Spain - Madrid

Key Performance Indicators (3Q 2023)

Prime Yield
4.50%
Expected Investment Returns
Change YonY: 125 bps

Prime Rent
€ 38.50
Monthly, per sq m
Change YonY: 4,8%

Average Rent
€ 20.01
Monthly, per sq m
Change YonY: -1,1%

Office Investment Volume
€ 166M
In Madrid during Q3 2023
€ 960 (Rolling 12 months)

Take Up
109K
Square Meter
333K Year2Date

Vacancy Rate
11.6%
Percentage of Stock vacant
Change YonY: 10 bps

Completions
20K
Square Meter
115K Year2Date

Total Stock
12,820K
Square Meter
11.327K Occupied Stock

(Forecast) Completions
83K (2023)
Square Meter
313K (2024) // 225K (2025)

The office market in Madrid closed Q3 with a total of 109,000 sqm leased, which represents a drop of 11% compared to the same period of the previous year. In the accumulated of the year the decrease is 15%. In line with the average of the last 10 years for the first 9 months.

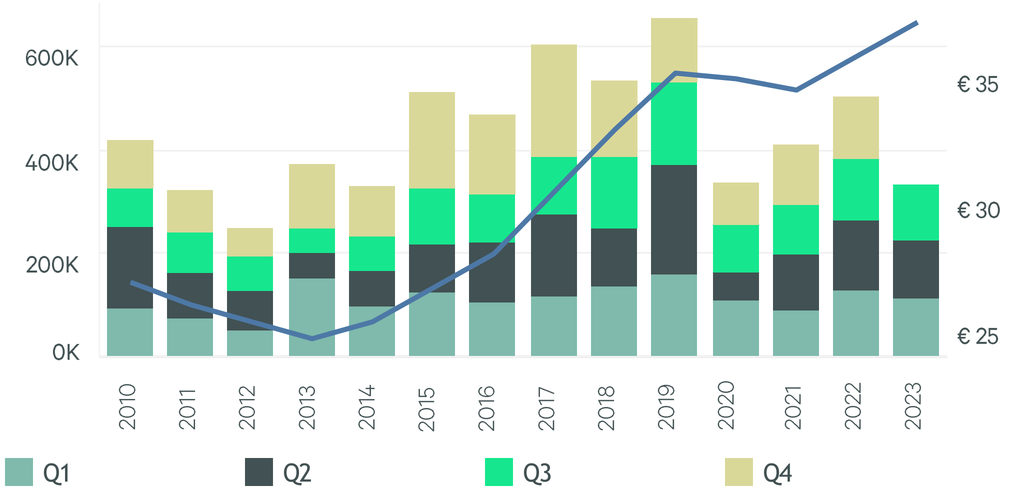
By area, activity continues to focus on the most central offices, especially the CBD, which has accumulated three quarters with more than 45,000 sqm rented. In the markets furthest from the center, a certain dynamism is moderately recovered in those buildings bordering the M-30, with easy access to public transport and of the highest quality, as is the case of Alcalá 544, which exceeds 10,000 m2 rented, Puerto de Somport 21-23 and Los Cubos building. It is the first XL operation (>10,000 sqm) of the year, and it is expected that more operations of this type will emerge in the coming quarters after the stoppage of recent months.

The general availability of Madrid remains stable at 11.6%, 0.1 p.p less than the previous quarter due to the low delivery of new buildings and the dynamism of demand. Highlighting the CBD market, for the first time since Q1 2020, it falls below 5%. If we focus on grade A, the vacancy rate is 1.7%.

