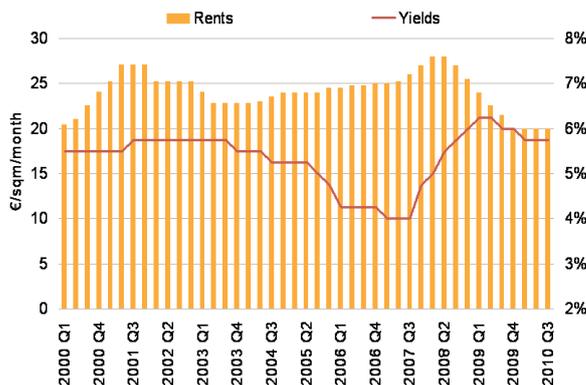


# Barcelona office market

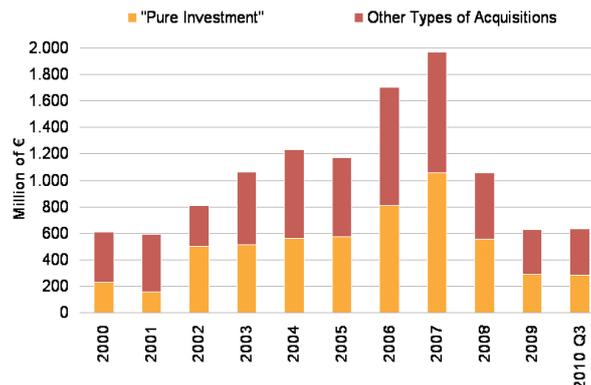
## Autumn 2010

### Prime rents and yields



Source: Savills Research

### Investment volume



Source: Savills Research

**“After nine consecutive quarters of price falls it seems that the market is beginning to show signs of stabilisation, in much the same way they did after the 1993 crisis. If history repeats itself, it could take another seven quarters for us to see the first signs of recovery in prices.”**



Eusebi Carles (Director General Barcelona)

- Even if the economic activity has weakened during the third quarter of the year as a result of the withdrawal of some stimulus measures, increase in taxes and strong public spending cuts, the letting market has maintained the rhythm of slow recovery shown since the beginning of the year. Total gross take-up reached 59,000 sqm, 30% higher than the volume recorded during the same period of 2009.
- On the other hand, supply continues its upward trend. Between July and September, development completions increased the office supply by 45,000 sqm, thus pushing the vacancy rate over 12.5%. The encouraging news is the drastic fall in the development pipeline which will drop by 80% in 2011, helping the vacancy rate to stabilise around 13% by the end of 2011.
- These two scenarios (a slight recovery in take-up rates and a strong drop of development completions) have helped the rents to stabilise for four consecutive quarters, with prime rents now sitting at 20€/sqm/month.
- The completion of two important deals this quarter, given the volume and the distinction of the buildings, confirms that investors are focusing on those areas that offer the highest level of comfort in terms of commercial risk. There is an important group of investors who would be interested in carrying out this type of transaction.

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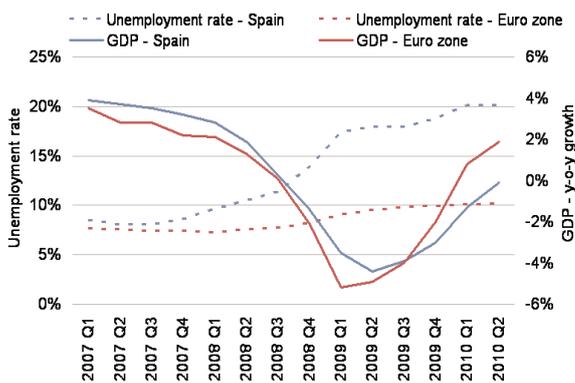
# Economy and demand

## Economy

In the second quarter of 2010 Spanish economic activity continued to see slow recovery, in line with the first half of the year. Quarter-on-quarter GDP growth was at 0.2%, one-tenth higher than the previous quarter, although in year-on-year terms the Spanish economy continues to register very slight negative figures (-0.1%).

However, the data available for the third quarter of the year, suggest that activity could have weakened as a result of the withdrawal of some stimulus measures, combined with public spending cuts and the increase in VAT.

