At a glance
OFFICES MADRID Q1 2018
SOLID MARKET FUNDAMENTALS

FAVOURABLE ECONOMIC CLIMATE
The Spanish economy consolidated its position among the strongest of the world’s developed countries, with forecast GDP growth for 2018 exceeding that of Germany and France. The current strong performance of exports, encouraged by the dynamism of the world economy and lower long-term financing costs, enabled first quarter growth to exceed expectations. The International Monetary Fund (IMF) has increased its growth forecast for Spain during 2018 by 40 basis points from the 2.4% in January to the 2.8%.

STRONG DEMAND DURING THE FIRST QUARTER
The current strength of the global economy is supporting an entrepreneurial drive in Madrid, boosting the creation of new businesses and expanding the staff of existing firms. These developments are impacting directly on the take-up of office floorspace with the demand for office space highly dynamic during the first quarter of the year, reaching a figure of 131,200 sqm. We are looking at one of the best starts to a business year in the last 5 years: a year-on-year increase of 31.7%.

If we analyse demand performance, we note that deals for floor areas below 500 sqm stole the show, cornering 54% of the total. This is a clear reflection of the strength of SMEs, benefitting from the economic recovery.

Another of the drivers of activity commonplace in the market are co-working space and business centres, a useful option for many users in comparison with traditional renting. High-quality installations, immediate setup and highly attractive pricing represent some of the advantages perceived by the users of these types of establishment. Within this context, the signature for over 5,000 sqm by Regus at Castellana 200 and the letting of 3,637 sqm by WeWork at no.27 Calle Eloy Gonzalez are worth pointing out.

The most significant deal during the quarter consisted of the relocation and expansion of “Everis Spain” to no.1, Fuente de la Mora, Manoteras, where they will occupy 27,281 sqm.

The number of contracts signed during the first quarter of 2018 amounted to 108, in line with the quarterly average for the last two years.
**Vacancy Rate Remains Around 10%**

Having analysed the firms which have expanded floorspace, the creation of new businesses and reductions in floorspace by companies, we consider that net take-up for the first quarter represents 25% of the total floorspace transacted. With floorspace from new projects, the vacancy rate stood at 10.1% in Q1, little changed from the 10.2% of Q4 2017 and almost the same level as three years ago. In the central zones of the city, the figure for vacant floorspace falls to 5.3% in the CBD and 5.1% in the Central zone, whereas in those areas further from the centre it rises to 13.3% in the Decentralised zone and 14.7% in the Outskirts.

**Continued Developer Activity**

Two new office complexes were added to stock during the first quarter of the year, both located in the Decentralised zone in the area of the A-1 dual carriageway. The Oxio building in the area of las Tablas added 14,600 sqm of floorspace above ground, whereas Manoteras saw the opening of the “Torre Chamartín”, an office building with 17,730 sqm above ground. For the remainder of the year we look forward to the opening of the “Estebanex Calderón 5” (Discovery Building) with 10,152 sqm, no. 112 Príncipe de Vergara, with 11,300 sqm of lettable area and no. 40 Bis Josefa Valcárcel, with a floor area of 8,652 sqm.

**Average and Prime Rents Are Rising**

The average rent in Madrid and its area of influence increased by 10.0% in comparison with the same quarter in 2017, reaching €17.90/sqm/month (€16.30/sqm/month in Q1 2017). In addition, the prime rent increased by to €31.25/sqm/month (€30.50/sqm/month in Q1 2017). The deals seeing the highest rents during the quarter consisted of the leasing of a mansion at no. 64 Paseo de la Castellana for €34.00/sqm/month and the signature for €32.00/sqm/month at no. 2 Plaza de la Lealtad. What is more, the main landlords of the most exclusive buildings tell us that they have increased their asking rents and are striking deals directly with users at these levels.