The Spanish economy continued to expand in the third quarter of the year, albeit less strongly. GDP growth compared with the previous quarter stood at approximately 0.5%, confirming the deceleration seen in the last six months that stems from the riskier economic environment. Spain is doing well: while domestic demand maintained moderate growth rates, external demand still increased despite the uncertainty.

Take-up volume maintained a steady pace in the third quarter due to sustained business expansion in the capital. The quarterly take-up figure reached 158,969 sqm, 12% more than Q3 2018. Take-up for the year to date is 501,165 sqm, meaning that the average leasing volume of the last four years, 2015-2018 (500,992 sqm) is already exceeded.

Between July and September the signing of 118 transactions, puts Q3 above the average of 105 deals per quarter. The average office size rented at 1,307 sqm is on the low side for the past year, but in line with the average of the past 4 years. What lies behind this is the lack of large sized deals this quarter. The largest transaction was the signing of 6,366 sqm by Deloitte in Torre Chamartin, as well as that of Instituto Superior de FP Sanitaria Claudio Galeno, comprising 6,234 sqm, in San Sebastian de los Reyes.

Ongoing requirements continue to reduce available space in the Madrid office market, resulting in absolute volume of vacant space dropping 7% since the third quarter of 2018. New developments are mostly delivered fully rented to the market, putting further pressure on the vacancy rate, which at the end of September stood at 8.9% down from 9.8% in Q3 2018.

Close to 3,500 sqm of development opened in the centre of Madrid over Q3, specifically the refurbishment of calle Jose Abascal, 41, designed to accommodate Spaces, the coworking company. The activity of coworking companies is still present in the market with key deals in the third quarter coming from Regus who signed 4,041 sqm to on Paseo de la Castellana and 3,000 sqm let to WeWork on Calle de Fernando el Santo.

The end of the year will see delivery of around 47,000 sqm of offices in both new and refurbished buildings. They include 27,400 sqm on Paseo Virgen del Puerto 55, in the area of Madrid Rio, and Los Cubos building at the junction of the M-30 / A-2 highway.

Rents continue their upward trend. The average price of new leases signed in Q3 2019 reflect an increase of 7.7% compared to the same period in 2018, reaching €19.4/sqm/month, which moves rents closer to pre-crisis levels. The prime rent increased to €36.00/sqm/month and likely to continue increasing over the rest of the year given the number of deals currently signing for over €30/sqm/month. Further evidence for this comes from prime building owners raising their offer prices to over €40/sqm/month for the most exclusive buildings on Paseo de la Castellana.

The office sector continues to lead the investment market, and current market dynamic suggests record activity levels by the end of the year. During the third quarter, there has been an investment volume in office assets of 995 million euros, which represents 29% of the total investment in the third quarter. Madrid represents the largest market share in the last quarter. Madrid accounted for 65% of office investment, reaching 653 million euros. Investment in offices to date is 3,650 million euros in Spain, of which 67% were purchases in Madrid.

The prime yield continues at historically low levels being 3.25% at the end of the third quarter, while in secondary markets it reached 4.25%.
OFFICE TAKE-UP

Take-up (m²)

Q1 Q2 Q3 Q4 Vacancy rate (%) GDP var. (%)

0 200,000 400,000 600,000 800,000 1,000,000


NUMBER OF DEALS


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

- 500 m²
- 501-1,000 m²
- 1,001 - 3,000 m²
- 3,001 - 5,000 m²
- 5,001 - 10,000 m²
- >10,000 m²

TAKE-UP BY AREA (%)

CBD Centre Decentralised Outskirts

VACANCY RATE (%)

Madrid, 2019 III, 8.9%

Vacancy rate 8.9%


CBD Center Decentralised Outskirts
TREND IN RENTS

- Office 3.25%
- Logistic 5.15%
- High Street 3.00%

YIELDS

Key figures

<table>
<thead>
<tr>
<th></th>
<th>CBD</th>
<th>Centre</th>
<th>Decentr.</th>
<th>Outskirts</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Stock (sqm)</td>
<td>2,686,000</td>
<td>3,949,000</td>
<td>4,349,400</td>
<td>4,065,200</td>
<td>15,049,600</td>
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<tr>
<td>Vacancy (sqm)</td>
<td>82,800</td>
<td>150,900</td>
<td>536,800</td>
<td>565,600</td>
<td>1,336,200</td>
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<tr>
<td>Vacancy rate (%)</td>
<td>3.1%</td>
<td>3.8%</td>
<td>12.3%</td>
<td>13.9%</td>
<td>8.9%</td>
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<tr>
<td>Take-up Q3 2019 (sqm)*</td>
<td>↑ 37,700</td>
<td>↓ 23,600</td>
<td>↓ 42,100</td>
<td>↑ 55,600</td>
<td>↑ 159,000</td>
</tr>
<tr>
<td>Year to date take-up (sqm)*</td>
<td>117,400</td>
<td>82,300</td>
<td>191,800</td>
<td>109,700</td>
<td>501,200</td>
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<tr>
<td>Maximum rent (€/sqm/month)</td>
<td>35.00</td>
<td>37.00</td>
<td>20.00</td>
<td>18.00</td>
<td>-</td>
</tr>
<tr>
<td>Average rent (€/sqm/month)</td>
<td>↑ 29.40</td>
<td>↑ 24.07</td>
<td>↑ 14.09</td>
<td>↓ 9.84</td>
<td>↑ 19.35</td>
</tr>
<tr>
<td>New deliveries Q3 2019 (m²)**</td>
<td>-</td>
<td>3.500</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deliveries in the Pipeline 2019 (sqm)**</td>
<td>-</td>
<td>46,665</td>
<td>-</td>
<td>46,665</td>
<td></td>
</tr>
</tbody>
</table>

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