

Colonial



Colonial – Investor Day

OFFICE MARKETS

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Madrid 16/10/18





Spain Office Market

Madrid Office Market

Stock

c.13.25 mill sq

Only 16% new/refurbished/updated
21% IN M-30
12% OUT

Vacancy Rate
10%

7% IN M-30
12% OUT

Take-Up Jan-Jun 2018: 273,000 sq m
No. of deals Jan-Jun 2018: 312 deals

-13% y-o-y
-16% y-o-y

Average closing rent Jan-Jun 18 Excl Office Build.
19 € /sq m/month
Weighted average closing rent
21 €/sq²/mes

Madrid CBD Market

Prime CBD Stock
c.1.98 mill sq

Only 30% new/refurbished/updated
56% of total New/Refurbished/Updated IN-M-30
40% of the updated buildings just superficial improvements

Prime CBD
Vacancy Rate 8%
Current Supply: 155,000 sq m

Occupier's activity
Take-up: 56,000
No. Deals: 72

Take-up
-19% y-o-y
-32% with regard the latests peak of market

Prime CBD Achivable rent
32 €/sq m/month
+10% y-o-y
-24% with regards to the latest peak

Barcelona Office Market

Total Stock
6 mill sq m

Vacancy Rate
6.5%

Occupier's activity
Take-up: 207,500
No. Deals: 311

Take-up
0% y-o-y
4% with regard the latest peak of market

Average closing rent Jan-Jun 18 **Excl Office Build.**
13,45 € /sq m/month
Weighted average closing rent
13,60 €/m²/mes

Prime CBD
1.4%

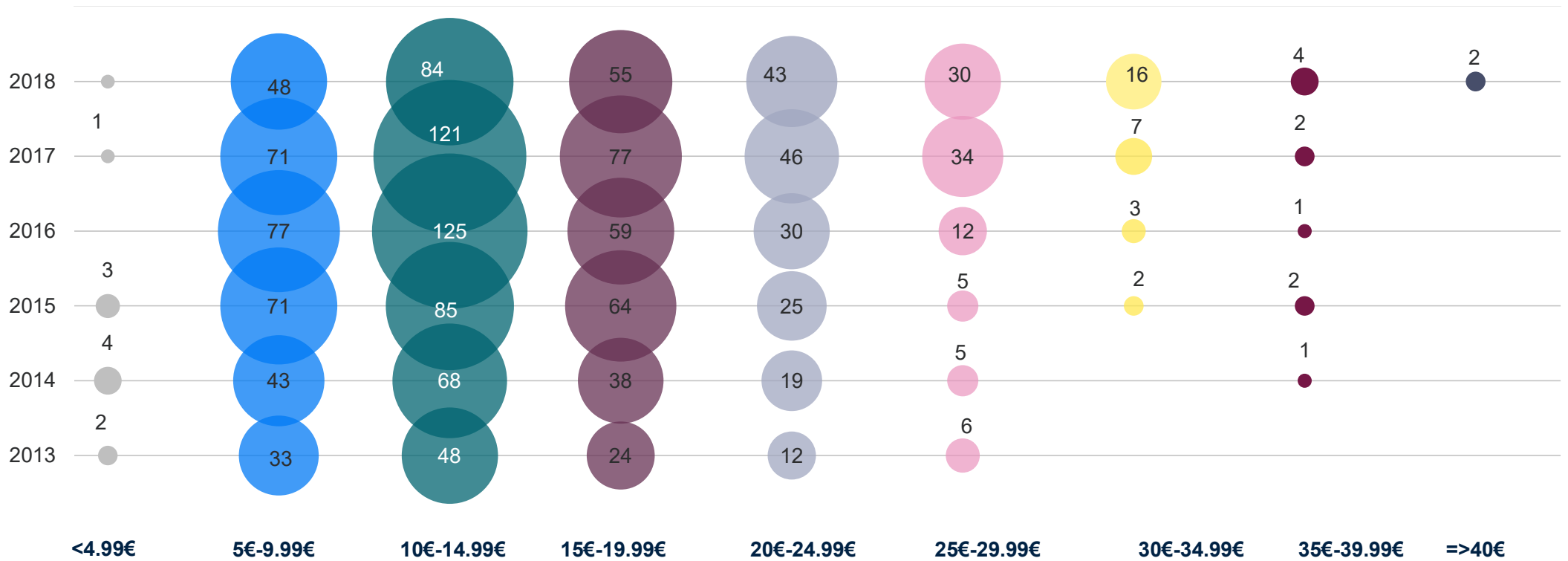
Occupier's activity
Take-up: 8,300
No. Deals: 26

Take-up
-50% y-o-y
-30% with regard the latest peak of market

Prime CBD Achivable rent
24,50 €/sq m/month
+8% y-o-y
-12.50% with regards to the latest peak

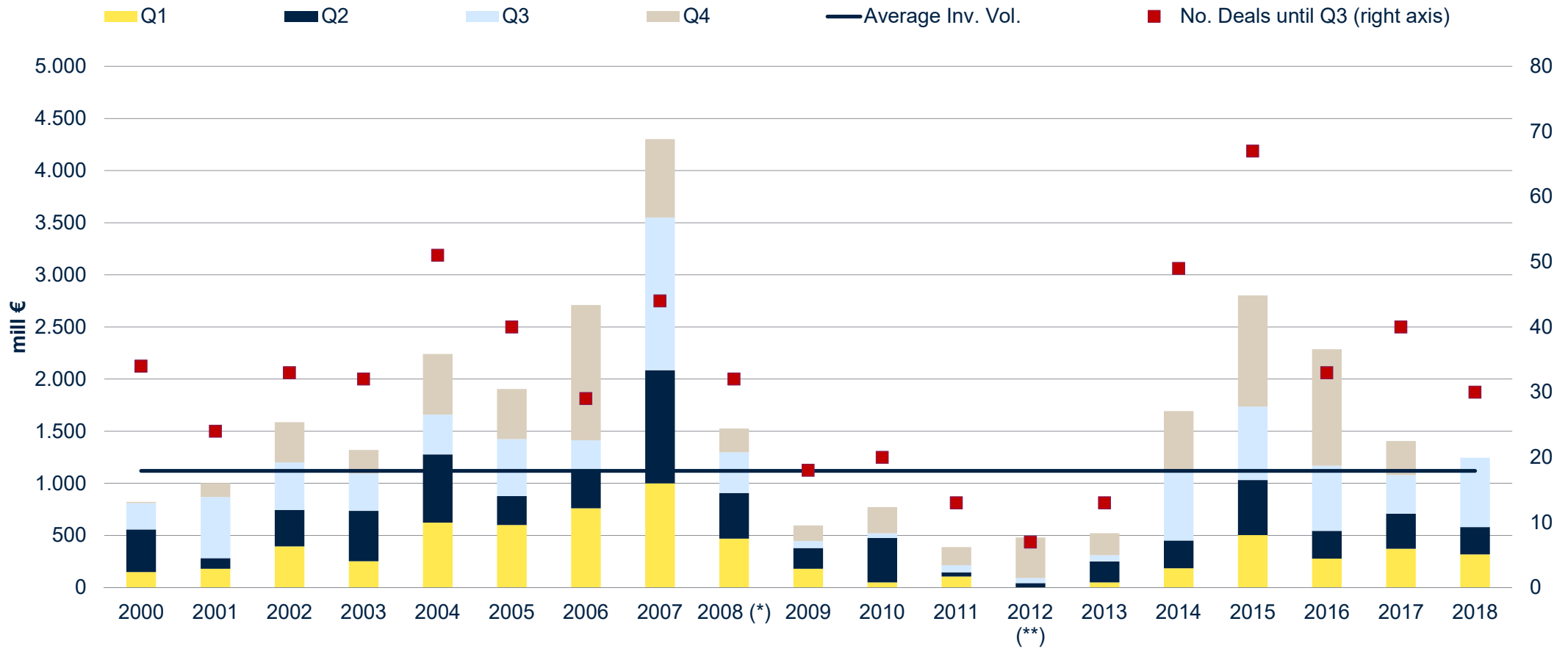
Rents with a clear upwards trend

No. of Deals by Rent Range in Commercial Office Buildings (Exclusive + HT) (accumulated until Q2)*



