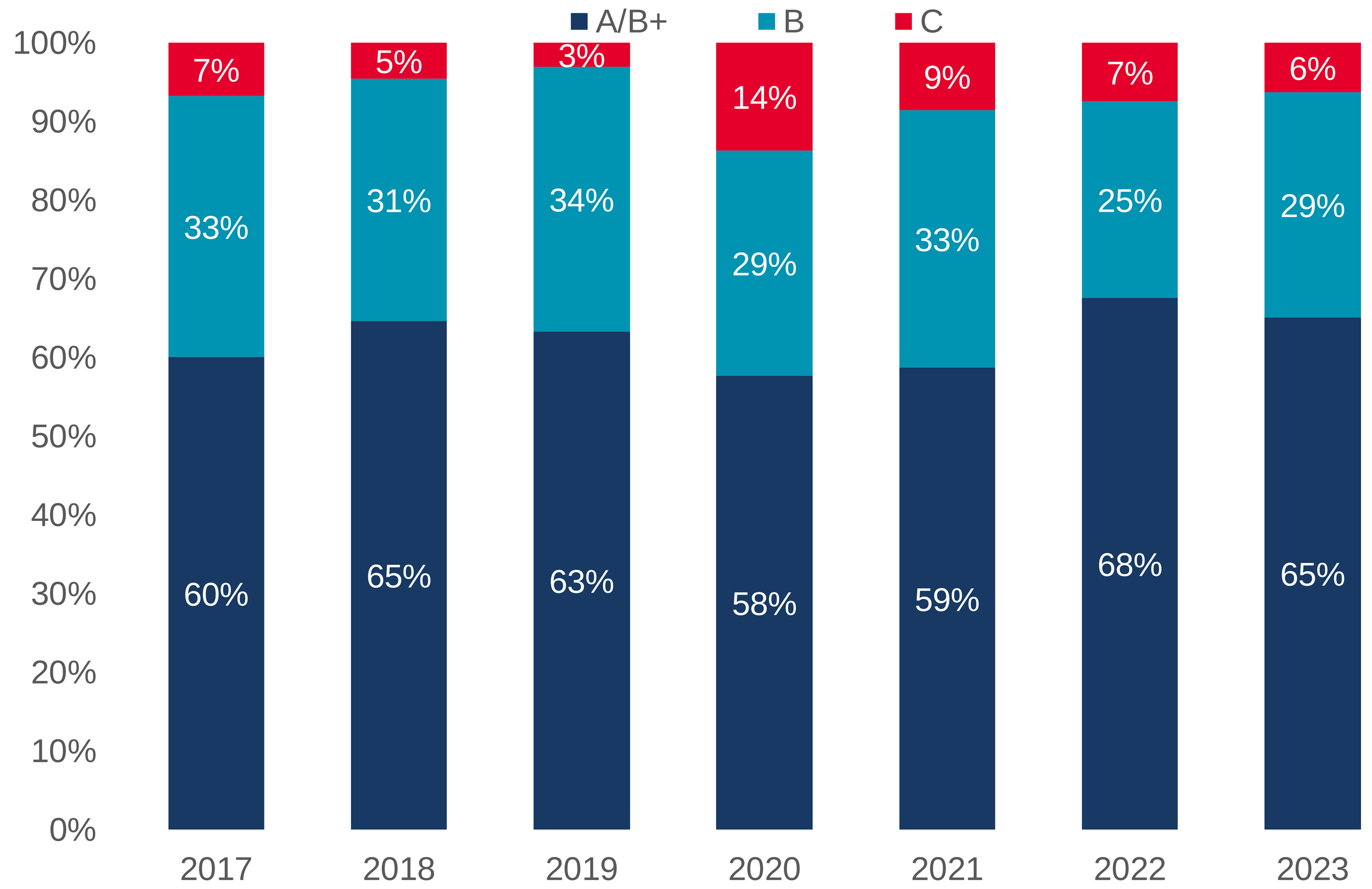
Beyond the M-30, the Decentralised Zone and Periphery shared take-up for the year with 29% and 24% respectively. Within these submarkets, the incorporation of buildings that meet the quality standards currently demanded by companies has led to an increase in recruitment with respect to 2022 in several office hubs. During 2023, Tres Cantos, which has become a niche for companies dedicated to innovation and Life Science, stands out.

Similar figures to those recorded in 2023 are anticipated for the current year, with take-up of between 450,000 and 475,000 sq m, the upward pressure on rents driven by the scarcity of A-rated buildings being worthy of particular attention, especially within the M-30. Vacancy rates could increase slightly during the year depending on the speed at which future offerings that are currently under construction are delivered to the market. The foreseeable creation of new small businesses and the demand for offices that this may entail could lead to a greater number of small-scale deals that will bring about a reduction in the average floorspace transacted.

