At a Glance

Madrid Offices

Q4 2015

Take-up and GDP evolution

- Q1
- Q2
- Q3
- Q4
- Take-up average
- Vacancy rate (%)
- GDP var. (%)

Transactions by size Q4 — 2015

- <500 m²
- 501-1,000 m²
- 1,001 - 3,000 m²
- 3,001 - 5,000 m²
- 5,001 - 10,000 m²
- >10,000 m²

Evolution of number of deals

"Take-up in 2015 increased by 30% over the year"

"Prime rent remains at € 28/sqm/month but with upward forecasts"

**ECONOMIC ENVIRONMENT**

The improved confidence of consumers and businesses gave the market sufficient dynamism to make 2015 the year with the highest GDP growth since 2007. Last year closed with annual growth in GDP of 3.2% (0.8% in the last quarter of the year, according to the Bank of Spain). This increase in GDP, which in 2014 stood at 1.4%, is mainly due to the growth in private demand. 2015 saw the largest decline in the employment rate, reaching its lowest level in 5 years with seasonally adjusted employment growing by about 150,000 people. The services sector led the increase with 54,900 new workers. In percentage terms, the unemployment rate dropped 0.3 points in the last quarter to 20.9%.

**HIGHEST FOURTH QUARTER IN TAKE-UP SINCE 2008**

Larger office space is being let to accommodate a higher number of workers. It is a proof of the increased activity taking place in the economy. The fourth quarter closed with office take-up of 160,800 sqm resulting in a total of 480,400 sqm for 2015. It has been the year with the largest gross absorption since 2008 (489,700 sqm). The interior area of the M-30 motorway continues its consolidation but loses steam in decentralized and peripheral areas. With respect to 2014 (370,120 sqm), take up has increased by 30% meaning that office market activity in 2015 has exceeded the forecasts made earlier this year. Letting activity is not only picking up in take-up, but also in average deals size. Before the crisis, the average size was 1,000 sqm, reducing to half that during the worst years of recession. Currently, the average size amounts to 750 sqm.

**RISING NUMBER OF CONTRACTS**

The increase in transactions reflects the dynamism of the market. Business confidence in a growing market is being expressed as an increase in space let and absolute number of deals. During the last quarter there were 118 lettings creating a total of 432 deals for the year as a whole. It represents an increase of 26% over 2014 (343) and compared with previous years, it is only surpassed by the volume of contracts in 2008 (508).
POSITIVE NET ABSORPTION
The vacancy rate dropped to 15.8% in Q4 2015 from 16.0% of the third quarter meaning that the mild trend of positive net absorption continues. This is likely to remain so in the short and medium term. The renovation of office stock is the primary source of new supply and in 2016 94,000 sqm are expected to be delivered, spread over 5 buildings that are being refurbished. There will be no deliveries of entirely new schemes in 2016. Nevertheless, there will be for 2017, reflecting the confidence of developers in the market recovery.

SLIGHT INCREASES IN RENTS
In the last quarter of 2015, Madrid’s average rent stood at €14.7/sqm/month, having in annual terms, increasing by almost 10%. The prime rent remains at €28/sqm/month. The largest letting rent increase compared to the last quarter of 2014 occurred in the CBD area with an increase of 26% (€18.2/sqm/month to €22.9/sqm/month).

PROSPECTS
The take-up forecast for 2016 is around 510,000 sqm. Average rents will follow a smooth upward trend in all areas. The low vacancy of quality buildings will cause tensions on the supply side which will drive prime rent. GDP growth of 2.5% is expected in 2016 and will affect labor market recovery. Although the pace of consumption and employment growth will slow slightly in 2016, the office market will continue its dynamism supported by improved expectations.