# Office Market Report

## Market summary and forecasts

AGUIRRE NEWMAN

January 2016

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**Spanish Real Estate Market**

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# 01 GENERAL MARKET OVERVIEW

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The upturn in the economic cycle that began thanks to the Spanish economy approximately 2 years ago, consolidated further over 2015 with estimated GDP growth of 3.2%. This growth, which is clearly greater than the majority of its neighbouring countries in the region, is helping to continually push the unemployment rate down, but it is not achieving growth in stable employment, nor are salaries recovering. This improvement is key, as Spain is a country in which household demand accounts for almost 60% of GDP. Once again, the improvement in State financing terms and conditions have been key, with a risk premium standing at close to 100-110 basis points and strong demand from markets for Spanish assets.

According to the Bank of Spain, during 2016 "it is expected that activity will continue to be dynamic, although its rate of advance will be more muted compared to previous quarters, as a result of the moderation in some of the driving forces currently in place. More specifically, it is estimated that average annual GDP growth in 2016 could reach 2.8%. This slight downward adjustment is related to an abatement in national demand growth, however, this will continue to be the driving force behind the economy. One should not underestimate the current situation of political instability, which undoubtedly affects the office market, both in terms of users, as well as investors.

There was good take-up of office space in Madrid and Barcelona over 2015, with an increase of 32.6% in Madrid and 41.6% in Barcelona. Rental prices have finally turned the corner, with average prices rising in all of the areas analysed. Finally, the vacancy rate has fallen in both markets, as a result of good levels of take-up and the lack of new supply.

Investment in the office market over 2015 stood at a combined total of €5,400 million for the two main office markets in Spain, Madrid and Barcelona. This investment volume, along with that of 2007, was an all-time record for the office market and doubled the investment volume achieved in 2014. The difference by markets allows one to see that 83% of investment volume was concentrated in the Madrid market, while the remaining 17% were deals completed in Barcelona. The initial yield has continued to adjust, both in the city centre office market, as well as in out-of-town markets, thanks to strong investor demand, which clearly outstrips the supply of available properties in the market.

The table below highlights the annual changes in the main market indicators for the Madrid and Barcelona office markets:

| Variables Clave | MADRID | | | BARCELONA | | |
|---|---|---|---|---|---|---|
| | Enero 2015 | Enero 2016 | Variación (%) | Enero 2015 | Enero 2016 | Variación (%) |
| Stock a 31 de Diciembre (m²) | 12.729.361 | 12.827.895 | 0,8% | 5.881.469 | 5.885.653 | 0,1% |
| Nuevos Proyectos ($m^2$) | 40.628 | 98.538 | 142,5% | - | 4.184 | _ |
| Absorción Bruta (m²) | 432.195 | 572.967 | 32,6% | 289.770 | 410.448 | 41,6% |
| Absorción Bruta /Stock (%) | 3,40% | 4,47% | 31,6% | 4,93% | 6,97% | 41,5% |
| Desocupación (%) a 31 de Diciembre | 13,4% | 11,7% | -13,1% | 13,7% | 11,5% | -16,0% |
| Desocupación CDN (%) a 31 de Diciembre | 12,1% | 6,2% | -48,9% | 7,7% | 4,2% | -44,9% |
| Desocupación DEC (%) a 31 de Diciembre | 17,7% | 15,9% | -10,4% | 18,9% | 16,3% | -13,9% |
| Precio Medio de Alquiler CDN (€/$m^2$/mes) | 24,27 | 26,32 | 8,4% | 15,65 | 16,01 | 2,3% |
| Precio Medio de Alquiler DEC (€/$m^2$/mes) | 10,81 | 11,38 | 5,3% | 10,86 | 12,42 | 14,4% |
| Rentabilidad Inicial CDN (%) | 5,25% | 4,25% | -19,0% | 5,25% | 4,50% | -14,3% |
| Rentabilidad Inicial DEC (%) | 6,90% | 6,50% | -5,8% | 6,90% | 6,50% | -5,8% |

# 02 CONCLUSIONS

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**MADRID MARKET**

- As at January 2016, office stock stands at 12,817,895 sqm. There was a moderate amount of development activity in 2015, with 98,534 sqm of office space added to the Madrid office stock. Of particular note is the second phase of the BBVA headquarters in Las Tablas, Edificio Cubik and although they do not add to existing office stock, various properties have been refurbished, primarily inside the M-30 ring road. Office stock in Madrid rose by 0.49% in 2015.
- Occupier demand has been one of the main success stories of 2015, registering a 32.6% increase in gross take-up of office space, reaching a total of 572,967 sqm compared to the 432,195 sqm total registered in 2014. As with the year before, good levels of demand came off the back of a significant increase in the number of transactions completed, with 95 more deals signed in 2015 than in 2014. It has also been possible to reach these levels of take-up, thanks to the marked increase in deals for spaces exceeding 3,000 sqm. Gross take-up in the second half of the year was extremely positive with 310,177 sqm of take-up, which equates to a 41% increase on H2 2014.
- The vacancy rate continues to drop, which is always positive for the market. The overall Madrid vacancy rate has fallen from 13.4% in January 2015 to 11.7% in January 2016. The lack of new projects with available space and the excellent take-up figures registered has meant that available space fell in absolute terms by almost 212,000 sqm, with the current amount of vacant space ready for immediate occupation standing at 1,496,317 sqm. Over 2015, all areas saw a significant improvement in occupancy rates. The vacancy rate in the Central Business District (CBD), if we do not include the "4 Towers", stands at around 3%.
- During 2015 there was a general increase in rents across all of the areas analysed, posting an average rise of 6.6% y-o-y. We would also note the significant rise in maximum prices in the Prime area (CBD), where they have shifted from €29 at the end of 2014, to top figures of €33 in 2015. The average rent in the Central Business District (CBD) or the Prime area has risen to €26.36 per sqm/month, while average rents in the Decentralised Area (DEC) have reached €11.38 per sqm/month.

# 02 CONCLUSIONS

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**BARCELONA MARKET**

- As at 1 January 2016, office stock grew very slightly to 5,885,653 sqm. Of the total current office stock, almost 60% is located in the City Centre area (CBD, RBD and RC). In 2015 only one 4,184 sqm turn-key scheme came onto the market in Sant Cugat del Vallés.
- In terms of new projects in the pipeline for the next two years, 56,700 sqm are forecast for 2016 with more than 60,000 sqm in 2017. In both years, the amount of pre-let and taken space accounts for approximately a third of office space in the pipeline.
- Over 2015, gross take-up increased significantly by 41.6% compared to 2014, reaching 410,447 sqm. As was also the case in 2014, H2 2015 registered better take-up (167,499 sqm in H1 vs. 242,494 sqm in H2). We would also highlight the stellar performance of the Out of the City area (OUT), where take-up reached 111,405 sqm, which was more than double the take-up seen in 2014. This good take-up figure was due to unusually large deals carried out in 2015 (above all, we would highlight the Generalitat's pre-let next to the Barcelona Fair in the Zona Franca).
- The vacancy rate continues to drop at a good rate, having gradually fallen over 2015 to stand at 11.50% of office stock. There are currently 676,605 sqm of office space available; which means that availability fell by 128,701 sqm over the past 12 months (more than two per cent in one year). The areas with the lowest vacancy rates are the Central Business District (CBD), which fell considerably to 4.23% and the Rest of the Business Districts, which stands at 3.5%.
- As a result of this good occupier demand, the virtually non-existent new supply and the consequent improvement in the vacancy rate, rents have noticeably improved in all of the areas analysed, with an annual average increase of 9.1% over the last twelve months.

# 02 CONCLUSIONS

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**INVESTMENT MARKET**

- The general way in which the economy moved in 2015 and the positive performance of market fundamentals, has bolstered strong investor demand in the office market. During 2015 the Spanish economy continued to grow, with a y-o-y GDP increase of + 3.2% PIB, and forecasts are positive in the short to medium term. On the other hand, the vacancy rate continued to drop, thanks to the very strong demand in both markets. Rents are trending upwards, which will consolidate further over the coming months.
- During 2015 there was a strong increase in real estate investment in the two main office markets in Spain. The investment volume stood at €5,385 million, which makes 2015, along with 2007, the years with the highest investment volume of all-time. Of the total volume transacted, 83% was carried out in Madrid and 17% in Barcelona.
- The number of transactions was well above previous years. In 2015, 113 office buildings were sold via 75 investment deals. This was a significant increase compared to the 84 properties sold in 51 deals in 2014. For yet another year, we would note the sale of property portfolios, primarily acquired by SOCIMIs and investment funds.
- By analysing transactions carried out in 2015 by type, one can see a marked difference between Madrid and Barcelona. While in Madrid, 80% of transactions were medium risk (core+ and value-added), in Barcelona, 70% were medium to high risk (value-added and opportunistic). This market characteristic cannot be considered to be structural, but merely related to the current situation and due to the types of assets coming on to the market for sale in both markets. There is very little investment grade product on offer in Barcelona's Business District.
- As was the case in 2014, the significant buyer activity carried out by three types of investors was key: SOCIMIs, institutional funds and real estate companies. SOCIMIs capacity to invest is particularly significant, with SOCIMIs accounting for 45% of all investment deals. It appears that the SOCIMIs are naturally steering towards specialising in a specific product, with two of them (Merlin and Axiare) being highly focused on the office market. Institutional funds, which accounted for 36% of all completed transactions, continue to be extremely interested in the Madrid and Barcelona office markets. Finally, real estate companies, which accounted for 10%, are becoming more active at purchasing properties, whether they be income-producing or for refurbishment, with Colonial and GMP heading up this group.
- The "sell side" has primarily been headed up by real estate companies and institutional investors, who have been selling their property portfolios, in some cases due to exiting Spain as an investment destination, and in others, due to them following an asset rotation strategy.
- Key aspects related to financing investments continued to improve over the course of 2015. The main national and international banks that specialise in financing real estate investment transactions, have been more actively lending, with less restrictions and tighter margins. However, when granting financing, not only were the location, quality of the property and the tenancy schedule key factors, but the quality of the "sponsor" was also essential. The general terms offered by the market put the LTV between 60-70%, with maximums of 75% for the prime market and Euribor spreads from 175 basis points.
- The initial yield has continued to fall, with the prime yield in Madrid standing at between 4.25%-4.5%, although some deals have even been completed below 4.0%. While in Barcelona, the initial yield stands at between 4.5%-5% for the best properties. The remainder of the markets (rest of the city and out-of-town), have also noted their initial yields harden, which coupled with the increase in rents, has driven capital values up.

# 03 OUTLOOK

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Below we detail the main market forecasts for the Madrid and Barcelona office markets:

**MADRID MARKET**

- There will continue to be subdued levels of development activity over the coming two years. Only 90,189 sqm of new space is expected to come onto the Madrid office market in 2016, 88% of which is pre-let/occupied as at 1 January 2016. In terms of size, we would also note Banco Popular's more than 70,000 sqm headquarters (in the Decentralised Area). 129,687 sqm is expected to come on to the market in 2017, of which to-date, 72% (93,764 sqm) will come to market without a tenant in place.
- As well as new-build offices, properties continue to refurbished, primarily those located in the city centre (within the M-30 ring road).
- It is expected that office take-up in 2016 will reach close to 595,000 sqm. The good results obtained in 2015 and the good macro-economic forecasts, would suggest that there will be a slight improvement compared to 2015. The lion's share of transactions will be in the size category of between 1,000 sqm and 10,000 sqm, and fewer large lettings are expected this year compared to 2015. The final take-up figures will likely be affected by the outcome of the current political uncertainty and economic indicators.
- As a result of the lack of new available office supply in the pipeline for 2016 and the likely improvement in estimated take-up in 2016, the vacancy rate is expected to improve in all of the areas analysed. Faced with the imminent relocation of major companies, as occurred in the Azca area, it is possible that the vacancy rate in some micro markets will be directly influenced by the timing of the moves, occupancy and progress of the works.
- In 2016, rental price performance will be similar to that seen in 2015. Rental prices are expected to generally improve in all areas, particularly more so in the Business District (CBD and RBD), where vacancy rates are currently very low.

**BARCELONA MARKET**

- Over the coming 12 months, 56,700 sqm of new office properties will come on to the market, of which 36% already have an occupier in place. 61,100 sqm of new office space is expected to come on to the market in 2017, of which only 65% (40,000 sqm) will come on to the market as vacant space, as at the date of this report.
- Given the excellent take-up results achieved in 2015 and the good macroeconomic outlook for the upcoming months, we believe that demand will continue to be very active and that take-up could reach 370,000 sqm for the whole of 2016.
- In terms of the vacancy rate, taking into consideration the good levels of demand and the new office space that will come on to the market as available space, we expect to see the vacancy rate continue to adjust in all areas.
- Given the upward trend in rental prices in all areas registered in H2 2015, this is expected to consolidate over the upcoming months, depending on the existing vacancy rates in each area.

# 03 OUTLOOK

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**INVESTMENT MARKET**

- The economic outlook in the short to medium term is positive and even above that of other neighbouring countries, which continues to put the Spanish market in a good position when it comes to international investors assigning capital by country specifics. However, we would also note that in 2016, we do not expect to see the economy to show such high GDP growth as in 2015. On the other hand, political uncertainty may put investment decisions on hold until the overall picture is clearer.
- Capital values will continue to trend upwards during the coming 12 months. The outlook for rents in 2016 is positive for all of the market's sub-zones, while the heightened buyer competition in the market will continue to press initial yields down. However, in some cases in the CBD, the amount of space that could be taken-up is very limited.
- We would note that in order to reach the top capital values achieved in 2007-2008, current values would need to increase by 25% in the CBD and 100% in the OUT market in Madrid, and between 30% in the CBD and 75% in the out-of-town markets in Barcelona.
- If there is a stable political backdrop there will continue to be strong investor interest in 2016 from all types of investors (private, family office, institutional, real estate companies) in the office market. SOCIMI activity will continue to be key, although to a lesser extent than in 2015, as will investment funds. In terms of the latter, we will see activity from more traditional institutional investors in the Spanish market, who are currently in the process of restructuring their property portfolios, but also new investors that will be entering the Spanish market for the first time. We would particularly note activity by certain Asian and South African investors.
- Although demand will continue to outstrip market supply, it is expected that properties will start to come to market, the owners of which have remained out of the market over recent years and that understand that now is the right time to sell (record low initial yield). On the other hand, buyers that came in to the market in the last 3/4 years via the purchase of individual assets or property portfolios are thinking about selling their properties, given that their return expectations could be met. Finally, financial entities and Public Authorities still have properties in their portfolios to sell.
- Lending will continue to improve, via the main national and international banks specialised in the real estate industry. It is expected that these will continue to tighten margins and maintain LTVs at similar levels as those seen in 2015.