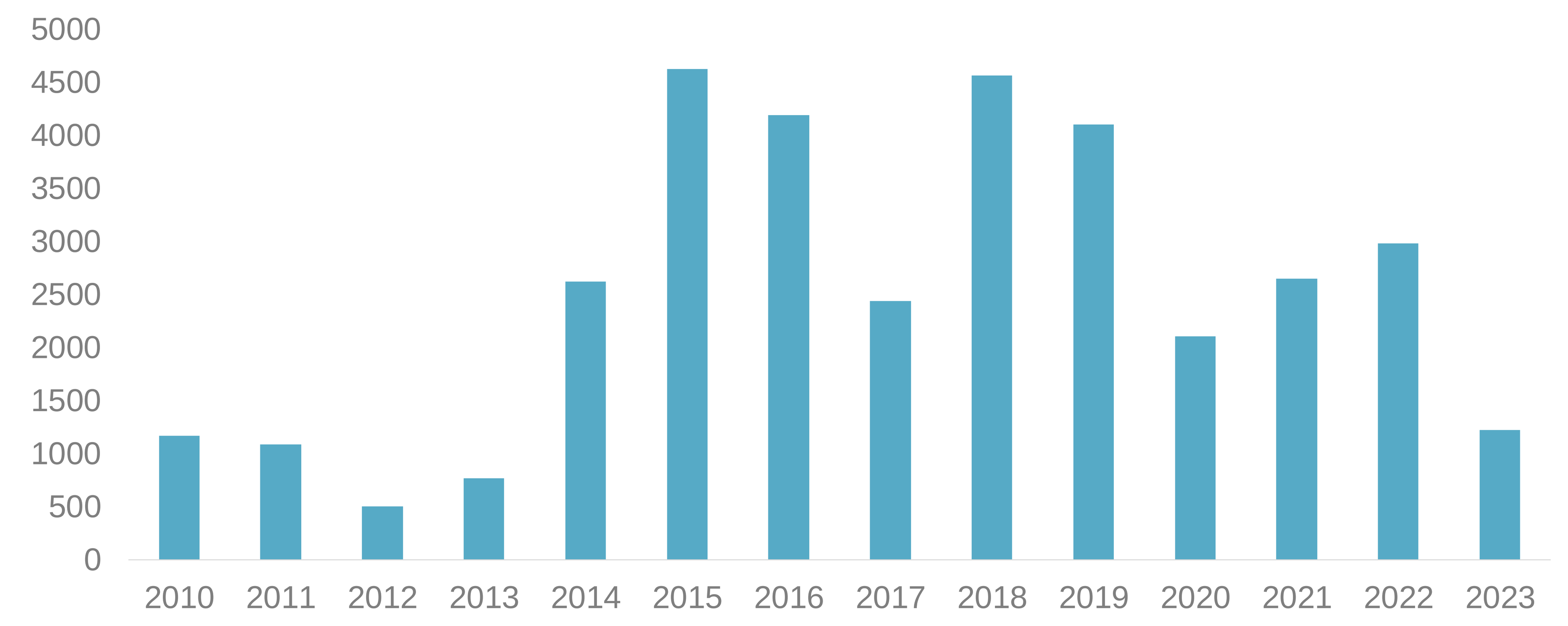
TAKE-UP BY SUBMARKET (sq m)



TAKE-UP VOLUME ACCORDING TO GRADE



OFFICE TOTAL INVESTMENT SPAIN (€m)



Investment

At the national level, the total investment volume in offices reached €1.223M, with Madrid representing 73% of the total (€887M).

The fourth quarter of 2023 closed with an investment volume of around €300 million in offices, with the closure of the headquarters of the Family Courts of the Community of Madrid or the purchase of Sentia Business Park in Julián Camarillo standing out.

The main reasons for the decrease in investment transaction volume is the cautious position of international capital, which continues to wait for opportunities that reflect additional price adjustments. Recent interest rate hikes have increased financing costs and at the same time amplified the attractiveness of debt issuances, which has increased the need to obtain better returns in the real estate sector by searching for a sufficient gap between the returns offered by offices and theoretically risk-free investment.

Despite this, investor typologies such as SCPIs continue to actively seek products with attractive returns and long contracts, having closed several interesting operations in Barcelona. Family-origin capital and Value Add funds are also showing activity, although with different motivations.

For the beginning of 2024, it is expected that the slight year-end rebound in the level of investment in offices will continue with potential closures of different processes that remain open, already with the mind on a near horizon of a potential stabilization of interest rates for the second half of the year.

The prime office yield in Madrid, at the end of December 2023, is 4.60% (+45 p.b. compared to the first quarter and +70 p.b. compared to the previous cycle (December 2022: 3.90%)) 1. The forecasts for profitability for 2024 are that they will begin to compress with the potential interest rate cut in the second half of 2024.

