

SPAIN

Office Market Snapshot

Third Quarter | 2019



MARKET INDICATORS

Market Outlook

- Prime Rents: Rental growth is expected in Madrid and Barcelona due to occupier activity. ▼
- Prime Yields: Minimum value seems to be close for the prime segment of the market ▲
- Supply: Deliveries of new stock are swinging from refurbishments to brand new office schemes ▼
- Demand: The trend in occupier deals is expected to continue ▼

Prime Office rents – September 2019

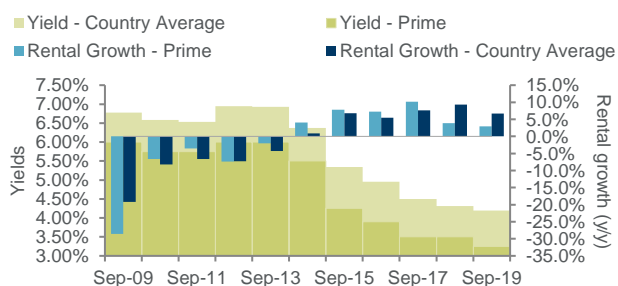
LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ. FT YR	1YR	5YR CAGR
Madrid (CBD)	34.75	417	43.7	3.0	6.4
Madrid (Decentralised)	18.60	223.2	23.4	4.8	3.7
Barcelona (CBD)	28.00	336	35.2	9.8	9.5
Barcelona (Decentralised)	24.00	288	30.2	11.6	11.8

Prime Office yields – September 2019

LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Madrid (CBD)	3.25	3.25	3.50	6.00	3.25
Madrid (Decentralised)	4.35	4.35	4.50	7.25	4.35
Barcelona (CBD)	3.25	3.50	3.50	6.25	3.50
Barcelona (Decentralised)	4.25	4.25	4.25	7.75	4.25

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



Overview

Occupier markets showed strong fundamentals in the first three quarters of 2019 and gross absorption metrics are signalling that yearend figures will set historical highs. The fundamental factor is job creation in the service sector and for Barcelona there's an added component coming from international talent attraction. The capital markets remain buoyant for office assets and volumes for 2019 may set a ten-year high.

Occupier focus

Gross absorption is mainly driven by new creation of companies and those in need for added space. That is the reason of new reductions in availability rates that in both Madrid and Barcelona stand below the levels of one year ago. Rental values that are set to integrate further increases give the occupier activity. In fact, both capitals saw increased in their prime rent references. New developments in the pipeline are mostly concentrated in 2019 while deliveries expected for 2020 and 2021 will decrease.

Investment focus

2019 is witnessing a strong drive in the capital markets for office assets. The volumes traded between January and September are already higher than the figure of 2018. The good response of the investors to the office sector comes from strong fundamentals expected not only in prime locations but also in decentralised areas. The result is added pressure in yields that may compress by yearend and keep on at levels that are historical lows. As a consequence of the market activity, product available in the market for trading is scant and volumes in the last quarter of 2019 may result in lesser levels than those of the first part of the year.

Outlook

Economic fundamentals for office occupancy will keep on performing well in 2019. A good shape in macro fundamentals will sustain positive net take-up for the next twelve months. Some speculative projects will enter the market serving a demand looking for high-quality space. In this context we forecast rents increasing in both capitals in their prime segment and even in secondary buildings in good locations. The flexible workspace demand is also buoyant and some 15% of the space take-up will be devoted to that new business sector.

Investment intentions keep strong and new and representative investments will be closed before year end in both cities. Prime yields are closer to stabilization but there is still room for secondary assets to decrease yields, given the strong activity of both national and international investors.

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LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
CBD	3,107,058	157,144	5.1%	62,893	163,907	138,219
City Centre	2,190,731	42,271	1.9%	13,163	57,448	53,976
Decentralised (M-30 & M-40)	3,821,881	399,912	10.5%	32,332	178,834	160,964
Out of Town	3,906,996	548,561	14.0%	49,613	116,932	35,291
Madrid (Overall)	13,026,666	1,147,888	8.81%	158,000	517,121	388,449

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CBD (Diagonal/Pg.Gracia)	906,820	20,622	2.27%	2,576	18,567	4,709
City Centre	2,621,240	50,776	1.94%	9,103	51,381	0
Decentralised (New Business Areas)	1,839,139	57,221	3.11%	48,363	188,096	134,602
Out of Town	1,292,455	147,027	11.38%	17,691	70,642	8,210
Barcelona (Overall)	6,617,761	312,150	4.72%	103,447	251,247	137,590

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Dulce Chacón, 55	Madrid (CBD)	Deloitte	6,366	Space increase
Av. Fuente Nueva, 5	SS Reyes (Out of Town)	Instituto Superior Claudio Galeno	6,234	Space increase
Estany, 1-11	Barcelona (NBA)	Confidential	9,080	Space increase
Veneçuela, 108	Barcelona (NBA)	Toulouse Business School	8,761	BTS

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	BUYER	SELLER	PRICE € MILLIONS
Campezo, 1	Madrid (Out of Town)	Starwood	GreenOak	203
Av. de Manóteras, 48	Madrid (Decentralised)	BNP Paribas REIM	Trajano SOCIMI	63
Torre Tarragona	Barcelona (City Centre)	Blackstone	UBS	110
Sancho d'Ávila, 65-69	Barcelona (NBA)	Amundi	Conren Tramway	56

Source: Real Capital Analytics

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