

SPAIN

# Office Market Snapshot

First Quarter | 2019



## 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 trend in occupier deals is expected to continue and some large deals will be closed before year end ▼

### Prime Office rents – March 2019

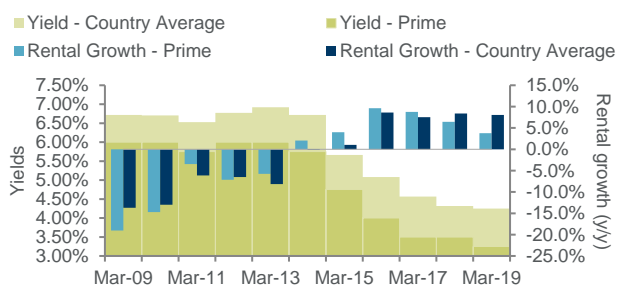
LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ. FT YR	1YR	5YR CAGR
Madrid (CBD)	34.25	411	43.2	3.8	6.5
Madrid (Decentralised)	18.30	219.6	23.1	4.6	3.4
Barcelona (CBD)	27.00	324	34.0	12.5	8.8
Barcelona (Decentralised)	23.00	276	29.0	13.6	10.8

### Prime Office yields – March 2019

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

Space absorption is keeping a good state 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 office's capital markets side, it is perceived a strong demand focusing on prime assets as well as secondary locations grade A.

## Occupier focus

Barcelona and Madrid saw a reduction on vacancy rates driven by a healthy tone of new letting deals. Vacancy rate in Barcelona (4,83%) is currently at minimum levels since 2007. Barcelona registered the best first quarter in terms of demand of office space. Nevertheless, given low quality of available stock and fragmented supply some submarkets are now under pressure in both Madrid and Barcelona. This is helping rental values to further increase and prime rents in Barcelona are 12% higher than one year ago. Madrid's case is similar with prime rents in Q1-2019 3.8% above registered levels of Q1-2018.

## 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 specifications are also sought after. Prime yields have kept the same level in the last 12 months in Barcelona whilst in Madrid have been contracted 25 bp.

## Outlook

Economic fundamentals for office occupancy will keep on performing well in 2019. A good shape in macro fundamentals is expected so office markets will keep the momentum of good figures in positive net take-up for the next 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.

Investment intentions keep strong, new and representative investments will be closed before year end in both cities. Prime yields have entered in stabilization phase in Barcelona and may no longer see contractions whilst 25 bp contraction has been registered un prime yields in Madrid. There's still room for secondary asses 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	3,142,437	209,784	6.68%	33,416	33,416	40,042
City Centre	2,206,709	95,435	4.32%	18,620	18,620	48,892
Decentralised (M-30 & M-40)	3,879,707	459,723	11.85%	60,095	60,095	87,288
Out of Town	3,891,882	565,427	14.53%	18,133	18,133	33,257
<b>Madrid (Overall)</b>	<b>13,120,736</b>	<b>1,330,369</b>	<b>10.14%</b>	<b>128,373</b>	<b>128,373</b>	<b>196,172</b>

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)	895,817	19,187	2.14%	5,464	5,464	4,709
City Centre	2,710,819	51,677	1.91%	26,765	26,765	0
Decentralised (New Business Areas)	1,724,729	86,423	5.01%	83,612	83,612	128,419
Out of Town	1,268,738	161,611	12.74%	30,235	30,235	14,210
<b>Barcelona (Overall)</b>	<b>6,600,103</b>	<b>318,898</b>	<b>4.83%</b>	<b>146,076</b>	<b>146,076</b>	<b>147,338</b>

## Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Francisco Silvela, 106	Madrid (City Centre)	WeWork	6,357	Expansion
Via de los Poblados, 1	Madrid (Decentralised)	ING	34,947	Relocation
Llacuna, 63-73	Barcelona (Decentralised)	IMH	6,094	Relocation
Pallars, 194-198	Barcelona (Decentralised)	WeWork	8,300	Expansion

Source: Cushman & Wakefield

## Key Investment Transactions

PROPERTY	SUBMARKET	BUYER	SELLER	PRICE € MILLIONS
Eloy Gonzalo, 27	Madrid (CBD)	Swiss Life	Lar España	40
Hexagon	Barcelona (Decentralised)	Metrópolis	Brilten	52
Torraspapel	Barcelona (Decentralised)	InmoCaixa - Critería	GLL Real Estate	33.7

Source: Real Capital Analytics

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