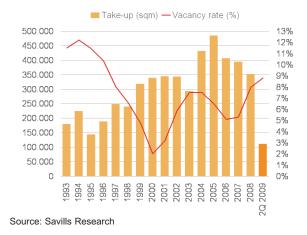
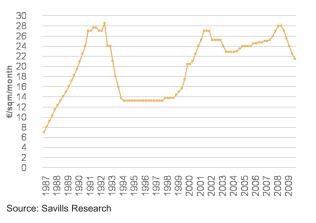
Barcelona office market report

Autumn 2009

Take-up and vacancy rates



Prime rental levels



"Spain's economy and office market has recently emerged from the worst performing semester since the first half of 1994, with visible signs of deterioration in most key indicators. On a more positive note, there is some indication, following the summer break, that the crisis may be bottoming out, to be monitored over the coming months".

Eusebi Carles - Director



■ Spain continues to face a recession which despite now appearing less severe than originally anticipated, is set to continue beyond those of other large countries of the Euro Zone. Household debt, together with the downturn in the construction sector and the high unemployment rates will hamper economic recovery, at least until next year.

■ The weak economic situation has significantly affected the office market, which has shown a 42% year-on-year fall in take-up. Weakening demand, together with a rise in supply has placed downward pressure on rents for the fifth consecutive quarter. We believe that this tendency will continue to prevail over the next few months, possibly reaching a fall of 30% by the end of the year compared to achievable rents at the beginning of the economic crisis. ■ Several developments initiated during the real estate boom were delivered during the first nine months of the year, adding a further approximate 150,000sqm to the total stock. Strategic decisions by developers to put many new projects on hold will help to avoid a situation of excessive oversupply in the coming quarters, thus preparing the market for a future upturn. The average vacancy rate in Barcelona have reached 9.8%, approximately a three point increase over the rate at the beginning of 2009.

■ The office market will remain weak in the short term. It is expected that recovery will be slow, together with a weak demand, rising supply and a continued fall in rental values. There are, however, some signs of relative improvement.



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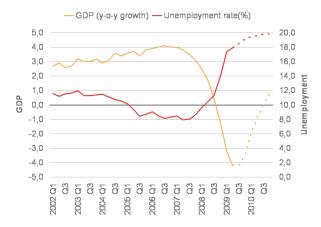
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Demand and Supply

Economy

Spain may be the single leading economic power in the Euro Zone to end this financial year in recession. Despite the European Union and the United States already showing signs of recovery, the Spanish economy is sinking deeper into recession and will experience a 3.7% GDP year-on-year fall, according to figures supplied by the European Commission. This economic scenario will be further exacerbated by the expected 20% unemployment rate for the next year and the possible 10% GDP deficit in 2010.

GDP growth and unemployment rate



Source: INE, Consensus Forecast

Leasing Market

Demand and take-up

The main macroeconomic indicators continue to reveal a very weak economic trend, characterised by the lowest demand levels in recent years. A small fall in the total take-up in 2008 gave way to a sharp drop in take-up rates during the first semester of 2009.

During this semester, take-up was 111,000sqm, a 42% decrease with regards to the same period of the previous year. Despite the decreasing number of deals during the first quarter, with the completion of only 59 lettings in a time of severe macroeconomic uncertainty, it is worth noting the comparatively positive second quarter when 79 rental contracts were signed.

The Barcelona office market is still characterised by the demand for smaller areas, particularly given the current economic situation, where there has been a focus on the reduction and optimisation of office space.

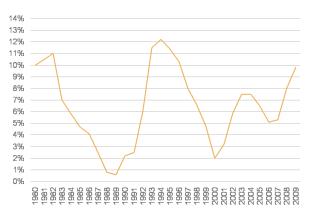
Deals below 500sqm represent 70% of the total number of deals completed. Despite the lack of larger lettings, the deals completed for areas above 3,000sqm have nonetheless represented 40% of the total area leased during the first semester, leaving the average area per deal in the city at 700sqm. The New Business Districts, which offer modern buildings and prices which adapt to the increasingly constrained corporate budgets (some 15% below prime rents), have in fact attracted almost 60% of these larger deals.

Supply and vacancy rate

Negative economic growth and its still uncertain and incipient prospects of recovery, together with the scarcity of finance, have significantly limited new supply.

During the first three quarters of the year, 150,000sqm of new supply was delivered, only 70% of which was incorporated as available stock. These figures are significantly lower than the forecasts that were made in 2007 for the first semester of this year (estimated at 200,000sqm), reflecting the automatic adjustment which has taken place in the market as a result of changes in developer strategies. This has in turn prevented a situation of excessive over-supply taking place today and in the foreseeable future.

