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Savills World Research
Madrid Offices

The Occupier's Perspective: Madrid
Core tightens, but room to grow elsewhere

June 2017

Key Takeaways:

CBD vacancy rate ↑ in Q1 2017 to 9.4%

2 years of supply still left in the CBD

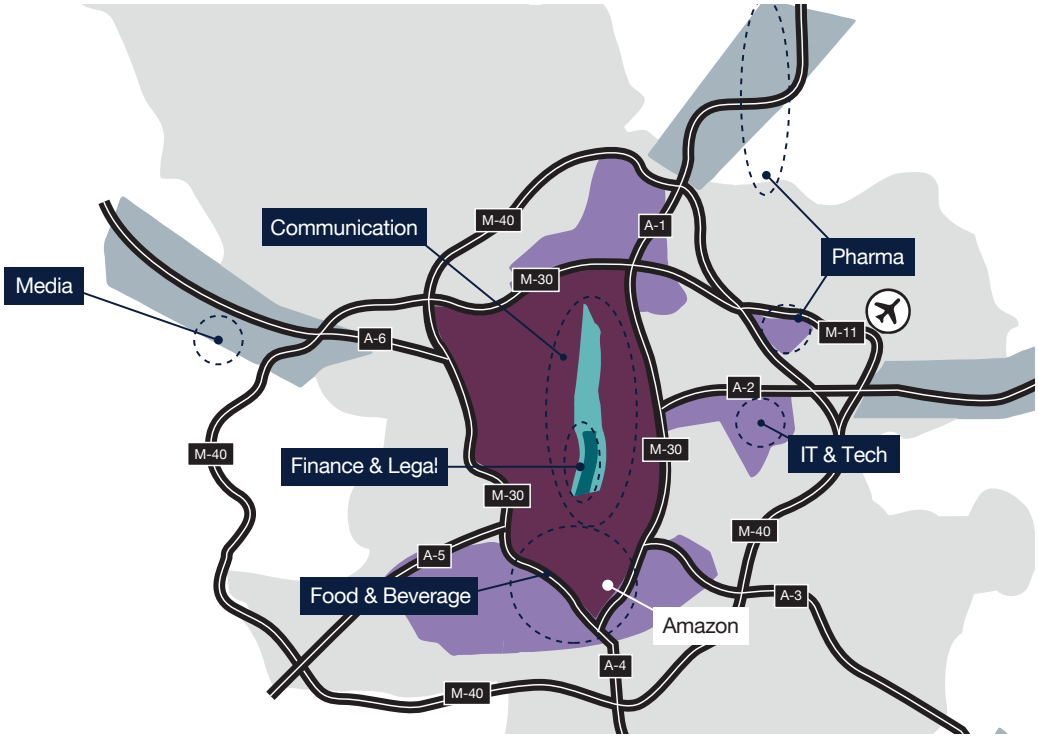
Live/work costs 63% lower than London

Prime rents to rise 3.5% in 2017 and 6.1% in 2018

Amazon has relocated from periphery to urban area

FIGURE 1

Madrid occupier map

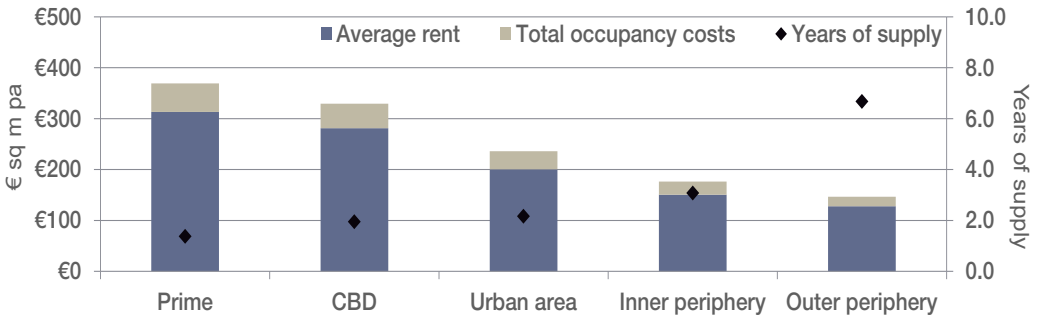


Key Stats - Q1 2017	Average rent (€/sq m pa)	Total occupancy cost* (€/sq m pa)	Vacancy rate (%)	Immediate supply (sq m)	5-year average take-up (sq m)
Prime	313.10	369.40	5.8	25,000	18,000
CBD	281.40	329.40	9.4	143,000	74,000
Urban area	200.30	235.80	6.1	202,000	93,000
Inner periphery	150.60	176.50	10.3	436,000	142,000
Outer periphery	127.90	146.60	15.5	542,000	81,000