...and investment volumes going upwards

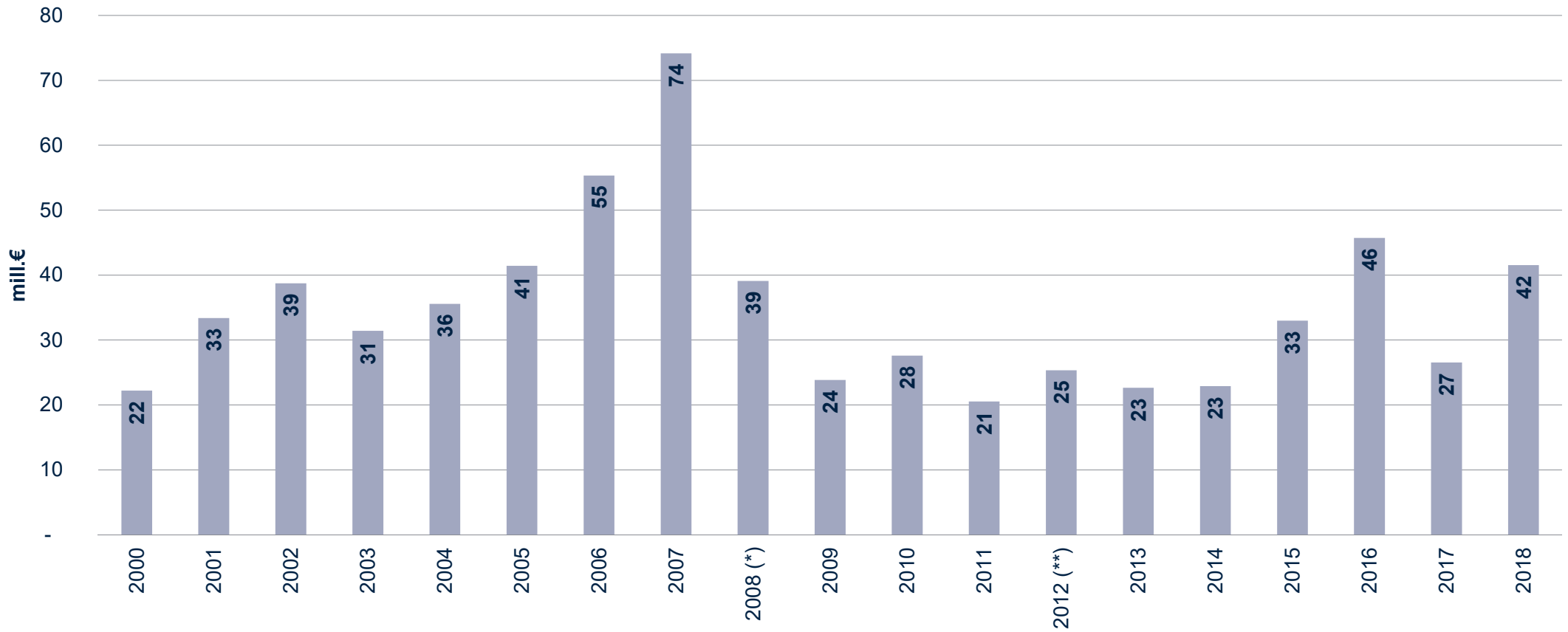
Investment activity in the Madrid office market



Source: Savills Aguirre Newman Research / *excluding Ciudad Financiera / **excluding Torre Picasso / 2018 September

... with bigger transactions

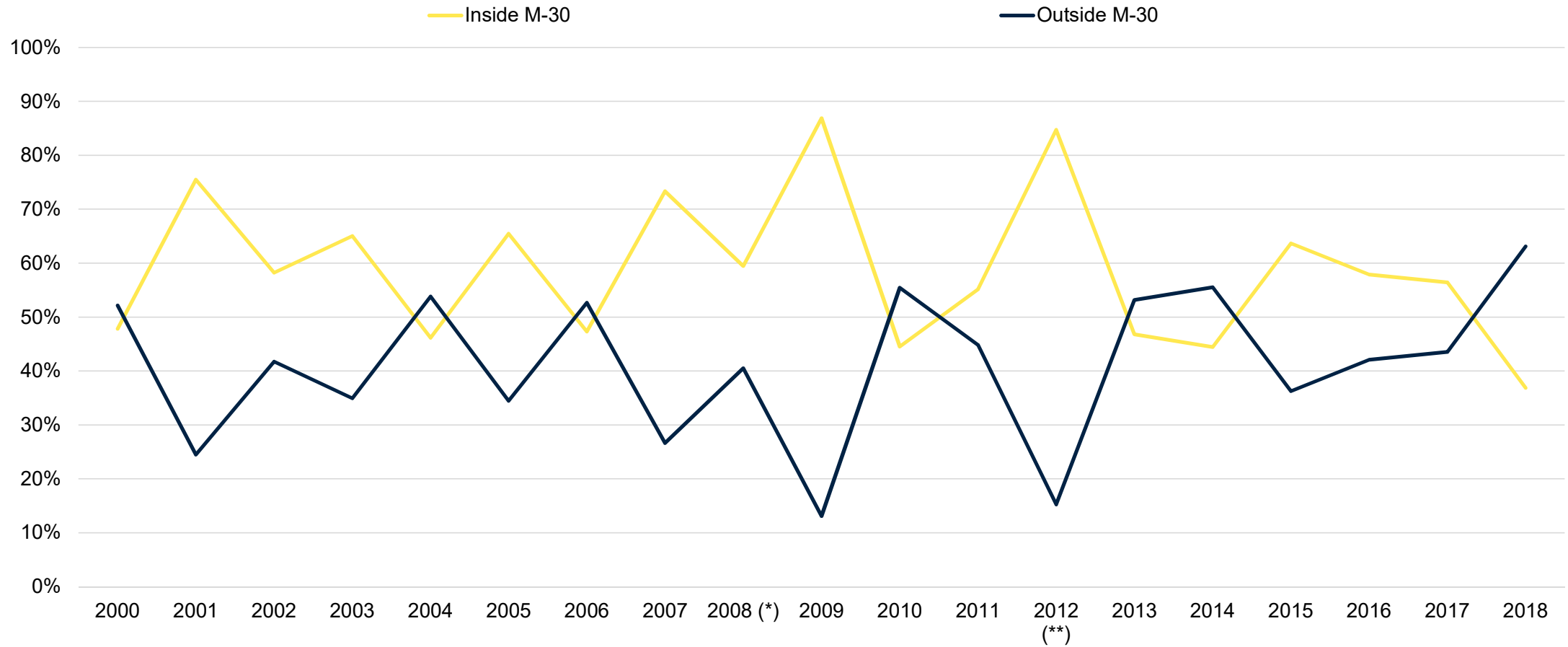
Average Investment Volume by Asset

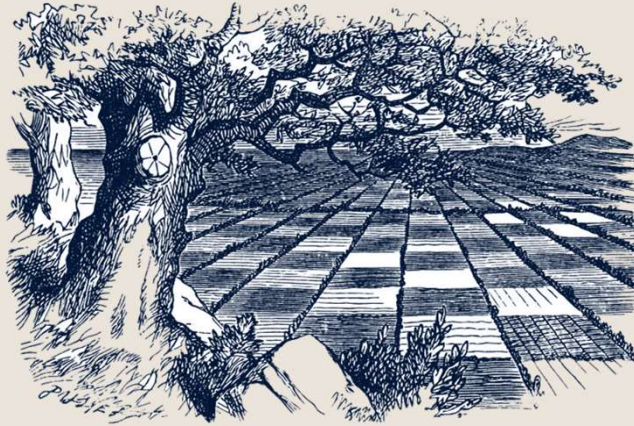


Source: Savills Aguirre Newman Research / *excluding Ciudad Financiera / **excluding Torre Picasso / 2018 September