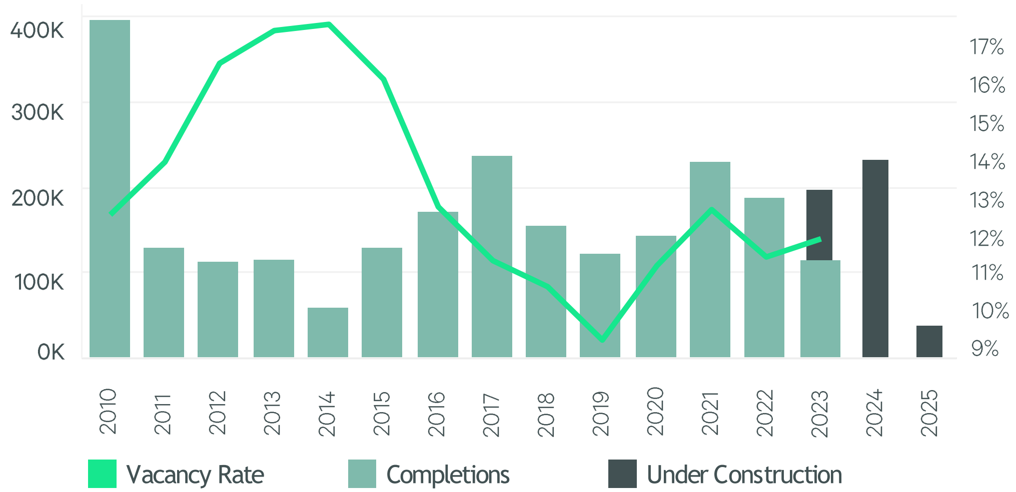
The shortage of products, together with the high demand in central areas, puts pressure on rents, and the weighted average rent in CBD is slightly above €30/sqm/month. For this reason, Madrid's prime rent rises by €0.50/sqm/month to €38.50/sqm/month and with prospects of continuing its upward trend. Slight increase also in the prime rent of A-2, +0.25€/sqm/month to €16.50/sqm/month.

In conclusion, there is still activity in the Madrid office market, although interest seems to focus on central locations.

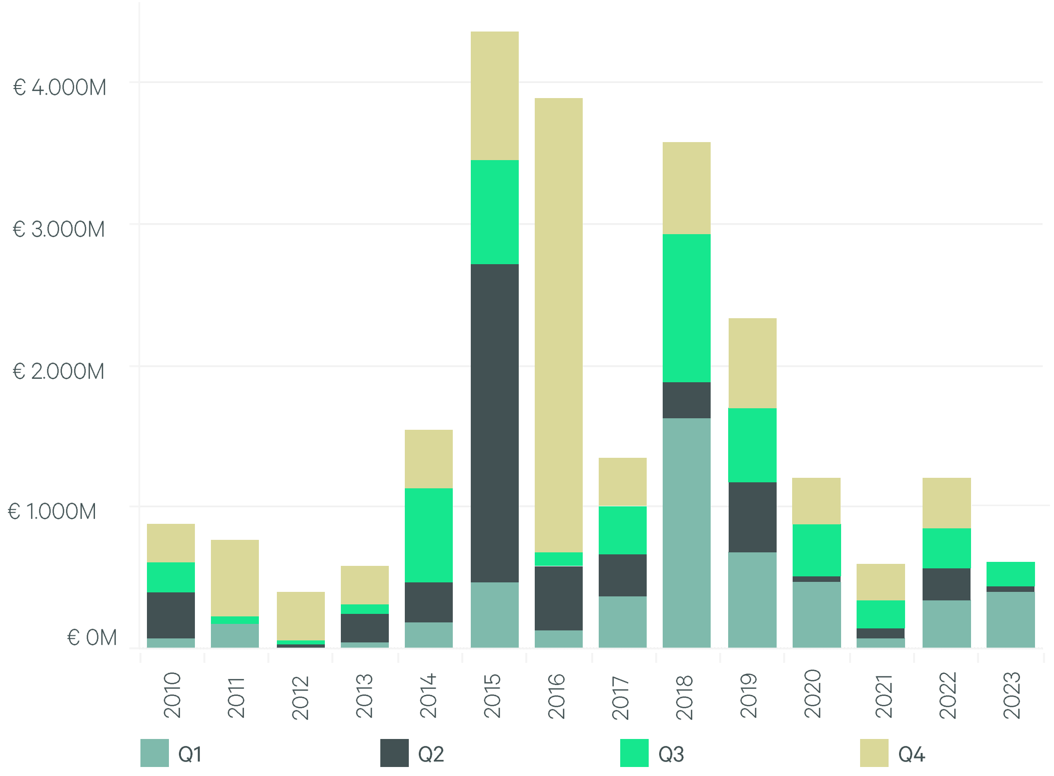
Market Trend (Take-Up |Prime Rent)



