At a glance - January 2019

VALENCIA OFFICE MARKET - YEAR 2018

RECORD OFFICE TAKE UP IN VALENCIA

ABOVE AVERAGE ECONOMIC GROWTH

The Valencian economy continues to expand rapidly at above the national average. It grew by 2.8% in 2018 making the area one of the four autonomous regions recording greatest expansion. The labour market is proving to be highly dynamic, with the anticipated creation of over a hundred thousand jobs between 2017 and 2019. This will reduce the unemployment rate to 12.6%.

AN ALL-TIME HIGH IN TAKE-UP

The take-up of office floorspace once again set records in 2018, reaching an all-time high of 40,274 sqm. This amounts to growth of 2% over 2017. The market achieved a new milestone in 2018, when it exceeded the 5 year average take-up (2014-2018) by 11%. The main driver of business growth was the service sector, which recorded the highest levels over the period.

DEMAND FOCUSED ON THE CENTRE AND THE OUTSKIRTS

The Decentralised zone and the Outskirts were the most sought-after by users in 2018, swallowing up 65% of the total floor area. These areas saw 26,297 sqm of space transacted that was spread across a wide range of deals. The quality of the supply in the Decentralised zone and Outskirts (Cortes Valencianas, Parque Tecnológico, Táctica...) was crucial to demand heading towards these two areas.

The Centre has been the zone most sought-after by users in recent years and in 2018 represented 30% of take-up. With just 5% of the total, the meagre level of take-up in the Prime zone is due to the high levels of occupancy there.

GREATER NUMBER OF DEALS EXCEEDING 500 m²

Requirements for large floor areas have gained in prominence and this market feature contributed to high levels of take-up.

Over 2018 a number of deals stood out as having a big impact on vacancies. The largest office lease deal of recent years was struck in 2018 for a floor area of 7,184 sqm.
THE VACANCY RATE FALLS AGAIN TO 9.5%

The high levels of take-up pushed down the vacancy rate to 9.5% (as of January 2019). Valencia’s vacancy rate is on a par with competitor markets such as Madrid (9.6%) and Barcelona (8.9%). The zone offering the least choice to users is the Centre, with a vacancy rate of just 5.8% in buildings exclusively for office use. This is due to the high volume of floorspace transacted in this area in recent years and the absence of new projects to replenish. The vacancy rate in the Prime zone stands at 8.8% with the absolute volume of space (in sqm) available falling by almost a half with respect to the previous year. The Outskirts is, for the time being, the zone with the greatest volume of available space, the vacancy rate now standing at 18.3%. Two office complexes were delivered in 2018 to boost supply: in Alfafar (the As Center Building with 12,000 m²) and in Torrent (a 3,150 sqm property located on the Avenida Juan Carlos I).

RENTS ARE HOLDING STEADY WITH INCENTIVES DIMINISHING

In comparison with the previous year, rents are remaining steady in the more exclusive buildings of the city centre (Prime zone), with average levels of €12/sqm/month and maximums close to €14.50/sqm/month. Located on the street Calle Menorca, the Aqua Building continues to have the highest asking rent in the city. Average rents in the Central zone have increased 5%, reaching the level of €10/sqm/month with peaks of €12.60/sqm/month in 2018. The rents for deals struck in decentralised zones (Cortes Valencianas and Avenida del Puerto) hover between €11/sqm/month and €7/sqm/month, the highest rent in this zone amounting to €12/sqm/month. There is significant variation in rents depending on the quality and location of each property. The area of Cortes Valencianas for example is not comparable with that of Avenida del Puerto. Rents are still showing little movement in zones furthest from the city centre, where vacancy rates are higher. Nevertheless, it is worth noting that there is very little variation between the asking rent and closing rent in the Technology Park (where take-up has increased considerably over the last two years). This represents a significant improvement compared with previous periods.

Vacancy rate by zone and average for Valencia

<table>
<thead>
<tr>
<th>Zone</th>
<th>Vacancy Rate (%)</th>
<th>Office Stock (m²)</th>
<th>Take-up (m²)</th>
<th>Vacant (m²)</th>
<th>Average Rents (€/m²/month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime</td>
<td>8.8%</td>
<td>98,899</td>
<td>1,835</td>
<td>8,680</td>
<td>10.0</td>
</tr>
<tr>
<td>Centre</td>
<td>5.6%</td>
<td>311,372</td>
<td>12,142</td>
<td>17,930</td>
<td>12.56</td>
</tr>
<tr>
<td>Decentralized</td>
<td>8.0%</td>
<td>142,144</td>
<td>13,887</td>
<td>11,416</td>
<td>11.0</td>
</tr>
<tr>
<td>Outskirts</td>
<td>18.3%</td>
<td>172,515</td>
<td>12,410</td>
<td>31,568</td>
<td>7.0</td>
</tr>
</tbody>
</table>
MARKET TRENDS FOR 2019

In 2019, we foresee that the take-up levels seen in 2018 will persist as a consequence of the strong Valencia economy and the large number of requirements that are currently out there.

Strong demand performance together with the reduction in vacant floorspace are leading to a generalised reduction in incentives granted to users. The gap between asking and closing rents is continually narrowing.

The lack of available space within the urban centre will divert requirements for large floor areas to the Outskirts of the city.

Mergers and acquisitions will prompt businesses spread over various locations to regroup within the same head office, favouring an increase in the take-up of office floor space.

We anticipate that the highest rents in buildings located in the Prime zone will remain stable, with increases possibly being seen in higher quality buildings within the Decentralised zone.

The return of developer activity is highly likely, particularly within the city centre where this has become ever more necessary.

The strong performance of market fundamentals is awakening the interest of investors in the acquisition of offices, both on the institutional side and from private investors.
**PRIME AREA**

It is characterized by the quality of the supply, they are representative buildings, mainly headquarters of large companies.

They are assets with technical floor, common toilets per floor, curtain-wall facades, 24h services, private parking and maintenance.

They are located mainly in Paseo de la Alameda axis, from Avenida Aragón to the City of Sciences.

**CENTRE**

It is characterized by the heterogeneity of its buildings with different qualities and services, and includes from converted manor buildings to offices, to more current buildings of exclusive offices and mezzanines in mixed-use buildings.

In general, they are buildings with lower rents than the Prime Zone rents due to their lower benefits, lack of parking and lack of technical floor, but they stand out for being excellently communicated with the entire city.

We emphasize Pintor Sorolla Street as main axis, which houses Valencia’s financial center and the largest number of exclusive office buildings, many of them corporate financial entities and insurers.

**DECENTRALIZED**

This area includes buildings that, although located within the metropolitan area of Valencia, they do not belong to the two previous areas, located in the main communication routes of the city.

They are characterized for being big buildings of exclusive use offices, in many cases with qualities and services similar to prime zone. Very accessible zone by public transport and by offering parking for employees.

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

**OUTSKIRTS**

It includes large buildings for office exclusive use located in the outskirts, namely Paterna Technology Park, Tactical Business Park, and the Alfafar and Torrent area.

Supply is agglutinated in representative buildings that offer services and good image to more competitive rents.

Special mention has the Technology Park for offering the largest range of author buildings, mainly corporate buildings, of all the offices stock in Valencia.
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