



AT A GLANCE Q4 2021

OFFICE MARKET IN MADRID

DEMAND FOR OFFICE SPACE GROWS HESITANTLY

Letting volumes for office space broke through the 100,000 sqm barrier in the last quarter, with a notable increase in the number of transactions registered for the year as a whole.

INFLATION AND AN UNCERTAIN HEALTH SITUATION MAY HOLD BACK ECONOMIC GROWTH

The pace of economic recovery forecast in Spain just a few months ago has been significantly curtailed. Renewed uncertainty about the health crisis from the omicron variant is adding to the problems created by inflation and the global supply chain crisis.

These factors may trigger a slowdown in private consumption and a greater inclination on the part of households to

save, thereby downgrading the growth forecast made in September.

The estimated quarterly growth for the Q4 2021 stands at 1.6%, while the yearly growth figure may be 4.5%. Looking ahead to 2022, forecasts fluctuate between around 5.4% and 5.8%. (Source: Bank of Spain; IMF & Consensus Economics Forecast).

DEMAND FOR SMALL PREMISES TO THE FORE

Analysis of how demand performed during the past 12 months reveals greater transactional activity than in 2020, yet an absence of large-volume transactions of more than 10,000 sqm.

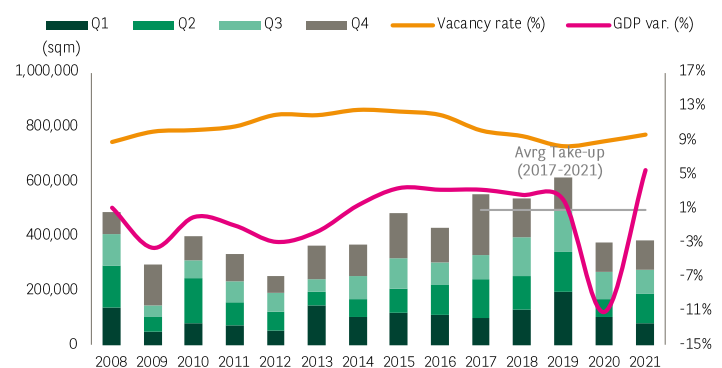
The **take-up volume in the fourth quarter** stood at **108,549 sqm**, a figure representing a quarterly increase of 19.0%, and 2.5% compared with the same quarter in 2020: it is the highest quarterly absorption figure since 2019.

The total office space demand for the year rose to **386,186 sqm**, 2.5% higher than the previous year. Despite the recovery seen in demand, the fact that no large-volume transactions took place means that take-up is still far lower (-21.9%) than the average for the past five years.

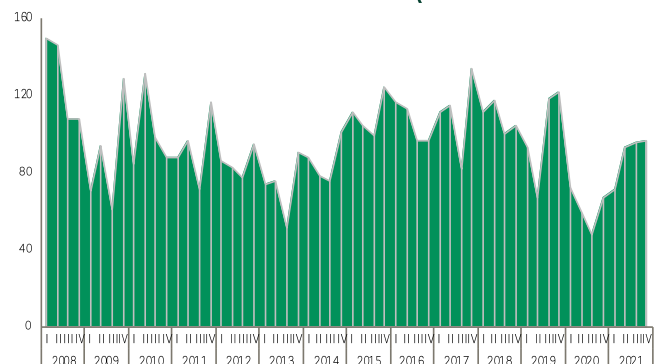
A total of 357 new contracts were signed during the year, 45.1% up on 2020, and 10.7% lower than in 2019. The **average deal size** during the year stood at **1,081 sqm**, lower than the average seen in 2020, which was 1,423 sqm.

The largest deals were the leasing of an entire 13,752 sqm building at Rio 55, Indra's lease of 7,305 sqm of the Japón building in the San Fernando Business Park, and Arval's relocation to the Cedro building in Alcobendas, recently refurbished by its owners, where it will be taking up 6,738 sqm.