# Madrid

# 04 MADRID OFFICE MARKET

The map below highlights the zoning and catchment area of the Madrid office market.


**CBD AREA – Central Business District**

The area from Plaza de Cibeles to Nuevos Ministerios, including the best buildings in Azca. Properties located in other nearby areas, whose features meet demand requirements for Grade A space are also included in this group. We should point out that the Cuatro Torres Business Area has been included in this area. E.g.: Castellana 110, Torre Picasso, Torre Europa, Torre Serrano, Serrano 55, Torre Espacio, Torre Cristal, etc.
PROPERTY TYPE: Castellana 9-11, Castellana 21, Torres de Colón, Castellana 81, Pirámide, Castellana 7, Castellana 41.

**RBD AREA – Rest of Business District**

This comprises the rest of the Business District in Madrid - Azca, Serrano, Velázquez, Príncipe de Vergara, Goya, etc. The area features multinational companies, insurance companies, financial institutions and other companies in the services sector.
PROPERTY TYPE: Puerta de Europa, Cuzco IV, Pº Recoletos 5, Príncipe de Vergara 110, Edificio Cubik, O´Donnell, 12, Mª de Molina 54, Torre Mahou, etc.

**RC AREA - Rest of City**

This area encompasses the capital's historic city centre, as well as the rest of the Central Core, which is not included in the above areas.
PROPERTY TYPE: Gran Vía 39, Alcalá 21, Edificio Compostela, Gran Vía 30, Princesa 3, etc.

**DEC AREA - Decentralised**

This is the decentralised area of Madrid, and includes the catchment area located between the M-30 and the M-40. Large multinationals have been attracted to this area, which includes Campo de las Naciones, Méndez Alvaro and Las Tablas.
PROPERTY TYPE: Complejo Triada, Gorbea 3, Edificio Herre, Torres de Méndez Álvaro, Parque Norte, Ed. Iris, Torres Ágora, Cristalia, Distrito C, etc.

**OUT AREA – Outside of the City**

This includes the office buildings located outside of the municipality of Madrid, or those that are located just outside of the city centre. There are four different sub-zones in this area - Tres Cantos, A-1, A-2 and A-6.
PROPERTY TYPE: San Fernando Business Park, La Finca Business Park, El Plantío Business Centre, Euronova Business Centre, Las Rozas Business Campus.

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## 4.1 Office Stock and New Projects

The total office stock in Madrid reached 12,827,895 sqm as at January 2016, which is a very minor rise in stock of 0.49% compared to January 2015. There have not been any major changes in term of new supply compared to the previous period analysed, very little new stock came on to the market in 2015 (total of 98,534 sqm).

The lion's share of new supply that came on to the market, more specifically 84%, was in the Decentralised area (DEC), with more than 80,000 sqm. We would particularly note Phase 2 of the BBVA headquarters in Las Tablas and the complete renovation of Telefónica's former R+D headquarters at Emilio Vargas 6 – Avda. América 81. The remainder of projects were carried out in the city centre. Of particular note were the refurbishments of Paseo de Recoletos 4 (3,700 sqm), Castellana 268 (3,600 sqm), Eloy Gonzalo 10 and Antonio Maura 4, (2,100 sqm). Finally, in the OUT area a 4,513 sqm project was delivered in Majadahonda.

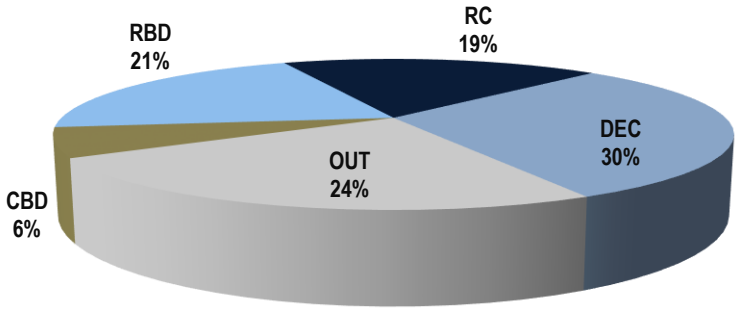
The table below highlights the change in office stock over the past year, and its distribution by area.

**Change in Office Stock in Madrid (January 2015 / January 2016)**

| Zona | | Superficie ($m^2$) Enero 2015 | % | Superficie ($m^2$) Julio 2015 | % | Superficie ($m^2$) Enero 2016 | % | Variación (%) |
|---|---|---|---|---|---|---|---|---|
| DN | CDN | 811.904 | 6,4% | 811.904 | 6,4% | 811.904 | 6,3% | 0,0% |
| | RDN | 2.621.337 | 20,6% | 2.630.941 | 20,6% | 2.633.041 | 20,5% | 0,1% |
| RC | | 2.393.865 | 18,8% | 2.393.865 | 18,8% | 2.393.865 | 18,7% | 0,0% |
| DEC | | 3.773.084 | 29,6% | 3.795.401 | 29,7% | 3.855.401 | 30,1% | 1,6% |
| OUT | | 3.129.171 | 24,6% | 3.133.684 | 24,5% | 3.133.684 | 24,4% | 0,0% |
| TOTAL | | **12.729.361** | **100,0%** | **12.765.795** | **100,0%** | **12.827.895** | **100,0%** | 0,49% |

The following graph shows the distribution of stock in Madrid by areas, demonstrating that out-of-town areas are continuing to see an increase in office stock. In January 2016, these areas accounted for approximately 54% of all office stock.

**Distribution of Stock - January 2016**



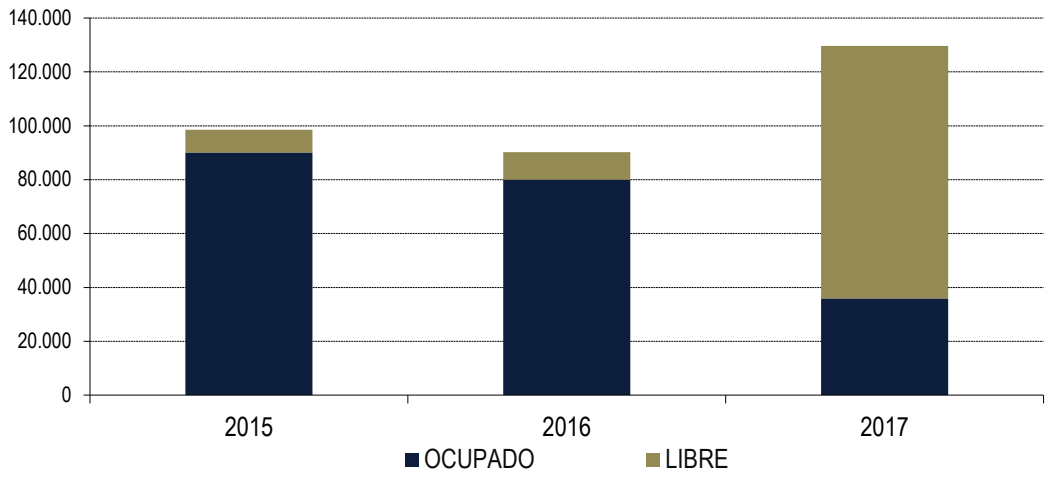

For the upcoming years, development activity will continue to be subdued, although we will note a slight change in trend from 2017 onwards. New supply expected in 2016 stands at 90,189 sqm, 88% of this space already has a tenant in place as at the date of drafting this report. In terms of new supply, we would note the new Banco Popular headquarters in the Juan Ignacio Luca de Tena area (A-2). In 2017 we will see a shift in trend, as 129,687 sqm of office space is expected to come on to the market, but in this case 70% of the space is currently available. We would particularly note the renovation of Ramirez de Prado 5, Príncipe de Vergara 112 and Estébanez Calderón 3-5.

In addition to investment in new projects, many owners of properties located in the city centre are opting to improve the quality of their buildings to bring them in line with new tenant requirements.

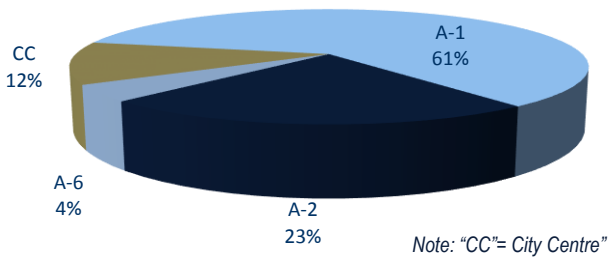
Office stock in the city centre is beginning to be modernised, to provide the market with better quality properties, which will be a key factor behind driving potential future rental uplift in the coming months.

The following graph details the new supply that came on to the market in 2015 and the pipeline of future supply for 2016 and 2017. As has been previously mentioned, in 2016, the vast majority of new supply that will come on to the market, will have a tenant in place, while in 2017 there will be a shift in trend, more than 70% of new office space is currently available as at 01 January 2016.

**New Projects (2015-2017)**

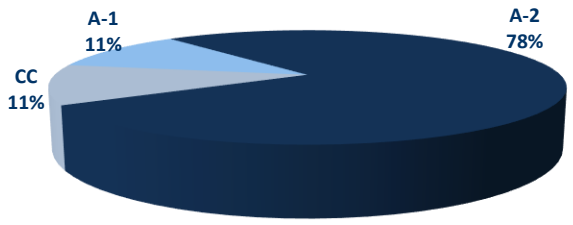



**New Projects per National Highways 2015 (sqm)**




*Note: "CC"= City Centre"*

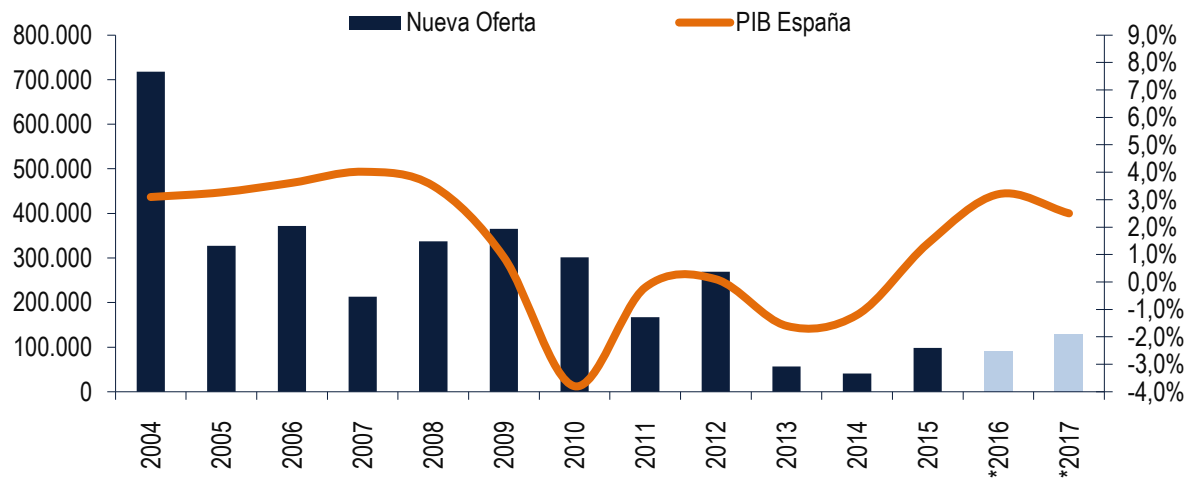
**New Projects per National Highways 2016 (sqm)**




*Note: "CC"= City Centre"*

The graph below indicates the change in new office supply in Madrid since 2004, as well as projections for the next two years and its relation with the change in GDP. One can see in this graph how from 2015, there was a timid recovery in terms of new supply, although there are many renovation projects already in progress and these are not counted as new supply, as they already form part of the total office stock.

**Historic Change in New Projects**



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## 4.2 Demand

Perhaps the most significant figure for the whole of 2015 was the gross take-up achieved (572,967 sqm), this was the highest take-up figure recorded in the past 8 years. Demand increased in 2015 by 32.6%, compared to 2014, registering 140,772 sqm more take-up in 2015 than in 2014.

During 2015, the busiest area was the CBD (Central Business District), more than doubling take-up in this area compared to 2014. Traditionally between 25,000 sqm and 40,000 sqm of office space is signed every year in the CBD. The good results in 2015 were primarily due to the KPMG letting in Torre Cristal and the "EY" letting in Torre Titania, former Edificio Windsor.

We would also note the strong levels of take-up in the out-of-town areas of the city, Decentralised Area (DEC) and th Out of City area (OUT). The DEC area registered 25.7% more take-up than in the previous year (more than 200,000 sqm), the largest lettings in this area were BNP Paribas in Emilio Vargas (20,000 sqm), OBS at Calle Torrelaguna (12,000 sqm) and the "Dentix" transaction in Campo de las Naciones, where it let approximately 8,000 sqm. In the Out of City area (OUT) take-up increased by 70.7%, going from 68,816 sqm in 2014, up to almost 120,000 sqm in 2015. The key lettings in this area were the relocation of the company "Idental" to the Arista de Rivas Futura Building (10,000 sqm) and the signing of "Vass Consultoría" in Avenida de Europa in the La Moraleja Business Park in Alcobendas (8,300 sqm).

The strong economy and business forecasts meant that, as was the case in 2014, take-up in H2 2015 was much higher than in H1 2015, with gross take-up reaching 310,177 sqm in H2 2015, compared to 262,790 sqm in H1 2015. This generally tends not to be the case, as the summer holidays fall in Q3 of the year, hence office take-up tends to be less active in the second half of the year.

