At a glance

OFFICES VALENCIA 2017 - Q1 2018

GROWTH OF BUSINESS ACTIVITY

FAVOURABLE ECONOMIC CLIMATE

Economic activity in Spain remains strong with Gross Domestic Product growth amounting to 3.1% in 2017 according to the National Statistics Institute. Inflation remains of little concern to the authorities and monetary policy, driven by the ECB, continues to be expansionary. In line with the rest of Spain, the performance of Valencia’s economy was very positive during 2017, with annual growth of 3.2%. This now adds up to four consecutive years of economic expansion. The factors driving this growth include the strength of consumer spending, investment growth, strong export performance encouraged by the increase in global consumption and record tourist inflow. These factors along with greater public sector activity are, translating into improvement in the labour market with strong employment growth.

OFFICE TAKE-UP REACHES AN ALL-TIME HIGH

Gross take-up of office floorspace reached 39,500 m² in 2017, the highest figure achieved since records began. Demand performance (chart 1) is positive since the close of 2013 the last year of economic recession. The activity drivers showing greatest growth over recent months are the construction, services and industrial sectors.

Rather than demand being focused on one zone in particular, take-up volumes between 8,000 m² and 12,000 m² were transacted among each of the four zones comprising the market. The most exclusive area of the city, the PRIME zone, saw a figure of 8,300 m². This is far above the average for this area over the last ten years (3,000 m²).

SMEs ARE THE MAIN DEMAND DRIVERS

The business fabric of Valencia is comprised of small and medium-sized enterprises (SMEs). An analysis of the demand in 2017 shows us that 83% of deals struck were for floor areas of less than 300 m². Transactions on floorspace exceeding 500 m² were scarce, representing only 6% of the total. Nonetheless, in contrast to recent years there are requirements for extensive floorspace which are facing some difficulties in finding suitable units. This is a consequence of the lack of large floor areas available within single properties.
Vacancy rate by zones, and average rent Valencia

- Prime: 13.8%
- Center: 7.5%
- Decentralized: 7.9%
- Outskirts: 18.9%

Vacancy rate Valencia: 10.4%

Maximum and minimum rents by zones, and average rent Valencia

- Prime: 108 €/sqm/month
- Center: 173 €/sqm/month
- Decentralized: 156 €/sqm/month
- Outskirts: 119 €/sqm/month

Market summary Valencia

<table>
<thead>
<tr>
<th>Key figures 2017</th>
<th>Prime</th>
<th>Center</th>
<th>Decentralised</th>
<th>Outskirts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office stock (sqm)</td>
<td>96,200</td>
<td>318,800</td>
<td>220,100</td>
<td>138,893</td>
<td>773,993</td>
</tr>
<tr>
<td>Take Up (sqm)</td>
<td>8,304</td>
<td>11,072</td>
<td>12,180</td>
<td>7,880</td>
<td>39,436</td>
</tr>
<tr>
<td>Vacancy (sqm)</td>
<td>13,290</td>
<td>23,763</td>
<td>17,303</td>
<td>26,190</td>
<td>80,546</td>
</tr>
<tr>
<td>Vacancy rate (%)</td>
<td>13.8%</td>
<td>7.5%</td>
<td>7.9%</td>
<td>18.9%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Average rents (€/sqm/month)</td>
<td>11.7</td>
<td>9.9</td>
<td>8.9</td>
<td>6.8</td>
<td>9</td>
</tr>
<tr>
<td>Maximum rents (€/sqm/month)</td>
<td>14.0</td>
<td>14.4</td>
<td>13.0</td>
<td>8.0</td>
<td>14.0</td>
</tr>
</tbody>
</table>

**VACANT SPACE CONTINUES TO DIMINISH**

The good figures for take-up together with the lack of new projects, is leading to a notable slide in the vacancy rate. At the close of 2017 the vacancy rate fell to 10.4% of the total stock of 774,000 sq m. This means that there are currently 80,546 sq m available on the market. Bearing in mind that the vacancy rate stood at around 21.2% in 2014, the last 3 years have seen a reduction of 10 percentage points.

Take-up is consequently stronger in areas that have the most suitable vacancy. By zone it means 18.9% corresponds to the Outskirts, with 13.8% in the central and PRIME zones.

The continuous fall in availability, together with the lack of vacant quality buildings, will drive the development of new projects over the short-medium term. As foreseen in the last year’s report, the development of a 16,000 sq m project is currently underway: “Torres Ademuz”, the opening of which is envisaged for 2020. It is part of the process to modernise Valencia’s office stock.

**MAXIMUM RENTS EXCEEDING €14 /M²/MONTH**

Strong demand performance and low vacancy is driving a gentle upward trend in rents, particularly in those areas where vacancy rates are lowest.

As with last year, minimum rents in the Central zone have increased substantially, reaching € 8.00/m²/month. This represents a year-on-year rise of 14.3%. The two areas recording the greatest increase in maximum rents were the Prime (3.7%) and Decentralised zones (8.3%). Maximum rents in the city centre came close to €14.50/m²/month, signed for the most representative buildings of the urban district, around the Plaza del Ayuntamiento square. Both maximum and minimum rents remained stable in markets on the periphery due to the negotiating strength of users taking advantage of existing high vacancy levels.

**OUTLOOK**

The strength of both the global economy and that of the Valencia region will be conducive to continuing positive business trends, with the creation and expansion of firms seeking out office floorspace. Strong demand performance together with the continuous slide in vacant floorspace points toward a gentle upward trend in rents, particularly in the most sought-after areas where vacancy rates are lowest.
PRIME ZONE
This area’s main characteristic is the quality of its buildings. These buildings have technical floors, common toilets per floor, adaptability for the disabled and curtain walls. They offer services such as 24-hour surveillance, private parking, and facilities maintenance. They are located mainly in Paseo de la Alameda axis, from Avenida Aragón to Menorca street.

CENTER ZONE
It is characterized by the heterogeneity of its buildings with different qualities and services. It includes from converted residential buildings to offices, to more modern buildings with higher quality.

DECENTRALIZED ZONE
This area includes the buildings located within the metropolitan area of Valencia, but do not belong to the two previous areas. They are relevant for the Valencia office market due to their volumes and qualities.

The main areas are Avenida de las Cortes Valencianas, Avenida Al-Zafir and, in recent years, Cardenal Benlloch Avenue, as well as the Gran Turia City in Vara de Quart.

Many of the buildings have qualities superior to the average of the city and have technical floors.

OUTSKIRTS ZONE
Cardenal Benlloch Avenue, as well as the Gran Turia City in Vara de Quart.

Office markets located in the outlying districts. Many of the buildings have qualities superior to the average of the city and have technical floors.

It encompasses the business parks with large areas of offices outside the city of Valencia, such as Paterna Technology Park, Tactics or Alfafar.