MARKETBEAT

MADRID

Offices Q4 2023

MARKET DATA

SUB-MARKET	STOCK (sq m)	VACANT (sq m)	VACANT RATE	QUATERLY TAKE-UP (sq m)	YTD TAKE-UP (sq m)	UNDER CONSTRUCTION 2024-2025 (sq m)	PRIME RENT (€/sq.m/month)	PRIME YIELD*
CBD	3.352.834	130.303	3,89%	28.309	166.424	85.271	39,0	4,60%
City Centre	2.283.261	91.521	4,01%	10.270	59.464	97.668	22,5	5,25%
Decentralised	3.375.181	548.201	16,24%	21.788	135.809	76.815	18,5	6,25%
Out of town	4.643.016	608.531	13,11%	29.609	112.226	35.709	13,0	7,50%
TOTAL	13.654.292	1.378.556	10,10%	89.976	473.922	295.463		

MAIN ABSORPTION DEALS IN Q4 2023

BUILDING	SUB-MARKET	TENANT	AREA (sq m)	TYPE*
Av. de Europa, 19, Alcobendas	Out of town	Informa D&B Sa	4.693	Traslado con reducción
Av. de Tenerife, 4, San Sebastián de los Reyes	Out of town	IR Redes de Calor y Frio Sl	3.804	-
Calle Federico Mompou, 5	Decentralised	Emerson Electric Co	3.008	Traslado con reducción
Calle Progreso, 4, Getafe	Out of town	Direct deal	2.362	-

**Renewals not included in the demand statistics*

MAIN PROJECT/REFURBISHMENTS DELIVERED IN 2023

BUILDING	SUB-MARKET	MAIN TENANT	AREA (sq m)	Owner
Edificio Ruiz Picasso	CBD	The Valley	36.570	Merlin Properties Socimi Sa
One Agora	Decentralised	Gobierno de España - Ministerio Asuntos Exteriores	30.754	IBA Capital Partners Zambal Spain Socimi
Skylight Madrid	Decentralised	-	27.104	BWRE Benson Elliot

MAIN INVESTMENT DEALS IN Q4 2023

NAME/ADDRESS	SUB-MARKET	BUYER	VENDOR	TOTAL SQM/UNIT	PRICE (M€)
Francisco Gervás, 10	CBD	IBA Capital Partners/Naropa	Blackstone	8.000	58,9
Calle Velazquez , 123	Periferia	Family Office	Silicius	2.200	41,9
Campus UEM	Periferia	Private Investor	Primonial	14.896	40

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MARKETBEAT
BARCELONA
Offices Q4 2023

	YoY change	12 month forecast
10.29% Vacancy Rate (%)	▲	▲
90,000 Take-Up Q4 (sq.m)	▼	▲
28.50 Prime Rent (€/sq.m/month)	▲	▬

ECONOMIC INDICATORS – SPAIN
Q4 2023

		YoY change
Anual change in GDP	2.40 %	▲
Spain Unemployment rate*	11.84 %	▼
Barcelona Unemployment rate*	8.35 %	▼

Source: National Statistics Institute

**Data as at Q3 2023*

Demand prioritising asset quality and location

The final quarter of 2023 has seen the take-up of office floorspace in the Barcelona market grow to around 90,000 sq m in close to 85 deals. Highlighting more dynamic demand on the part of businesses, the figure for floorspace transacted stands at 10% higher than the same quarter in 2022, with the number of deals struck some 20% up.

Although at 246,000 sq m the take-up for 2023 was some 25% below the figure for the previous year in annual terms, at close to 304, the number of deals was in line with the average for the preceding 5 years.

Turning to districts, the New Business Areas and City Centre remained highly sought-after by businesses, cornering some 65% of total take-up. One of the most important decision-making factors continues to be specification, with 60% of floorspace transacted in A/B+ rated buildings.