Savills annual occupancy costs are calculated by summing up average rents, service charges and deducting landlord incentives

FIGURE 2

Occupancy costs and years of supply



[1] Savills annual occupancy costs are calculated by summing up average rents, service charges and deducting landlord incentives. Please note that service charges used in the analysis are average values. The actual service charge depends on the amenities provided in the building

[2] Years of Supply is calculated by dividing current availability over average annual take-up levels over the last five years

Good opportunities for tenants in the short term

■ Madrid is currently an **attractive option** for tenants:

1) The overall vacancy rate stood at **10.3%** at the end of Q1 2017 with the CBD vacancy at **9.4%** (up from 8.3% in Q4 2016). This translates into **3.3 years** of supply across the whole market and **two years** in the CBD. The vacancy will be maintained at this level over the course of this year

2) For occupiers looking to relocate **post Brexit**, Madrid is one of the most **affordable** cities in Europe in which to accommodate staff - live/work accommodation costs per employee are **€31,488; 63% lower** than London and 56% below Paris

3) GDP is set to grow on average **2.3%** pa during 2017-21. The **Information, Communication & Tech** sector is expected to grow by 3.6% pa while growth in **Finance & Insurance** will come in at 2.0% pa during the same period (Oxford Economics)

■ The unemployment rate currently stands at a relatively high level of **14.2%** which offers occupiers a large pool of talent. However, the unemployment rate dropped significantly from the historic peak of 20.5% in Q4 2013. This is leading to increasing demand for office space, which in combination with limited speculative development in the CBD (at 48,000 sq m) will gradually lead to a lack of modern buildings. **Prime CBD rents**, which reached **€342/sq m pa** at the end of Q1 2017, are expected to rise by **3.5%** this year and **6.1%** in 2018. This suggests a gradual move towards a landlord favourable market in the CBD over the next two years. Occupiers will be able to find more space outside the CBD - 200,000 sq m of speculative space is expected to be delivered in 2017-18. Combined with current availability, this translates into more than **four years** worth of supply. Rents in the periphery are expected to rise at a more modest pace than in the CBD

Thriving Tech sector

■ The Tech sector is starting to expand rapidly. Employment in **Tech**, which currently accounts for 7% of the total, is set to rise on average by **2%** pa over the next five years. This compares with zero growth expected for the Finance & Insurance sector and 1.2% growth for all sectors

■ To attract and retain **top talent**, Tech companies are looking at modern buildings in locations with good transport links. For these reasons, **Amazon** has relocated from the outer periphery to a central location (**Ramírez de Prado**), where they took **12,000 sq m.** As a result, we expect that this area will attract significant interest from other Tech firms

■ In tandem with the growing Tech sector, the **serviced office sector** is starting to take off. While take-up by serviced office providers reached 7,000 sq m in 2016, there are currently **10,000 sq m** of active requirements on the market

Agent Q&A (Carmen Jiménez)

What do you see as the main occupier trend in 2017-18?

Efficiency, employee satisfaction and sustainability are on top of the corporate agenda. To attract and retain top talent, firms are looking at CBD locations. Modern buildings with LEED/BREEAM certification and those with plenty of natural light are in the highest demand.

Which sector is of the most interest to you?

Tech sector, particularly PropTech and FinTech, is growing rapidly which is driving demand for serviced offices. Finance firms, specifically small investment banks and private equity firms, are also of interest. Their space has traditionally been characterised by individual cubicles but they are now starting to move to open plan offices.

What do you consider the main challenges facing occupiers over the medium-term?

As occupiers increasingly look at CBD locations, this will gradually lead to the shortage of Grade A buildings. Lack of space means that companies will struggle to expand within the same buildings while rents are expected to rise across the CBD.

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