Firms are seeking to let offices in the CBD and Centre to get ahead of greater increases in rents.

Take-up has increased 25% in annual terms during the period Q1-Q3 2015.

ECONOMIC CONTEXT
The Spanish economy continued to expand in the third quarter, albeit at a more moderate pace in comparison with the first half of the year. The Bank of Spain estimates quarterly GDP growth for July-September at 0.8%, making 9 consecutive positive quarters, and 3.4% over Q3 2014. The positive trend is based primarily on domestic demand. The leading indicator for inflation in September 2015 stood at ~0.9%, due to the fall in electricity and fuel prices. Nevertheless, underlying inflation (excluding fuel and electricity) rose by 10 basis points to 0.8% thanks to the strength of consumer spending. Employment improved too: the number of persons in work during the third quarter grew by 182,200 (INE) compared to the second quarter. The unemployment rate has seen 10 consecutive quarters of falls and stands at 21.7%.

THE BEST QUARTERS FOR TAKE-UP SINCE 2008
Q3 2015 represented the best quarter since 2008 with 114,000 m² of office space taken up, 32% more than Q3 2014. For Q1-Q3 2015, take-up increased 25% on the same period for 2014. Better performance is tied to the improved employment situation in Spain. The recovery is consolidated in the CBD and Central zones, but remains more moderate in the Decentralised zone and Outskirts. The most notable transaction was 36,000 m² in the Central zone let by British firm WPP. Deals of this size are rare because supply of large floorspace in the CBD and Centre of Madrid is almost non-existent. In fact, the building leased by WPP was the only one of its type in both zones. The only other option would have been to move to the Outskirts. Over the last 3 months, 82% of transactions were for floor spaces of less than 1,000 m².

EXPANDING THE NUMBER OF CONTRACTS
The figure of 100 transactions reached during the third quarter, now amounts to 4 consecutive quarters. In annual terms, the number of contracts has increased 30%. Continuance of this trend could create a scenario similar to that seen during 2004-2008, when it was commonplace for the quarterly contract total to exceed 100. As a reference, the average number of new office setting during a quarter in the period 2011 - 2014 was 84. The average for the last 4 quarters has been 105.
POSITIVE NET TAKE-UP

The positive net absorption of office space continues. The vacancy rate fell slightly from 16.1% in Q2, to 15.8% in Q3. The persistent scarcity of quality product in the centre of Madrid is making the development of new projects for 2016 attractive to developers. This fall in the vacancy rate has been most notable in the CBD, where this has dropped by more than one and a half percentage points, from 7% in Q2 to 5.3% in Q3 2015. Companies are seeking to let offices in the CBD and Centre to get ahead of increases in rents: 32% of the contracts during the third quarter were signed in the CBD.

TRANSACTIONS ARE DRIVING INCREASES IN RENTS

Greater transaction activity and the scarcity of product are driving increases in rents in the CBD and the Centre. The prime rent has seen a rise of almost 10% over the last 12 months and now stands at €336/m²/year; incentives packages in the CBD reducing. The offices facing the greatest letting difficulties still exhibit the greatest rent-free or staggered rent periods. The average rent for deals in Q3 stood at around €159.7/m²/year, with the increase amounting to 6.4% over the last 12 months.

OUTLOOK

The GDP growth forecast remains at 3.2% for 2015 and 2.5% for 2016. BNP Paribas Real Estate forecasts take-up of 420,000 m² for the whole of 2015 and that take-up will remain strong during 2016. The scarcity of well located, quality space will lead to continued increases in rents. It is probable that prime rents will see stronger growth during the coming months in comparison with previous quarters.