The table below indicates the change in gross take-up figures by areas and by semesters in 2014 and 2015.

| Zona | | 2014 | | TOTAL | 2015 | | TOTAL | % Variación |
|---|---|---|---|---|---|---|---|---|
| | | 1er SEM. | 2do SEM. | 2014 | 1er SEM. | 2do SEM. | 2015 | 2014 - 2015 |
| DN | CDN | 16.508 | 17.506 | 34.014 | 40.294 | 39.476 | 79.770 | 134,5% |
| | RDN | 65.059 | 56.336 | 121.395 | 43.399 | 84.615 | 128.014 | 5,5% |
| RC | | 21.066 | 24.518 | 45.584 | 34.105 | 9.151 | 43.256 | -5,1% |
| DEC | | 67.340 | 94.046 | 161.386 | 96.961 | 105.822 | 202.783 | 25,7% |
| OUT | | 42.465 | 27.351 | 69.816 | 48.031 | 71.113 | 119.144 | 70,7% |
| TOTAL | | 212.438 | 219.757 | 432.195 | 262.790 | 310.177 | 572.967 | 32,6% |

The table below highlights the number and volume of transactions over the past two years per size category. As was the case in 2014, the high number of transactions completed, is a clear indicator of the good performance of occupiers registered in 2015. During the period analysed (2015), 603 transactions were carried out, 18.7% more than registered in 2014 and 211 transactions more than in 2013.

| Superficie Contratada | 2014 | | 2015 | | Variación (%) Operaciones | Variación (%) Superficie |
|---|---|---|---|---|---|---|
| | Operaciones | m² | Operaciones | m² | | |
| < 200 m² | 82 | 10.731 | 114 | 15.349 | 39,0% | 43,0% |
| 201-500 m² | 219 | 73.715 | 253 | 84.210 | 15,5% | 14,2% |
| 501-1.000 m² | 106 | 73.459 | 132 | 94.598 | 24,5% | 28,8% |
| 1.001-3.000 m² | 78 | 123.031 | 73 | 124.356 | -6,4% | 1,1% |
| > 3.000m² | 23 | 151.259 | 31 | 254.454 | 34,8% | 68,2% |
| TOTAL | 508 | 432.195 | 603 | 572.967 | 18,7% | 32,6% |

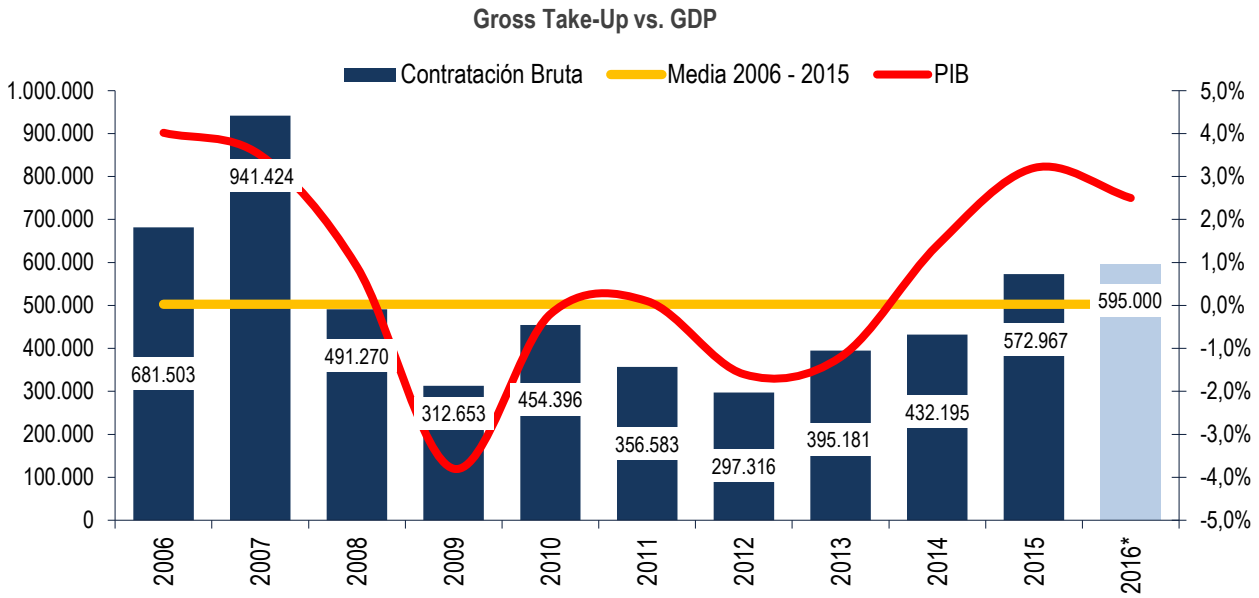
One can also see a general increase in all space brackets, with the exception of spaces between 1,001 and 3,000 sqm. Significant increase in the number of transactions below 1,000 sqm, 20% more than in 2014. Small and medium sized companies (SMEs), who are key players in the market, were very active in 2015, which corroborates a key change in trend in the market. Other factors that have contributed to reaching these excellent levels of take-up, have been the increase in large transactions (over 3,000 sqm), which totalled 254,454 sqm, which equates to 44% of all annual take-up

The following table details take-up in 2014 and 2015 by business sector occupiers. As has become the norm, the "Business Services" sector continues to be the demand powerhouse, accounting for 35.4% of all take-up. Auditors and law firms have been highly active over recent years. One can see that the "Electronics and IT" sector were also active in 2015, due to the upturn in technology and "apps". We would also note a rebound from the "media communications" sector, which virtually disappeared in the crisis years, companies are now opting to carry out more advertising and marketing campaigns. Finally, the "Public Authorities" sector continues to see little activity, with no major movements in 2015 compared to the pre-crisis years.

One can see that the average size of space increased in 2015 up to 950 sqm, from 851 sqm in 2014, this was primarily due to the greater number of large lettings.

| SECTOR | 2014 | | | | | 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Superficie (M²) | % | Nº | % | Sup. Media (m²) | Superficie (M²) | % | Nº | % | Sup. Media (m²) |
| servicios a empresas | 117.541 | 27,2% | 163 | 32,1% | 721 | 202.724 | 35,4% | 193 | 32,0% | 1.050 |
| informática | 33.044 | 7,6% | 49 | 9,6% | 674 | 64.531 | 11,3% | 86 | 14,3% | 750 |
| banca y finanzas | 57.565 | 13,3% | 75 | 14,8% | 768 | 62.792 | 11,0% | 68 | 11,3% | 923 |
| medios de comunicación | 24.659 | 5,7% | 22 | 4,3% | 1.121 | 59.188 | 10,3% | 23 | 3,8% | 2.573 |
| química y energía | 13.747 | 3,2% | 15 | 3,0% | 916 | 36.824 | 6,4% | 37 | 6,1% | 995 |
| industria y fabricación | 51.160 | 11,8% | 43 | 8,5% | 1.190 | 27.668 | 4,8% | 43 | 7,1% | 643 |
| venta y distribución | 26.646 | 6,2% | 38 | 7,5% | 701 | 22.204 | 3,9% | 47 | 7,8% | 472 |
| telecomunicaciones | 8.901 | 2,1% | 12 | 2,4% | 742 | 21.817 | 3,8% | 19 | 3,2% | 1.148 |
| aa.pp. | 19.926 | 4,6% | 11 | 2,2% | 1.811 | 15.837 | 2,8% | 8 | 1,3% | 1.980 |
| seguros | 32.643 | 7,6% | 16 | 3,1% | 2.040 | 12.692 | 2,2% | 16 | 2,7% | 793 |
| construcción y inmobiliaria | 22.791 | 5,3% | 31 | 6,1% | 735 | 9.703 | 1,7% | 21 | 3,5% | 462 |
| otros | 23.572 | 5,5% | 33 | 6,5% | 714 | 36.987 | 6,5% | 42 | 7,0% | 881 |
| **TOTAL** | **432.195** | **100,0%** | **508** | **100,0%** | **851** | **572.967** | **100,0%** | **603** | **100,0%** | **950** |

The graph below indicates the historic change in take-up in Madrid, as well as Aguirre Newman's forecast for 2016. This data is compared with the average take-up figures over the past 10 years and GDP performance over the same period.




This graph demonstrates a direct correlation between GDP performance and annual gross take-up, given that both variables are intrinsically linked to the job market. One can see that there was a considerable rise in net employment in 2015. This is thanks, among other factors, to companies having decided to take more space in the same building.

Take-up forecasts for 2016 suggest that take-up will be slightly higher than in 2015, potentially reaching 595,000 sqm. The structure of take-up is expected to be more diverse, with fewer large volume lettings, given that the big auditors and law firms have already moved, and a rise in lettings in the 1,000 sqm and 5,000 sqm bracket.

AGUIRRE NEWMAN

## 4.3 Vacancy

As at 1 January 2016, the vacancy rate across all office stock stood at 11.7%, which is a total of 1,496,317 sqm of office space available for immediate occupation. This is one of the key factors for the much anticipated change in cycle that the market is experiencing. A gradual decline in vacancy rate has been registered in all areas compared to previous semesters. Excellent take-up levels and scarcity or lack of supply coming on to the market have caused the drop in vacancy rate. The vacancy rate has fallen more than 1.7% in the last year, dropping from 13.4% to its current level of 11.7%.

If we compare the change in vacancy per semester, one can see that performance was relatively similar, falling 0.9% points in H1 2015 compared to the drop of 0.8% points registered in H2 2015.

The table below breaks down the the vacancy rate for the areas analysed in this market study. A general decline can bee seen in all areas, with a significant decrease in the Central Business District (CBD), reducing by almost half in the last twelve months to 6.2%. The EY and KPMG lettings played a significant part in this change. The vacancy rate in the most exclusive area of the city (CBD), not taking into consideration the "Four Towers", stands at 2.4% ready for immediate occupation. Nevertheless, the imminent vacation of some properties on the Castellana could see this rate increase slightly in the short to medium term.

Almost 80% of available space is located in the out-of-town areas of the city, more than 1.1 million sqm of office space. Despite a drop in vacancy rate, there is still over supply in the areas located between the M-30 and M-40 ring roads and the Outside of the City area. The vacancy rate in the out-of-town areas stands at around 17%, compared to an average rate of 5% in the city centre.

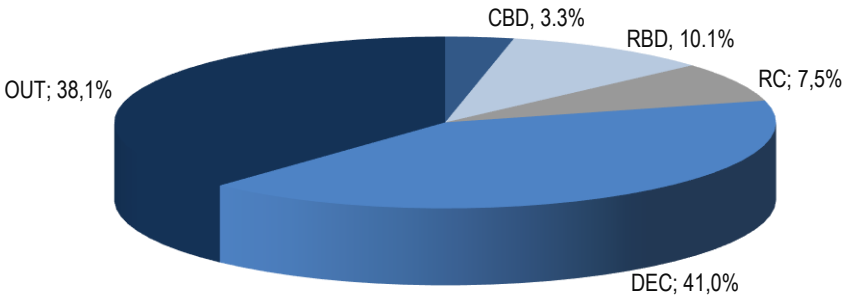
Over the past 12 months, available space fell by slightly more than 200,000 sqm.

| Zona | | Desocupación (m²) Enero 2015 | (*) | Desocupación (m²) Julio 2015 | (*) | Desocupación (m²) Enero 2016 | (*) |
|---|---|---|---|---|---|---|---|
| DN | CDN | 97.919 | 12,1% | 76.771 | 9,5% | 49.998 | 6,2% |
| | RDN | 166.653 | 6,4% | 165.441 | 6,3% | 150.958 | 5,7% |
| RC | | 154.080 | 6,4% | 130.630 | 5,5% | 111.923 | 4,7% |
| DEC | | 669.585 | 17,7% | 643.968 | 17,0% | 613.270 | 15,9% |
| OUT | | 620.836 | 19,8% | 581.904 | 18,6% | 570.168 | 18,2% |
| **TOTAL** | | **1.709.073** | **13,4%** | **1.598.714** | **12,5%** | **1.496.317** | **11,7%** |

*(*) Percentage of stock in each area*

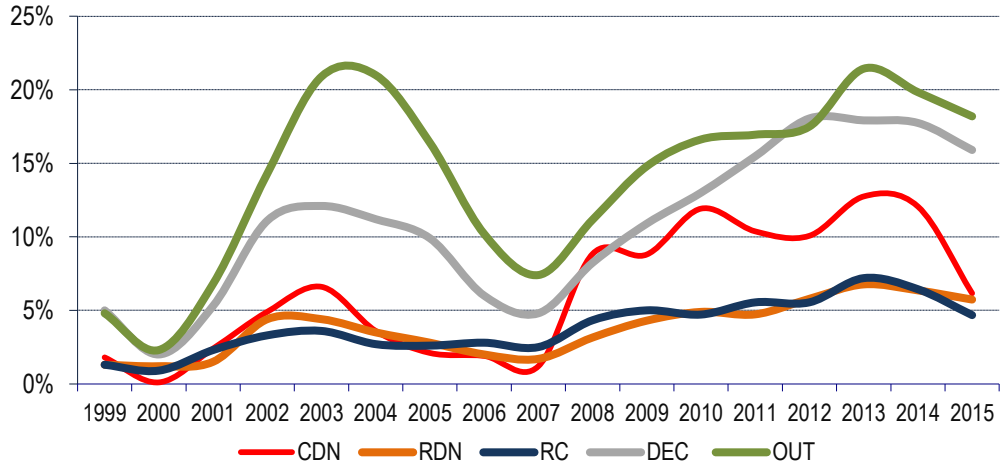
Below one can see the breakdown of total available space by zones in Madrid.

**Vacancy by Areas (%)**



The graph below shows the marked fall in the vacancy rate in all areas from H2 2013 onwards. One can see that the vacancy rate fell considerably in the CBD over 2015, dropping to 6.2%, this was due to the large volume lettings registered. The remaining areas of the city centre have a "healthy" vacancy rate, while out-of-town areas, despite some improvement, still have a vacancy rate of above 16%.

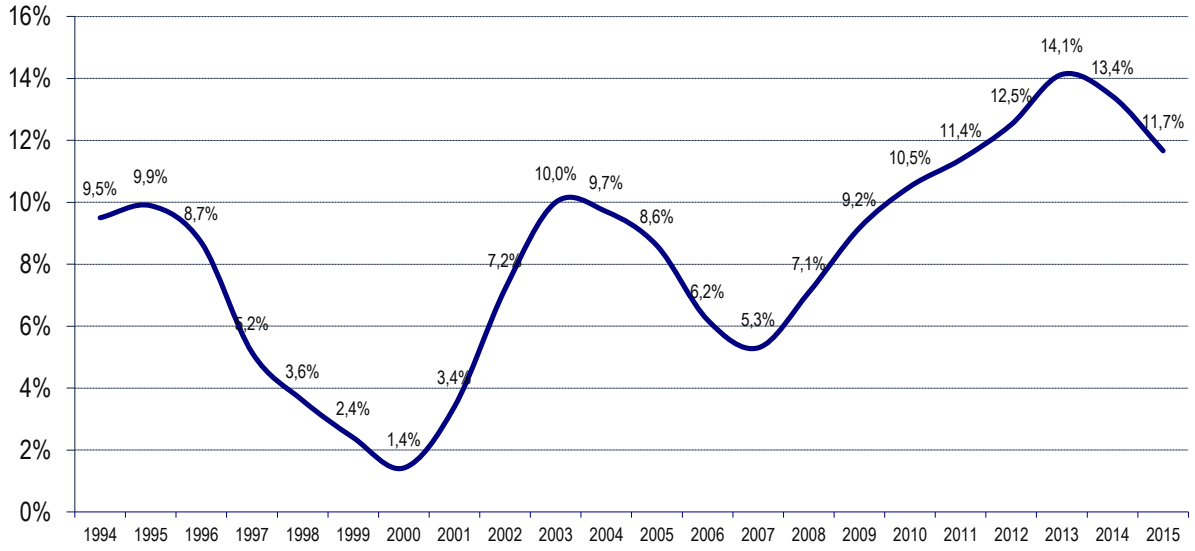
**Historic change in the vacancy rate by areas**




Below, one can see the historic change in the Madrid overall vacancy rate since 1994. After six consecutive years of seeing the vacancy rate grow (2007-2013), in 2013 a new cycle began. During the past 12 months, the general drop in the vacancy rate has continued in all areas.

