THE QUALITY OF OFFICES IN MADRID
AN ALTERNATIVE BENCHMARK FOR THE MARKET

An urgent need in the market

The statistical data for the let and available stock is now an established feature of the Spanish office market. Property consultancy firms led the production of information using their own methodologies and, as a result, data are subject to margins of error and significant discretion according to the source.

Property companies are not the only source of data though. Within its property assets division (Property Tax Register), the Ministry of Finance values properties for the settlement of taxes. The majority of this information is accessible through the Property Tax Register web portal and it is possible to extract a full list of the buildings (construction units) for the whole of Spain. From this, BNP Paribas Real Estate collected information on around 3,300 properties for Madrid comprising an office stock of 14.8 million m². The data comes with complementary information such as date of construction, number of commonhold divisions (owners), number of floors, geo-location, registered users of the building and various definitions of floor area.

The main goal of the Property Tax Register is to estimate the property value for the settlement of taxes. Implicit in this process is the adjustment of the property tax valuation in line with the upkeep and technical quality of the building. Consequently, the Property Tax Register represents an official source on the quality of the real estate stock in Spain. It is therefore possible to classify the stock of offices according to age and construction quality in Madrid and, by extension, the available supply.

The property tax register quality index

The construction quality of properties in Spain (other than the Basque Country) is determined systematically by the Property Tax Register and a number is assigned from an index running from 1 to 9, where a better construction quality corresponds to a lower value. In addition, there is a literal classification of A, B or C for buildings with special characteristics of modernity which, in this report, is standardised as 0. In a nutshell, the quality index runs from 0 to 9. With the stock of offices in Madrid there are no quality values beyond 6. For the purposes of analysis, the quality groupings shown in table 1 have been made.

<table>
<thead>
<tr>
<th>Cadastral quality index</th>
<th>Qualifying letter</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>A+</td>
</tr>
<tr>
<td>1</td>
<td>A</td>
</tr>
<tr>
<td>2</td>
<td>B</td>
</tr>
<tr>
<td>3 &amp; 4</td>
<td>C</td>
</tr>
<tr>
<td>More than 5</td>
<td>D</td>
</tr>
</tbody>
</table>
The predominant office quality grades in Madrid are B (24%) and C (43%), while some 10% of the stock corresponds to grade A+ (1.4 million m²). Nevertheless, a reading of the immediately available supply is somewhat different: the share of grade A+ falls to almost half (5.6%) and only 94,000 m² of the highest quality offices are registered as being available. Moreover, 80% of this scarce offering is located in the CBD. More vacant A, B and C grade offices are located in the Decentralised zone, whereas the Central zone has the greatest share of grade D (40% of the supply of this category). The latter figure is linked to the age of the stock in the districts of Chamartín, Salamanca, Chamberí and Centre.

The office stock began to develop in the central zones during the 60s and 70s, the CBD and Central zones adding around 1 - 2 million square metres respectively. Each of these areas grew by more than 150% in 20 years. Developments outside of the M -30 ring road had by that time started up, whereas on the outskirts of Madrid they came in to being towards the middle of the 80s.

The accession of Spain to the EU at the beginning of the 90s further stimulated the development of offices in the city. All areas grew exponentially between 1990 and 2000, adding 2.7 million m² in this decade. Construction in the Decentralised zone and Outskirts kept up a full head of steam until 2008. In this period however, the CBD remained relatively stable, having reached saturation due to the developments in the area of AZCA in the 70s and 80s. This remained true up to the delivery of 258,000 m² of office floorspace in the CTBA zone.
DISTRIBUTION OF SUPPLY BY ZONES

At the close of June 2016 the office stock amounted to 14.8 million square metres. The area with the lowest share is the CBD, both in terms of stock and availability, evidencing once more the scarcity of good quality stock. The zones contributing most to stock and availability are the Decentralised zone and Outskirts, in equal proportion. Nevertheless, their shares are greater in terms of availability due to the reduced supply of offices in the CBD and Central zone.

