

Office Fundamentals

General outlook

In terms of the global macroeconomic landscape, we still hold a cautious outlook for the medium term, although the situation is expected to improve. In Spain, the Business Confidence Index (INE) rose 1.8% in the second quarter of 2017 with respect to the first three months of the year. These figures support the Oxford Economics forecasts for Spain's GDP, which is expected to rise gradually to 2.8%

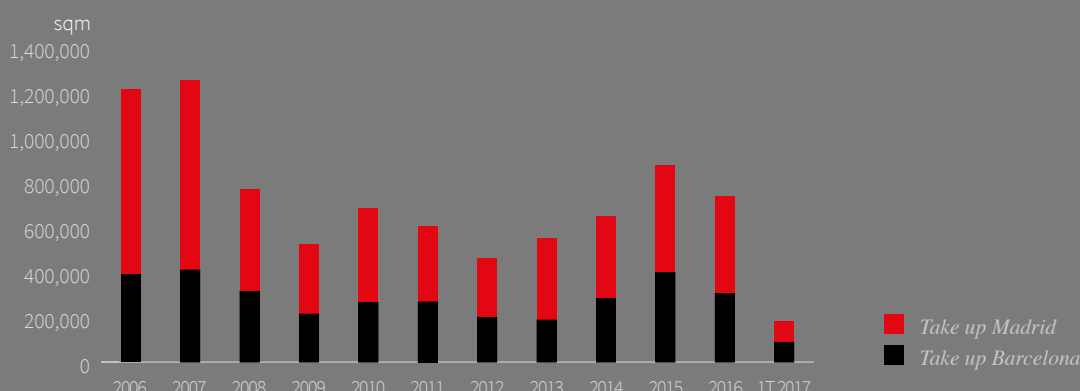
Quarterly take-up rates have held steady in Madrid compared to the same period last year. In Barcelona, however, take-up rates have climbed 26%, in line with the trend witnessed in the last six months of 2016. Supply is still significantly lacking in Barcelona, a trend that will persist over the next two years. That is why we are seeing pre-let deals for large surface areas, especially in the 22@ business district. In Madrid, excellent new buildings are slowing reaching completion, including Axiare's Juan Ignacio Luca de Tena 14, and Ramírez de Prado 5. However, they are insufficient on their own to buck the trend of ever decreasing availability in the capital.

Maximum rental levels in all areas of both cities – except Satellite in Madrid – are up on a quarter-on-quarter basis, which reflects the demand for quality products. Prime rental levels in Madrid and Barcelona are reaching 2009 levels at last. Both are set to become the undisputed leaders in rental growth among the top European cities, registering a rise of 4.3% in the period 2017-2021.

Sales in the office investment market remain particularly active thanks to BBVA's sale of its Project Boston portfolio to Oaktree/Freo, which included assets in very attractive areas such as Julián Camarillo in Madrid and 22@ in Barcelona. Yields remain at an all-time low and are expected to grow by over 4% on average in both cities over the next three years.

Supply and Demand

Q1 2017



Madrid (Q1 2017)



Take up
97,000 sqm

Vacancy rate
11.87%

sqm future supply

2017	105,372
2018	137,191
2019	246,470

Av. last 10 years 159,083

Av. last 5 years 123,761

Barcelona (Q1 2017)



Take up
85,000 sqm

Vacancy rate
8.26%

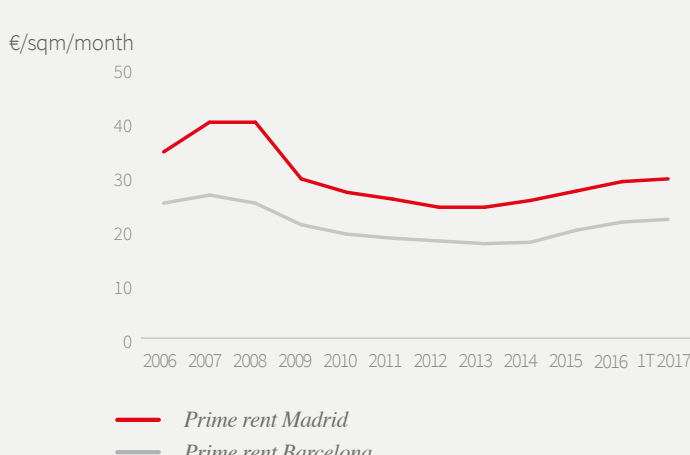
sqm future supply

2017	84,761
2018	114,630
2019	115,319

Av. last 10 years 110,653

Av. last 5 years 35,936

Rents



Madrid (€/sqm/month) Q1 2017

CBD	29.50
Secondary	17.00
Periphery	14.75
Satellite	10.50

Barcelona (€/sqm/month) Q1 2017

Paseo de Gracia/Diagonal	22.00
City centre	18.50
New business areas	18.75
Periphery	10.00

Top 5 European rental growth (% p.a.) 2017-2021

Madrid

4.3

Barcelona

4.3

Glasgow

2.9

Helsinki

2.7

Stockholm

2.5

Investment

Yields Q1 2017

Barcelona

4.00%

Bps. Var.