As a result of the lack of new office supply in the pipeline for 2016 and the likely improvement in take-up in 2016, the vacancy rate is expected to fall in all areas over the coming months. Nevertheless, refurbishment works at some properties (Manuel de Falla, Castellana 81, José Lázaro Galdiano 6) and the imminent relocation of major companies, as occurred in the Azca area, could be determining factors in the change in vacancy rate of certain micro markets, depending on the timing of the moves, occupancy and progress of the refurbishment works.

**Historic change in the vacancy rate (%)**



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## 4.4 Price Levels

The Madrid office market have performed very well over the past 12 months, with all areas registering a general increase in average rents. This price rise was more marked in H2 2015, thanks to the improvement of two factors, take-up and availability. Average rental growth in 2015 stood at 6.6%.

In the Central Business District area (CBD) average rents increased by 8.4% and of particular note was the increase in top rents paid reaching 13.8% more than in 2014. Top rents stand at €33 €per sqm/month and these were for small offices of around 400 sqm.

In contrast to 2014, when rents were still adjusting in the out-of-town markets in the city, in 2015 average rental prices rose in the Decentralised Area (DEC) by 5.3%, while in the Outside of the City area (OUT), rents rose by 6.7%. Despite this seeming like a significant rise in rents, in the OUT area the percentage rise is greater due to the fact that rents were very low.

Finally, we would highlight that in the DEC area there are some markets with rents that are not similar to others, whereas in consolidated markets such as Méndez Álvaro, Avenida de Burgos (Triada) or the Parque Norte Business Park have asking rents of circa €16 per sqm/month. There are other markets with higher vacancy rates, such as Julián Camarillo and Manoteras with below average rents for the DEC area.

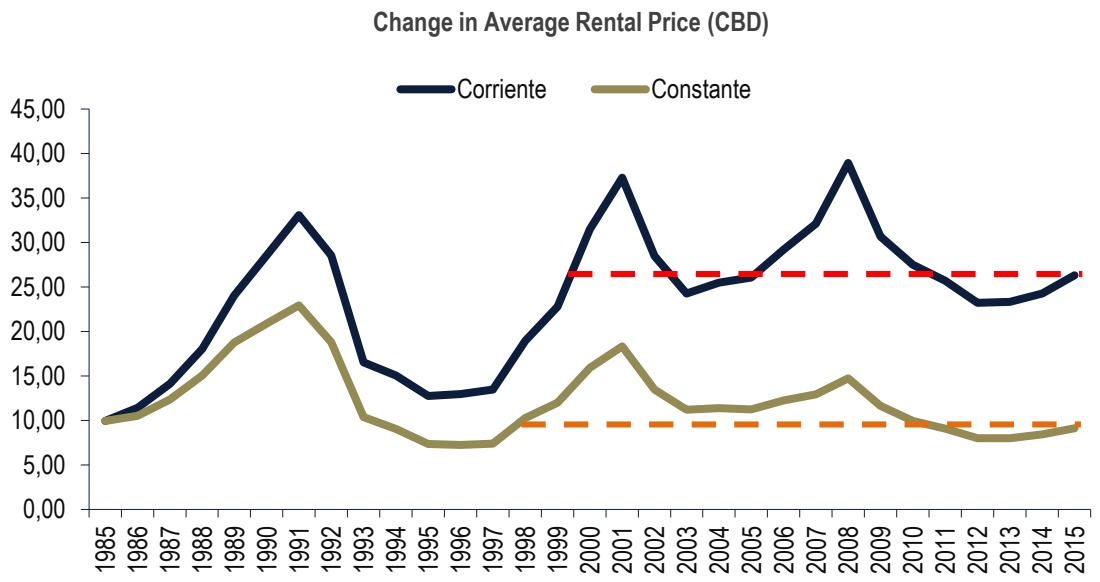
The table below details the semester change in average prices and maximum prices in the Madrid office market over the past three semesters. Two tables that show the changes in rental prices are also included below, which compare prices from last semester with previous semesters.

| Zona | | 2do Semestre 14 | | 1er Semestre 15 | | 2do Semestre 15 | |
|---|---|---|---|---|---|---|---|
| | | Precios Máximos (€/m²/mes) | Precios Medios (€/m²/mes) | Precios Máximos (€/m²/mes) | Precios Medios (€/m²/mes) | Precios Máximos (€/m²/mes) | Precios Medios (€/m²/mes) |
| DN | CDN | 29,00 | 24,27 | 31,00 | 25,35 | 33,00 | 26,32 |
| | RDN | 26,00 | 18,84 | 26,00 | 18,93 | 27,00 | 19,59 |
| RC | | 17,00 | 12,68 | 18,00 | 13,03 | 18,00 | 13,75 |
| DEC | | 16,00 | 10,81 | 16,00 | 11,11 | 16,50 | 11,38 |
| OUT | | 12,00 | 7,75 | 13,00 | 7,90 | 13,50 | 8,27 |

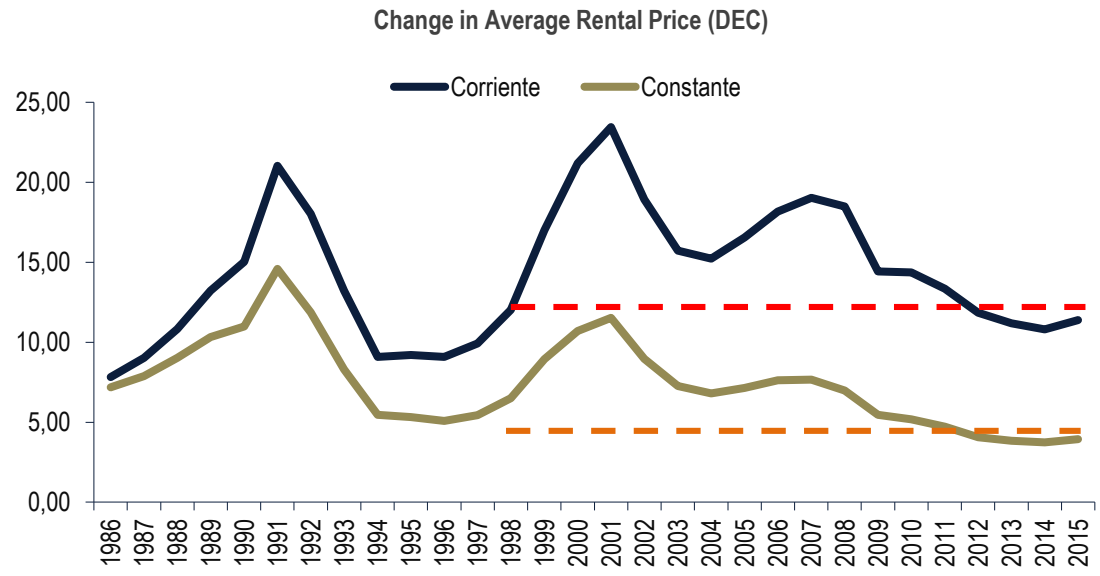
| Evolución precios Últimos 6 meses | | |
|---|---|---|
| Zona | Máximos | Medios |
| CDN | 6,5% | 3,8% |
| RDN | 3,8% | 3,5% |
| RC | 0,0% | 5,5% |
| DEC | 3,1% | 2,4% |
| OUT | 3,8% | 4,7% |
| MEDIA | | 4,0% |

| Evolución precios Últimos 12 meses | | |
|---|---|---|
| Zona | Máximos | Medios |
| CDN | 13,8% | 8,4% |
| RDN | 3,8% | 4,0% |
| RC | 5,9% | 8,4% |
| DEC | 3,1% | 5,3% |
| OUT | 12,5% | 6,7% |
| MEDIA | | 6,6% |

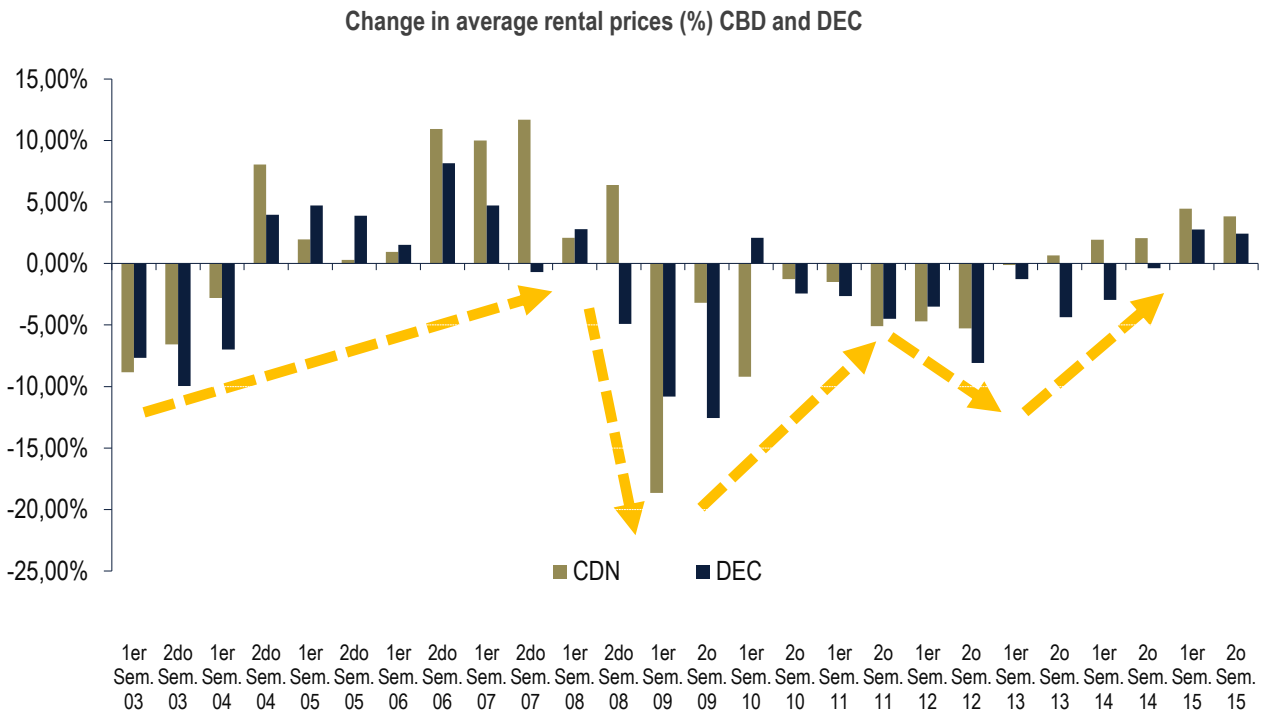
The graph below highlights the change in current and constant average rental prices in the CBD (not including annual CPI increases to the 1985 base). One can see that there was a change in trend that started in 2013 after 6 consecutive years of major corrections in rental prices. Right now, rental prices in current euros are at the same level as in 2004-2005, prior to the upward cycle.



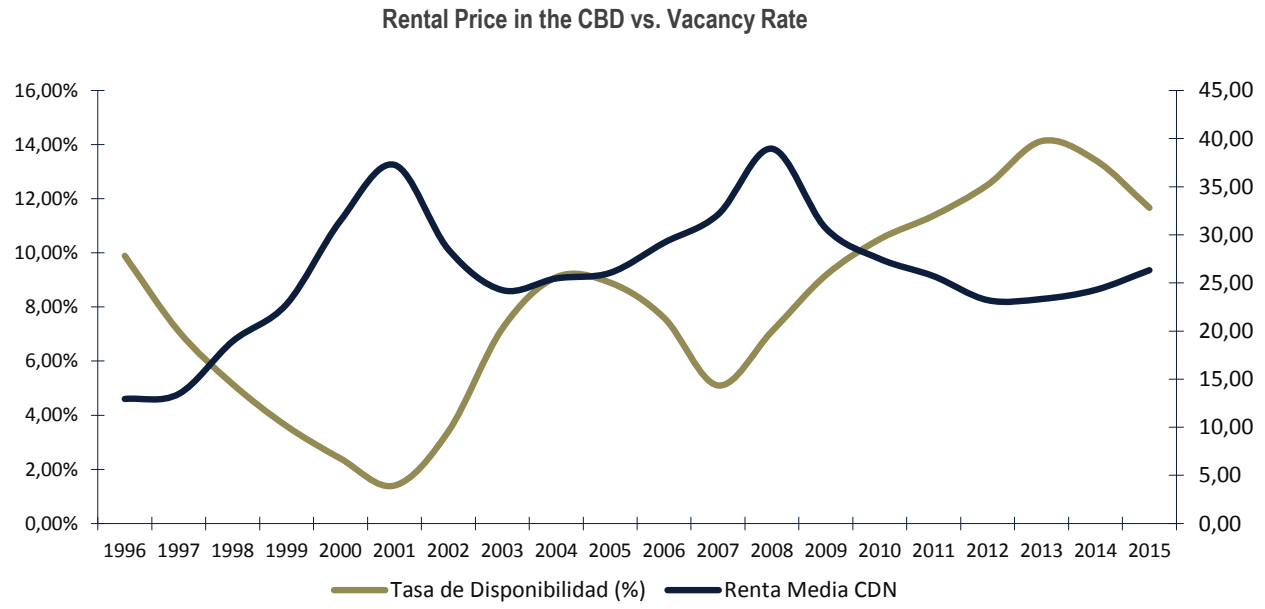

We can see how current prices in the Decentralised (DEC) area continue to exceed historic lows (not accounting for inflation). Prices in this area have now begun to rise, which started since the end of 2014.



The graph below shows the percentage q-o-q change in rental prices in the CBD and DEC areas since 2003. One can see how average prices in the Central Business District (CBD) have been consistently rising for the past two and a half years, while in the Decentralised area (DEC) the rise in rents has been noted over the past year.




The following graph compares the vacancy rate with the change in rental prices in the CBD and one can see that historically the change in rental prices in the office market tends to have a certain lag time, from when there is a change in the vacancy rate.