And an increasing appetite for out of M30

Distribution of Volume Transacted with regard to the M-30

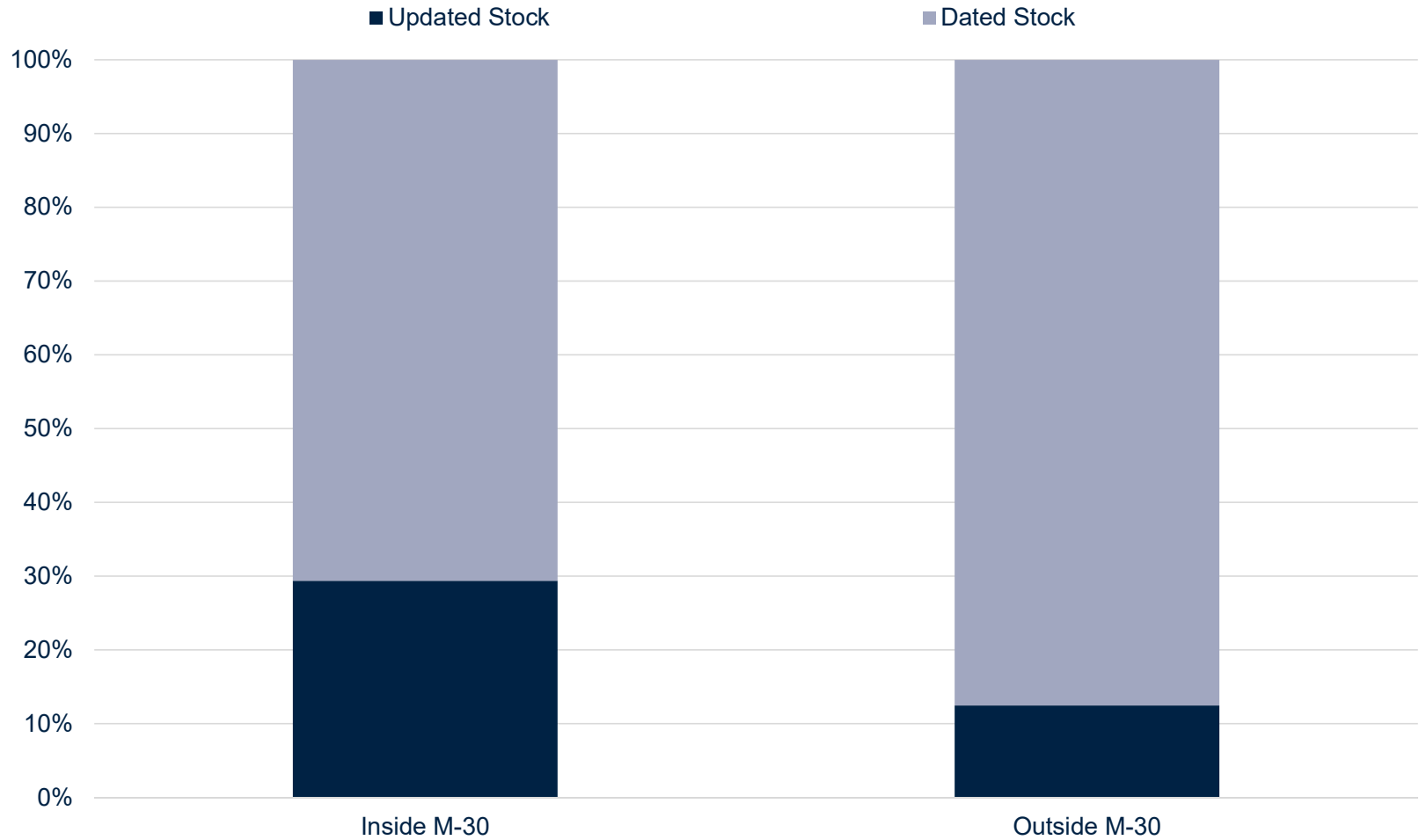




How is the stock evolving?

Renovation of the stock 2014 – 2018

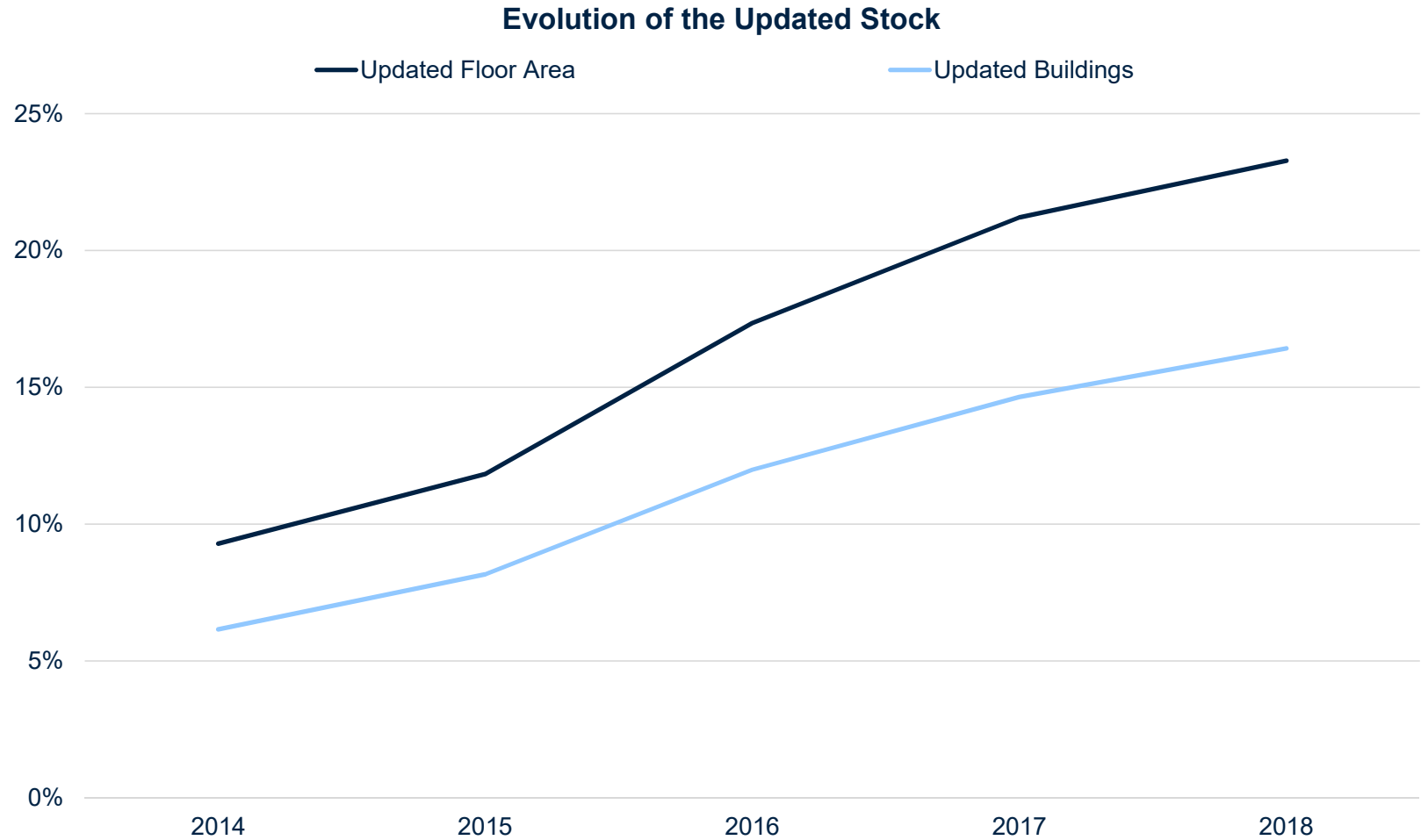
The quality of the Madrid office market stock has improved notably in recent years, especially within the M30. But there are still a large number of outdated buildings.