Development Activity (Completions |Vacancy Rate)



Madrid Office Investment Volumes



Note: 2023 annual numbers till 30/09/2023

The rise in interest rates has inevitably caused a significant drop in real estate investment volumes, with Spain recording a decrease of almost 49% compared to a year ago. Investment in offices at a national level is no exception to this decline and with 910 million euros it also registered a drop of 51%, although it is one of the countries that has suffered the smallest percentage drop in Europe, where the average is at 67%. This better performance is largely due to the increase in operations in the MidCaps segment and the investor appetite for domestic capital seeking to take advantage of a time of lower liquidity in the market.Madrid, for its part, closes Q3 with an investment volume of €166M, representing 85% of all investment in offices nationwide. In the accumulated amount of the year, €607M have been transacted in Madrid, which represents a decrease of 29% y-o-y.

Regarding the most important operations, we must highlight the purchase of the Movistar TV headquarters in Tres Cantos, the Siemens project in Las Tablas and the Cedro building on the A-1.

Note that although it is not accounted for in these office investment volumes, two major trends stand out this year: (i) purchase operations for the user's own use, especially in the education sector such as the recent purchases made by the IE and ICADE and (ii) operations to transform office assets into other uses, such as the transactions of Ronda de la Luna 22 in Tres Cantos (to Flex Living) and the office complex in Orduña/Llodio in the Fuencarral area (to BTR).

In terms of prime yield in Madrid, the upward trend continues to stand at 4.50%, 25bps more compared to the previous quarter. There are two issues regarding prime profitability of offices that generate debate in most European cities. The first is the lack of market evidence that allows us to see the correction that the sector is suffering in the most core segment. And the second, closely linked to the first, is how much to correct and when to place the ceiling.

Contacts

Miriam Goicoechea
Director, Research Spain
miriam.goicoechea@cbre.com

Marta Tarrío
Associate Director, Research - Office
marta.tarrio@cbre.com

Nicolás Atorrasagasti
Research Analyst
nicolas.atorrasagasti@cbre.com

Jaime Pesquera
Director, A&T Offices Madrid
jaime.pesquera@cbre.com

José Mittelbrum
Senior Director, A&T Services Spain
jose.mitterlbrum@cbre.com

Spain - Barcelona

Key Performance Indicators (Q3 2023)

Yield Prime
4,65%
Expected Investment Returns
Change YonY: 140 bps

Prime Rent
€ 28,50
Monthly, per sq m
Change YonY: 1,8%

Average Rent
€ 17,40
Monthly, per sq m
Change YonY: -1,0%

Office Investment Volume
€ 27M
In Barcelona during Q3 2023
€ 630M (Rolling 12 months)