CONTRIBUTION OF SUB-MARKETS TO STOCK AND AVAILABILITY

The greatest concentration of available supply in Madrid is found in the Decentralised zone and outskirts of the city, cornering 72% of the total floor area available. This percentage is equally split between these zones, each showing approximately 36%. As expected, the prime zone shows a relatively low percentage of available floor area, amounting to 172,145 m² contained in 123 properties. This represents some 10% of the total available floorspace in Madrid. The Central zone occupies second place at 17%, with 303,370 square metres available. This amounts to half of the footage available in areas beyond the M-30 ring road.

By sub-zone, Alcobendas has the greatest percentage of available supply, with 11% of the total floor area in Madrid, followed by Josefa Valcárcel (10%) and Julián Camarillo (9%), both situated in decentralised zone and the outskirts. The area with the highest proportion of vacant property in the Centre is Chamartin, at 4.3%.

Madrid's Central zone houses the greatest volume of floor area, comprising 32% of the total stock. This is due to the concentration of properties in the Central district (covering the area of the old city centre), representing 8% of the total square metres. This is followed by sub-zones such as Chamartin, Ibiza-Atocha-Legazpi and Salamanca, that also form part of the Central zone and which, in turn, show the highest shares for the whole of Madrid at 5.4%, 4.5% and 4.4% respectively. The Outskirts bring together 27.2% of the total, followed by the Decentralised zone at 27.1%. Within the Outskirts, Alcobendas takes first place with a share of 5%, a relatively high percentage in comparison with the other territories within its category. Lastly, the CBD, with 2 million m² represents 13.6% of the total office stock in Madrid.

Madrid currently has 1,691,000 m² of available office space, a vacancy rate of 11.4%. In terms of sub-zones, the highest vacancy rates are recorded in the areas of Rivas-Vaciamadrid and Josefa Valcárcel-A2, where 45% of the stock is available. In the area close to the A2, the rate amounts to 32%. These are followed by the areas of Manoteras, Julián Camarillo and Alcobendas, with vacancy rates of 27%, 26% and 23%. The zones where supply is most scarce are Chamberi (4%), Tetuán (7%), Chamartin (9%), and Salamanca (9%). Some 6.7% of the stock of the CBD is available.

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**Figure 6. Distribution of constructed and available park by zones**

- CBD: 27%
- Center: 15%
- Decentralized: 29%
- Outskirts: 29%

**Figure 7. Stock allocation (m²)**

- CBD: 36%
- Center: 10%
- Decentralized: 18%
- Outskirts: 36%

**Figure 8. Stock distribution and Vacancy rate by sub-zones (%)**

- CBD: 12%
- Center: 15%
- Decentralized: 15%
- Outskirts: 15%

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**Locations**

- CBD
- Outskirts
- Decentralized
- Center

**Vacancy**

- Rivas-Vaciamadrid
- Pozuelo de Alarcón
- San Sebastián de los Reyes
- Tres Cantos
- Josefa Valcárcel - A2
- Alcobendas
- A6-Las Rozas-Azarquiel
- Madrid-Sur-Oeste
- Campo de las naciones
- Julian Camarillo
- Madrid-Centro-Oeste
- Tetuán
- Chamberi
- Salamanca
- Ibiza-Atocha-Legazpi
- Chamartin
- Centro
- CBD

**Stock**

- Rivas-Vaciamadrid
- Pozuelo de Alarcón
- San Sebastián de los Reyes
- Tres Cantos
- Josefa Valcárcel - A2
- Alcobendas
- A6-Las Rozas-Azarquiel
- Madrid-Sur-Oeste
- Campo de las naciones
- Julian Camarillo
- Madrid-Centro-Oeste
- Tetuán
- Chamberi
- Salamanca
- Ibiza-Atocha-Legazpi
- Chamartin
- Centro
- CBD
OFFICE QUALITY IN MADRID—2016

AVERAGE AGE OF DELIVERY OF BUILDINGS BY ZONE

Among the four office zones in Madrid, the oldest average year of delivery is that of the CBD: 1959. This is normal given the dimensions and characteristics of the city: construction began in the centre and spread towards the Outskirts as the availability of floorspace became scarce and the price of land increased. The most recent delivery in the CBD and Centre corresponds to 2012. In the latter area, the average year of delivery of properties is 1981. In zones away from the M-30 ring road, the average year of delivery is 1987 for the Decentralised zone and 1996 for the Outskirts. The most recent buildings in these two areas came onto the market in 2015 and 2014 respectively.