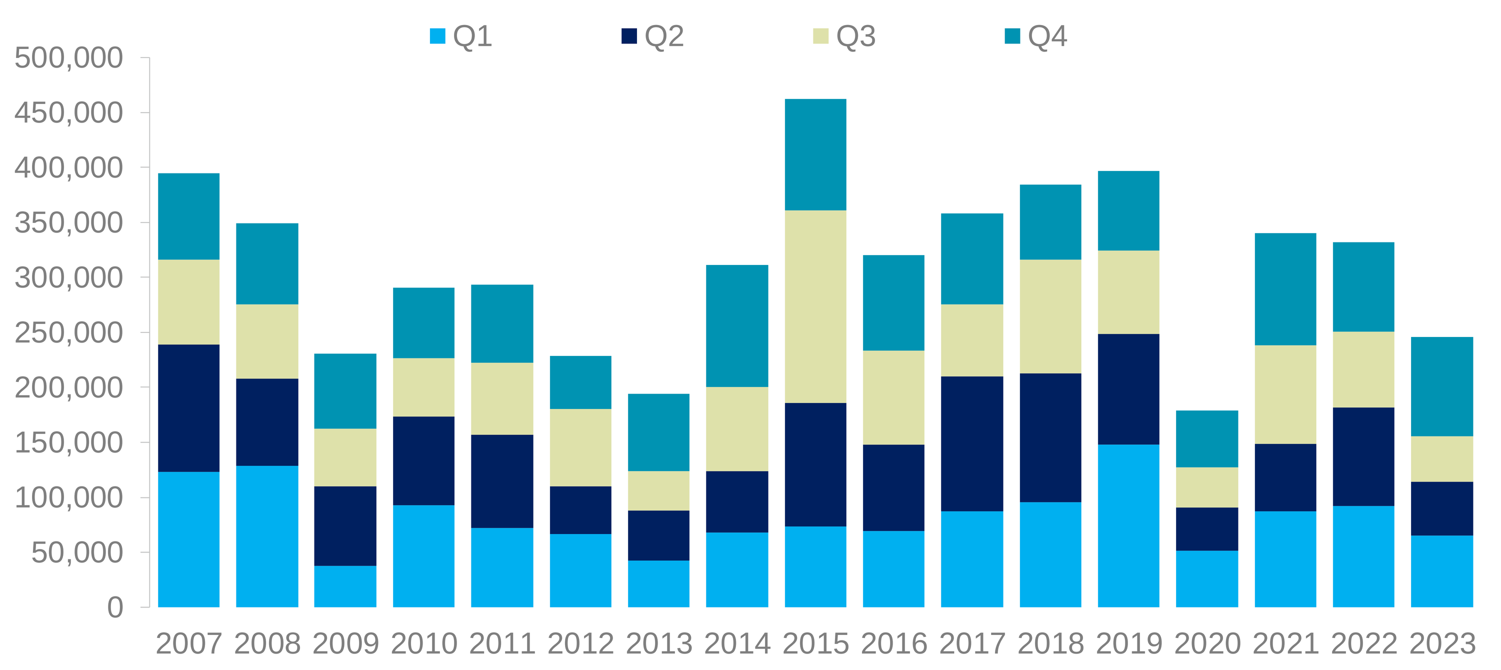
With respect to sectors, services firms continue to play the leading role in terms of office demand in Barcelona, swallowing up 25% of the total transacted over the year. This has not, however, been the case with companies belonging to the technology sector, their share of take-up in Barcelona dropping to around 15% largely as a result of remote working.

It is important to point out the presence of the public sector during the final quarter, derived from the regional council (Generalitat de Catalunya) operation regarding the Torre Nova in the BCN Fira District, driving the public sector to achieve a 13% share.

