

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 – December 2018

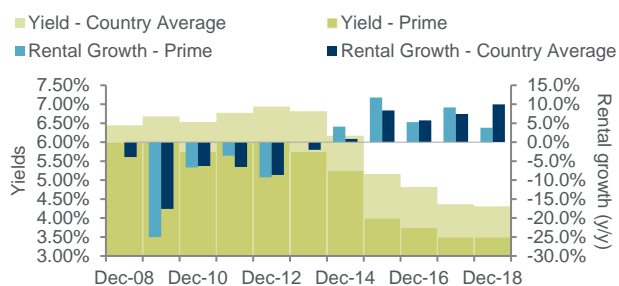
LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Madrid (CBD)	34.00	408	43.2	3.8	6.8
Madrid (Decentralised)	18.00	216	22.9	5.9	3.0
Barcelona (CBD)	26.50	318	33.7	15.2	8.3
Barcelona (Decentralised)	22.00	264	28.0	10.0	9.9

Prime Office yields – December 2018

LOCATION	CURRENT (FIGURES ARE GROSS, %)	10 YEAR			
		LAST Q	LAST Q	LAST Y	HIGH LOW
Madrid (CBD)	3.50	3.50	3.50	6.00	3.50
Madrid (Decentralised)	4.50	4.50	4.75	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

Office space demand keeps a good momentum in Barcelona and Madrid. Nevertheless, in the latter space take-up ended 2018 below of one year ago. In Barcelona, corporates are active in their space search and gross absorption increased last year in annual terms. Available space decreased in both markets in response to the shape of demand and expansion plans of space usage from corporates.

Investment figures were strong in both capitals especially in Madrid where some large operations and numerous average sized deals fuelled volumes to the second largest figure of the last 10 years.

Occupier focus

During 2018 in Madrid corporate demand kept momentum when compared to 2017. It was not the same for the public sector that remained absent from space absorption. As a result, like for like comparison of corporates letting deals increased, but total space take-up was lower. Gross take-up in Barcelona was higher than one year ago, and corporates are struggling for sizable, modern space in central areas. The 22@ office district is attracting added demand and new developments. This renewed market hub will keep on attracting new deals in 2019 under the shape of standard leases and pre-lets as well.

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 high spec are the main target. This a result of investors entering the Spanish office market with higher costs of capital that aim value add strategies. Investment volumes in 2018 increased by 30% across the country, but in Madrid they expanded by 80%. Prime yields have kept the same level in the last 12 months but secondary assets still have room to move in.

Outlook

With a good shape in macro fundamentals it is expected that office markets will keep the momentum in 2019. 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 liquidity for new transaction is abundant. After five years of large investment volumes opportunities are scarce. Prime yields have entered in stabilization phase and may no longer see contractions.

SPAIN Office Market Snapshot

Fourth 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	3,139,474	209,784	6.68	55,205	167,321	161,000
City Centre	2,206,700	97,745	4.43	23,390	72,431	27,392
Decentralised (M-30 & M-40)	3,899,944	480,065	12.30	33,326	163,199	120,481
Out of Town	3,891,882	565,427	14.50	10,517	82,378	8,257
Madrid (Overall)	13,138,010	1,353,021	10.80%	122,439	485,329	317,857

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	16,344	1.8%	10,368	25,980	9,452
City Centre	2,710,609	51,098	1.9%	13,908	83,034	0
Decentralised (New Business Areas)	1,310,749	81,059	6.2%	33,419	187,917	315,139
Out of Town	1,013,981	164,367	16.21%	9,098	86,686	21,930
Barcelona (Overall)	5,935,669	312,868	5.3%	108,088	383,616	346,521

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Méndez Álvaro, 2	Madrid (City Centre)	Catalana Occidente	21,500	Pre-let
Condesa de Venadito, 7	Madrid (Decentralised)	Sacyr	7,972.5	Neutral relocation
Calle del Gral. Lacy, 23	Barcelona (Out of Town)	Repsol	6,600	Relocation
Diagonal, 444	Barcelona (CBD)	Wework	3,400	Expansion

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	BUYER	SELLER	PRICE € MILLIONS
Novus Building	Madrid (Decentralised)	Zambal SOCIMI	AXA IM Real Estate	148
FCC HQ	Madrid (Decentralised)	Safra	Gorbea	110
Païses Catalans 21	Barcelona (Out of town)	Igis	Meridia Capital	87

Source: Cushman & Wakefield – Research & Insight and Real Capital Analytics

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