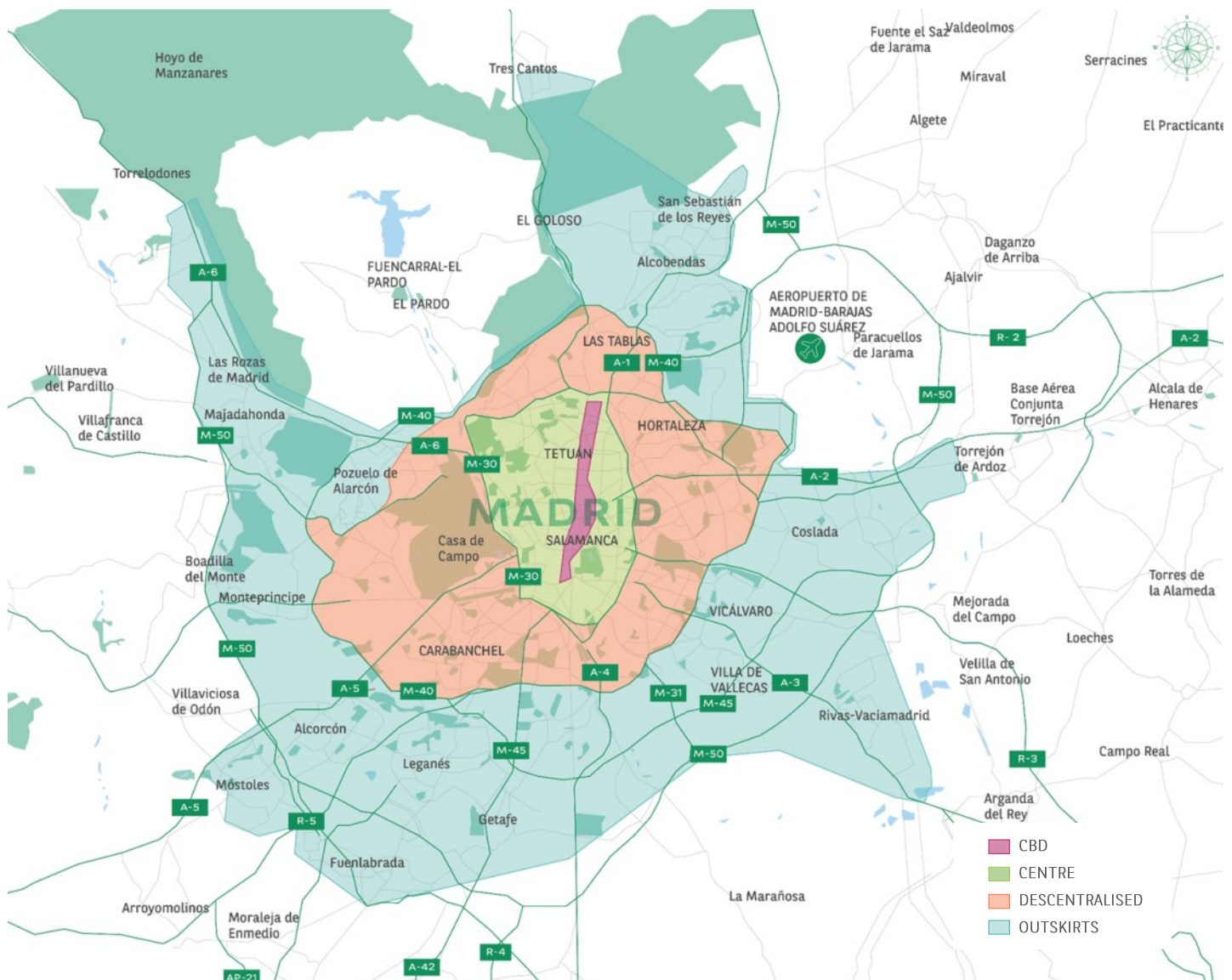
TAKE-UP EVOLUTION (sqm)



N° OF DEALS PER QUARTER



MAIN OFFICE AREAS - MADRID AND METROPOLITAN PERIPHERY



CBD ACCOUNTS FOR 30% OF TRANSACTIONS IN LAST QUARTER

The Decentralised and Periphery areas continue to account for the bulk of demand at 71.5% of take-up. The area lying between the M30 and M40 ring roads (Decentralised) attracted the greatest demand (49.6%). Within this area, the most dynamic markets during the quarter were Campo de las Naciones and Las Tablas, where over half of Decentralised area transactions were concluded.

