At a Glance

Madrid Office Market

Q2 2014

**ECONOMIC BACKDROP**

The GDP forecasts for Spain continue to improve. Growth of around 1% was predicted at the close of 2013. At present, the first half of 2014 having passed, growth forecasts for the whole 2014 vary between 1.1% and 1.4%, confirming the favourable bearing which the Spanish economy has taken over the last year. Job creation in the service sector however has still not impacted upon the take-up of office space and increases in vacant space are still being recorded. The new market context is one of a very scarce supply of prime space, with its own rent dynamic, and more abundant secondary offer where there is still room for new discounts and the maintenance of incentives.

**BETTER MARKET CLIMATE THAN THAT OF ONE YEAR AGO**

65,900 m² were transacted in Q2 2014, representing 30% growth in comparison with Q2 2013 and displaying a better business climate than one year ago. Conditions indicating meagre performance nonetheless continue to be observed: The figure for take-up in Madrid should be close to the 100,000 m² per quarter, as it is typical of a healthy market context. The average size of office transacted continues to be in the range of 500 to 600 m², this being characteristic for the Madrid market since 2009. In fact, in Q1 2014 two out of every three deals for offices in Madrid were for spaces of less than 500 m², whereas those relating to areas in excess of 3000 m² cornered only 4% of the share. The most sought-after zones continue to be the CBD and Centre (60% share of transactions), indicating the persistent search of companies for central locations. The first half of 2014 closed with take-up of 169,000 m², 20,000 m² below the figure for H1 2013. This was due to an exceptional first quarter the previous year (103,000 m²) catapulted by a few large deals.

**VACANCY RATE ONCE AGAIN INCREASING**

The vacancy rate in Madrid at the close of June 2014 stood at 16.3%, half a percentage point above that of March, 2014 and representing a new historical peak. The buildings added to vacant stock originated from second-hand offices (no new office buildings were delivered during Q2 2014), bringing the available supply up to 77,000 m². The area of greatest growth in vacancies was the Decentralised zone, reaching a vacancy rate of 20%. Despite the vacancy rate increasing by 0.3 percentage points, the level of supply remained fairly scarce in the central business district (CBD) at 6.6%. The central zone was the only area to see its vacancy rate fall during Q2, reaching 13.6%.

“Growth in average rents in response to the interest of occupiers in high quality buildings with good location”

“Take-up for Q2 2014 exceeds that of the same period in 2013 by some 30%”
FUTURE SUPPLY DEPENDENT ON FULL REFURBISHMENTS

The second half of 2014 will see deliveries amounting to some 74,000 m². Of these, 90% correspond to major refurbishments located mainly in the CBD and Centre. The development of buildings and office parks remains at a standstill and developers continue to wait for a more clear-cut recovery in the occupier market and rents in order to initiate projects. No office building stars were recorded during H1 2014 and it is anticipated that the year will close likewise. As a result, the average age of the office stock continues to rise and the lack of deliveries since 2010/2011 explains the current scarcity of quality offices.

RENTS RISING IN CENTRAL ZONES

The fall in rents in recent years (of around 40% in comparison with the peaks of 2008) has intensified the demand for offices with central locations, mainly within the CBD. This pressure has already pushed some rents upwards and the average rent for Q2 in the CBD and Centre has grown by some 19% and 15% in quarterly terms respectively.

Prime rent also rose during Q2 2014, giving two consecutive quarters of growth. In comparison with the close of 2013, the rise amounts to 6.2% and, once more, represents a response to the scarcity of quality supply.

OUTLOOK

2014 will close with stronger demand than that of 2013. Although take-up during the first half is lower than that of last year, the number of transactions has increased and some deals remain to be settled. Increased take-up may therefore be anticipated for the second half of the year. Given the improvements in macroeconomic conditions, greater demand for office space is anticipated for 2015. Prime rents will continue to be pushed upwards towards the close of year.