

MARKET INDICATORS

Market Outlook

Prime Rents:	Rental growth is expected outside CBD in Madrid and Barcelona due to the lack of supply.	▼
Prime Yields:	Minimum value seems to be reached for the prime segment of the market	▲
Supply:	Deliveries of new stock are swinging from refurbishments to brand new office schemes	▼
Demand:	The number of occupier deals will continue the trend and some large deals are expected	▲

Prime Office rents – September 2018

LOCATION	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Madrid (CBD)	33.75	405	43.9	3.8	6.6
Madrid (Decentralised)	17.75	213	23.1	4.4	2.7
Barcelona (CBD)	25.50	306	33.2	12.1	7.5
Barcelona (Decentralised)	21.50	258	28.0	8.9	9.4

Prime Office yields – September 2018

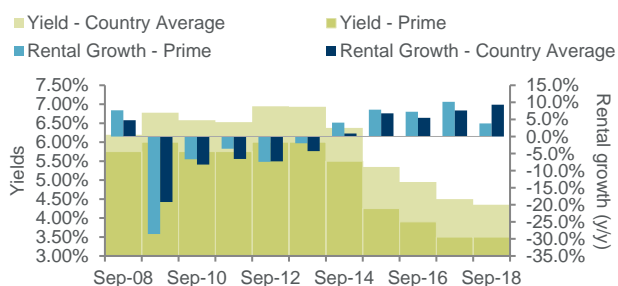
LOCATION	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW

(FIGURES ARE GROSS, %)

Madrid (CBD)	3.50	3.50	3.50	6.00	3.50
Madrid (Decentralised)	4.50	4.50	5.00	7.25	4.50
Barcelona (CBD)	3.50	3.50	3.50	6.25	3.50
Barcelona (Decentralised)	4.25	4.25	4.50	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

Space absorption is keeping a good pace in Madrid and Barcelona and vacancy rates kept on with a steady reduction. This results for a strong confidence on future performance of corporates, both national and from abroad. On the capital markets side offices also enjoy strong demand and have returned to normal *cruising speed* in Barcelona, where political uncertainty has eased.

Occupier focus

Year to Q3-2018 activity has picked-up again in Madrid and Barcelona and office space take-up was higher than one year ago. The same happens with vacancy rates that have decreased in the two capitals in Q3, when compared to Q2-2018 and Q3-2017. The vacancy rate level in Barcelona (5,75%) is currently at equilibrium levels. Nevertheless, given low quality of available stock and fragmented supply some submarkets are now under pressure. This is helping rental values to further increase and prime rents in Barcelona are 11% higher than one year ago. Madrid's case is similar with prime rents in Q3-2018 5% above the level of Q3-2017.

Investment focus

Investors keep strongly interested in office assets in Madrid and Barcelona. The focus on prime assets is ever present, but secondary locations with good tenants and grade A are also sought after. Prime yields have kept the same level in the last 12 months

Outlook

With a good shape in macro fundamentals it is expected that office markets keep the momentum of good figures in Space take-up and positive net absorption for the next 12 or 18 months. In this period, some speculative projects will enter the market, serving a demand avid of high quality space. In this context we forecast rents increasing in both capitals in their prime segment and even in secondary buildings.

Investment intentions keep strong and new and representative investments will be closed in the second half of 2018 in Madrid and Barcelona. Prime yields have entered in stabilization phase and may no longer see contractions. Nevertheless, secondary asses still have room to decrease yields, given the strong activity of both domestic and international investors.

SPAIN

Office Market
Snapshot

Third Quarter | 2018



LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
CBD	3,255,127	249,170	7.65%	29,685	116,701	40,042
City Centre	2,126,493	85,532	4.02%	20,460	44,455	27,392
Decentralised (M-30 & M-40)	3,892,606	474,778	12.20%	60,095	130,973	120,481
Out of Town	3,900,040	596,803	15.30%	18,133	72,095	8,257
Madrid (Overall)	13,174,267	1,406,760	10.80%	128,373	364,224	196,172

LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
CBD (Diagonal/Pg. Gracia)	900,330	13,912	1.55%	2,877	15,191	9,452
City Centre	2,712,250	62,297	2.30%	14,688	68,680	0
Decentralised (New Business Areas)	1,307,375	100,624	7.70%	62,766	158,271	315,139
Out of Town	1,019,771	165,291	16.21%	27,757	76,570	21,930
Barcelona (Overall)	5,939,726	342,124	5.76%	108,088	318,712	346,521

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Confidential	Madrid (Out of Town)	Schneider Electric	9,500	Relocation+Expansion
Confidential	Madrid (Decentralised)	Capgemini	9,365	Neutral relocation
Meridia Capital	Barcelona (Decentralised)	Everis	25,000	Relocation+Expansion
Merlin Properties	Barcelona (Out of Town)	Mediamarkt	8,496	Relocation

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	BUYER	SELLER	PRICE € MILLIONS
Novus	Madrid (Decentralised)	Zambal SOCIMI	AXA IM Real Estate	140
Diagonal 177	Barcelona (Decentralised)	Hines	Mediacomplex	90
Diagonal, 662	Barcelona (CBD))	Blackstone	Inversiones Hemisferio	210

Source: Real Capital Analytics

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