Unstoppable upwards trend – 2014 – 2018

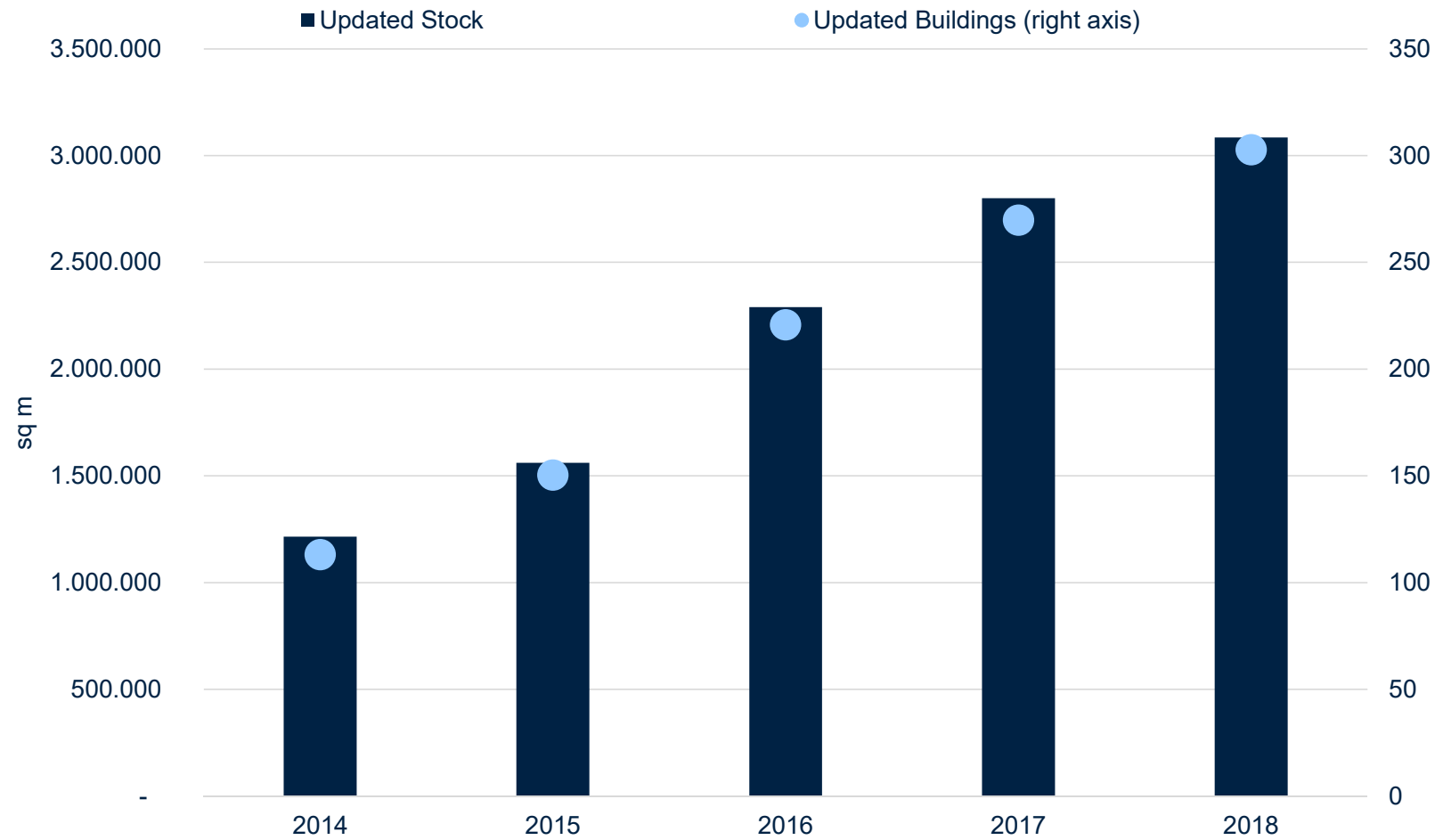
More than 300 buildings have been developed, refurbished, updated or had superficial works (cosmetic capex) in the last 4 years.

They represent only 16% of the total Madrid office market and account for 23% of the office surface.



Accumulated renovation Works 2014-2018

3 million sq m have been renovated over the past 5 years and more than 300 buildings





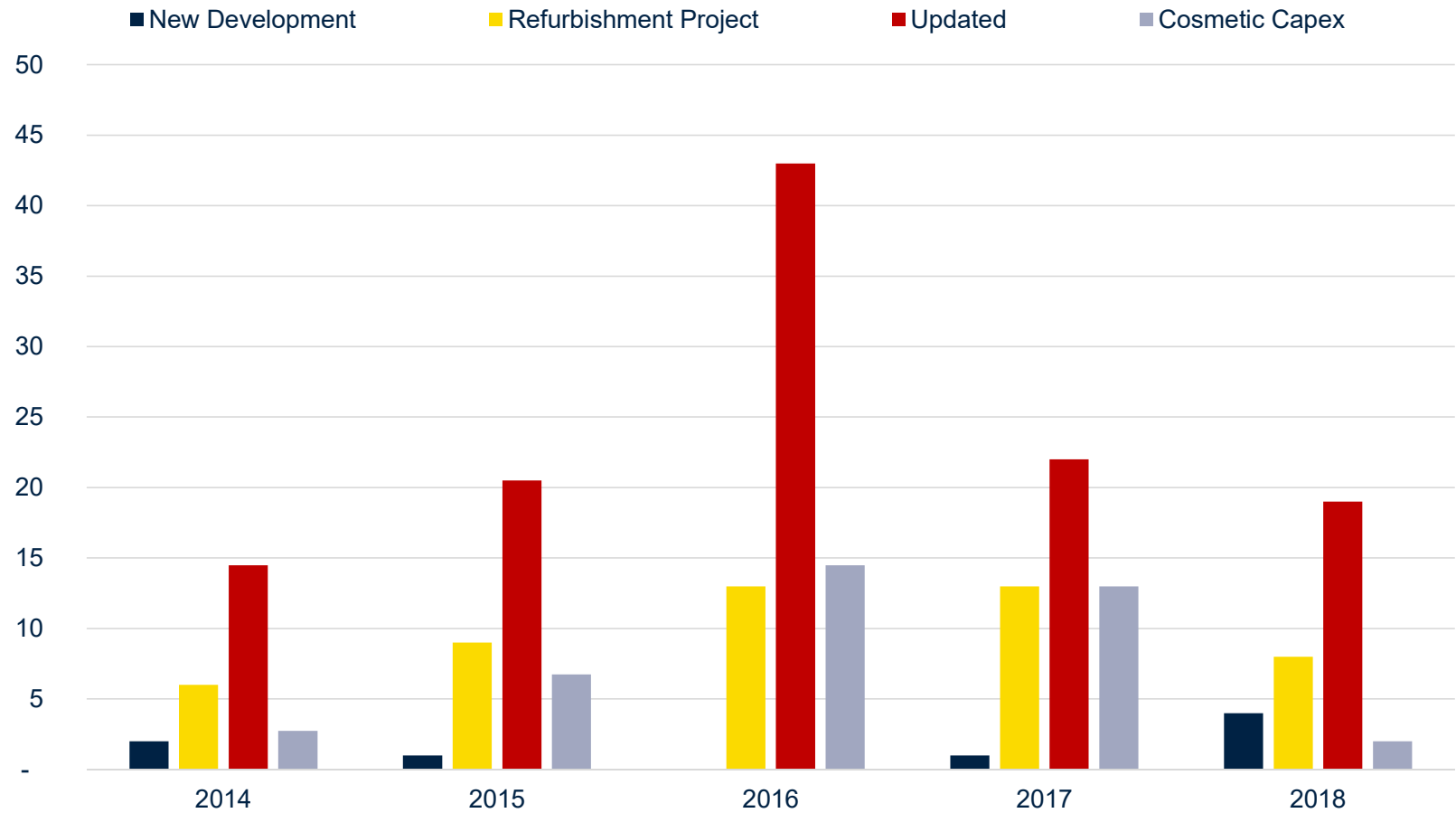
Is this the Red Queen Effect?