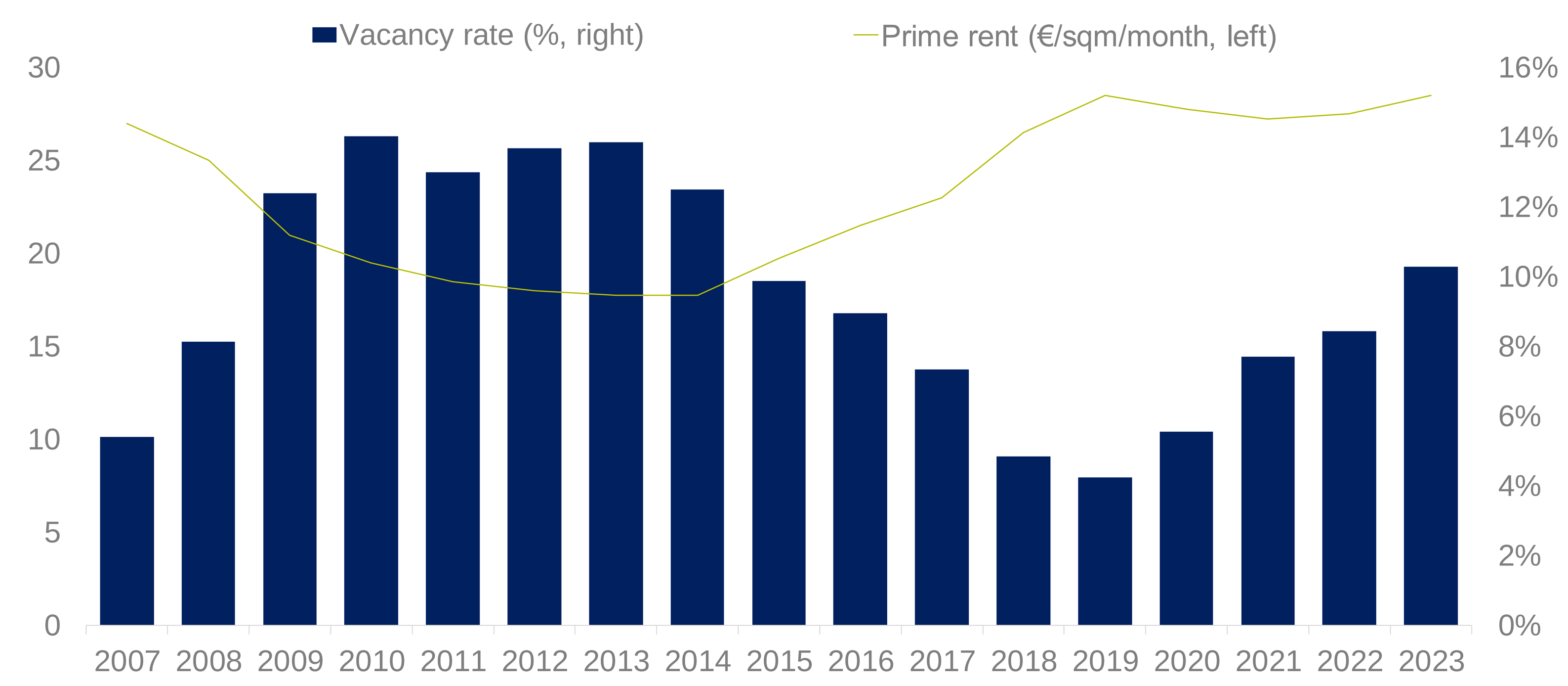
For its part, the flexible workspace value proposition has consolidated and continues to grow with new operators entering the Spanish market. This growth means that flexible spaces now represent some 2.94% of the built stock in Barcelona. This take-up of floorspace continues to remain healthy within the city's stock.

Among the main deals worth highlighting are the take-up of 25,000 sq m by the Generalitat de Catalunya in the BCN Fira District's Torre Nova, along with the Universae deal, occupying 13,000 sq m of office floorspace on the Kudos Innovation Campus Inneo in Sant Joan Despí.

DEMAND FOR FLOORSPACE (sq m)



OVERALL VACANCY AND PRIME RENT



MARKETBEAT

BARCELONA

Offices Q4 2023

New deliveries coming onto the Barcelona market

On the supply side and in addition to the return of second-hand properties to the market, deliveries of new and refurbished buildings with no end user continue to push Barcelona's vacancy rate up, now standing at around 10.3%.

A total of 220,000 sq m of new build and comprehensive refurbishments were delivered during 2023, some 33% of which already counted on an end user. It is important to point out that the majority of the buildings are in possession of LEED and WELL certification, granted to these buildings on the one hand as a result of energy efficiency and sustainable design and, on the other, as a result of their impact on health and well-being.

It is worth mentioning the delivery in 2023 of two buildings comprising the Urbit Business Park. These represent a total of 25,400 sq m of new build, entering the market in the absence of a committed end user. Also worth noting is the new Landmark building, representing more than 20,000 sq m of new build at no.28 Passeig de la Zona Franca. The foregoing are all situated in the New Business Areas.

The closing quarter of 2023 saw the delivery of seven new and refurbished building projects, the latter including the Espacio 100 building in District 22@ and the delivery of Aribau 195 in the City Centre.

