Spanish economic performance has moved onto solid ground since summer 2013. In the first quarter of 2014 the economy maintained its positive trend in macroeconomic indicators such as output and employment. This enhancement, however, still lacks thrust and there is still need for further reductions in the debt level, mainly from families and enterprises, as well as the fiscal deficit. 2014 will close with GDP growth around 1% and perhaps with net employment creation, leaving an open door for growth in real estate occupancy. At the end of Q1 2014 enterprises increased their interest in office space, against a backdrop of rents at their bottom and vacancy at maximum.

Strong take-up supported by middle size operations
Q1 2014 has left a positive reading on Madrid office demand; the 103,000 m² hired have been reached throughout transactions over middle and small surfaces, unlike past quarters when this levels were achieved leveraged on a few large deals. Rationale for demand is shifting; companies forecasting an improvement on their cash flow are joining those whose demand derives from space adjustments and low rents levels. Current quarter's 88 transactions averaged 900 m², beating the mean size of last quarters, between 500 m² to 600 m². These figures are closer to the historical long term average and Madrid's potential. Middle size transactions cumulated 26%, 10 points higher than average from the last years.

Net absorption still negative
Vacancy rate increased 0.4 points reaching 15.6%. This growth came from second hand offices located mainly in decentralized areas. In fact, on a quarterly basis, vacancy rate in Centre and Outskirts decreased and while remaining stable in CBD. The forecast is that by year end demand will gain momentum, allowing the reduction of empty spaces on a constant manner. This trend will be more intense in zones with stronger demand. CBD rate of availability will reduce on next quarters and faster than other zones.
OFFICE STOCK WITHOUT VARIATIONS

Promotion of new office buildings is still low in Madrid and stock renovation comes from building refurbishments. They add-up around 120,000 m² while speculative developments don’t achieve 10,000 m². Worth to mention the reactivation of some refurbishment projects (52,000 m²); they remained frozen since the beginning of the crisis. Even the most important operation of this quarter (ICEX, 14,000 m² in Castellana 278) was a pre-let on a building with expected delivery for 2015. Third part of the refurbishment projects belongs to CBD buildings and 80% will enter in 2014. On this stage Madrid’s office stock remains in the first quarter on 11.8 millions of square meters.

RISING PRIME RENT

The progressive shortage of high quality and well located offices anticipated since 2010 leaves a new level of prime rents—besides the aforementioned refurbishment activity—. Last quarter the best offices were rented for 288/€/m²/year; now the rent level is around 300/€/m²/year, with increase perspective by year end. A demand still weak in decentralized zones gives room for new reductions on the average rents, and there is no expectation of increases in 2014.

OUTLOOK

Forecast from BNP Paribas Real Estate estimate that take-up volume in 2014 will be greater than in 2013. However, due to a demand still supported by relocations there’s may be added surface liberation, especially in decentralized zones. Nevertheless, average rent will find support on quality office scarcity in the CBD.