AGE OF BUILDINGS IN MADRID

Of the total square metres comprising the office stock in Madrid, 19.1% (2,881,000 m²) is 10 years old or less. This figure includes both buildings delivered since 2006 and full-scale refurbishments carried out over the last decade.

The CBD has 412,111 m² floorspace with a maximum age of 10 years, of which 31.3% (129,200 m²) consists of refurbishments. Refurbishments are scarce away from the Centre: 7% in the Decentralised zone and 3% on the Outskirts.

QUALITY FLOOR SPACE BECOMES SCARCE

Vacancy rates within the M-30 ring road for floorspace delivered subsequent to 2010 lie between 5-6%. The same figure is noted for the Decentralised zone and even on the Outskirts a relatively low level is observed. The floorspace of buildings delivered over 2000-2010 shows the highest vacancy rates in the four zones. In the Decentralised zone and the Outskirts more than half of the square metres are available, although it must be borne in mind that over 2000-2010 some 1,929,000 m² were delivered onto the market in the first region and 2,383,030 in the latter.

CONCLUSIONS AND FORECASTS

The office stock in Madrid came to a standstill between 2010-2015 in building activity and the refurbishment of properties. Developers have been reluctant to begin or restart construction projects in recent years. Nevertheless, the current strength of the office market, with dynamic take-up, the scarcity of quality product and growth in rents, have once again made refurbishment and, in a second phase, development attractive. The latter will gather momentum as of 2016. It is anticipated that 57,000 m² will be delivered and the volume of floorspace coming onto the market in the coming year will reach 170,000 m².

Table 2. Park built by average year

<table>
<thead>
<tr>
<th>Zone</th>
<th>Average year of construction</th>
</tr>
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<tbody>
<tr>
<td>CBD</td>
<td>1959</td>
</tr>
<tr>
<td>Center</td>
<td>1961</td>
</tr>
<tr>
<td>Decentralized</td>
<td>1987</td>
</tr>
<tr>
<td>Outskirts</td>
<td>1996</td>
</tr>
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Table 3. Distribution by age (includes rehabilitation)

<table>
<thead>
<tr>
<th>Zone</th>
<th>Ancient</th>
<th>New (&lt;10 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>Center</td>
<td>94%</td>
<td>6%</td>
</tr>
<tr>
<td>Decentralized</td>
<td>71%</td>
<td>29%</td>
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<tr>
<td>Outskirts</td>
<td>74%</td>
<td>26%</td>
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Table 4. Surface distribution for decades (%) - Includes rehabilitations

<table>
<thead>
<tr>
<th>Decade</th>
<th>CBD</th>
<th>Center</th>
<th>Decentralized</th>
<th>Outskirts</th>
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</thead>
<tbody>
<tr>
<td>&lt; 50’s</td>
<td>7</td>
<td>15</td>
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<td>50’s</td>
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</tr>
<tr>
<td>60’s</td>
<td>10</td>
<td>15</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>70’s</td>
<td>23</td>
<td>26</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>80’s</td>
<td>18</td>
<td>10</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>90’s</td>
<td>13</td>
<td>17</td>
<td>22</td>
<td>25</td>
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<td>8</td>
<td>48</td>
<td>59</td>
</tr>
<tr>
<td>10’s</td>
<td>4</td>
<td>3</td>
<td>8</td>
<td>6</td>
</tr>
</tbody>
</table>

Table 5. Availability rates for decades (%)

<table>
<thead>
<tr>
<th>Decade</th>
<th>CBD</th>
<th>Center</th>
<th>Decentralized</th>
<th>Outskirts</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 50’s</td>
<td>9</td>
<td>7</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>50’s</td>
<td>3</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
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</tr>
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<td>70’s</td>
<td>23</td>
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<td>3</td>
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<td>80’s</td>
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<tr>
<td>90’s</td>
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<td>23</td>
<td>29</td>
<td>22</td>
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<tr>
<td>00’s</td>
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<td>5</td>
<td>14</td>
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