Not all works are the same in this race.....

Renovated buildings include:

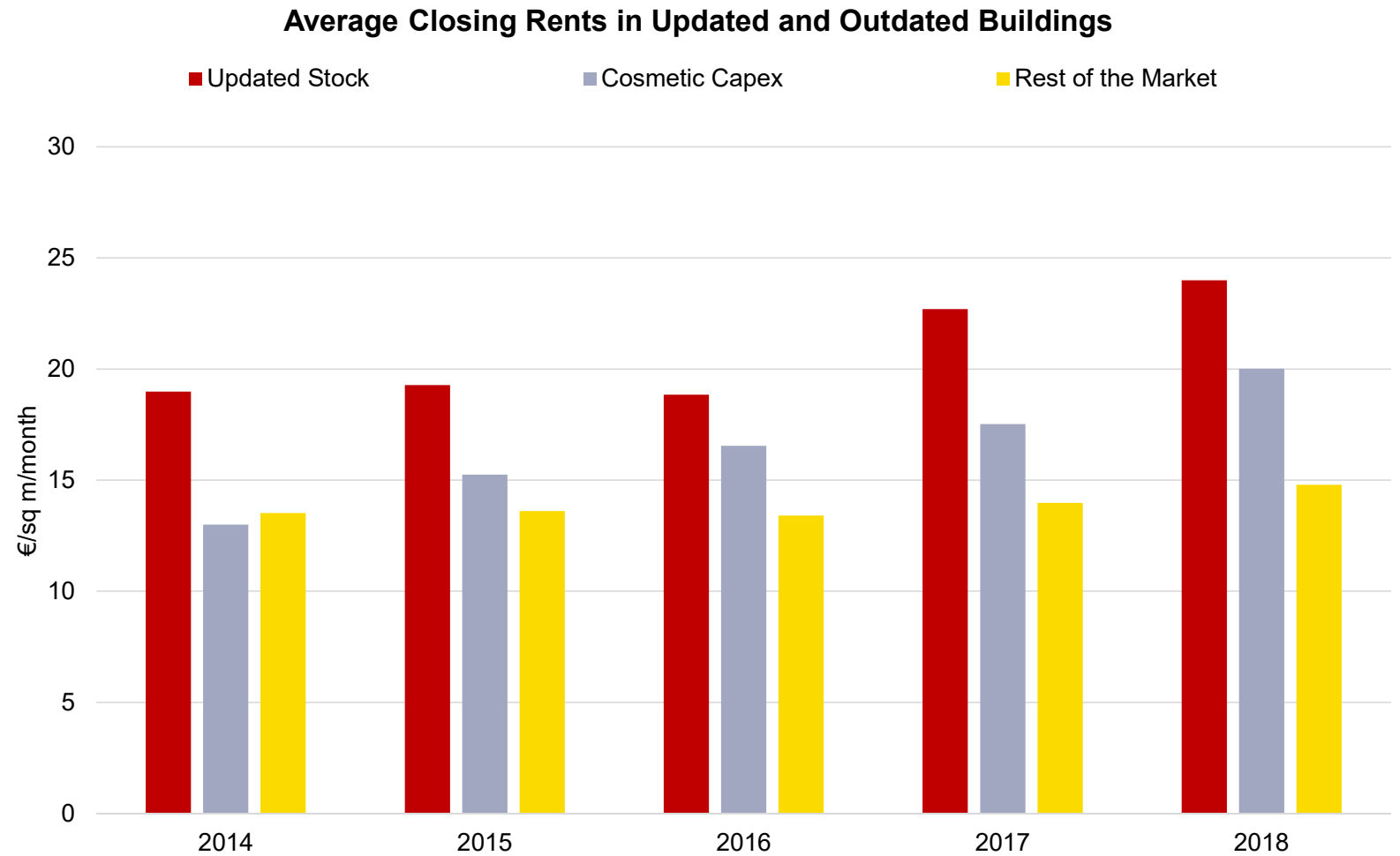
- New developments (after 2010)
- Refurbishment projects (after 2010)
- Updated buildings
- Cosmetic Capex (superficial Works. Mainly located inside the M-30. 39% of the total renewed surface in the city)