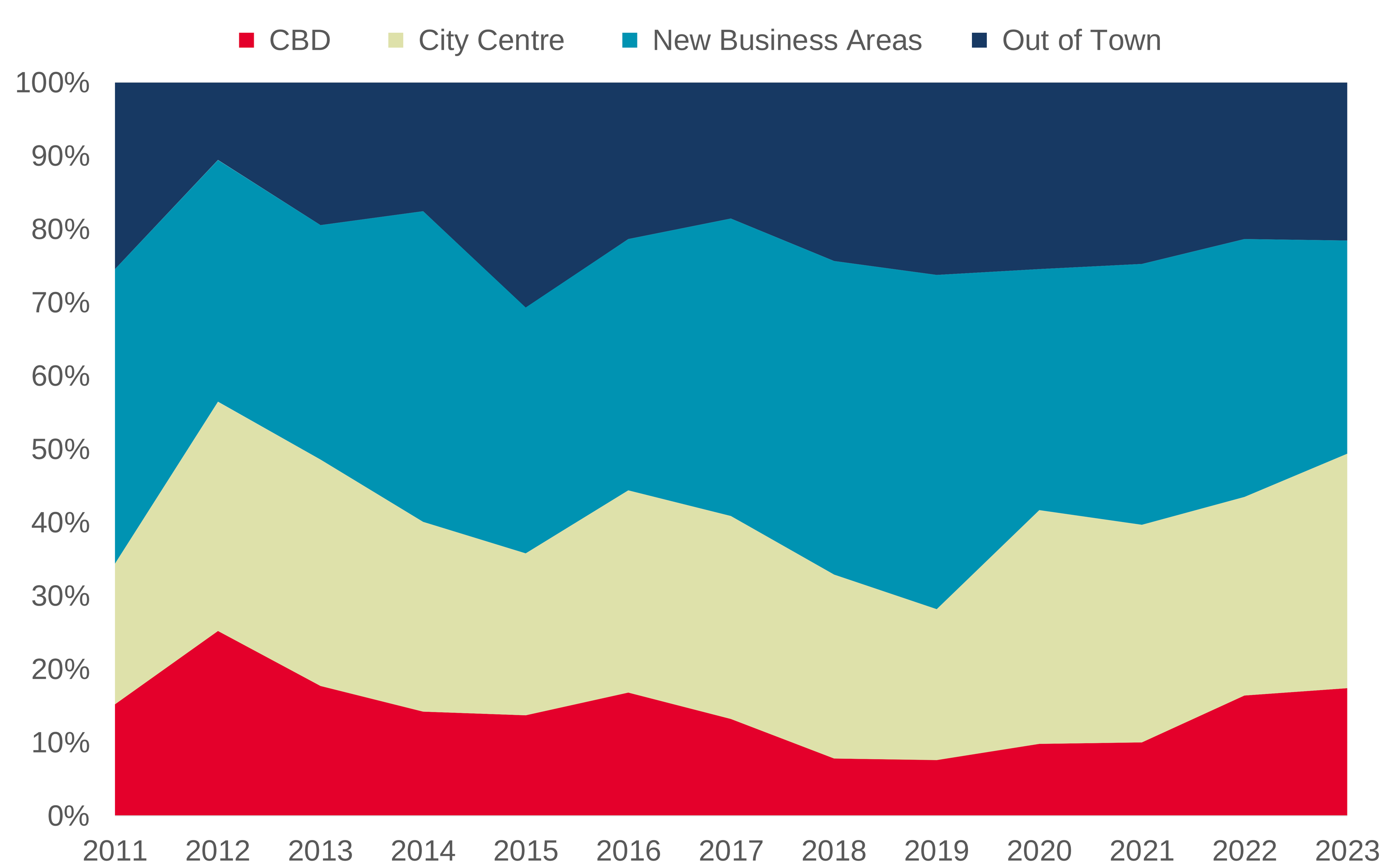
Barcelona expects to welcome some 116,000 sq m of office space by the close of December 2024, 8% of which is already committed. Whilst District 22@ will corner some 73% of deliveries, the closing quarter saw nine projects being put on hold, amounting to more than 128,000 sq m of new stock, seven of which were anticipated for 2025. These projects are primarily situated in the areas of 22@ and Sant Cugat.

