At a glance - Q1 2019

MADRID OFFICE MARKET
DOUBLING OF THE PRESENCE OF CO-WORKING SPACES

The Spanish economy continued to expand vigorously during the first quarter of 2019. Quarterly growth amounted to 0.7% and the outlook for 2019 points towards annual growth of around 2.6%. Despite the uncertainty in the Eurozone, consumer spending and a recovery in investment aimed at housing construction have been key to the strength of domestic demand that supports growth in the Spanish economy. For its part, the labour market continues to show signs of strength, with a rise in the number of national insurance registrations and a fall in the level of unemployment recorded during the first three months of the year.

With 2018 closing as the market's most dynamic period in years, the first quarter of the year is carrying on along the same track. Activity recorded at the beginning of the year is even outpacing the levels registered last year. The first quarter of the year has seen 156,861 sq m of office floorspace transacted in Madrid. This is around 20% greater than for the same period in 2018 and 57% higher than the first quarter of 2017 (a record year for office take-up over the last decade).

The office market showed the greatest letting activity of the entire real estate sector with almost 100 deals struck during the quarter. It is worth highlighting the transaction involving ING in the new Blackstone-owned Helios building located in the Campo de las Naciones. The signature on 34,857 sq m represents the largest letting deal in Madrid since 2015 (when WPP signed for 36,000 sq m in Ríos Rosas) and is among the all-time top 10 letting deals in Madrid (in seventh place). ING is thus abandoning its head office in Las Rozas (area of the A-6 motorway) to set itself up in one of the growth areas of the Madrid office market.

The average size of deal for this quarter of 1,704 sq m, represents an increase of 38% over the average size for the last two years (1,237 sq m). This is due largely to the ING transaction and the deals struck for business centres, specifically the agreements on 6,358 sq m involving WeWork at no.106 Francisco Silvela and the new location of Busining in the The Icon building (Castellana 216), the latter occupying 4,905 sq m.

As has become commonplace, the other major leading players during the quarter come from co-working, the share of total take-up involving this sector having increased substantially. Whereas during 2018 10.5% of demand corresponded to business centres, the first quarter of 2019 saw market share rising to 19% of total floor space transacted. Their share rises to 46% in the more central zones of the city (CBD and Centre). In addition, four of the six largest deals during the quarter corresponded to these types of operators. There is a difference in the way co working companies operate. Companies such as Loom House and Utopic.us are beginning to be used by their owners (Merlin Properties and Colonial) as a commercial strategy to add value to some of their assets in more peripheral areas. In contrast, firms such as Busining, Spaces and WeWork, being independent, continue to prefer more central areas of the city for the establishment of their business centres.

Moreover, the entry of major co-working operators in Madrid is furthering the renovation of stock, transforming old industrial or outdated buildings into modern, high spec structures that are highly attractive for these users.

Prime rents remained stable over the last quarter at around €35/sq m/month. Together with the fall in the availability of quality floorspace in the core, the increased quality of the stock in the decentralised zone is leading to rises in average rents in this area. Deals have been closed in some buildings in Manoteras and the Campo de Las Naciones with rents exceeding €16/sq m/month - a clear sign of the improvement in quality of the offering. The average rent in Madrid increased by 5% in comparison with the same quarter the previous year, standing at €18.80/sq m/month on March 31, 2019.

Due to the increasing demand, the vacancy rate in Madrid is continuing to fall, particularly in the city’s more centrally located, high-quality buildings. The vacancy rate stood at 9.3% during the first quarter of the year, having dropped by 80 basis points in comparison with the same period the previous year.

Forecasts for the remainder of the year are positive with the market remaining highly dynamic. Bearing in mind those requirements currently in place, it is anticipated that annual take-up will pass the threshold of 600,000 sq m in 2019.
OFFICE TAKE-UP

TAKE-UP BY FLOOR AREA RANGE (NO. DEALS)

92

operaciones

TAKE-UP BY AREA (%)

VACANCY RATE (%)
**TREND IN RENTS**

![Graph showing trend in rents across different areas of Madrid](image)

- **Madrid’s Avg.: 18.8€/sqm/month**

**YIELDS**

![Graph showing yields across different sectors](image)

**Prime Yields**
- **Office 3.25%**
- **Logistic 5.25%**
- **High Street 3.00%**

**Key Figures**

<table>
<thead>
<tr>
<th></th>
<th>CBD</th>
<th>Centre</th>
<th>Decentr.</th>
<th>Outskirts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock (sqm)</td>
<td>2,686,000</td>
<td>3,945,500</td>
<td>4,349,400</td>
<td>4,065,200</td>
<td>15,046,100</td>
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<tr>
<td>Vacancy (sqm)</td>
<td>104,000</td>
<td>166,800</td>
<td>550,100</td>
<td>582,100</td>
<td>1,403,000</td>
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<tr>
<td>Vacancy rate (%)</td>
<td>3.9%</td>
<td>4.2%</td>
<td>12.6%</td>
<td>14.3%</td>
<td>9.3%</td>
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<tr>
<td>Take-up Q1 2019 (sqm)*</td>
<td>32,800</td>
<td>19,400</td>
<td>77,500</td>
<td>27,200</td>
<td>156,900</td>
</tr>
<tr>
<td>Year to date take-up (sqm)*</td>
<td>32,800</td>
<td>19,400</td>
<td>77,500</td>
<td>27,200</td>
<td>156,900</td>
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<tr>
<td>Maximum rent (€/sqm/month)</td>
<td>35,00</td>
<td>28,00</td>
<td>17,00</td>
<td>16,00</td>
<td>-</td>
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<tr>
<td>Average rent (€/sqm/month)</td>
<td>26.73</td>
<td>22.32</td>
<td>14.85</td>
<td>11.13</td>
<td>18.76</td>
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<td>Deliveries in the Pipeline 2019 (sqm)**</td>
<td>-</td>
<td>-</td>
<td>62,000</td>
<td>-</td>
<td>62,000</td>
</tr>
</tbody>
</table>

* Figure analyzed and verified by BNP Paribas Real Estate not including lease renewals

** Includes major refurbishments

*** Arrows denote annual variation
BUSINESS LINES in Europe
A 360° vision

CONTACT

Ilan Dalva
Head of Office Agency
Tel.: +34 914 549 900
ilan.dalva@bnpparibas.com

David Alonso Fadrique
Head of Research
Tel.: +34 914 549 900
david.alonso-fadrique@realestate.bnpparibas

Daniela Capote
Research Analyst
Tel.: +34 914 549 900
daniela.capote@bnpparibas.com

Leopoldo Guzmán
Research Analyst
Tel.: +34 914 549 900
leopoldo.guzman@bnpparibas.com

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