Renovated Buildings by Type of Works



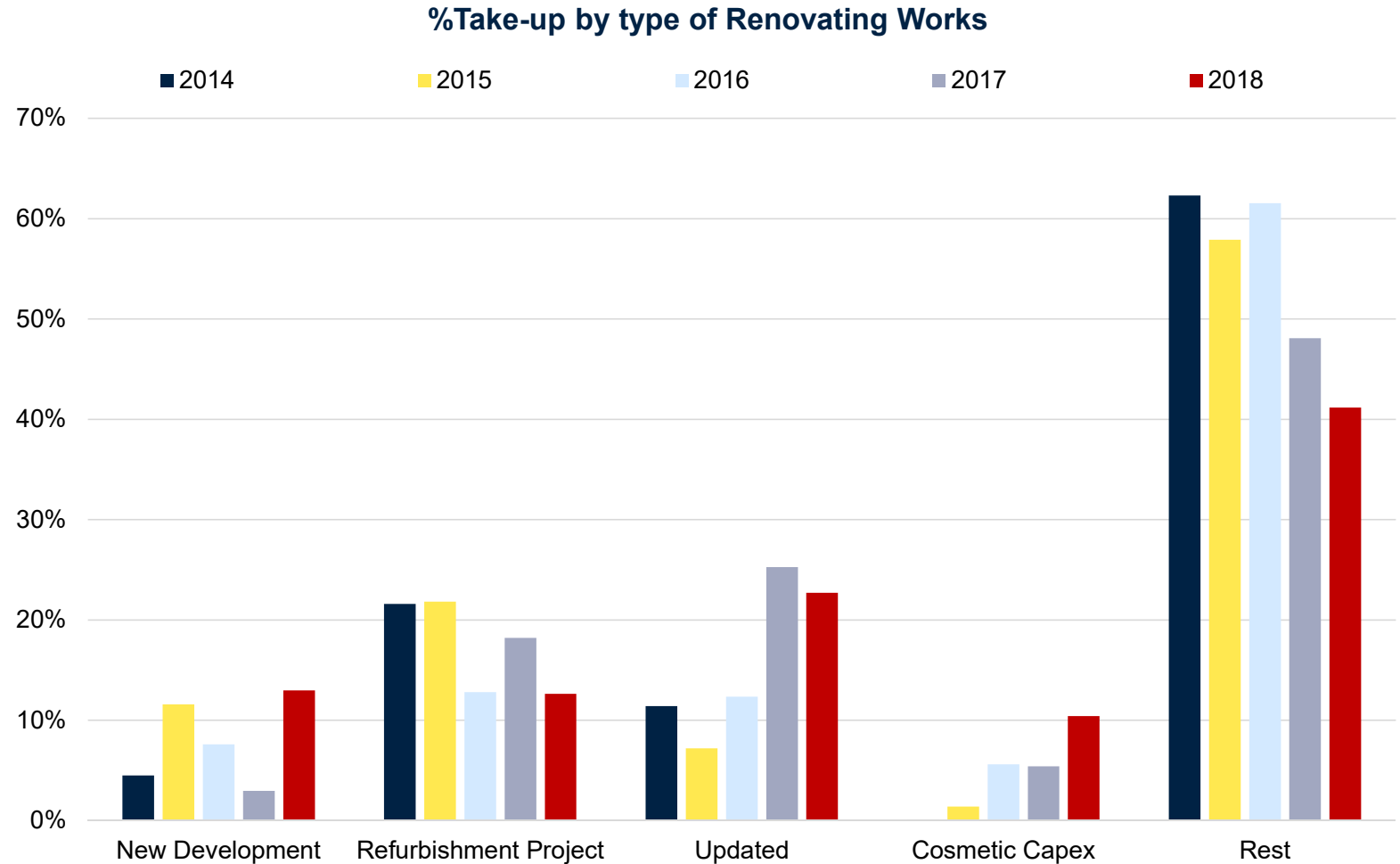
Updated vs. Dated evolving rents

The gap between average closing rents in high quality buildings and those with superficial works remains quite constant.



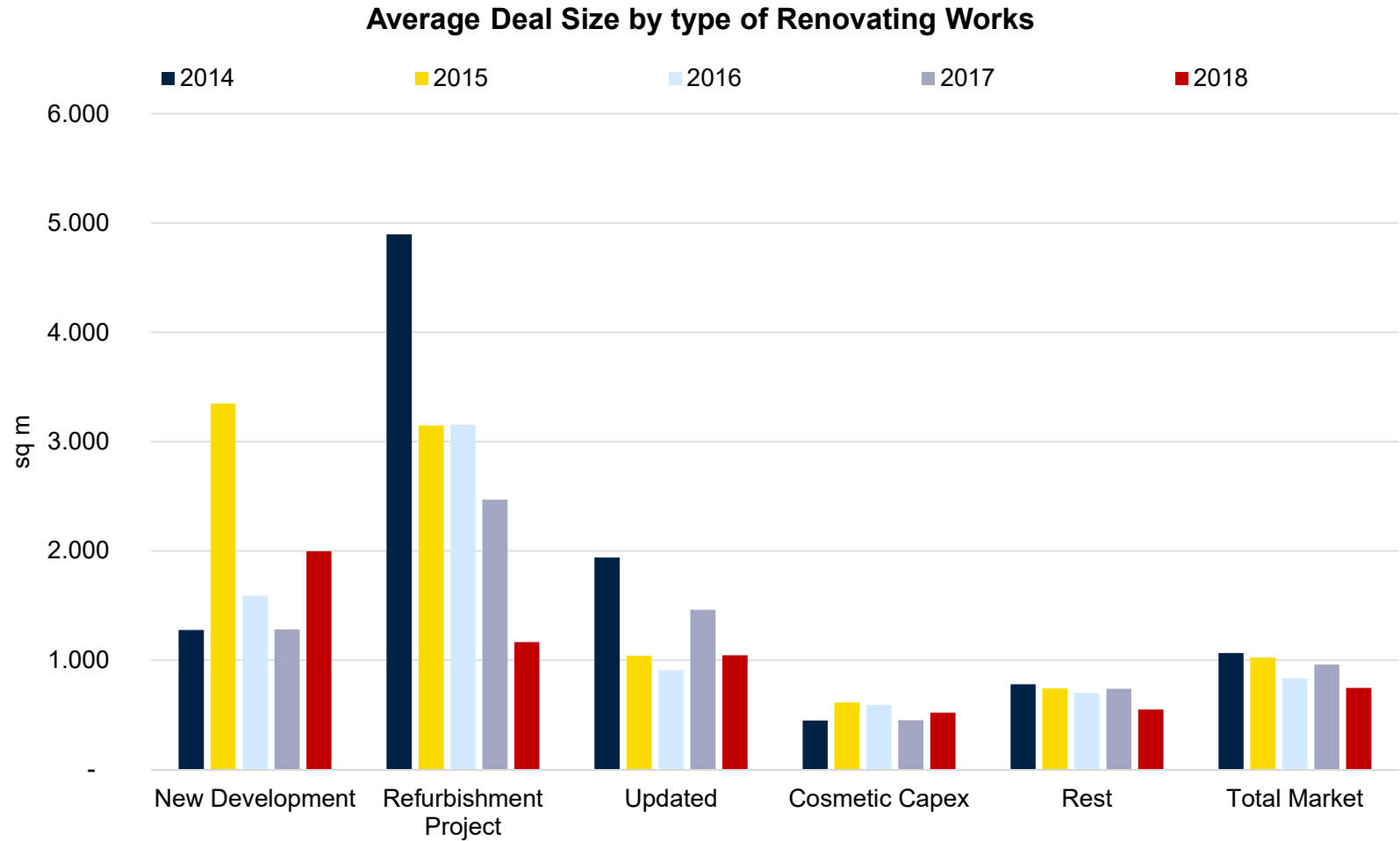
Take up in dated buildings is reducing constantly....

The activity in the outdated buildings is decreasing. It has gone from 60% to 40% since 2016. The take-up has shifted to renovated assets.



