

PRESS RELEASE

BNP PARIBAS REAL ESTATE ANALYZES THE OFFICE MARKET IN MADRID AND BARCELONE IN THE THIRD QUARTER OF 2016

Average office rent in Madrid rises some 9% in the third quarter of 2016

The Madrid office market continues its upward climb. Average rent in this segment grew by some 9% during the third quarter of 2016 in comparison with the same period in 2015 and 18% in comparison with the third quarter of 2014, according to the Office Market Report of BNP Paribas Real Estate. Scarcely any change was seen in **prime rent, remaining stable at € 29/m²/month during this period.**

Prime rent has risen by some 3.5% over the last 12 months (Q1-Q3 2015/6). The view of BNP Paribas Real Estate is that rent growth will continue, buoyed up by the expansion of business activity in Madrid and the reduction in the vacancy rate in the main office areas, such as the Castellana-Recoletos thoroughfare, Salamanca, Chamartín and Chamberí.

The trend during this year in Madrid is towards the search for offices with greater floorspace. **The average size of office taken up during the third quarter reached 925 m²**, far above the average for the period 2009-2014 (of between 600 and 700 m²) This reinforces the notion of growing activity on the part of companies in Madrid, requiring more space for their operations.

The occupancy level has fallen moderately during the year to date, although a degree of upturn was noted during the third quarter. *"Although take-up remains at the levels of 2015, large-scale requirements have still not come to light. This reflects the organic growth of the Madrid office market, which continues to generate activity despite the lack of major deals which are anticipated to come to fruition before the close of year"*, points out Ilan Dalva, National Director - Offices of BNP Paribas Real Estate. In fact, from January to September a total of 310,000 m² of office floorspace was transacted, compared with the 320,000 m² for the same period the previous year (Q1-Q3 2015).

Just within the last three months of the year, gross take-up amounted to 87,000 m² due to the expansion of floorspace. *"The occupier market is going through a period of development and professionalisation. Take-up of space continues to grow due to the level of activity in the city and the sustained positive business outlook. Although the capital market cycle began during the summer of 2013, that of the occupier market started in 2015. The closure of this year will be positive and our forecasts point towards further reductions in vacant floorspace and growth in rents"*, indicates Ramiro Rodríguez, European Analyst at BNP Paribas Real Estate.

The remaining transactions are driven by relocations to better buildings, newly created companies or new openings of head offices in the capital city, solely 8% of the floorspace transacted being driven by companies reducing their workspace. These reductions are in turn linked to teleworking and shared-desking solutions.

Performance remains good in terms of the number of contracts during the last six quarters, with around 100 transactions every three months. 96 deals were struck between July and September 2016. Although take-up remains at the levels of 2015, large-scale requirements have still not come to light. This reflects



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New developments consist of refurbishment within the city. The transformation of the AZCA complex is notable for the renovation of the Castellana 79, Castellana 81 and Torre.

Europa buildings, all scheduled to enter the office stock in 2017. One of the largest new build developments consists of the Helios project, delivering around 33,000 m² in the area of Avenida de los Poblados - Campo de las Naciones.

Developers have been reluctant to begin or restart construction projects in recent years (2010-2015). Nevertheless, the recent level of activity in the office market has made refurbishment more attractive in the first phase (2013-2016), this being followed by a second in which development will gather momentum as of 2016.

Office take-up in Barcelona in 2016 will reach 270,000 m²

The floorspace of new office contracts in Barcelona reached 78,000 square metres during the third quarter of 2016, in comparison with the 126,100 square metres of the third quarter of 2015. This figure represents a fall of 38% with regard to the same period for the previous year, due to the fact that two deals struck in 2015 amounted to 47,500 square metres.

Discounting both of these transactions, take-up was similar (78,600 m² between July and September 2015). The forecast for total take-up for 2016 will stand at around 270,000 square metres, below the figure for 2015 (388,000 m²) due to the lack of major deals. The two largest transactions in 2015 added up to 66,000 m² and consisted of bespoke developments.

“Driven by domestic consumption, business activity is leading to an increase in floorspace transacted. Companies, which during recent years have focused on reducing workspace in order to shrink their cost structure, have changed their attitude since 2015, seeking out more extensive spaces and better facilities”, explains Ramiro Rodríguez, Economist at BNP Paribas Real Estate.

The number of deals remains above the average for the last 9 years: 92 transactions as opposed to the average of 66 between 2007 and 2015.

In Barcelona, the figures for available floorspace continue to drop, the vacancy rate standing at 12% in October 2016 as compared with 14% one year ago. The current figure represents the lowest since 2009. The central business district of Barcelona has a vacancy rate of just 3.9%, meaning that only 34,000 square metres are available.

The current market demand and favourable outlook has once again made property development attractive, in the first phase through turnkey developments, to be followed in a second phase by speculative developments. There is an upturn with regard to future offerings in Barcelona, in areas such as 22@ and Zona Franca. New deliveries amounting to some 45,000 m² are anticipated in these areas over the coming months, these being both speculative and turnkey. New projects focused on 22@ will commence in 2017 and come onto the market in 2018, contributing some 140,000 m².

Within the context of increased production and a fall in the vacancy rate, office rental prices continue to point upwards. **Average rent recorded an increase of 14%** year-on-year during the third quarter. Prime rent has gone from 20 to 21 Euro per square metre per month and, bearing in mind the scarcity of supply in the central business district, higher values will be recorded over the coming months.

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BNP Paribas Real Estate has local expertise on a global scale through its presence in 37 countries with approximately 180 offices and 3,800 employees (16 wholly owned and 21 by its Alliance network).

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