Spanish economic growth in the last quarter confirmed the deceleration seen in previous months. GDP growth stood at approximately 0.4%, lower momentum than most quarters over the economic recovery. A less dynamic end to the year is likely to see reduced annual GDP growth of around 2.0%. Consumer spending continues to be one of the main growth drivers of the economy, supported by slower but consistent employment gains.

The office market in Madrid consolidated its position in 2019 as one of the most attractive and dynamic European capitals in the corporate sector. Business activity in the fourth quarter of the year was lower than third, with take-up of 115,968 sqm, it is 18% less than Q4 last year. The annual figure for 2019 reached 617,133 m2, making it the most dynamic year since 2007 and surpassing the previous high achieved in 2018 by 15%.

The 122 transactions concluded from October to December is above the quarterly average of 107 deals for the last five years. In a further sign of healthy market activity, 63% of the transactions carried out were expansions of existing floor area or from new company start-ups.

The average size of transactions concluded in the fourth quarter went down to 950sqm, below the average floor area seen in previous quarters. The most significant transactions in the last quarter included the agreement signed by Editorial Planeta for the Celes building in Juan Ignacio Luca de Tena (6,841sqm), the extension carried out by Amazon in Torres Foster Castellana 259 (6,792sqm) and the lease of the whole building at Serrano 88 (5,618sqm) by Gala Capital.

The average floor area of the 400 transactions concluded in 2019 stood at 1,542sqm, a consequence of the large-scale deals recorded in the first half of the year. Key ones included ING in Vía de los Poblados 1 for 34,857sqm, Banco Santander in Josefa Valcárcel for 16,217sqm and Cetelem in Río 55 for 13,671sqm.

Around 39% of demand were agreements signed in the Decentralised area, followed by the CBD with 25%, the Outskirts (21%) and the Centre area (15%). The concentration of demand in the Decentralised area is a function of development activity as this area is where a large part of the new properties are concentrated. Tenants can also find other buildings in this area with sufficiently large enough availability in a single property. Markets such as Manoteras, Las Tablas, Campo de las Naciones, Julián Camarillo and the intersection of the M30 motorway and A1 road were all extremely dynamic in 2019. Within the CBD, the most required properties in 2019 were the Cuatro Torres Business Area, including the Torre Foster (Castellana 259A) and the Castellana section of the Azca complex. With the latter, Castellana 81 and Castellana 95 (Torre Europa), both of which subject to renovation recently, had great tenant appeal.

The strength of demand continued to place downward pressure on the vacancy rate, which stood at 8.4% at the year-end. Within the M30, the vacancy rate decreased to approximately 3% in the CBD and Centre areas, whereas outside the M30 average levels were between 12% and 13%. The average hides considerable variation in vacancy of specific micro markets in the Decentralised area and the Outskirts. Office owners consider that the improvement in occupancy levels in 2019 has benefitted all the market areas of Madrid.

Rents showed an upward trend in 2019. The average rent in Q4 2019 reflected an annual increase of 5.3%, standing at €19.4/sqm/month, still 20.5% below the rent levels seen in the years prior to the crisis. The prime rent increased slightly, standing at €36.25/sqm/month at the end of the quarter. However, maximum rents for the year broke the €40/sqm/month barrier and the most exclusive buildings in the CBD now have starting rents above these levels.

The current buoyancy of the market is encouraging developers and investment funds to develop new office projects. Areas where developer activity is concentrated include Las Tablas, Manoteras, Julián Camarillo, Méndez Álvarez and the A2, where more than half a million square metres are expected to be added over the next 2/3 years.

The occupational prospects for 2020 are good. Taking into account the level of current demand, we predict that the level of activity will continue to be very high with estimated take-up of over 550,000sqm.
AT A GLANCE - OFFICE MADRID - Q4 2019

OFFICE TAKE-UP

- Vacancy rate 8.4%

NUMBER OF DEALS

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

- 42% <500 m²
- 29% 501-1,000 m²
- 25% 1,001-3,000 m²
- 2% 3,001-5,000 m²
- 2% 5,001-10,000 m²
- 2% >10,000 m²

TAKE-UP BY AREA (%)

- CBD 33%
- Centre 41%
- Decentralised 9%
- Outskirts 17%

VACANCY RATE (%)

- Madrid, 2019 IV
- Vacancy rate 8.4%
AT A GLANCE - OFFICE MADRID - Q4 2019

TREND IN RENTS

PRIME YIELDS
Office 3.25%
Logistic 4.90%
High Street 3.25%

YIELDS

Prime rent vs Average rent

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>4,376,800</td>
<td>4,065,200</td>
<td>15,077,000</td>
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<tr>
<td>Vacancy (sqm)</td>
<td>63,000</td>
<td>146,700</td>
<td>521,600</td>
<td>530,800</td>
<td>1,262,100</td>
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<tr>
<td>Vacancy rate (%)</td>
<td>2.3%</td>
<td>3.7%</td>
<td>11.9%</td>
<td>13.1%</td>
<td>8.4%</td>
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<tr>
<td>Take-up Q4 2019 (sqm)*</td>
<td>38,000</td>
<td>10,700</td>
<td>47,500</td>
<td>19,800</td>
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<tr>
<td>Year to date take-up (sqm)*</td>
<td>155,400</td>
<td>92,900</td>
<td>239,300</td>
<td>129,500</td>
<td>617,100</td>
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<tr>
<td>Maximum rent (€/sqm/month)</td>
<td>35.00</td>
<td>30.00</td>
<td>18.50</td>
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<tr>
<td>Average rent (€/sqm/month)</td>
<td>30.26</td>
<td>22.47</td>
<td>13.90</td>
<td>11.12</td>
<td>19.44</td>
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<tr>
<td>New deliveries Q3 2019 (m²)**</td>
<td>-</td>
<td>-</td>
<td>27,400</td>
<td>-</td>
<td>27,400</td>
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<td>Deliveries in the Pipeline 2019 (sqm)**</td>
<td>20,000</td>
<td>-</td>
<td>79,732</td>
<td>25,000</td>
<td>124,732</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

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