Office Fundamentals

General outlook

The Spanish economy continues to grow faster than the Eurozone average and, with the full-year data yet to come in, everything is pointing to growth having picked up during the last quarter of 2018. Domestic demand remains a key growth driver, although exports are also expected to have chalked up an improvement towards the end of the year. Thanks to a stronger-than-expected fourth quarter, Oxford Economics forecasts growth of 2.3% of GDP for 2019, down only slightly on the estimated 2.5% for 2018.

Inflation cooled to 1.7% in November due to the sharp fall in oil prices. Despite the gradual rise in the price of consumer staples, lower energy costs are expected to keep inflation low during 2019 at an estimated 1.3%, according to Oxford Economics (estimated at 1.7% in 2018).

In 2018, office take-up amounted to almost 850,000 sqm between Madrid and Barcelona. This is a ten-year high (except for 2017 in Madrid and 2015 in Barcelona when the public authorities were responsible for a great many deals). Almost 125,000 sqm were signed for in Madrid in the last quarter of the year through major deals, such as the acquisition of a 21,000 sqm plot at Méndez Álvaro by Catalana Occidente for their headquarters. In Barcelona, take-up was in excess of 65,000 sqm, the largest leasing transaction in the last quarter being the relocation of Glovo to Pallars 200, where it has taken 5,000 sqm in the 22@ district.

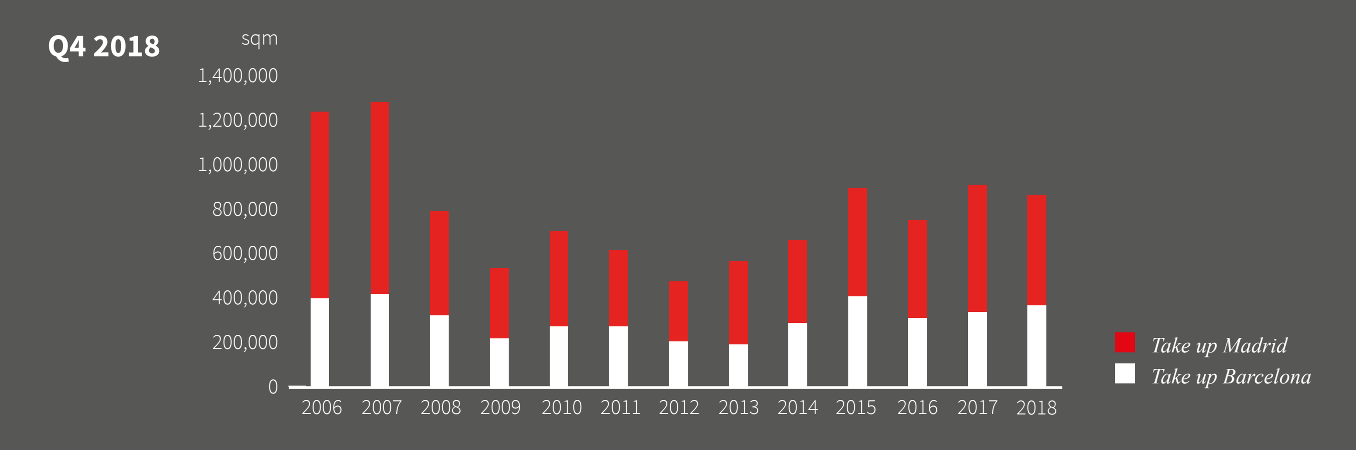
Vacancy rates have risen slightly in Madrid to 10.5% due to certain projects being concluded during Q4. These new products are mainly concentrated in areas that are some distance from the centre. On the flipside, the vacancy rate continues to fall in Barcelona to reach 5.7%, the lowest level since the end of 2008.

In Madrid, developers upped the number of renovation projects in the last quarter of the year. Of the current renovations planned for the 2019-2021 period, over 60% are within the M-30 inner ring road. In Barcelona, over 300,000 sqm of office space are expected to come on to the market over the next three years, of which 22% has been pre-let. **These new projects will improve the office stock in both cities, offering tenants a wider range of quality products to cover the unsatisfied demand for these types of spaces.**

Active demand pressures are driving rental levels upwards. Prime rental levels stand at €34.50/sqm/month in Madrid and €25.25/sqm/month in Barcelona, representing a YoY rise of 10.4% and 8.6%, respectively. Prices are still trending upwards in Madrid, especially within the M-30 inner ring road. This effect has rippled out, causing the maximum prices in secondary areas to register the highest hike in the fourth quarter. Given their proximity to the CBD, tenants continue to consider the best products in these locations as the cheapest alternative to the CBD. In Barcelona, the lack of future supply and strong demand are pushing rental levels upwards, primordially in the city centre and, specifically, in the 22@ district. This tech hub within the city has delivered the highest rental level increase, driven by its popularity among companies eager to set up shop there.