The area with the second-greatest letting volume was the Outskirts, with 22.0% of take-up. Within this area, the most attractive market for users remains Alcobendas. Also popular were the markets positioned on the A-6 highway and the A-2, specifically in the Las Mercedes and San Fernando BP business parks.

The city's CBD registered 21.6% of take-up, although it led by number of contracts signed in Q4. The bulk of the transactions are for areas of less than 500 sqm, which account for over half the CBD letting volume. Almost half of the leases were for rents of €30/sqm/month or higher. The area around Azca, the most exclusive stretch of Paseo de la Castellana, alongside the Salamanca and Cuatro Torres districts, remain highly attractive markets for users.

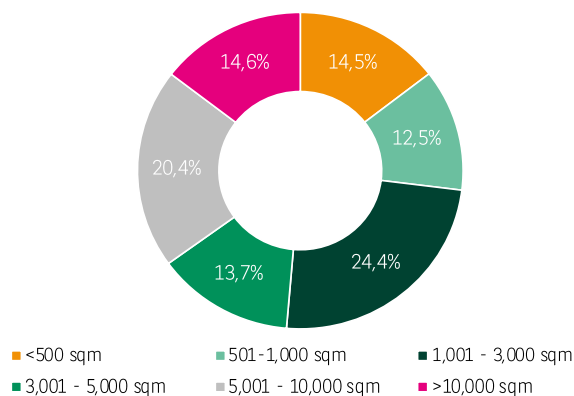
The Centre area attracted 6.8% of take-up, although the activity registered in the fourth quarter was more dynamic than the previous three months. The average deal size concluded in this area was around 350 sqm.

INCREASE IN ACTIVITY FROM CO-WORKING OPERATORS

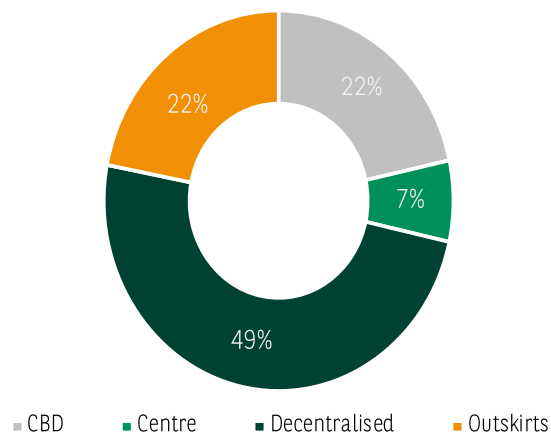
There can be no doubt that the pandemic transformed the way we work over recent months. New working habits, accelerated by the pandemic, suggest there will be a real revolution in office properties, with co-working companies potentially exploiting this thanks to the flexibility of their offer. Companies and employees are aware that flexibility is almost as important an asset as any other. Remote working would seem to be here to stay, albeit with less intensity than during the months of lockdown.

One notable feature of the last quarter was the opening of a number of co-working centres by such significant players as Networkia and Lexington, with high occupancy levels of between around 60% and 70% prior to opening. Meanwhile, during the last quarter Lexington signed a significant deal at Castellana 79, where it will be expanding its existing working premises.

