**At a glance**

**OFFICES MADRID Q4 2017**

**EXTRAORDINARY BEHAVIOR OF DEMAND**

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**ECONOMIC CLIMATE**

The strong progress of the Spanish economy enabled it to sidestep the effect of the uncertainty created during the last quarter of the year. According to forward data from the Bank of Spain, the economy grew by 0.6% in Q4 2017, primarily as a consequence of the increase in exports, the strengthening of construction investment and strong underlying domestic demand. Estimated GDP growth for Madrid for 2017 as a whole stands at 3.4%, above the national average of 3.2%. This is due to the strength of consumer spending, increased confidence, the fall in interest rates and the growth of business investment.

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**RECRUITMENT RECORD SINCE 2007**

The office take-up volume for Madrid closed 2017 at 552,982m², representing an increase of 28.7% in comparison with the previous year and placing demand at its highest point since 2007.

During the last quarter of 2017 the demand recorded for office floorspace was extraordinary, reaching 223,448 m². This is 79% more than the figure for Q4 2016 and 153% above Q3-2017. This strong performance is largely explained by the return of demand from public authorities. The deal struck by the Inland Revenue (Ministerio de Hacienda) at no.15 Calle Mateo Inurria (17,480 m²) and those signed by the Madrid Regional Council at no.31 Calle Albarracín (19,727 m²) and at no.5 Ramírez de Prado (14,600 m²) are among the largest volume transactions of the final quarter.

Office take-up volumes in Madrid are still far below the almost one million square metres transacted pre-crisis in 2007. Nonetheless, it is important to bear in mind that companies no longer require the same floorspace in order to perform their activities. Working methods have changed as a result of space optimisation strategies that led to the elimination of individual offices and introduction of concepts like “hot desking”. The outcome generated is a steep drop in the “average floorspace per employee”, going from 14-16m² prior to the crisis to the current 10-12m². At the pre-crisis density occupancy rate per employee, we would be speaking of a total take-up around 750,000m² for 2017.

The number of deals signed during the fourth quarter of 2017 stood at 134, giving a total of 441 transactions for the year.
**Vacancy rate by zones**

- **Madrid, Q4 2017: 10.2%**

**Average rents by zones**

- **CBD**
- **Centre**
- **Decentralised**
- **Outskirts**
- **Madrid**

**Key indicators for the fourth 2017**

<table>
<thead>
<tr>
<th>Key figures</th>
<th>CBD</th>
<th>Centre</th>
<th>Decentr.</th>
<th>Outskirts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock (m²)</td>
<td>2,676,100</td>
<td>3,911,800</td>
<td>4,332,500</td>
<td>0</td>
<td>14,985,600</td>
</tr>
<tr>
<td>Vacancy (m²)</td>
<td>149,900</td>
<td>213,300</td>
<td>567,100</td>
<td>604,900</td>
<td>1,594,500</td>
</tr>
<tr>
<td>Vacancy rate (%)</td>
<td>5.6%</td>
<td>5.5%</td>
<td>13.1%</td>
<td>14.9%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Take-up Q4 2017 (m²)**</td>
<td>40,000</td>
<td>77,700</td>
<td>77,200</td>
<td>28,600</td>
<td>223,500</td>
</tr>
<tr>
<td>Year to date take-up (m²)**</td>
<td>131,400</td>
<td>161,300</td>
<td>177,300</td>
<td>83,000</td>
<td>553,000</td>
</tr>
<tr>
<td>Maximum rent Q4 (£/m²/month)</td>
<td>31.0</td>
<td>31.0</td>
<td>16.5</td>
<td>16.0</td>
<td>-</td>
</tr>
<tr>
<td>Avg. rent Q4 (£/m²/month)</td>
<td>27.5</td>
<td>20.1</td>
<td>12.0</td>
<td>11.0</td>
<td>17.6</td>
</tr>
<tr>
<td>New deliveries Q2 2017 (m²)**</td>
<td>-</td>
<td>-</td>
<td>43,000</td>
<td>-</td>
<td>43,000</td>
</tr>
<tr>
<td>Deliveries in the Pipeline 2017 (m²)**</td>
<td>-</td>
<td>-</td>
<td>43,000</td>
<td>-</td>
<td>43,000</td>
</tr>
<tr>
<td>Deliveries in the Pipeline 2018 (m²)**</td>
<td>-</td>
<td>11,300</td>
<td>63,317</td>
<td>-</td>
<td>74,617</td>
</tr>
</tbody>
</table>

**Decresing Vacancy**

Vacancy rate stands at 10.2%, declining over the year because of the excellent demand performance coming from the creation of new businesses. The scarcity of new developments with available floorspace entering the market continues to keep pressure on the vacancy rate. This is at its most acute within the CBD and Central zones where the vacancy rate sits below 6%, whereas the decentralised zones are less stressed at 13%-15%.

**NEW PROJECTS**

Throughout 2017 many landlords committed to improving the quality of their buildings, carrying out a large number of refurbishments. Notable among these were that on the Torre Europa (Castellana 95), Castellana 77, Ramírez de Prado 5 (“Prado Business Park”) and at no.6 Plaza de Independencia. New projects begun in 2017 include the 43,000 m² head office of Banco Popular located on the street Juan Ignacio Luca de Tena. Over the coming months, it is anticipated that a large number of new developments located mainly in the decentralised zone (A-1 and A-2) will enter the market.

**Prime Rent**

The average rent in Madrid and its area of influence rose during the fourth quarter of the year by some 7.7% over Q4 2016, reaching €17.60/m²/month (€16.40/m²/month in Q4 2016). Moreover, prime rent increased by 6.9% year-on-year, currently standing at €31.00/m²/month (€29.00/m²/month in Q4 2016). Maximum rents have been recorded in the Central Business District, at levels exceeding €30. This confirms the upward trend in rental prices glimpsed in previous reports.

**OUTLOOK**

It is anticipated that take-up will increase to levels close to 600,000 m² in 2018, due to deals currently in the pipeline, the rise in new business creation and the strong overall momentum of the economy.

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* Figure analyzed and verified by BNP Paribas Real Estate not including lease renewals
** Includes major refurbishments
*** Arrows denote annual variation

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