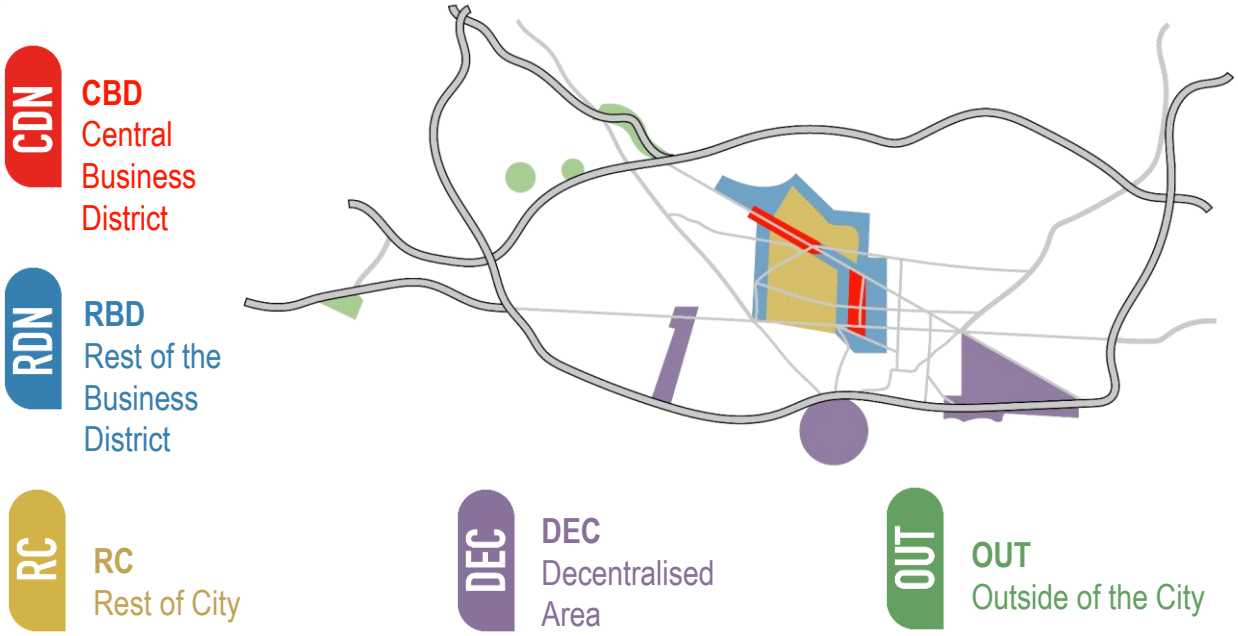
During the last 12 months, asking prices have not changed a great deal. The changes have come about in the negotiation phase and via tenant incentives and rent-free periods. During 2015 negotiating margins have generally adjusted, primarily in the areas where there is less available space, i.e. areas in the city centre. In the out-of-town areas, where there is greater vacancy, in a bid to maintain headline rents, the owners of properties are more open to negotiating and give more rent-free months and tenant incentives.

| Margen de Negociación | 2013 | 2014 | 2015 |
|---|---|---|---|
| CDN | 9,0% | 6,0% | 5,2% |
| RDN | 9,5% | 9,0% | 7,0% |
| RC | 8,5% | 5,6% | 5,5% |
| DEC | 10,0% | 8,5% | 8,0% |
| OUT | 15,0% | 12,5% | 12,0% |
| **Media** | **10,40%** | **8,32%** | **7,54%** |

# Barcelona

# 05 BARCELONA OFFICE MARKET

The map below highlights the zoning and catchment area of the Barcelona office market.




**CBD AREA – Central Business District**

This area is located along the length of Paseo de Gracia and Avenida Diagonal, from Plaza Francesc Macià to Gran Vía de Carlos III. Paseo de Gracia is seen as the traditional Central Business District and Avenida Diagonal as the city's modern Central Business District.

It is the most prestigious area in the city's office market and features the highest rental prices. The most important national and international companies are located in this area.

**RBD AREA – Rest of Business District**

These areas are an alternative to the Prime areas, given that they comprise modern properties at noticeably lower rents, good public transport links and multiple amenities in the area, given that they are located in the catchment are of the traditional central business district.

This area includes the Calle Tarragona area, as well as Barcelona's Exhibition Centre, where important office projects have been constructed.

Within this area we also include: Avda. Diagonal, between Francesc Macià and Pau Claris, Avda. Josep Tarradellas, Vía Augusta, Plaza Catalunya, Gran Vía Carlos III, amongst others.

**RC AREA - Rest of City**

This is primarily comprised of the Ensanche Barcelonés, which is predominantly a residential area with 70's style office buildings, which were constructed in the boom in that period, although it now features some modern and exclusive office buildings that have lower prices than in the Business District.

**DEC AREA - Decentralised**

The increase in economic activity over the past few years has given rise to various different areas, which were traditionally seen as periphery areas, now becoming new central business areas. These areas are the ones known as New Central areas.

In these areas we include: Villa Olímpica, Plaza de las Glorias, World Trade Center, Plaza Cerdà, Zona Franca, Diagonal Mar and all the regeneration of Pueblo Nuevo, 22@ and Hospitalet de Llobregat (Plaza Europa).

The change of uses, the change in the road network, the improved transport systems and new facilities, will allow the various different office projects in this area to consolidate.

**OUT AREA – Outside of the City**

Over the past few years, the out of town area has played a more important role in the real estate market as a whole. The lack of land and inefficient properties in the traditional city centre are just some of the factors that have favoured the development of important projects on the outskirts of the city.

This area includes: Sant Joan Despí, Esplugues, Sant Just Desvern, Mas Blau-Aeropuerto, Cornellà, Sant Cugat and Viladecans. We would highlight the extreme disparity and inconsistency between these areas and the micro markets.

AGUIRRE NEWMAN

## 5.1 Office Stock and New Projects

As at 01 January 2016, Barcelona office stock stood at 5,885,653 sqm. During 2015 virtually no new office supply came on to the market. The only property to be delivered was the Endress+Hauser headquarters in Sant Cugat, which forms part of the Outside of the City (OUT) area.

Over the past few years, there has been very little development activity in Barcelona. The only notable changes to the office stock came via the change of use of properties located in the city centre, which were converted from office to hotel use. Over the past few months the pressure to change the use of properties has not only come from the hotel market, there are also some developers looking to change some well located department stores to residential use, due to the lack of available land in the city centre for development.

Despite no new projects coming on to the market, some owners are opting to refurbish their office properties, thereby improving the quality of their buildings. This has meant that office stock is changing, improving its technical specifications, but this is primarily being seen in the city centre.

The table below highlights the change in office stock over the past year, and its distribution by area. As one can see, the size of the market has hardly changed over the past 12 months, with an increase of just 0.1% compared to January 2015.

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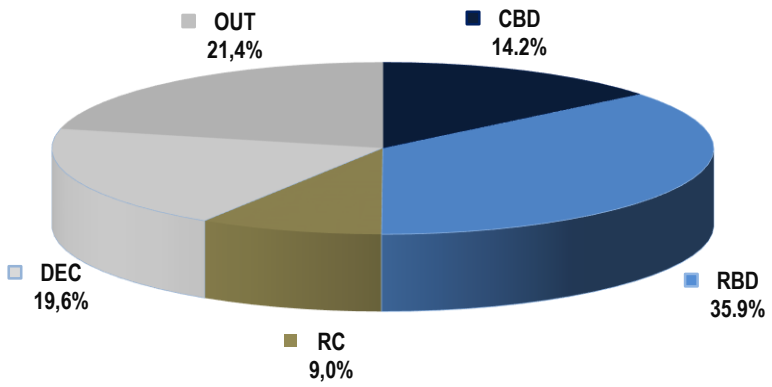
**Change in Office Stock in Barcelona (January 2015-January 2016)**

| Zona | | Superficie ($m^2$) Enero 2015 | % | Superficie ($m^2$) Julio 2015 | % | Superficie ($m^2$) Enero 2016 | % | Variación (%) |
|---|---|---|---|---|---|---|---|---|
| DN | CDN | 834.600 | 14,2% | 834.600 | 14,2% | 834.600 | 14,2% | 0,0% |
| | RDN | 2.112.100 | 35,9% | 2.112.100 | 35,9% | 2.112.100 | 35,9% | 0,0% |
| RC | | 527.190 | 9,0% | 527.190 | 9,0% | 527.190 | 9,0% | 0,0% |
| DEC | | 1.152.606 | 19,6% | 1.152.606 | 19,6% | 1.152.606 | 19,6% | 0,0% |
| OUT | | 1.254.973 | 21,3% | 1.254.973 | 21,3% | 1.259.157 | 21,4% | 0,3% |
| TOTAL | | **5.881.469** | **100,0%** | **5.881.469** | **100,0%** | **5.885.653** | **100,0%** | 0,1% |

The pie chart below indicates the distribution of total stock per area:

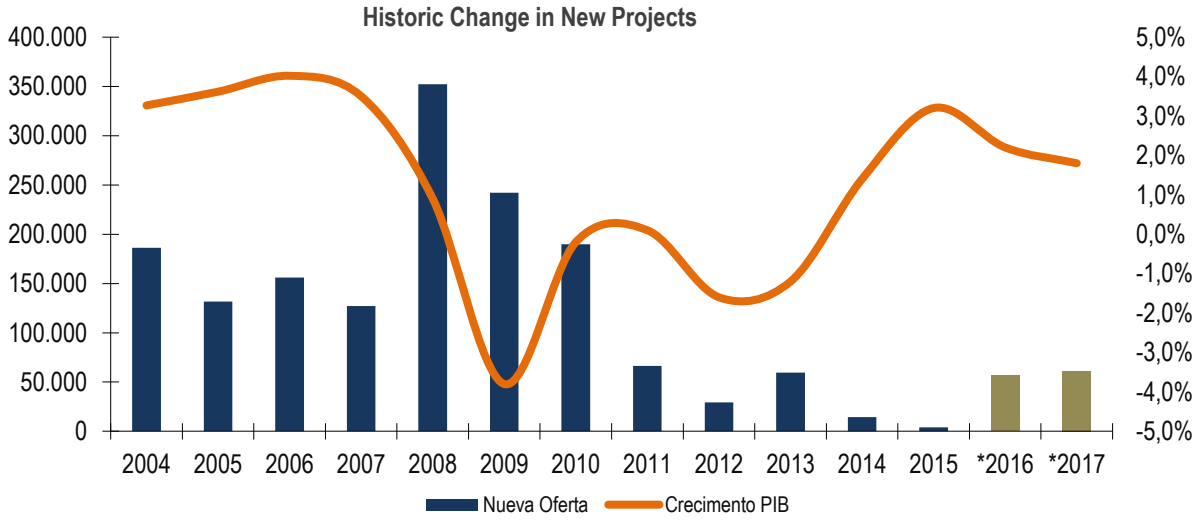
**Distribution of Stock - January 2015**




The distribution of stock by areas is very similar to that seen 12 months ago. The out-of-town areas currently account for 41% of office stock, while the Business District (CBD+RBD) accounts for 50%.

In the medium to long term the Barcelona office market will grow in the out-of-town areas and the city centre will reduce its market share. The lack of land to develop offices in the city centre and the change of use of existing outdated offices in this area, will mean that out-of-town areas, particularly the DEC area, will account for more office space across the whole of the Barcelona office market.

The graph below details Aguirre Newman's historic information and projections for 2016 and 2017 in terms of new office projects. In 2016 it is expected that 56,700 sqm will come on to the market, slightly changing the trend seen in recent years. After a significant drop in new stock, due to the change in cycle, the situation is starting to normalise. 36% of the new supply in 2016 already currently has a tenant in place for the space. The amount of new projects in the pipeline is very similar to 2016standing at 61,100 sqm, of which 35% already have an occupier committed for the space. The 22@ district, the southern area of the city and out-of-town areas will be the main areas in terms of new office supply.




One can see how the sharp fall in GDP growth from 2007 was accompanied, after the logical time lag of 2-3 years due to the inelasticity of supply, by a significant decrease in new supply. On can also see some time lag between the economy starting to grow and the increase in development activity.

## 5.2 Demand

Gross take-up in the Barcelona office market in 2015, was the highest figure registered over the past 15 years. Take-up reached 410,448 sqm, which has driven up gross take-up by more than 40% compared to 2014 (289,770 sqm), which is the highest annual increase in the past 10 years. After a first half in which activity picked up by 41% compared to 2014, reaching take-up of 167,449 sqm, demand in H2 2015 was even better than in H1 2015, reaching 242,949 sqm, which amounts to almost 88% of all total take-up in 2014. The positive momentum generated in 2014 consolidated further in 2015, which was a key factor for the market performing well.

The table below highlights the changes in gross take-up in the office market in Barcelona, both in terms of semesters and geographical areas of the city.

**Total Take-up by Areas**

| Zona | | 2014 | | TOTAL | 2015 | | TOTAL | Variación (%) 2014 - 2015 |
|---|---|---|---|---|---|---|---|---|
| | | 1er SEM. | 2do SEM. | 2014 | 1er SEM. | 2do SEM. | 2014 | |
| DN | CDN | 14.463 | 9.502 | 23.965 | 19.904 | 16.594 | 36.498 | 52% |
| | RDN | 18.561 | 20.053 | 38.614 | 21.945 | 12.935 | 34.880 | -10% |
| RC | | 22.979 | 27.272 | 50.251 | 32.002 | 52.021 | 84.023 | 67% |
| DEC | | 44.251 | 80.042 | 124.293 | 42.968 | 100.674 | 143.642 | 16% |
| OUT | | 18.769 | 33.878 | 52.647 | 50.680 | 60.725 | 111.405 | 112% |
| TOTAL | | 119.023 | 170.747 | 289.770 | 167.499 | 242.949 | 410.448 | 41,6% |

There was a general increase in take-up across all areas of the market, with the exception of the Rest of the Business District (RBD) area. We would particularly note the activity in the Out of the City area (OUT), which increased by 112%. Large transactions were carried out in the Outside of the City area, due to the lack of large spaces available in one building in the city centre. We would also particularly note the Decentralised Area (DEC), where the most sought after areas were 22@ and the southern area of the city, Plaza Europa and the Zona Franca.

We would also note the increase in take-up in the CBD, where 36,498 sqm were signed in 2015, compared to the 23,965 sqm registered in 2014, which is a 52% y-o-y increase.

The table below details transactions in terms of take-up volume from January 2014, up until now.