Investment volumes in the fourth quarter of 2018 reached €1.4 billion between Madrid and Barcelona, driven by investor activity in Madrid, which amounted to €1.17 billion. The 2018 total office investment volume exceeded expectations, with €2.52 billion, a 22% higher than last year. Yields remain at a low, standing at 3.50% in Madrid and 3.75% in Barcelona.

Supply and demand



Madrid
(Q4 2018)

Take up: *122,037 sqm*

Vacancy rate: *10.47%*

sqm future supply

2019	**206,644**
2020	**154,642**
2021	**214,544**

Average last 10 years (2009 - 2018) **131,194 sqm**

Average last 5 years (2014 - 2018) **85,405 sqm**

Barcelona
(Q4 2018)

Take up: *65,262 sqm*

Vacancy rate: *5.71%*

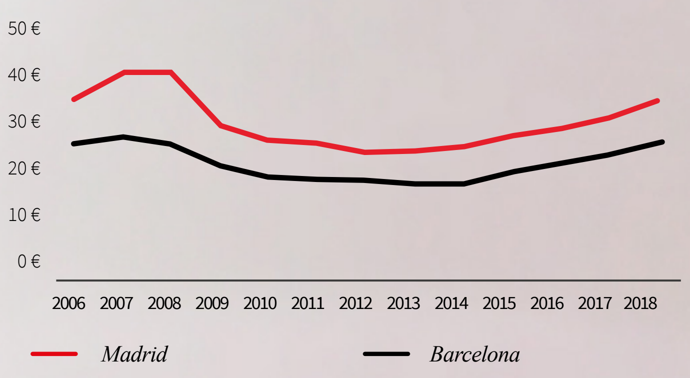
sqm future supply

2019	**90,079**
2020	**82,809**
2021	**141,051**

Average last 10 years (2009 - 2018) **90,027 sqm**

Average last 5 years (2014 - 2018) **45,472 sqm**

Rents



Madrid (€/sqm/month) Q4 2018	
CBD	34.50
Secondary	21.00
Periphery	16.50
Satellite	10.50

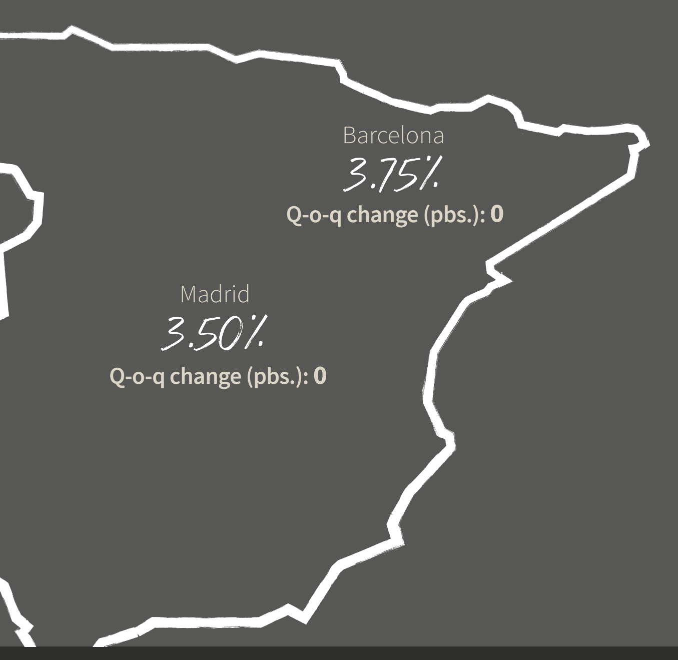
Barcelona (€/sqm/month) Q4 2018	
Paseo de Gracia/Diagonal	25.25
City centre	20.50
New business areas	23.00
Periphery	12.00

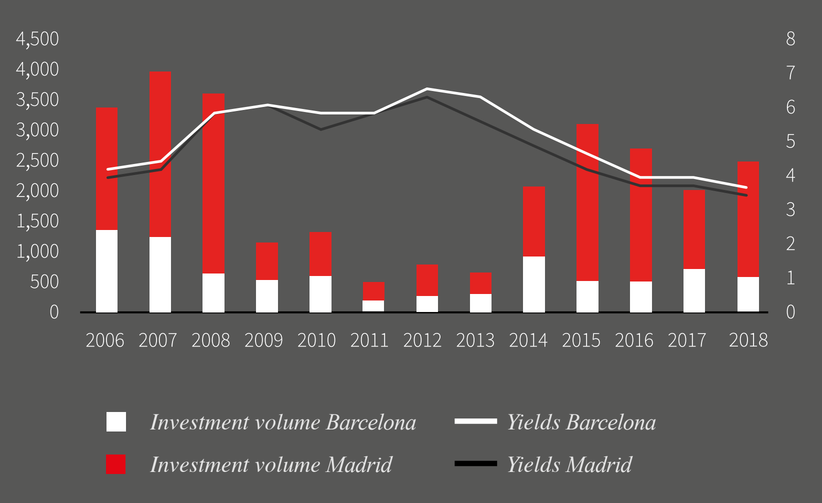
Top 5 European rental growth (% p.a.) 2018-2022