Vacancy rate



Source: Savills Research

This new supply has been concentrated entirely in the New Business Districts and the Decentralised areas. These areas already boast a stock of modern, state of the art offices, but they are also the worst hit by increased vacancy rates.

A clear example includes the area of Sant Cugat. At the end of 2008, the 5% vacancy rate in this area was below Barcelona's 7.2% average, and in only two quarters, it increased to its current 15%, already above Barcelona's average. Other areas such as 22@ district have suffered less (10% in Q4 2008 and 15% in Q3 2009), despite the large number of developments and mainly due to the area's increasing popularity (representing 35% of take-up rates in Barcelona).

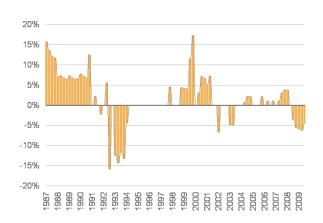
The investment market & Outlook

Barcelona's average vacancy rate stands at 9.8%, and despite the majority of the available stock being concentrated in the decentralised areas, it is worth noting that in areas with previously very low vacancy rates, such as the prime CBD, the rate is increasing as a result of the cost and space cuts adopted by many companies.

Rents

After six years of continuous growth, decreasing demand together with the rise in supply have placed downward pressure on rental values for the fifth consecutive quarter. Prime rents currently stand at 21.50€/sqm/month, a 4.4% fall compared to the second quarter of the year and a 23% fall with regards to the peak of the cycle, already situating rents at the nominal equivalent of May 1990.

Quarterly rental growth



Source: Savills Research

The remaining areas have shown a similar trend, with quarterly falls in the maximum asking rents of between 3.6% and 6.25%. Minimum asking rents have experienced an even sharper fall (equating to an average 10% decrease), affecting therefore to a greater extent those buildings with a higher level of obsolescence.

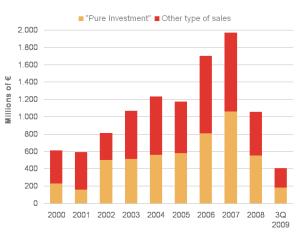
We are now experiencing a market which demands flexibility from landlords, whilst tenants are increasingly taking a longer term view when analysing opportunities. The art of merging the expectations of landlords and tenants is of increasing value.

The Investment Market

During the first three quarters of this year, office investment volumes reached an unprecedented ten year low, undoubtedly due to the prevailing macroeconomic uncertainty and the negative performance experienced largerly by the real estate sector. Contradictory reports and forecasts published over the last few months have raised caution amongst investors, who have adopted a wait-and-see attitude towards the few investment opportunities available.

It can also be considered a moment of opportunity to acquire certain assets at prices considerably below those of the last 18 months.

Investment volume



Source: Savills Research

Doubts have certainly been raised and many investors, mainly those with a conservative profile, will be hesitant to fully re-enter the market until these are answered and until they can find properties with acceptable rental levels and income security.

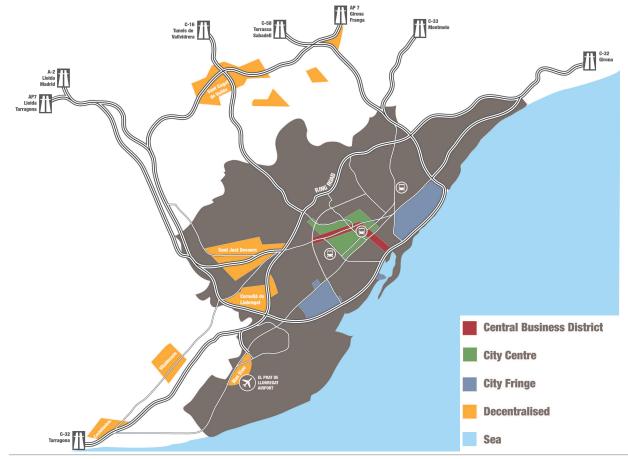
Outlook

The office market will remain weak in the short term. It is expected that recovery will be slow, with a weak demand, rising supply and falling rental levels.

However, there are some signs of relative improvement, with an increased occupier interest in office space and a renewed investor interest in monitoring the Barcelona office market.

Although no solid recovery is yet in the cards, there are signs that offer some degree of optimism for the future. Core investors are already showing considerable interest in entering the market for prime assets in prime locations. This has led to a stabilization in prime yields over the past few months.

Barcelona office market



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