**Total Take-up by Size Categories**

| Superficie Contratada | 2014 | | 2015 | | Variación Operaciones (%) | Variación Superficies (%) |
|---|---|---|---|---|---|---|
| | Operaciones | m² | Operaciones | m² | | |
| < 200 m² | 171 | 21.639 | 165 | 20.124 | -3,5% | -7,0% |
| 201-500 m² | 178 | 58.458 | 205 | 64.979 | 15,3% | 11,2% |
| 501-1.000 m² | 61 | 43.151 | 90 | 64.781 | 48,1% | 50,1% |
| 1.001-3.000 m² | 32 | 48.155 | 58 | 89.165 | 80,5% | 85,2% |
| > 3.000m² | 17 | 118.367 | 22 | 171.399 | 31,1% | 44,8% |
| TOTAL | 458 | 289.770 | 539 | 410.448 | 17,8% | 41,6% |

The table above analyses take-up performance based on office space size requested. 2015 was defined by the closing of a number of unusually large deals, with just five of these accounting for 20% of total take-up, with the largest (46,000 sqm) completed by the *Generalitat* in the Zona Franca. There was an extraordinary jump in transactions over 1,000 sqm, 85% more than in 2014. We would also note the sustained growth from traditional demand, i.e. the standard business areas in Barcelona (SMEs), with lettings of between 300 and 400 sqm. Finally, we would note the increase in the number of transactions completed in 2015, 539 versus 458 in 2014.

The table below details take-up by business sectors:

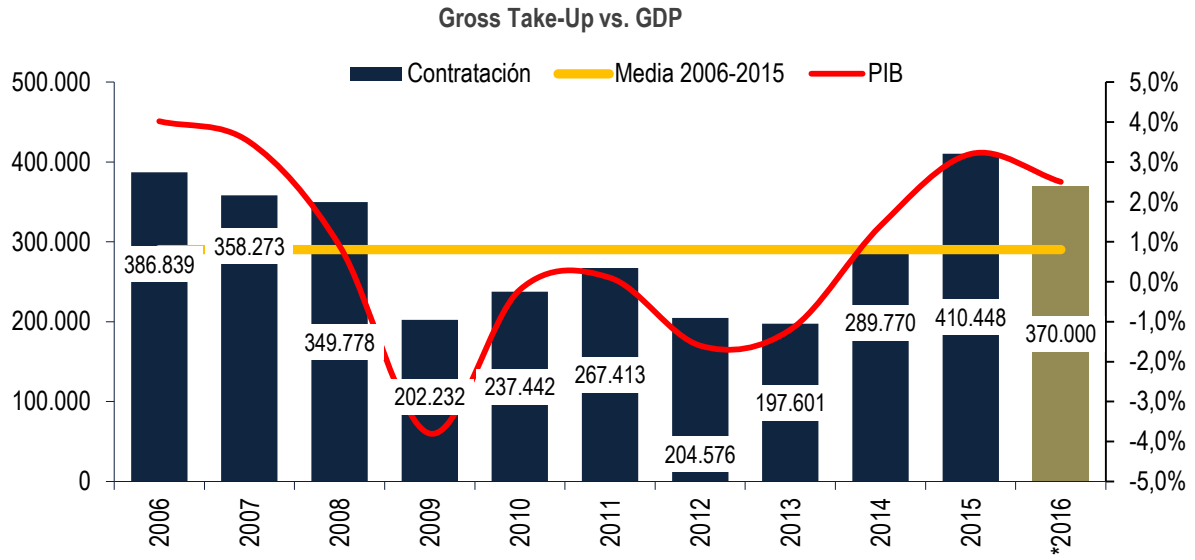
**Take-up by Business Sectors**

| SECTOR | 2014 | | | | | 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Superficie (m²) | % | Nº | % | Sup. Media (m²) | Superficie (m²) | % | Nº | % | Sup. Media (m²) |
| servicios a empresas | 95.189 | 32,9% | 175 | 38,2% | 544 | 117.258 | 27,9% | 200 | 37,0% | 586 |
| aa.pp. /organismos oficiales | 20.879 | 7,2% | 9 | 1,9% | 2.352 | 69.069 | 16,4% | 11 | 2,0% | 6.279 |
| electrónica e informática | 32.952 | 11,4% | 62 | 13,6% | 530 | 57.323 | 13,6% | 98 | 18,1% | 585 |
| venta y distribución | 25.092 | 8,7% | 58 | 12,6% | 436 | 49.570 | 14,2% | 61 | 11,5% | 813 |
| química y energía | 47.693 | 16,5% | 28 | 6,2% | 1.675 | 37.284 | 8,9% | 29 | 5,4% | 1.286 |
| seguros | 6.424 | 2,2% | 9 | 1,9% | 724 | 21.787 | 5,2% | 17 | 3,1% | 1.282 |
| banca y finanzas | 17.501 | 6,0% | 34 | 7,5% | 508 | 19.716 | 4,7% | 32 | 5,9% | 616 |
| construcción y inmobiliaria | 4.326 | 1,5% | 22 | 4,8% | 196 | 10.111 | 2,4% | 20 | 3,7% | 506 |
| industria y fabricación | 28.512 | 9,8% | 30 | 6,7% | 936 | 8.961 | 2,1% | 26 | 4,8% | 345 |
| telecomunicaciones | 4.570 | 1,6% | 10 | 2,2% | 457 | 7.844 | 1,9% | 20 | 3,7% | 392 |
| medios de comunicación | 2.091 | 0,7% | 8 | 1,8% | 256 | 2.695 | 0,6% | 7 | 1,3% | 385 |
| otros | 4.541 | 1,6% | 12 | 2,6% | 382 | 8.830 | 2,1% | 18 | 3,3% | 491 |
| TOTAL | 289.770 | 100% | 458 | 100% | 633 | 410.448 | 100% | 539 | 100% | 761 |

If we analyse take-up from the point of view of different business sectors, we should point out that the "Business Services" sector is once again the leading sector, as it comprises a wide variety of companies, both in terms of the number of lettings signed and the amount of space taken. In 2015, this sector accounted for 27.9% of all office take-up and 37.0% of all transactions. During 2015, the "Public Authorities and Official Bodies" sector came second, due to various lettings carried out by the Generalitat, in order to bring all of its civil servants together. We would also note the importance of "Electronics and IT", which accounted for almost 14% of take-up, due to the increase in e-commerce and everything related to the internet, many international companies are opting to locate their offices in Barcelona, as it is becoming a leading location in Europe for this sector.

The average total size of space taken per transaction in 2015 was 761 sqm, compared to 633 sqm in 2014. This was due to the large transactions carried out in 2015. If these transactions are not taken into consideration, the average size of space taken stands at around 620 sqm, similar to previous years.

The graph below shows how gross take-up has evolved in Barcelona over the past 10 years, as well as take-up forecasts for 2016 as a whole. It also includes the average take-up over the past ten years, as well as GDP performance over that period.




As one can see in the graph above, demand in 2015 was the best seen in the past ten years. 2016 expects to see strong demand and that take-up will be more structured, above all from a qualitative standpoint. However, the total estimated figure stands at around 370,000 sqm, slightly below the levels achieved in 2015, as it is not expected that so many large lettings will be carried out. But this would still be above the average for the past 10 years.

## 5.3 Vacancy

The vacancy rate in Barcelona fell by more than two points during 2015. The vacancy rate continued to gradually decrease over the past twelve months to 11.50% of total office stock, which means that there is 676,305 sqm available for immediate occupation in the market.

The table below indicates availability based on the zoning of the market as set out by Aguirre Newman.

**Vacancy Rate**

| Zona | | Desocupación (m²) Enero 2015 | (*) | Desocupación (m²) Julio 2015 | (*) | Desocupación (m²) Enero 2016 | (*) |
|---|---|---|---|---|---|---|---|
| DN | CDN | 64.057 | 7,68% | 46.404 | 5,56% | 35.278 | 4,23% |
| | RDN | 81.424 | 3,9% | 79.227 | 3,8% | 73.575 | 3,5% |
| RC | | 185.044 | 35,1% | 181.069 | 34,3% | 147.631 | 28,0% |
| DEC | | 218.411 | 18,9% | 200.378 | 17,4% | 188.036 | 16,3% |
| OUT | | 256.370 | 20,4% | 240.718 | 19,2% | 232.085 | 18,4% |
| TOTAL | | **805.306** | **13,69%** | **747.796** | **12,71%** | **676.605** | **11,50%** |

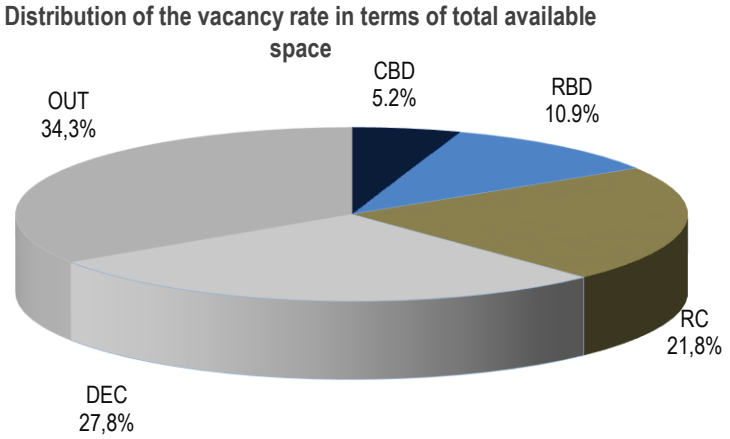
*(*) Percentage of stock in each area*

The amount of available space on the market fell by more than 128,000 sqm over the last year. The decline in vacancy rate extended into all of the areas analysed. Of particular note were the best areas of the city, including the Business District. In the CBD, Central Business District, available space fell by 28,779 sqm over the past 12 months, with the vacancy rate now standing at 4.23%. In contrast to previous years, the Rest of the City area, RC, has shown signs of recovery in terms of take-up, with the amount of available space falling by more than 37,000 sqm. Finally, the out-of-town areas of the city have significantly improved their occupancy rates, thanks to the good levels of take-up registered in the period analysed and the lack of new supply.

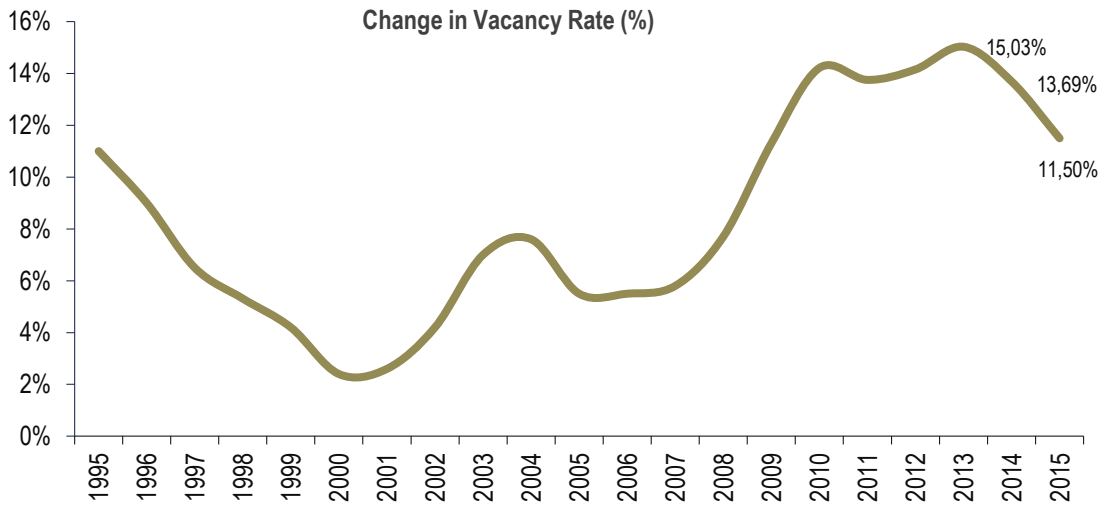
Over 2016, and as a result of the moderate levels of new office space coming available and the expectation of good take-up figures, the vacancy rate will continue to fall in all areas of the market.

# 05 BARCELONA OFFICE MARKET

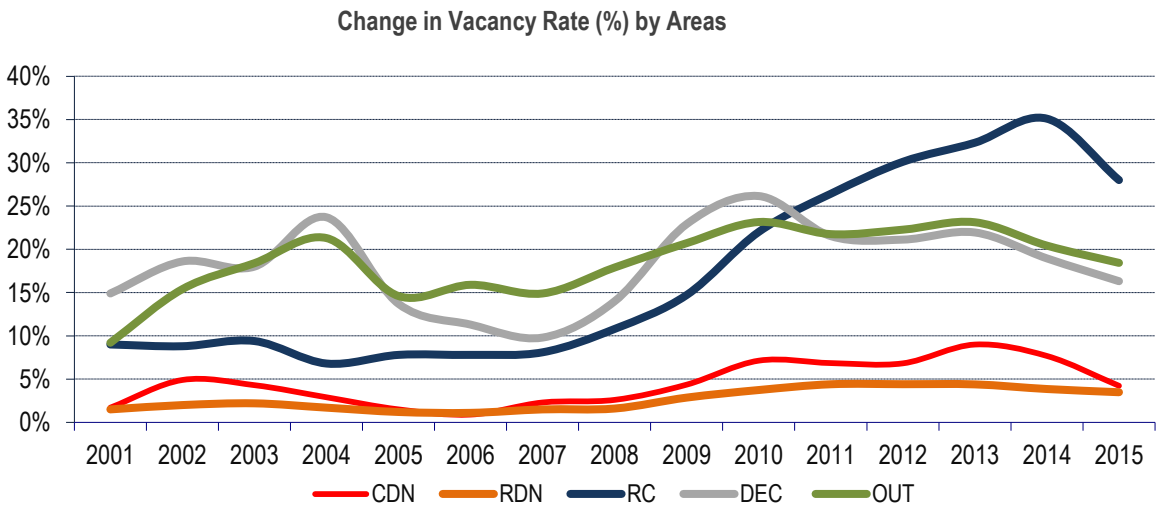
The pie chart below highlights the distribution of available space in the Barcelona market by area. The DEC and OUT areas accounted for more than 62% of total available space in the Barcelona office market. There continues to be a large amount of available space in the RC area, with a large part of this available space being outdated, which makes it less appealing for occupiers, who then prefer to look at other markets.




The graph below details the historic change in the vacancy rate in Barcelona. The vacancy rate has fallen significantly and we expect it to continue to fall over 2016.




As one can see in the graph below, all of the other areas analysed have seen their vacancy rates fall, particularly in the out-of-town areas and the Rest of the City (RC, DEC and OUT). The Business District (CBD + RBD), have the lowest vacancy rates.