Prime rents will continue to trend upwards over the coming months

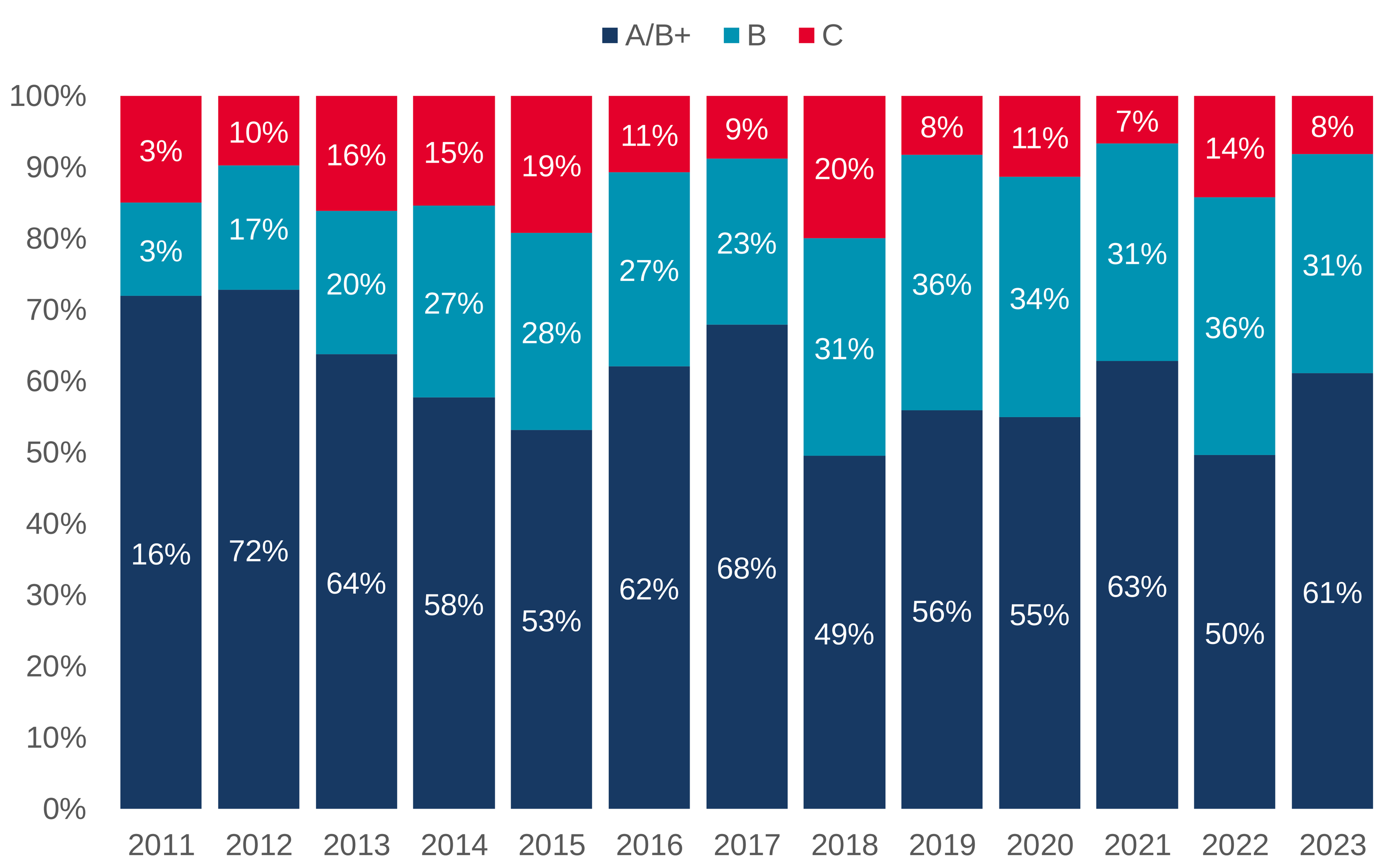
The degree of polarisation noted in terms of prime rents, due to the scarcity of quality floorspace available in PG/Diagonal, will continue to push rents upwards. The benchmark prime rent rose slightly during the fourth quarter of 2023, reaching a figure of €28.50/sq m/month. Prime rents remained consistent in sub-zones.

Although in 2024 rents are expected to remain stable in the prime area of the city, the delivery of new projects, such as the emblematic AURA, at Avenida Diagonal 471, could record a new all-time high in prime rents in Barcelona.

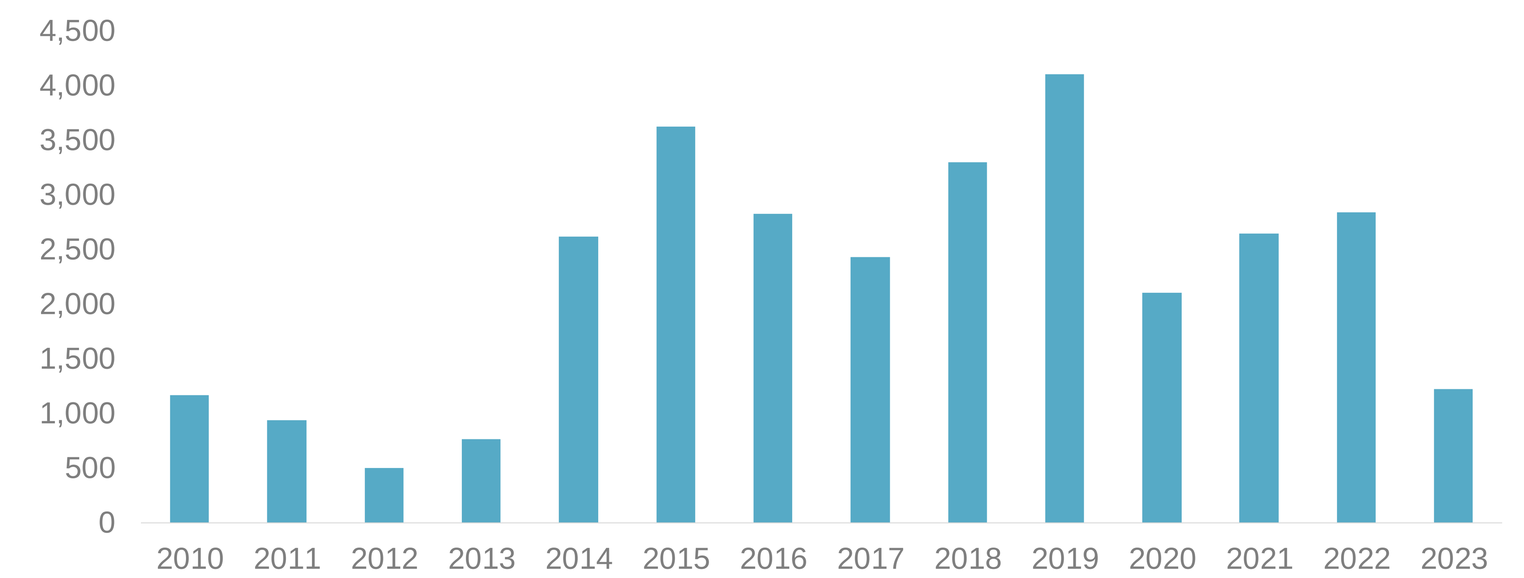
TAKE-UP BY SUBMARKET (sq m)