N° OF DEALS BY RANGE OF SURFACE Q4 - 2021



TAKE-UP PER AREAS (%) Q4 - 2021



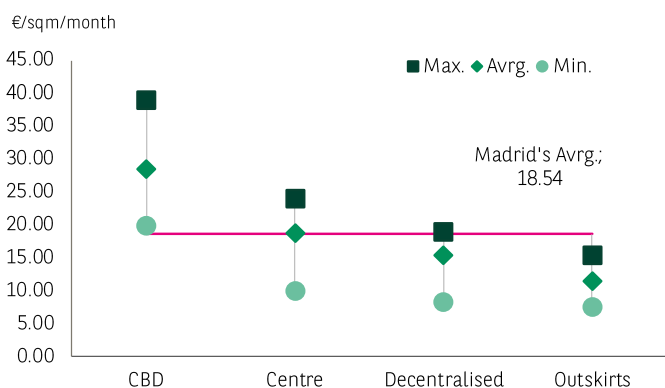
NO NOTABLE VARIATIONS IN RENT

The **average rent** in the city of Madrid has increased slightly over recent months, to **€18.54/sqm/month**, a rise of 1.8% compared with the previous quarter, and .8% higher than Q4 2020. It is still 4.6% lower than the same pre-pandemic period in 2019.

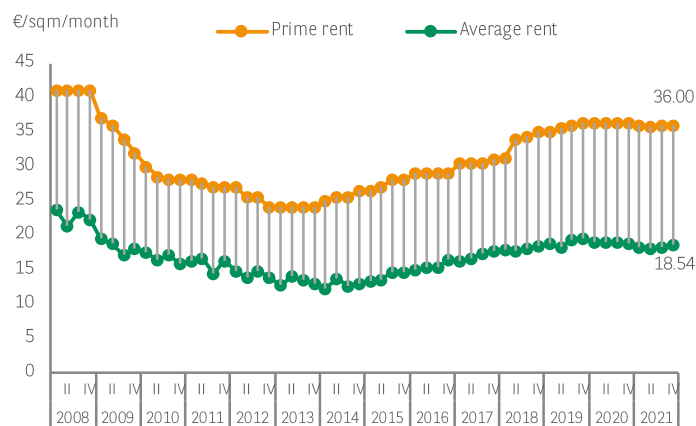
The **prime rent** remains at **€36.00/sqm/month**, registering a minimal annual adjustment of 0.7%. The average rent in the CBD has risen to **€28.50/sqm/month**, falling back only slightly from the previous quarter (-1.4%).

The highest rent agreed in the quarter was **€39.00/sqm/month** at Paseo de la Castellana 41, a building located in one of the most exclusive professional areas of the city's central business district.

MAXIMUM, MINIMUM AND AVERAGE RENTS - Q4 2021



RENT EVOLUTION



In the **Centre** area, the average rent has increased very slightly compared with the previous quarter, to **€18.80/sqm/month**, with maximum levels as high as **€24.00/sqm/month** for the most exclusive buildings in the area.

Outside the M30, the **Decentralised** area saw the highest rent increases, with an average rent of **€15.40/sqm/month** in the last quarter. This is the result of transactions concluded at the very end of the year for higher-quality buildings in micro-markets as Las Tablas and Campo de las Naciones.

Lastly, in the Periphery the average rents in the fourth quarter stood at **€11.50/sqm/month**, a minimal quarterly adjustment of 1.2%. Within this area, Pozuelo de Alarcón remains the market with the highest rents and maximums of **€15.50/sqm/month**.

INCREASE IN AVAILABILITY AT THE START OF THE YEAR

The **vacancy rate** in the Madrid office market stood at **9.9%** on 1 January 2022, having increased by 90 basis points over the past 12 months.

Almost 2 years after the outbreak of the pandemic, the space released by companies and the influx of new projects led to a sharper increase in availability in late 2020 and early 2021. Most companies have now applied their occu-

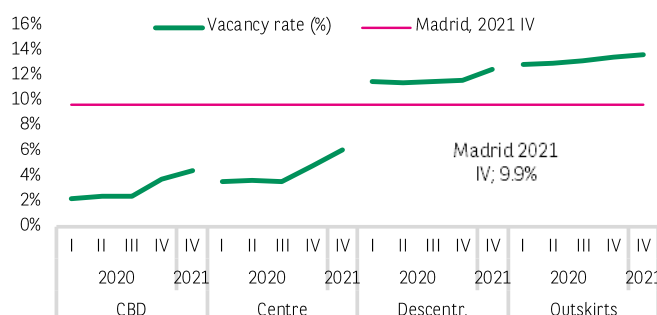
pancy plans, and no significant vacancies are therefore expected over the coming months.