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## 5.4 Price levels

2015 consolidated on the turning point seen in 2014 for rental prices in the Barcelona market, with an increase in average rents across the market. On average, average rental prices grew by 9.1% over the past 12 months. In contrast to last year, on average, prices have proportionally risen more in out-of-town areas.

The continued improvement in take-up and the vacancy rate have directly improved average and maximum rents. The areas with less vacancy are the first areas to see rental uplift, as a result, the CBD has registered three consecutive semesters of rental uplift and the average rent in the Central Business District stands at €16.01 per sqm/month, while top rents stand at €19.75 per sqm/month.

The area that registered the greatest average price increase was the Decentralised area (DEC), with rents rising by 14.4% over the past 12 months.

The tables below provide details of changes in average and top rental prices over the last 18 months in Barcelona, as well as two tables detailing price changes.

### Change in average rental prices (%)

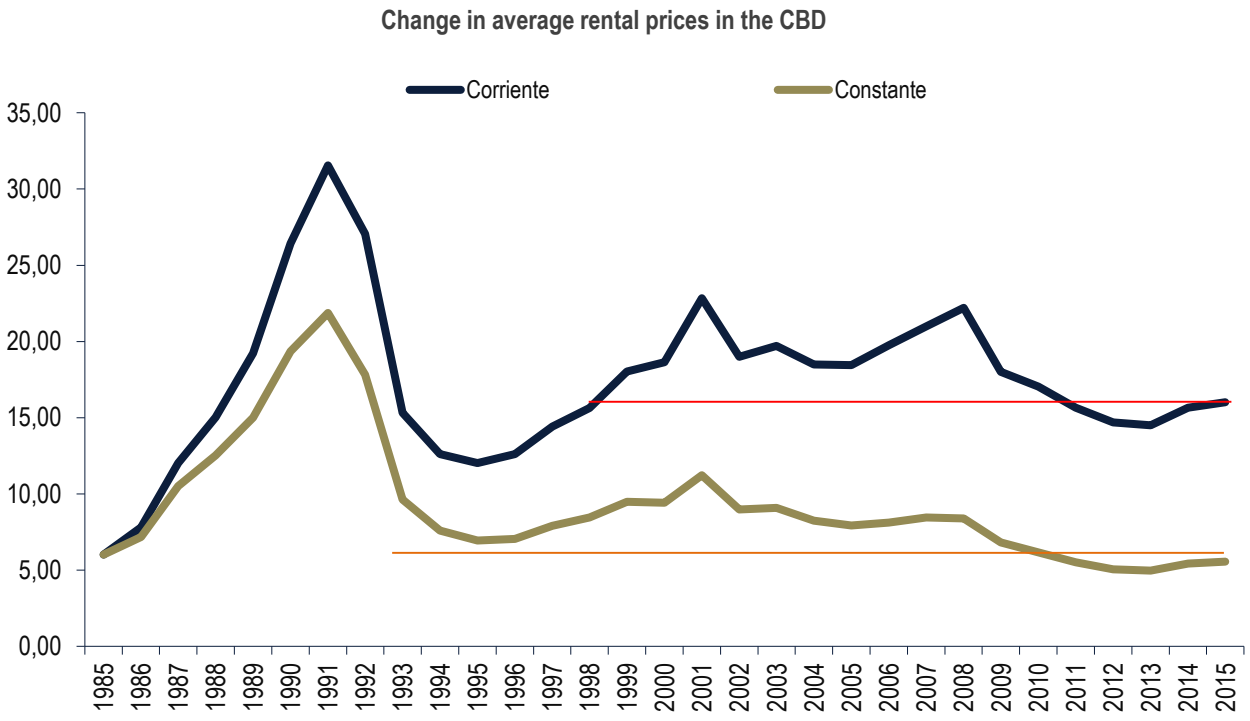
| Zona | | 2do Semestre 14 | | 1er Semestre 15 | | 2do Semestre 15 | |
|---|---|---|---|---|---|---|---|
| | | Precios Máximos (€/m²/mes) | Precios Medios (€/m²/mes) | Precios Máximos (€/m²/mes) | Precios Medios (€/m²/mes) | Precios Máximos (€/m²/mes) | Precios Medios (€/m²/mes) |
| DN | CDN | 17,75 | 15,65 | 19,00 | 15,96 | 19,75 | 16,01 |
| | RDN | 15,50 | 12,89 | 16,50 | 13,35 | 17,00 | 13,43 |
| RC | | 12,45 | 9,80 | 13,25 | 10,57 | 13,75 | 11,12 |
| DEC | | 14,50 | 10,86 | 15,50 | 11,69 | 16,00 | 12,42 |
| OUT | | 11,00 | 6,50 | 11,50 | 7,09 | 12,05 | 7,22 |

### Change in average rental prices (%)

| Evolución precios Últimos 6 meses | | |
|---|---|---|
| Zona | Máximos | Medios |
| CDN | 3,9% | 0,3% |
| RDN | 3,0% | 0,6% |
| RC | 3,8% | 5,2% |
| DEC | 3,2% | 6,2% |
| OUT | 4,8% | 1,8% |
| MEDIA | | 2,8% |

| Evolución precios Últimos 12 meses | | |
|---|---|---|
| Zona | Máximos | Medios |
| CDN | 11,3% | 2,3% |
| RDN | 9,7% | 4,2% |
| RC | 10,4% | 13,5% |
| DEC | 10,3% | 14,4% |
| OUT | 9,5% | 11,1% |
| MEDIA | | 9,1% |

In the graph below, one can see how in real terms (discounting the effect of inflation) prices in the Central Business District (CBD) stand below record lows and one can see that constant rents bottomed out at the end of 2013 and a slight but stable change in trend is underway.



# Inversiones

# 06 INVESTMENT MARKET

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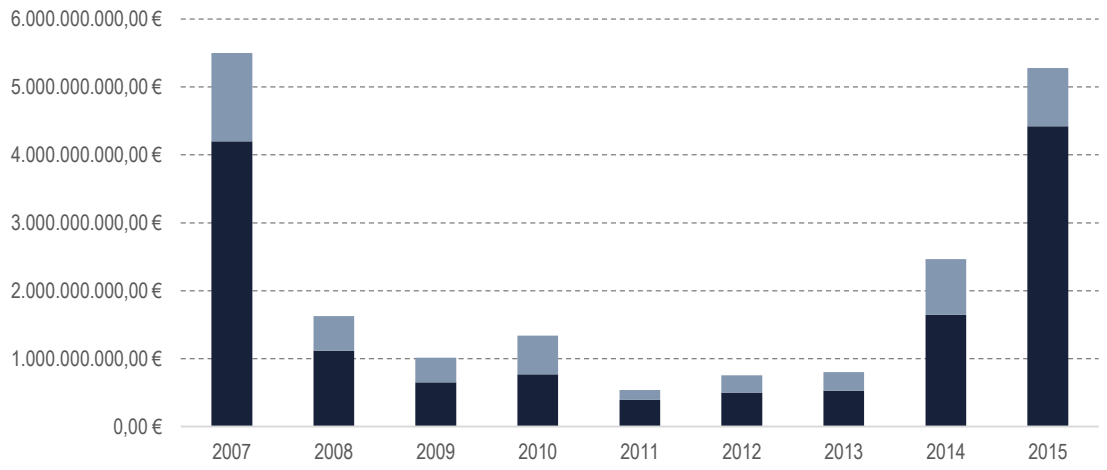
During 2015, the office market investment volume for Madrid and Barcelona stood at close to €5,400 million. This investment volume, along with that of 2007, was an all time record for the office market and doubled the investment volume achieved in 2014.

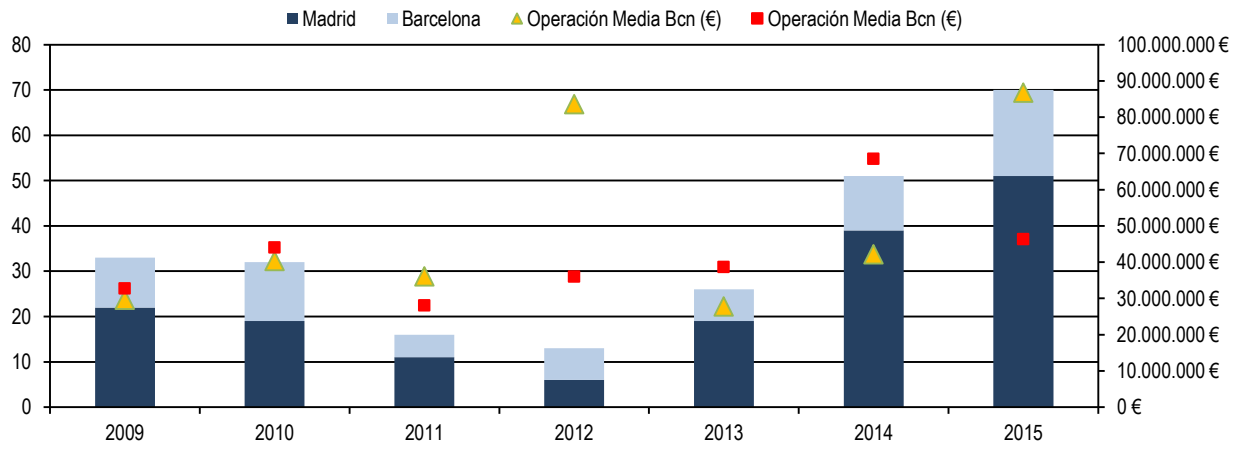
The investment volume for income-producing properties in the Madrid office market reached €4,400 million, a 176% increase compared to the €1,600 million in 2014. Investment volume in Barcelona exceeded €880 million, above the €750 million registered in 2014. 83% of investment volume was concentrated in the Madrid market, while the remaining 17% were deals completed in Barcelona.

**Office Market Investment Volume (€)**



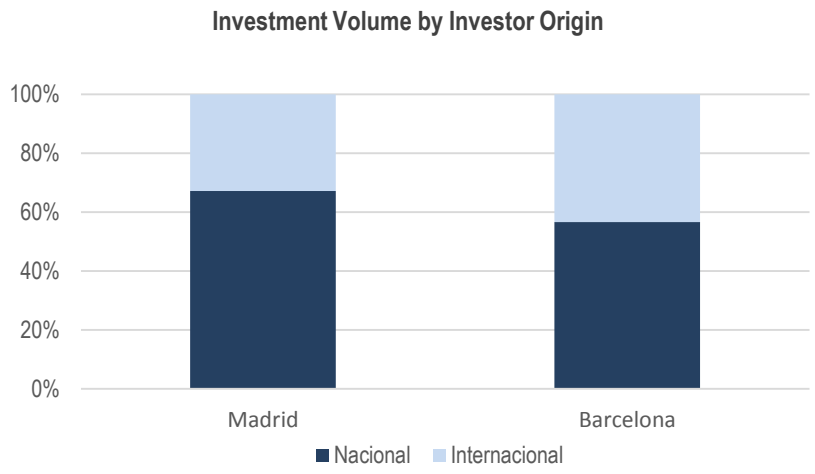

The number of transactions was well above previous years. In 2015, 75 investment deals were completed, which accounted for the sale of 113 office buildings. This was a significant increase compared to the 66 properties sold in 50 deals in 2014. We would note that 40% of the investment volume related to two deals, Torre Espacio and the purchase of Testa by MERLIN Properties Socimi.

**Number of Investment Transactions (left axis) and Average Lot Size (right axis)**



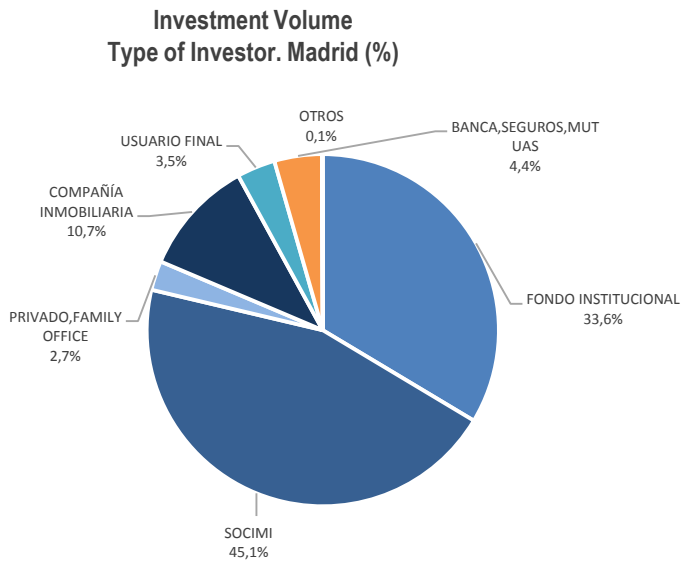
The consolidation of the factors that have permitted the investment market to grow since the end of 2013, have been key in reaching the record investment levels achieved seen in 2015. In general, these factors have changed the perception of risk in relation to the Spanish economy, which has created an influx of new investors with a high investment capacity that has facilitated a return to favourable financing conditions.

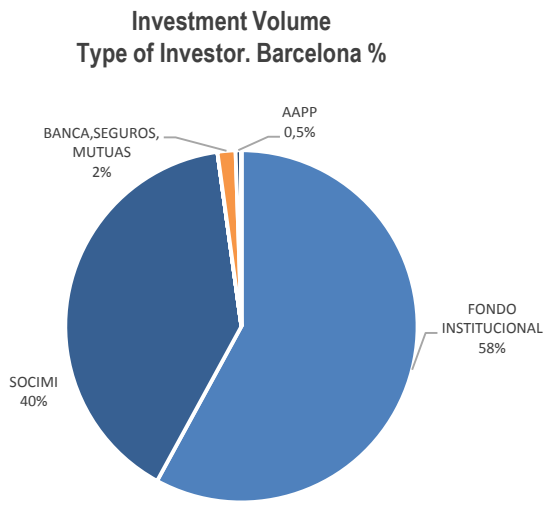
**- Shift in risk perception.** 2015 was the year in which economic growth consolidated in Spain. Forecasts suggest that GDP stood at 3.2%, a huge one per cent above average growth for the EU. Economic forecasts are equally favourable estimating 2-3 years growth in the region of 2.5%. These forecasts put Spain in a good position in terms of geographical assignment of capital by international investors. The improved economic backdrop has favoured the arrival of new investors, an excellent example of this was the Filipino investor Global One that purchased Torre Espacio.




**- Strong buyer activity from SOCIMIs.** In this section we would note the strong levels of buyer activity by SOCIMIs. Their strong investment capacity and the specialisation of some of them in the office market, has meant that they sit alongside institutional investors as the main players in the market in 2015. 45% of all office investment volume during 2015 was carried out by SOCIMIs. Institutional funds, that accounted for 36%, demonstrates that this type of investor is highly interested in the Madrid and Barcelona office markets. Finally, real estate companies, which accounted for 10% in Madrid, are becoming more active at purchasing properties, whether they be income-producing or for refurbishment, with Colonial and GMP heading up this group.