TAKE-UP VOLUME ACCORDING TO GRADE



OFFICE TOTAL INVESTMENT SPAIN (€m)



Investment market readjustment

At a national level, total investment in the office segment reached €1.3 billion in 2023. Barcelona closed the year with office investment amounting to €287 million. The majority of this total was shared between 22@ and the City Centre, swallowing 41% and 35% respectively.

Noteworthy deals include Reinvest's forward purchase acquisition of the new building at no.66, C/Pamplona (District 22@), for an amount close to €70 million.

The main driver for the fall in investment is the cautious posture adopted by international capital, continuing to await opportunities showing additional price reductions, along with an anticipated reduction in the existing gap between buyers and sellers. Recent interest rate rises have increased financing costs and the attractiveness of debt issues. This has accentuated the need to get better returns out of the property sector with searches for a big enough gap between the yields offered by offices and theoretically risk-free investment.

Despite this, investor profiles such as the SCPIs continue to actively seek out product with attractive yields and long-term contracts, with a number of interesting deals having been struck in Barcelona. Family-based capital, value-add funds and insurers also remain active, though for other reasons.

A recovery in office investment levels is anticipated for the beginning of 2024 with the closure of a number of processes that remain open. Minds are turning to an approaching horizon with stable interest rates at the close of 2024, leading to a better balance between buyers and sellers.

Prime yield saw moderate growth at the close of year, going from 4% in December 2022 to the current 4.90%.

MARKETBEAT

BARCELONA

Offices Q4 2023

MARKET DATA

SUB-MARKET	STOCK (sq m)	VACANT (sq m)	VACANT RATE	QUATERLY TAKE-UP (sq m)	YTD TAKE-UP (sq m)	UNDER CONSTRUCTION (sq m)	PRIME RENT (€/sq.m/month)	PRIME YIELD*
CBD	871,941	35,726	4.10%	17,417	42,035	25,628	28.5	4.90%
City Centre	2,576,451	97,824	3.80%	12,466	65,378	71,487	24.0	5.25%
New Business Areas	2,392,507	464,921	19.43%	48,770	94,534	118,728	23.0	5.15%
Out of Town	1,391,618	145,594	10.46%	11,253	43,617	0	11	7.50%
TOTAL	7,232,517	744,065	10.29%	89,905	245,564	215,843		

The rent levels correspond to asking rents

MAIN ABSORPTION DEALS IN Q4 2023

BUILDING	SUB-MARKET	TENANT	AREA (sq. m)	TYPE*
Torre Nova Carrer del Foc	New Business Areas	Generalitat de Catalunya	25,000	-
Edificio Bayer	Out of Town	Giesecke + Devrient Mobile Security Iberia Sl	4,496	Relocation with more space
Sea Towers Torre Àvila	New Business Areas	Allianz Technologies	4,289	-
Passeig de Gràcia 19	CBD	Aticco Workspaces	3,600	-

**Renewals not included in the demand statistics*

MAIN PROJECT/REFURBISHMENTS DELIVERED IN 2023

BUILDING	SUB-MARKET	MAIN TENANT	AREA (sq. m)	OWNER
Ed Landmark	New Business Areas	-	20,336	Iosa Inmuebles
P.E Urbit	New Business Areas	-	17,066	DWS
Alaba 111	New Business Areas	Nutanix / Jungle House	16,731	Blackstone

MAIN INVESTMENT DEALS IN 2023

NAME/ADDRESS	SUB-MARKET	BUYER	VENDOR	TOTAL SQM/UNIT	PRICE (M€)
Pamplona, 66	New Bussiness Areas	REInvest Asset Management (DEREIF SICAV-FIS)	Glenwell Group	15,000	Confidential
Pamplona, 101	New Bussiness Areas	BanSabadell Vida (Zurich + Banc de Sabadell)	Codic	4,358	Confidential
Via Laietana, 2	City Centre	Propreal	Zurich (VIDA)	6,490	Confidential

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