Take Up
36K
Square Meter
146K Year2Date

Vacancy Rate
13,40%
Percentage of Stock vacant
Change YonY: 180 bps

Completions
45K
Square Meter
125K Year2Date

Total Stock
6.507K
Square Meter
5.634K Occupied Stock

(Forecast) Completions
188K (2023)
Square Meter
177K (2024) // 147K (2025

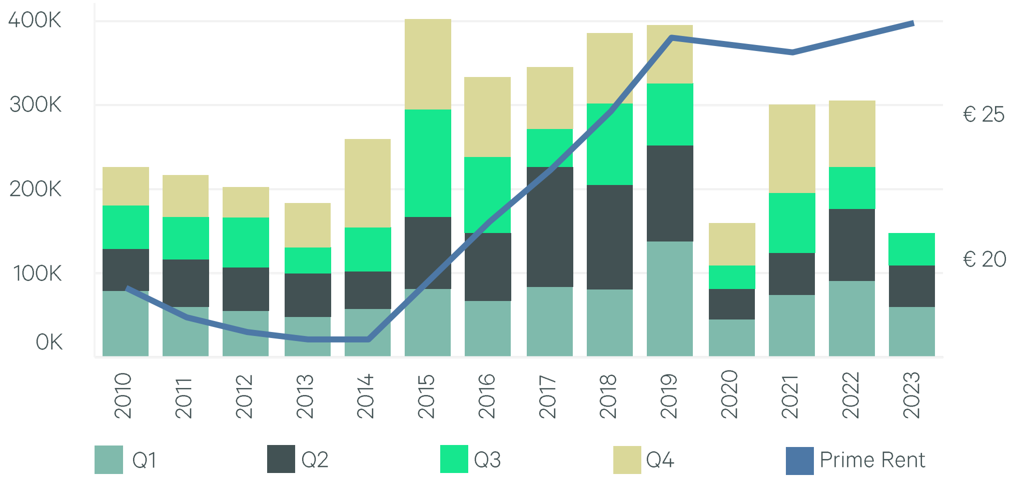
The decline in take-up continues, with over 40,000sqm Q3 leaves an annual accumulated of 146,000sqm, down 36% YonY. While for several months the demand for large-sized offices remained low (as evidenced by the drop in the average lease size, from 1,000sqm in 2022 to 660sqm so far in 2023), in the most recent period there has been a reactivation of it. This type of process tends to be extended over time, enabling optimism regarding the coming year.

Barcelona's CBD continues to prove its resilience and take-up in this market is only 8% lower than a year ago. City Centre shows a higher decline, around 30%, albeit more related to the lack of premium office space, as it remains an attractive location for tenants. The 22@&FM and ZF&AP markets are the most affected by the lack of large-scale moves showing a larger downturn (-54% and -66% respectively).

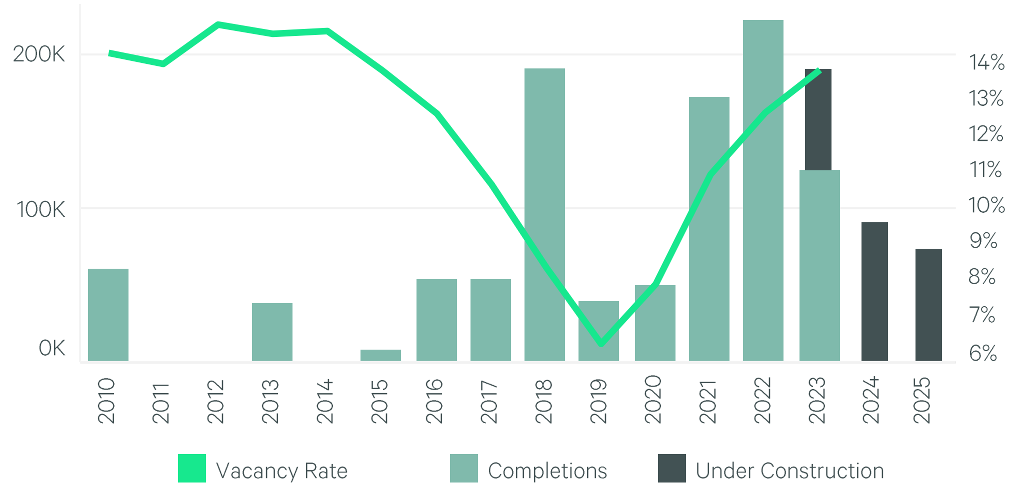
Despite the moderate activity and the completion of new buildings (19,000sqm available in 22@&FM and 12,000sqm in ZF&AP), availability barely rose by 30bps, up to 13.4% (still +180bps YonY).

The performance of each market has varied greatly both in leasing activity and completions, leading to differences in Prime Rents performance. The scarce availability of quality options leads to increases in the CBD (+0.50 to €28.50/sqm/month) and City Center (+0.25 to €23.50/sqm/month) markets. Against this, the growing rise in new projects availability delivered in 22@&FM leads to a drop (-1.00 to €22.75/sqm/month). ZF&AP (€18.25/sqm/month) and Periphery (€12.25/sqm/month) remain stable.

