

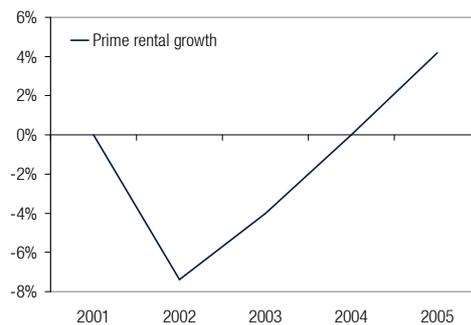
# Research

Spring 2006

## Barcelona Office Market

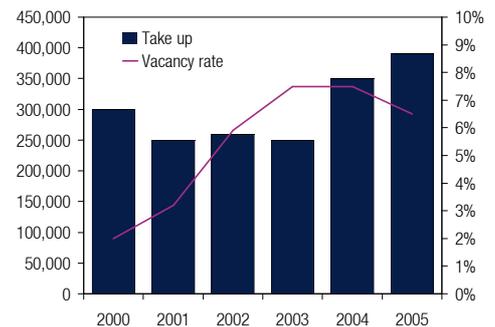
### Current Market Activity and Outlook

Prime rents continue to grow



Source: Savills

Take-up reached record levels



Source: Savills

### Summary

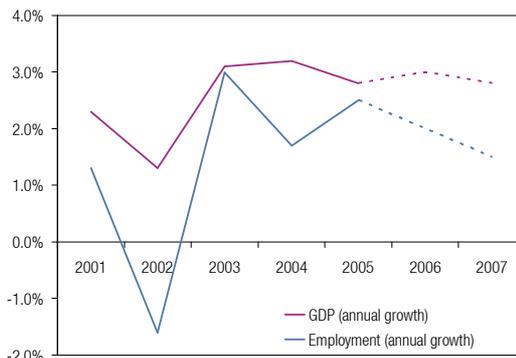
- 2005 was the second consecutive year to see take-up rising and reaching record levels, close to 390,000sqm. The major corporate relocations have been concentrated in 22@/ Diagonal Mar; Cornellá and Sant Cugat.
- Public administration, Hi-tech, chemical and pharmaceutical companies have been the principal movers.
- Average vacancy is approximately 6.5%, with less than 3% in Prime locations, and above 20% in some Out of Town locations.
- In 2005 there was a lack of new product in the market, and during 2006 this trend is expected to continue. Supply of new space should increase significantly in 2007 and 2008.
- There is still demand for the refurbishment of centrally located obsolete office buildings and their conversion to residential, however in 2005 there was less activity in this sector than in the previous years.
- Rents in the first quarter of 2006 have increased compared to last year, reaching some 25€/sqm/month in Prime locations.
- Prime yields are between 4.5 and 5.0%. However, investment product with existing leases is extremely scarce.
- The majority of investment deals in 2005 were forward acquisitions of projects located in 22@ and the future development area of Plaza Europa, where yields achieved are between 5.5 and 6.5%.

## Economy and Leasing market

### Economy

GDP growth reached 3.4% in 2005, with domestic demand being once again the key driver of growth, while external trade remained a drag on growth. The consumer sector has been supported by rising employment, which grew by 2.3% last year. Experian expects growth rates for GDP to continue to outperform the other large European economies for the next two years. The negative contribution from the external sector is forecast to weaken. Strong employment growth is set to continue, with a notable contribution from the business services and construction sectors. Consumer spending, which increased by 4.4% in 2005 is also expected to remain healthy in 2006.

Barcelona GDP and employment growth



Source: Experian

### Leasing market

#### Demand and take-up

Gross take-up in 2005 reached a record level of about 390,000sqm, 11% higher compared to the previous year. During 2005 and the first quarter of 2006 there have been some notable large relocation transactions. These include the relocation of the Barcelona water company Agbar to their new landmark headquarters (30,000sqm) at Diagonal / Plaza Glories, the 20,000sqm letting of La Cambra de Comerç (Chamber of Commerce) in 22@, the Volkswagen deal (13,000sqm) in Poble Nou, and the Cofidis deal (10,000sqm) in Cornellà.

The growing demand for large areas in the City Fringe and Out of Town locations is mainly explained by the lack of vacant space in Prime and Town Centre locations. Today there are almost no sites available for new projects and those buildings that can be refurbished into more modern corporate space tend to have a higher value for re-conversion to residential or hotels.

It is important to note the continuing relocation activity of public entities in Poble Nou / 22@ location. Throughout 2005 this submarket leased some 70,000sqm, almost 22% of the total take up in the period. Given that many public administration departments and organisations are expected to continue with the rationalisation of their office space over the coming years, we foresee that the

public sector will continue accounting for a large part of the letting activity in this sub-market.