Large demand is looking for brand new products

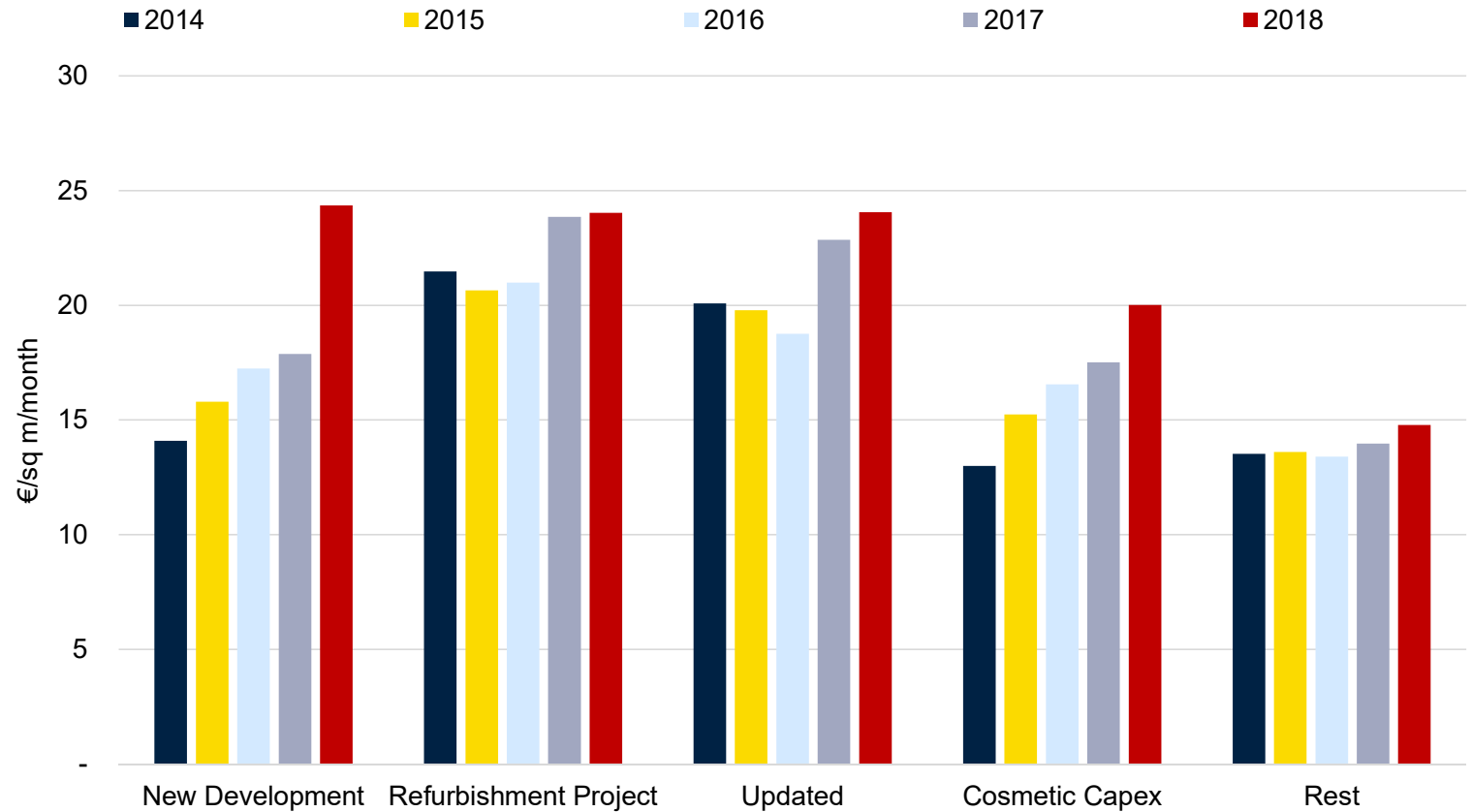
But large demand looking for quality spaces find the answer to their requirements in new developments and refurbishment projects.



Refurbishment quality is perceived by tenants.

Renovated buildings achieve higher rents. But quality is perceived by occupiers and they all do not perform in the same way.

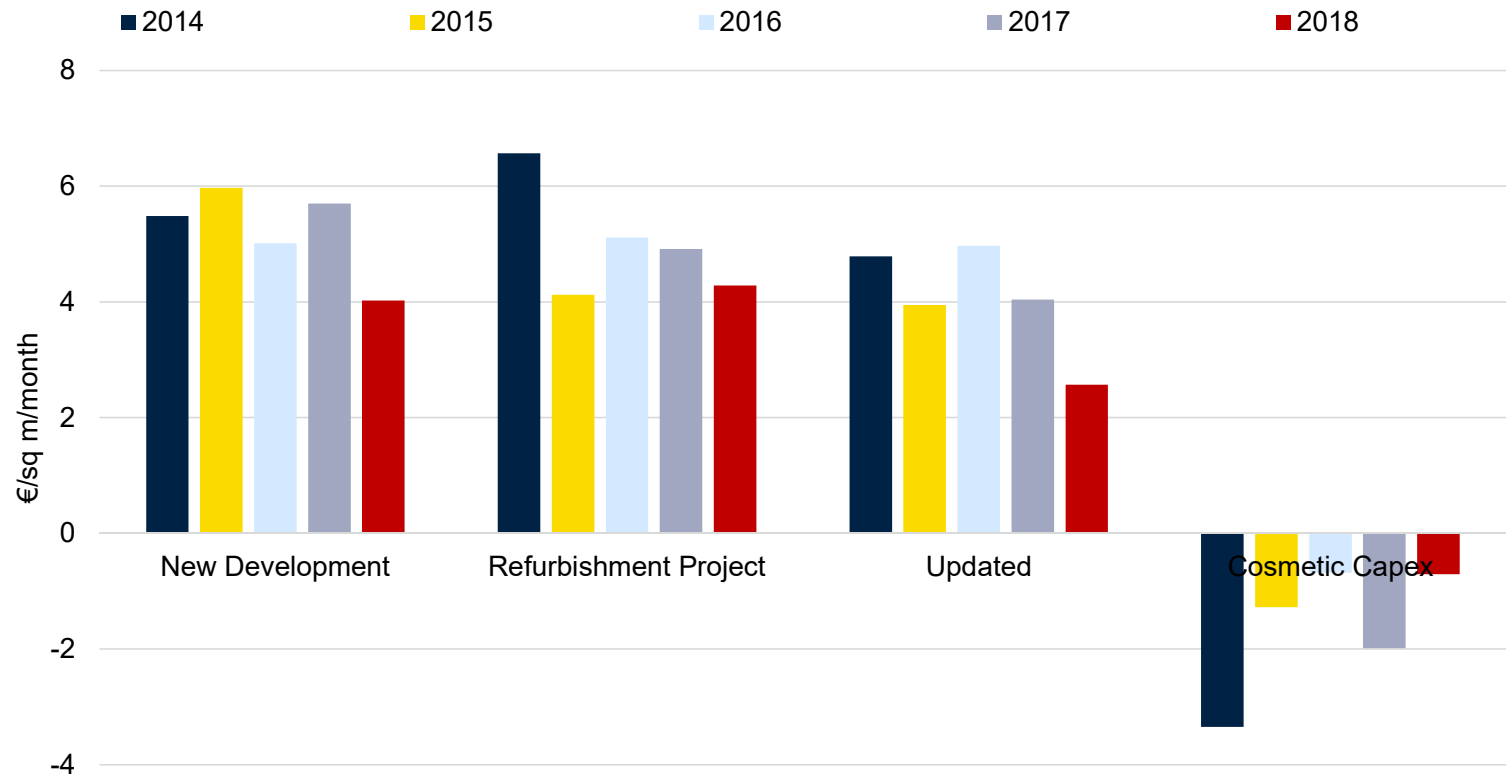
Average Closing Rent by type of Renovating Works



And cosmetic capex has limited impact

Inside M30 the value add of Cosmetic Capex is low and will quite likely be comoditized in the near future as it becomes more and more frequent and becomes the new low standard.

