

SPAIN

Office Market Snapshot

Second 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 – June 2019

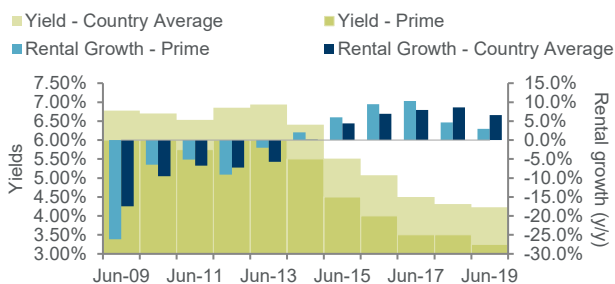
LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ. FT YR	1YR	5YR CAGR
Madrid (CBD)	34.50	414	46.5	3.0	6.7
Madrid (Decentralised)	18.60	223.2	25.0	6.3	3.7
Barcelona (CBD)	27.00	324	36.4	8.0	8.8
Barcelona (Decentralised)	23.50	282	31.6	11.9	11.3

Prime Office yields – June 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	4.50	4.50	7.25	4.35
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

Occupier markets showed strong fundamentals in the first part of 2019 and gross absorption metrics are signalling that year end figures may 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 the first half of 2019 are in 10 years 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 June of 2018. Against this backdrop stand the rental values that are set to integrate further increases. 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 in the first half of the year amply exceed those seen in the first half of the last ten years. 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 the second half of the year and keep on levels around historical lows. As a consequence of the market activity, product available in the market for trading is scant and volumes in the second part of 2019 may result in lesser levels than those of the first half 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.

Investment intentions keep strong and new and representative investments will be closed before year end in both cities. Prime yields have entered in stabilization phase 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	3,141,705	157,549	5.0%	49,407	82,823	138,928
City Centre	2,197,549	54,486	2.5%	28,578	47,789	53,976
Decentralised (M-30 & M-40)	3,865,569	443,033	11.5%	82,806	142,441	87,288
Out of Town	3,870,985	514,488	13.3%	32,289	63,319	33,257
Madrid (Overall)	13,075,809	1,169,557	8.94%	193,080	336,372	313,449

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CBD (Diagonal/Pg.Gracia)	899,320	18,638	2.07%	10,527	15,991	4,709
City Centre	2,620,390	53,227	2.03%	15,208	42,537	0
Decentralised (New Business Areas)	1,822,313	80,143	4.40%	56,957	139,768	118,483
Out of Town	1,275,738	160,142	12.55%	20,756	52,951	14,398
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
Mesena, 22	Madrid (Decentralised)	Acciona	55,000	Relocation
Josefa Valcárcel, 26-30	Madrid (Decentralised)	Banco Santander	16,217	Relocation
Torre Llevant	Barcelona (Decentralised)	Cellnex	8,436	Relocation
Samontà, 21-25	Barcelona (Out of Town)	Indra	6,976	Relocation

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	BUYER	SELLER	PRICE € MILLIONS
Castellana 200	Madrid (CBD)	Allianz RE	Drago Capital	250
Av. de Europa, 19	Madrid (Out of Town)	Grosvenor	Blackstone	76.5
Torre Diagonal 00	Barcelona (Decentralised)	Grupo Emperador	Telefónica	133
Torre Auditori	Barcelona (Decentralised)	Aberdeen Standard Investments	Iberdrola Inmobiliaria	98

Source: Real Capital Analytics

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