Q4 2016 - Q1 2017: 0

Madrid

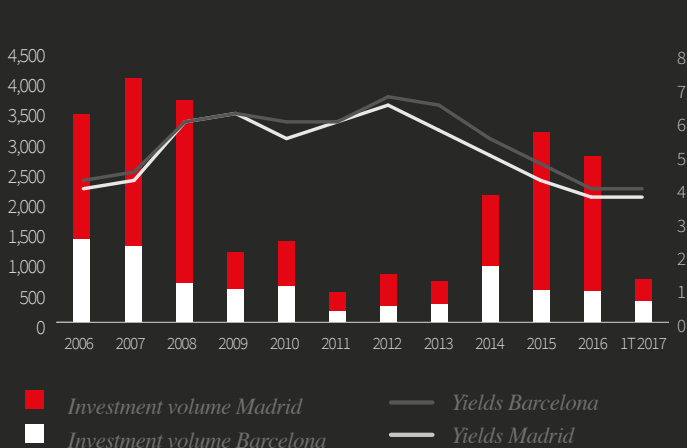
3.75%

Bps. Var.

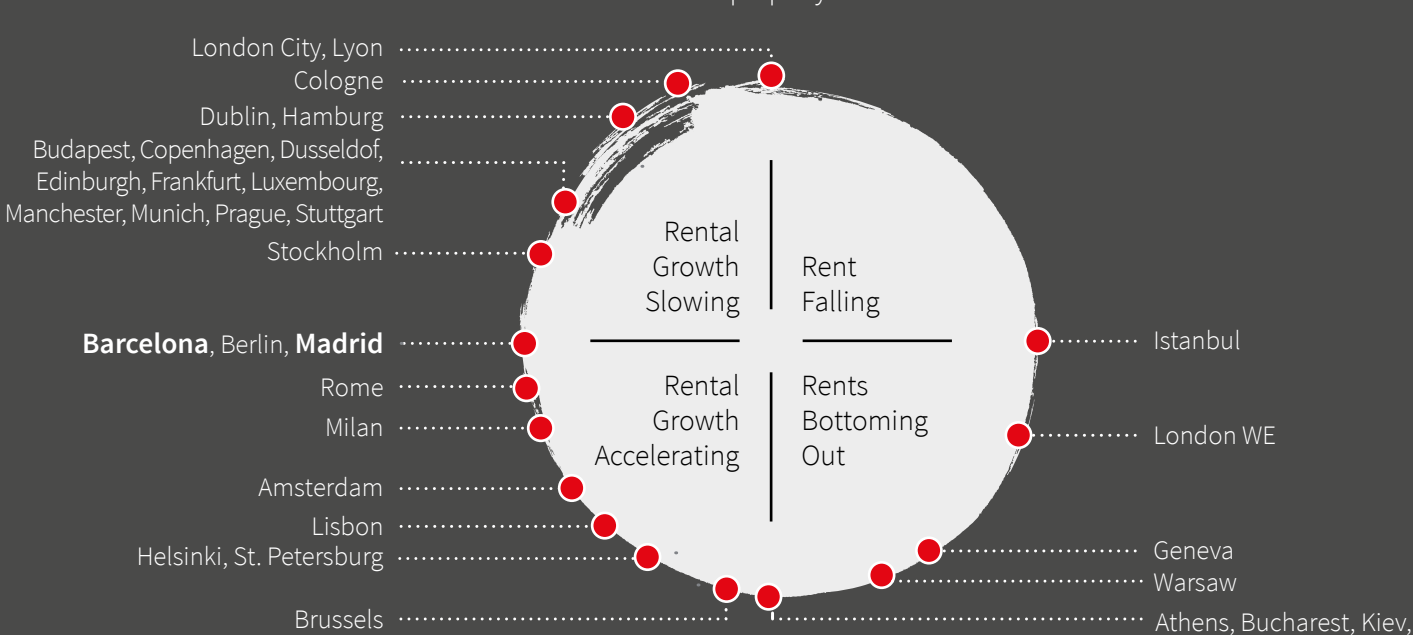
Q4 2016 - Q1 2017: 0

Investment volume bn€

Yields %



Offices property clock



Top 5 European capital value growth (% p.a.) 2017-2021

Moscow

5.1

Helsinki

3.6

Glasgow

2.9

Barcelona

2.5

Madrid

2.5