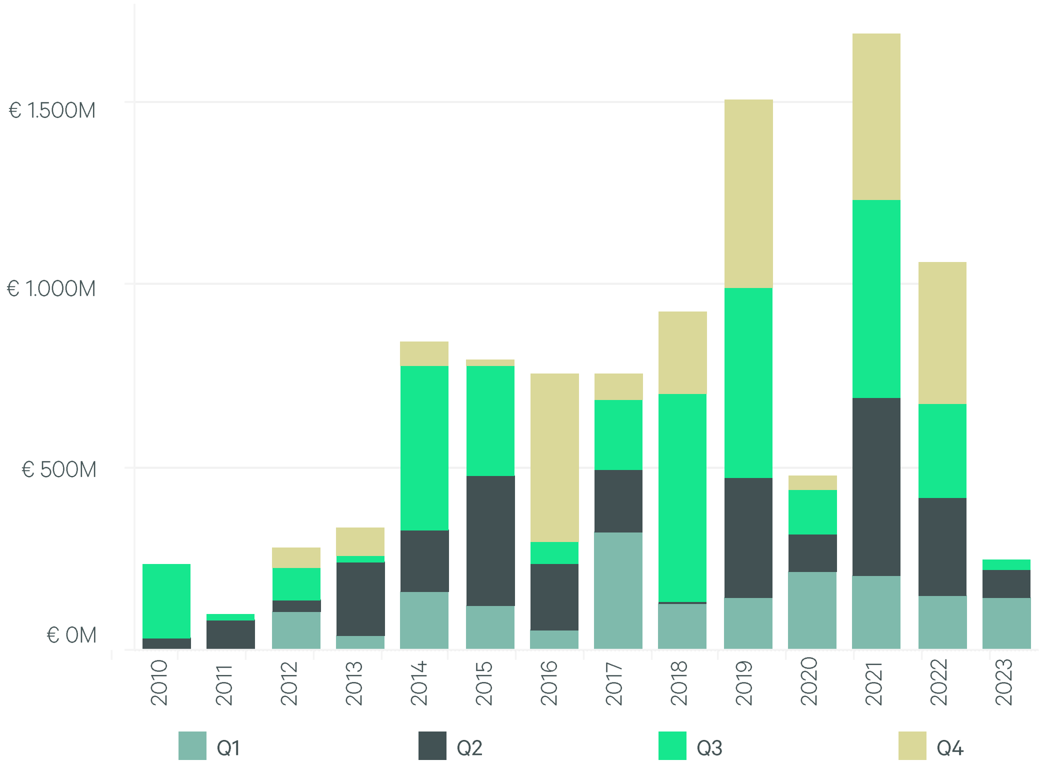
Market Trend (Take-Up | Prime Rent)



Development Activity (Completions | Vacancy Rate)



Barcelona Office Investment Volumes



Nota: datos anuales de 2023 hasta 30/09/2023

The rise in interest rates has inevitably led to a significant drop in real estate investment volumes, with Spain registering a decline of almost 49% compared to a year ago. Office investment nationwide is no exception, and with € 910M also recorded a drop of 51% at the end of this quarter, although it is one of the countries that has suffered the lowest percentage drop in Europe, where the average stood at 67%. This better performance is largely due to the increase in MidCaps segment transactions and investor appetite for domestic capital seeking to benefit from a moment of lower liquidity in the market.

In any case, the drop is more pronounced in Barcelona (as 2022 recorded the third best figure since 2008, exceeding € 1,000M). € 27M transacted in the third quarter, raising to € 244M for 2023, a YonY drop of 65%, very much in line with the European average. There is still a significant gap between vendors and purchaser, with the latter waiting for a price adjustment that is not yet underway.

Considering the increase in funding costs, as well as the slowdown and pressure from the macroeconomic environment, prime yields continue to experience their upward trend in the main European capitals. However, the lack of real market evidence of actual corrections in the core segment continues to raise the debate as to how much they should be adjusted and when they will reach their peak. Against this backdrop, the Barcelona CBD underwent a 35-bps adjustment compared to the previous quarter, standing now at 4.65%.

Contactos

Miriam Goicoechea
Director
Research Spain
miriam.goicoechea@cbre.com

Marta Tarrío
Associate Director
Research - Office
marta.tarrio@cbre.com

Lindy Garber
Managing Director
A&T Office Barcelona
lindy.garber@cbre.com

Xavier Güell
Office Director
CBRE Barcelona
xavier.guell@cbre.com