Aside from public services, amongst the most active sectors are the chemical and pharmaceutical industry (Solvay took up 7,000sqm in the Town Centre; Sanofi took up 9,000sqm in Diagonal Mar) and Hi-Tech companies (Indra leased a 10,000sqm turnkey project in 22@; Altran leased 3,300sqm in up market City Centre and SAP leased 3,000sqm in Diagonal Mar).

#### Major recent letting transactions

Company	Area	Size (sqm)
Cambra de Comerç	City Fringe	20,000
Generalitat de Catalunya- DURSI	City Fringe	14,500
Volkswagen	City Fringe	14,000
Cofidis	Out of Town	10,000
Indra	City Fringe	10,000
Revlon	Out of Town (turnkey)	10,000
Schneider Electric	City Fringe	8,500
Servei d'ocupació català	City Fringe	8,000
Sara Lee	City Fringe	7,500

Source: Savills

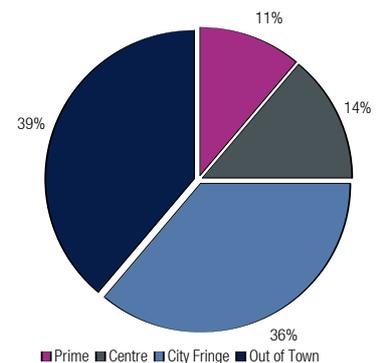
#### Supply and vacancy rate

Office supply is currently around 290,000sqm. This corresponds to approximately 6.5% of the total market, which is around 15% below the vacancy rate of the previous year.

The drop in the vacancy rate has been most acute in Prime and Town Centre locations, where it is currently below 3%. This is largely due to the scarcity of sites for new developments and the continuing tendency to re-convert obsolete office buildings into residential.

This decrease could slow down from next year, with the delivery of numerous projects in several locations, amongst which is included the upcoming location of Plaza Europa, situated around the Gran Via- L' Hospitalet, half way between Barcelona international airport and the centre of town.

#### Distribution of vacant space



Source: Savills

## Investment market and Outlook

Some 200,000sqm of new product will come onto the market in 2006, 60% of which is located in City Fringe locations. This year we shall also see the completion of the first phase of the Parc de Negocis business park, in the new Out of Town location of Viladecans, some 5 minutes to the south of the airport.

### Rents

In the past 12 months there has been an increase in rental rates in almost all of the office submarkets. Prime rents oscillate between 252€/sqm/year and 300€/sqm/year, an increase of approximately 5% over the first quarter 2005. In Out of Town locations the tendency is similar: Cornellá, 192€/sqm/year (6% yoy growth); Sant Cugat 144€/sqm/year (8% yoy growth). In 22@ the range of rental rates is between 168€/sqm/year and 204€/sqm/year, depending on location. As the area consolidates, we expect rents to continue to rise over the coming years, despite the considerable onset of new projects.

In Prime and city centre locations, on the other hand, rents are expected to increase above inflation for the foreseeable future, due to the lack of new developments.

An exception to this upward trend can be found in the airport business park of Mas Blau, where rents range between 90€/sqm/year and 132€/sqm/year, and have maintained a high degree of vacancy. We anticipate, however, that rents will rise in this location with the arrival of the new metro line (Line 9), which will connect the park with the airport and the town centre. This is expected to be completed in approximately three years.

### Investment market

The investment market in 2005 was characterised by the large breach between supply and demand, a scarcity of product being chased by a large number of aggressive investors with enormous liquidity. The lack of supply is due to the unwillingness of the majority of funds and investors to sell, as they do not see many reinvestment opportunities in the market. The result has been the complete lack of major investment deals in 2005.

Prime yields are currently running at below 5%. There are few examples of these yields being achieved, due to the above mentioned lack of product, but investors regularly make "off market" approaches at yields between 4.5% and 5%.

Most of the recent deals have been forward acquisitions in the growing City Fringe locations. Rental guarantees of between one and three years are common. The preferred locations are 22@ and Plaza Europa, where yields range between 5.5% and 6.5%.

Finally, we are still seeing acquisitions of obsolete town centre office buildings for conversion to residential use, although this market is less active than in previous years. There have also been acquisitions of vacant office buildings in out of town locations, where the leasing process has so far been unsuccessful. These are principally located in Mas Blau, where investors can take advantage of lower values,

which can be leased below market rates, in anticipation of improving letting market to follow the arrival of the metro line to the location.