Within the M30 ring road the vacancy rate is slightly below 5% in the CBD, while in the Centre area it has risen by 30 basis points, to 5.9%.

In the areas outside the M30, the vacancy rate stands at 12.6% in the Decentralised area, and 13.8% in the Periphery.



VACANCY RATE EVOLUTION PER AREA



NEW-BUILD, PROPERTY REFURBISHMENTS AND PROSPECTS FOR 2022

Despite the slowdown in demand over the pandemic with the increase in homeworking, the need for office premises reasserted itself. Offices that fulfil the latest environmental sustainability and efficiency requirements are a key requirement behind new demand.

Consequently, property development continues to progress, focusing on the city's north-eastern corridor. Las Tablas, Manoteras and Julián Camarillo are the areas bringing the greatest number of office projects to market in the coming months. One of the most significant completions scheduled for 2022 is the opening of Alcalá 546, the future headquarters of L'Oreal, as well as an adjacent building (Alcalá 544), comprising approximately 10,400 sqm which is now available.

In the medium term, Méndez Álvaro has a number of pro-

jects beginning development over the coming months, with potential completion from 2023. An office project of approximately 22,000 sqm in Arroyofresno, in the vicinity of the Metro station will also complete in the medium term.

Significant **refurbishment** projects occurring include *La Sierra Business Park* in Mirasierra, with a total surface area of 14,722 sqm, completion of which is scheduled for April 2022, and the refurbishment of 5 buildings totalling 50,000 sqm by Merlin Properties in Cerro de los Gamos (Pozuelo de Alarcón). The first section of this major refurbishment is scheduled for completion in December 2022.

The **prospects for 2022 are optimistic**, the expectation that once the impact of the omicron variant has passed, activity will remain at similar levels to the end of the year, with letting volumes in 2022 standing at around 425,000 sqm.

Key Figures					
	CBD	Centre	Descentr.	Outskirts	Total
Stock (sqm)	2,718,371	3,948,980	4,473,542	4,084,239	15,225,132
Vacancy (sqm)	124,549	254,203	565,747	562,244	1,506,743
Vacancy Rate	4.6%	6.4%	12.6%	13.8%	9.9%
Take-up Q4 2021 (sqm) *	↓ 23,400	↓ 7,500	↑ 53,800	↑ 23,900	↑ 108,500
Annual Take-up 2021 (sqm) *	↓ 71,109	↓ 58,095	↑ 155,552	↑ 101,430	↑ 386,186
Max Rent Q4 2021 (€/sqm/month)	39.0	24.0	19.0	15.5	-
Avg Rent Q4 2021 (€/sqm/month)	↓ 28.5	↓ 18.8	↑ 15.4	↑ 11.5	↓ 18.5

* Figure analyzed and verified by BNP Paribas Real Estate not including lease renewals

* Arrows denote annual variation



**BNP PARIBAS
REAL ESTATE**

Calle Emilio Vargas, 4 - 28043 - Madrid

Tel.: +34 914 549 933

www.realestate.bnpparibas.es

CONTACTS

RESEARCH



DAVID ALONSO FADRIQUE
NATIONAL DIRECTOR
RESEARCH

T (+34) 914 549 900

M (+34) 659 721 895

david.alonsofadrique@bnpparibas.com



VICTOR MANRIQUE
ANALYST
RESEARCH

T (+34) 914 549 900

M (+34) 672 684 490

victor.manrique@bnpparibas.com



IGNACIO GÓMEZ DE BARREDA
AGENCY DIRECTOR
MADRID OFFICES

T (+34) 914 549 989

M (+34) 667 216 975

Ignacio.gomez@bnpparibas.com

CAPITAL MARKETS



BENJAMIN GOMEZ
NATIONAL DIRECTOR
CAPITAL MARKETS

T (+34) 933 012 010

M (+34) 686 881 337

benjamin.gomez@bnpparibas.com



TERESA TABERNA
OFFICES DIRECTOR MADRID
CAPITAL MARKETS

T (+34) 914 549 912

M (+34) 674 912 957

teresa.taberna@bnpparibas.com