	Stockholm	Madrid	Oslo	Amsterdam	Barcelona
	4.7	4.5	4.4	4.1	3.0
Ranking	*1st*	*2nd*	*3rd*	*4th*	*9th*

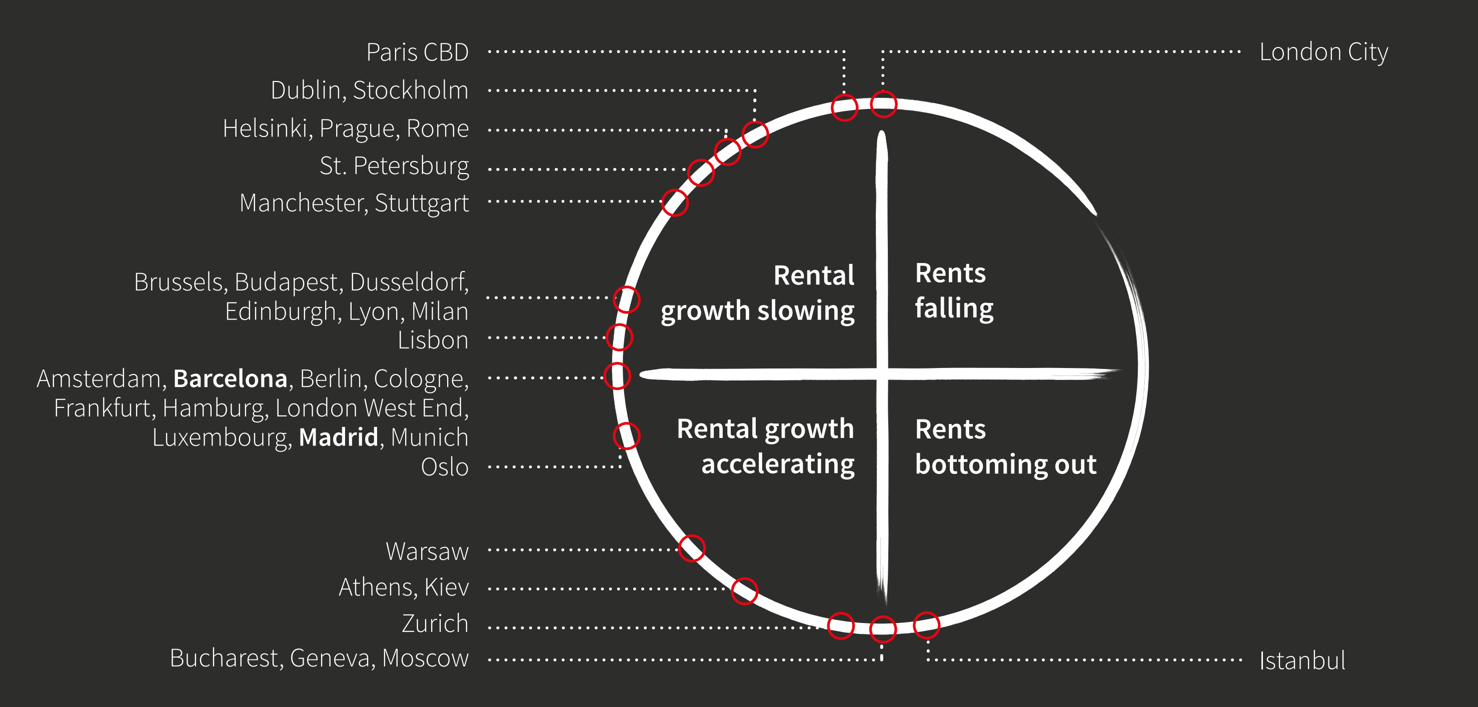
Investment

Yields Q4 2018





Offices property clock



European capital value growth (% y-o-y) 2018-2022

	Edinburgh	*Leeds*	*Moscow*	*Madrid*	*Barcelona*
	5.6	**5.2**	**5.1**	**4.2**	**2.8**
Ranking	1st	2nd	3rd	6th	13th