The following graph details the investment volume by investor type in both markets. One can see that SOCIMIs were very active both in Madrid and Barcelona, where they accounted for more than 4 out of every 10 euros invested.



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**- Improvement in market fundamentals.** Vacancy rates in the office market continue to fall in line with those of 2014. This trend, an upshot of positive net take-up levels, is pushing up rents, starting with markets in which there is little available supply.

According to market consensus, rents are expected to increase in the short, medium and long term (>3 years) following the strong correction experienced in recent years and the onset of a new economic growth cycle. Nevertheless, both the speed of this growth and the time needed for rents to recover to pre-crisis levels are open to discussion.

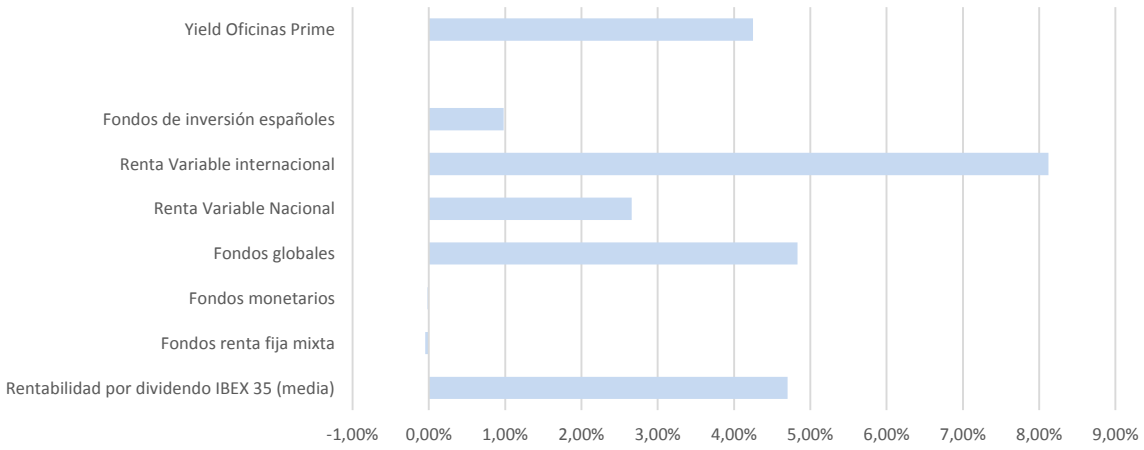
**- Improved financing market.** Financing continued to improve over the course of 2015. The main national and international banks that specialise in financing real estate investment transactions, have been more actively lending, with less restrictions and tighter margins. However, when granting financing, not only were the location, quality of the property and the tenancy schedule key factors, but the quality of the "sponsor" was also essential. The general terms offered by the market, put the LTV between 60-70%, with maximums of 75% for the prime market and Euribor spreads from 175 basis points.

**- Low yield or heightened risk of alternative investments.** Once again, it is worth highlighting that the low interest rate for low risk investments (public debt of certain countries, corporate debt and deposits) is pushing capital towards investments with more attractive returns. The real estate market is an opportunity for those investors that traditionally invested in the debt markets, as the investment opportunities offer measured risk and much better returns. In this regard, SOCIMIs offer an excellent investment opportunity, not just for large investors, but also for the small investor, who wants to make a return on their savings.

The list below details the average yield generated by various alternative investments with different levels of risk in 2015:

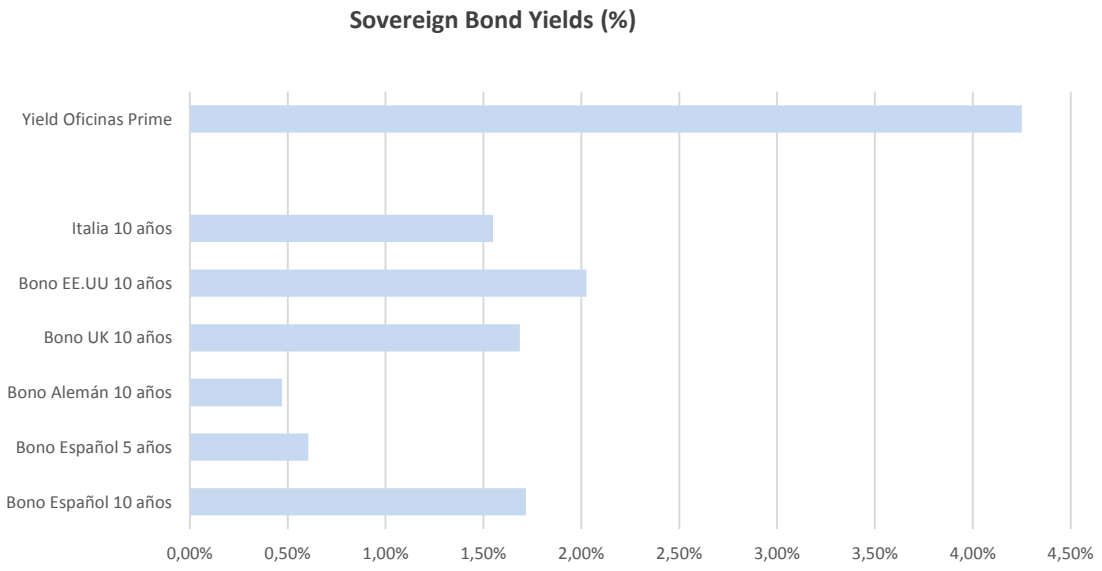
- Spanish investment funds: 0.98%
    - International equities: 8.12%
    - National equities: 2.66%
    - Global funds: 4.83%
    - Monetary funds. -0.02%
    - Mixed fixed income funds: -0.05%
- Yield per IBEX 35 dividend (average): 4.7%

**Prime office yield vs other types of investment (%). 2015**




Source: BME, Inverco, Aguirre Newman

On the other hand, the yield on 10 year government bonds across various countries is very low, with a significant spread between that and the office investment market.

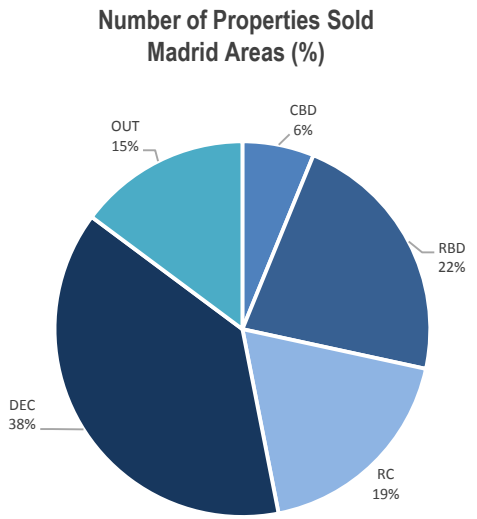


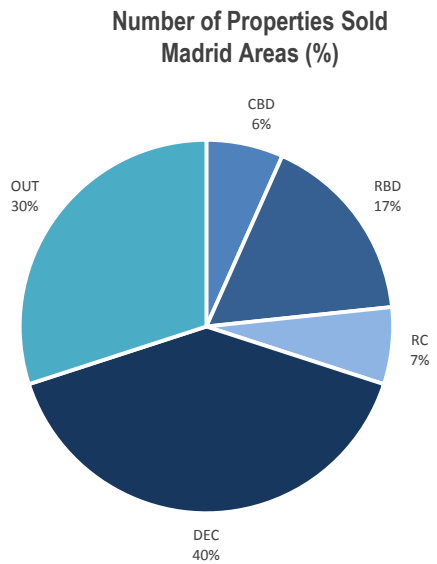

- **The "sell side" has primarily been headed up** by real estate companies and institutional investors, who have been selling their property portfolios, in some cases due to them being open-funding funds and they have reached their maturity period, and in others, due to them following a asset rotation strategy. Wwould note the lack of product in the Business District (BD), for yet another consecutive year. This has had two consequences which should be borne in mind:

- Huge downward pressure on purchase prices, due to the lack of existing supply in the BD, where in specific cases, initial yields were clearly below 4.0%.

- Investors are searching for alternative purchase options in higher risk markets, primarily in the out-of-town areas, where there is greater vacancy and more need for active management. The upswing in the economy, is clearly aiding this investment strategy, which requires moving in to higher risk markets.

The following graph details the investment volume by areas in both markets and shows that there was a significant amount of investment concentrated in the DEC area (Decentralised area within the city). There were very few transactions in the business district market.



Forecasts for 2016 are extremely positive. Aspects to keep in mind in order for the market to continue along the same track as the previous two years are:

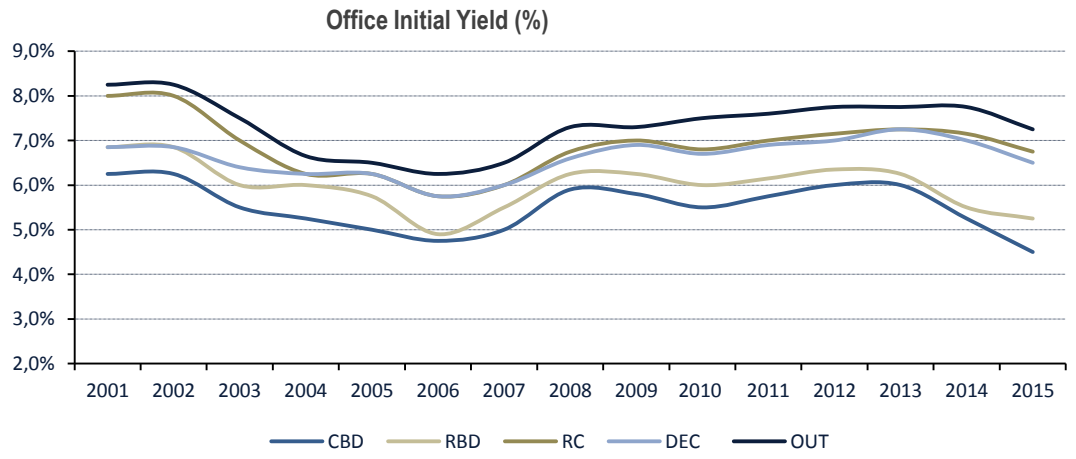
- The need for political stability. Both international and local investors, which in many cases have overseas institutional investors as shareholders, need to have a clear understanding of the policies that are to be followed in the short to medium term in the markets they invest in.

- Market liquidity. In line with the previous point, there is liquidity in the market, but there is a great deal of potential that that capital could easily be moved to more stable markets. As and when the political situation stabilises in Spain and it becomes clear what the political and economic strategy will be in the medium term, investors will take their decisions on whether Spain will continue to be on their radar as an investment destination. On the other hand, both national and international financial entities are open to lending, but this will also depend on there being more stability.

- We should also mention the FED's interest rate rise in December 2015 and the more than likely increases that will ensue in 2016. Depending on how much this rises, we could see liquidity shift towards the American market.

- Product on the market: Everyone is asking the same question of whether there will be enough properties for sale in the market. In 2016, as in 2015, it is likely that demand will outstrip supply in the market, which is particularly remarkable in the Business District. Despite this, we remain positive and believe that properties will come on the market via owners that have stayed out of the market over the past few years and believe that now is the right time to sell (record low initial yields). On the other hand, buyers that came in to the market in the last 3/4 years via the purchase of individual assets or property portfolios are thinking about selling their properties, given that their return expectations could be met. Finally, financial entities and public authorities still have properties in their portfolios to sell.

Finally, we detail the change in the average initial yield required by investors since 2001, in line with the zoning created by Aguirre Newman for the office market. The initial yield has continued to fall, with the prime yield in Madrid standing at between 4.25%-4.5%, although some deals have even been completed below 4.0%. Whilst in Barcelona, the initial yield stands at between 4.5%-5% for the best properties. The remainder of the markets (rest of the city and out-of-town), have also noted their initial yields harden, which coupled with the increase in rents, has driven capital values up.



# AGUIRRE NEWMAN in **2015**

## MADRID

**More than 100 transactions**
***Over 105,000 sqm brokered***

**11,200 sqm**

OBS new headquarters at Torrelaguna 75

Property:

**11,444 sqm**

Relocation of the Roche Pharma Headquarters at Ribera del Loira, 36-50

Property:

**8,250 m²**

New central headquarters for Dentix at Ribera del Loira 56-58

Property:

**6,329 sqm**

Sale of the ARCE building in Arroyo de la Vega to Bankinter

Property:

**3,901 sqm**

New Chemo headquarters in the Ebrosa Building in Sanchinarro

Property:

# BARCELONA

***More than 50 transactions***
***More than 52,000 sqm brokered***

**6,434 sqm**

New offices in
the Green Sant Cugat
Building
San[illegible]allés

Roche Diagnostics

Property:

Blackstone

**6,036 sqm**

New offices in
the Sant Cugat Nord Building
Sant Cugat del Vallés

Sabadell

Property:

Colonial

**3,274 sqm**

New offices in the CAC
Building, Sancho de Ávila 125
Barcelona

SELLBYTEL

Property:

elCONSORCI barcelona

**2,550 sqm**

New headquarters at
Edificio Ausiàs March 148
Barcelona

tripadvisor

Property:

Colonial

**2,371 sqm**

New offices in
the Il·lumina Building
Esplugues de Llobregat

IberianPartners
Coca-Cola Iberian Partners, S.A.

Property:

Blackstone

# INVESTMENT

***25 office buildings***
***More than 300,000 sqm transacted***

**TORRE ESPACIO**

Sales advisory services to
Grupo Villar Mir

ALLIANCE GLOBAL

Property:

GRUPO Villar Mir

**Pº CASTELLANA,**


Sales advisory
services to Ahorro
Corporación

ALBA GRUPO MARCH

Property:

Ahorro Corporación

**Pº RECOLETOS, 4**

Sales advisory services to
GLL Real Estate

//ABANCA

Property:

GLL REAL ESTATE PARTNERS

**D. RAMÓN CRUZ,**

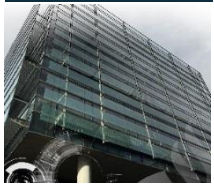
Sales advisory services to
Telefónica

axiare PATRIMONIO

Property:

Telefónica

**PARQUE AVALON**



Advisory services to Banco
Santander and Meridia
Capital

GREENOAK Meridia CAPITAL

Property:

Santander PRIVATE BANKING

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EUROMONEY
REAL ESTATE
AWARDS
2015