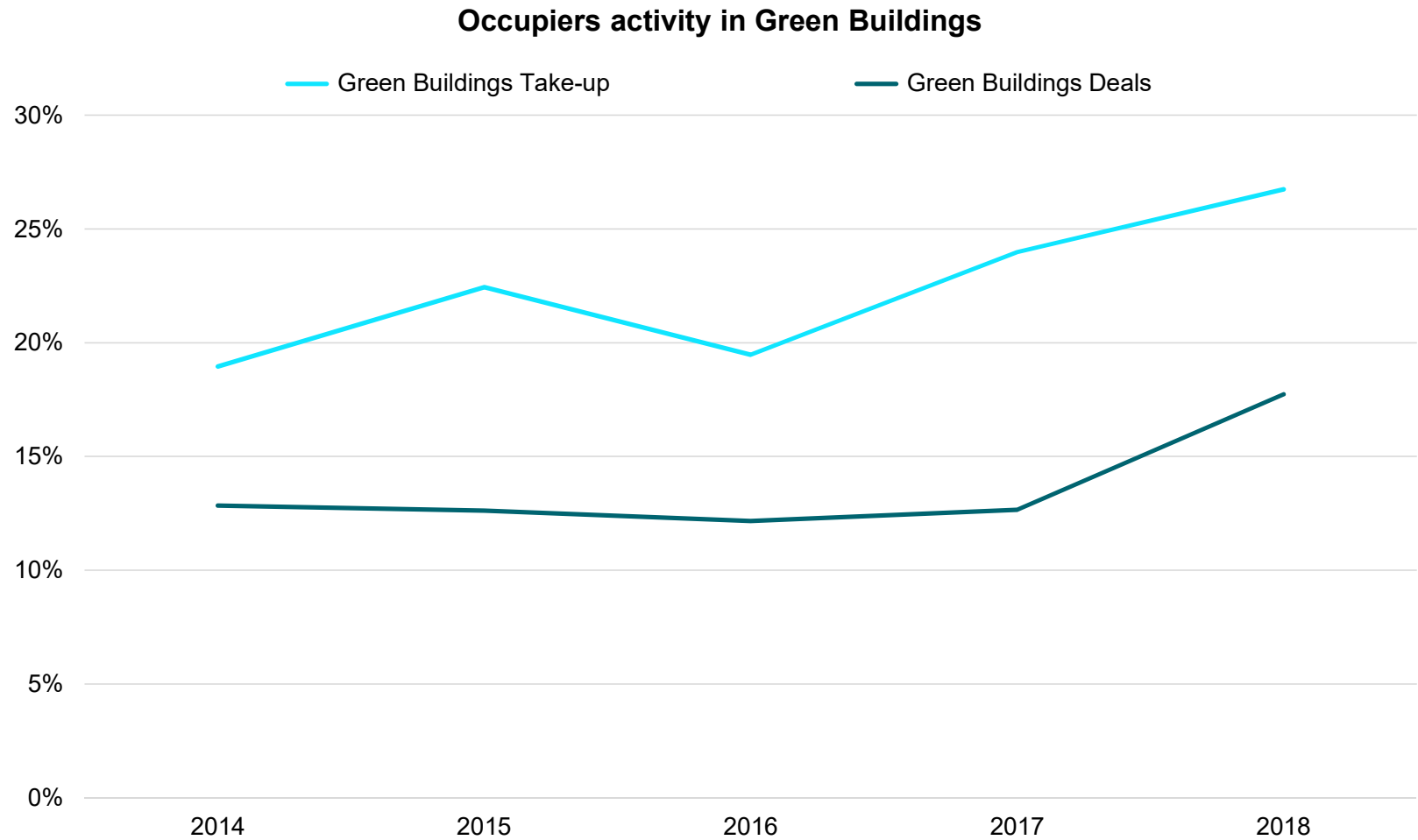
Gap between Average Closing Rent by type of Renovating Works and the Total Market Level - Inside the M-30



Is evolution going Green?

Sustainability is more and more present in our business. Certified buildings account for 13%.

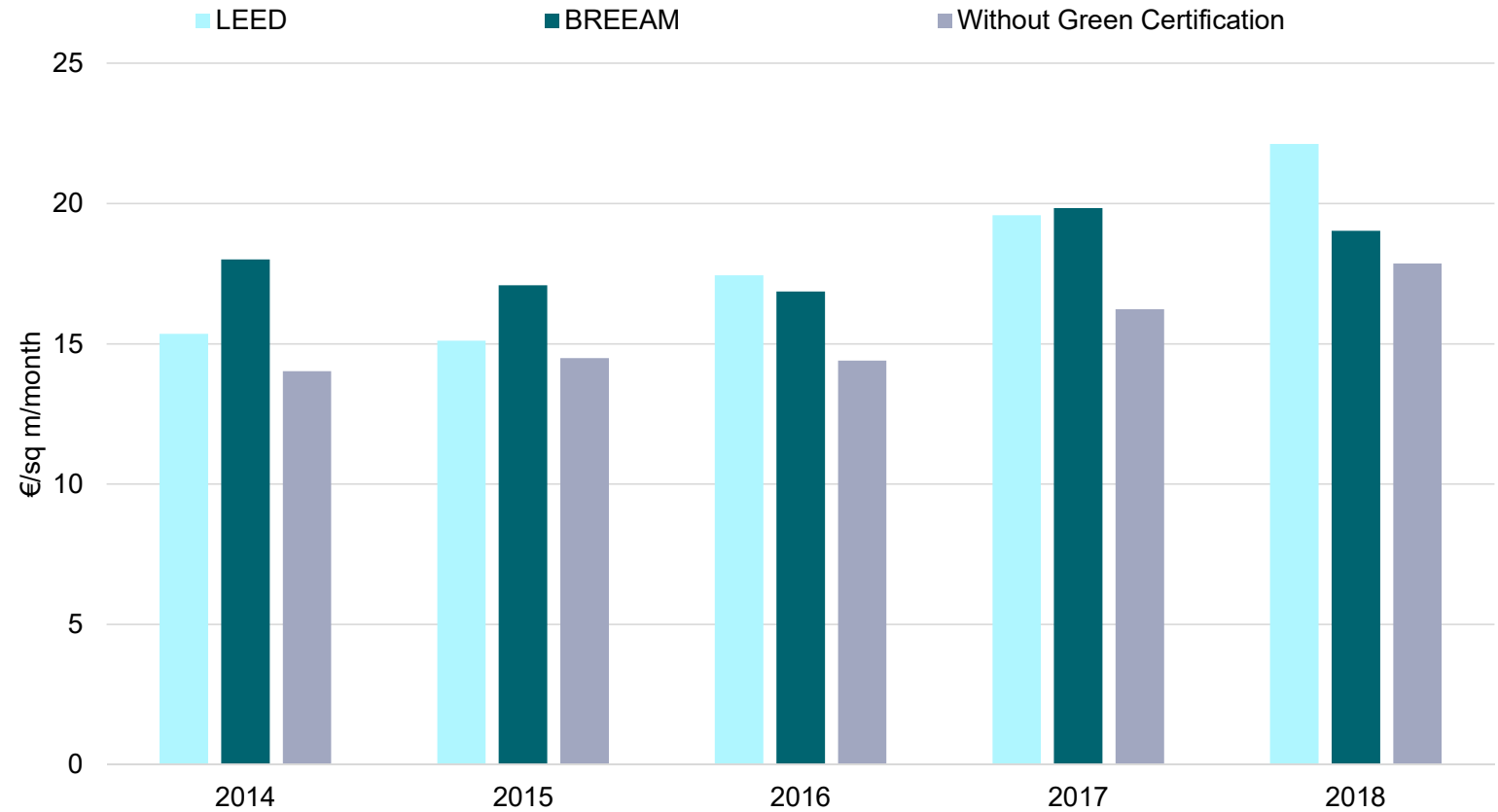
From the demand side, in the 1H 18 they represent 18% of the number of deals and 27% of the transacted surface.



Is evolution going Green?

In terms of rental levels, Green Certifications have been 3€/sq m/month above buildings without any certification.

Average Closing Rents by Green Certifications



Conclusions

- Take up at healthy levels in both Madrid and BCN, but with a downwards change from last year.
- Rents consistently moving upwards in all áreas.
- Investment volumes recovering as investors soften their criteria and jump outside the city centre.
- Increasing number of buildings renovated in a trend that is unstoppable.
- Crowding out effect for the buildings that have not been renovated.
- Customers perception of quality is improving:
 - Intensive capex is paid for by tenants.
 - Cosmetic capex will quite likely be comoditized: Red Queen Effect.
- The market is finally going Green with labelled buildings achieving premium rents.



The Red Queen Effect

"Well, in our country," said Alice, still panting a little, "you'd generally get to somewhere else—if you run very fast for a long time, as we've been doing."

"A slow sort of country!" said the Queen. "Now, here, you see, it takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!"



Thank you

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