### Major recent investment transactions

Investor	Building	Location	Price(€)/Yield
ING RE	Deutsche Bank	Out of town	46M/6.25%
AXA	Inbisa 22@	City Fringe	39M/1.5%
Royal Metropolitan	Ed. Inblau A y B	Out of town	27M
Meag	Bouygues 22@	City fringe	24M/6.75%
Alting	Aragón 271	City centre	17M
Inbisa	Plaza Europa	City Fringe	66M
Núñez i Navarro	Passeig de Gràcia 35 Prime		26M/5.0%

Source: Savills

### Outlook

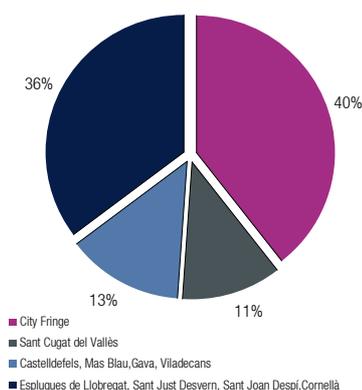
We expect a continuation of strong occupational demand in the foreseeable future, driven by the consolidation of public and private sector companies in City Fringe and Out of Town Locations. Annual take-up should remain in the 350,000 to 400,000sqm range for the coming years.

Given the strong demand we project that rents will continue to rise, at least up to the end of 2007. During this period 22@ is expected to be the fastest growing area. The new location of Plaza Europa should become a competitive alternative from 2008.

In Prime and City Centre locations low vacancy rates should persist due to the lack of space. Consequently the upward pressure on rents is expected continue for the foreseeable future.

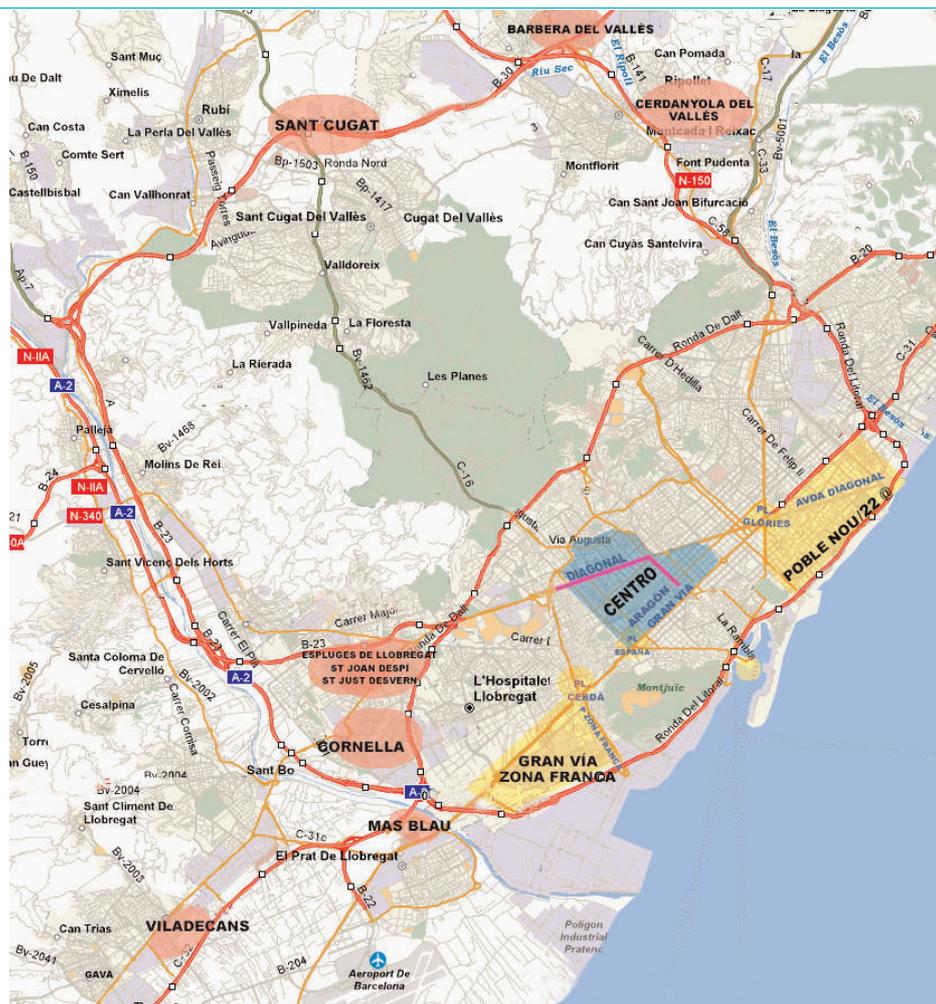
For the moment, we do not anticipate a change in the downward trend of investment yields, given the strong demand and large availability of capital. However, rising interest rates may cause a stabilization of yields over the next two years. For this reason, we also foresee more investment product coming onto the market over this period.

### Development pipeline 2007/2008 by submarket



Source: Savills

# Barcelona map



Office submarkets



Out of Town



Prime



City Fringe



City Centre



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