## Difference between the economic recovery of the Euro zone Vs Spain



Source: Banco de España

The Government does not expect that the Spanish economy will register any negative growth in the remainder of this year, despite admitting that GDP growth in the third quarter will be lower than was registered in the second quarter.

The y-o-y CPI climbed three tenths of a percent in September to 2.1%, particularly driven by fuel, making it the highest figure since November 2008. However, the main worry for the Spanish economy, namely unemployment, continues to register negative growth, which is a clear threat to consumer stimulus. Spain is at the top of the leader board in terms of unemployment in the OECD, with an unemployment rate of 20.5% in August, which is more than 12 basis points above the average unemployment rate in each of these countries, which is at 8.5%, and by more than 10 basis points in the EU member countries.

## Letting market

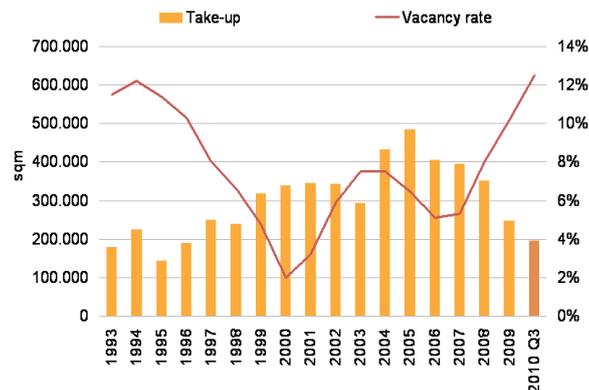
### Demand and take-up

The occupier market is clearly running in parallel with economic activity. Even though GDP has seen two

quarters of positive quarter-on-quarter growth, it is the creation/destruction of employment rate which is directly affecting the net office take-up trend. This trend has gone in the opposite direction to the unemployment rate, reaching negative figures since mid 2008, and there has been a certain trend towards stabilisation in values close to zero over the past few months.

If we take the gross take-up figure as a benchmark for market activity, the third quarter of 2010 has seen signs of a slight recovery which began to be seen at the beginning of the year. Despite the fact that these months are traditionally slower months in terms of activity due to the summer break, gross take-up over the quarter reached 59,000 sqm.

## Take-up and vacancy rate



Source: Savills Research

In comparison, accumulated gross take-up over the first three quarters of the year has improved by 30% compared to 2009, but this figure continues to be lower than the levels seen in 2008 (-26%), which demonstrates that although the market could be seeing the start of a slight recovery, recovery is still not certain.

There continues to be limited demand for office space as a result of company cost saving policies and space rationalisation strategies, which favour consolidation and contract renegotiation.

Two pre-let transactions in turn-key buildings have been the main players this quarter: this summer the fashion brand Desigual and the Pascual Maragall Foundation finalised negotiations to locate their future headquarters (more than 10,000 sqm each) in the Nova Bocana building, next to the emblematic hotel W Barcelona, also known as Hotel Vela.

Aside from these two important transactions, average demand for this quarter has been at slightly less than 800 sqm. In fact, 55% of this quarter's transactions have been for space smaller than 500 sqm. This size of space bracket continues to be characteristic of demand in the city, due to the size and type of

# Supply, rents & investment market

companies located in Barcelona. 70% of occupiers looking for space upto 1,000 sqm have been looking in the prime area and the city centre. Companies continue to show a preference for these locations, although, due to the nature of the buildings in these areas (reduced floor space, mixed uses, etc.), we are beginning to see a shift towards accepting the New Business Areas as an alternative for those companies who need open plan and efficient spaces. This growing need for efficiency and savings has meant that more than 75% of the transactions over 1,000 sqm have been carried out in the New Business Areas and properties on the Periphery of the city. Office stock in these areas is comprised of newly built properties, with open-plan spaces and ever more emphasis on sustainability criteria. These factors allow companies to reduce rental costs, as well as energy costs, in buildings which have already taken in to consideration energy efficiency criteria since their conception.

## Supply and vacancy rate

Currently, Barcelona office stock is above 5.5 million sqm, of which 690,000 sqm are vacant, with the vacancy rate now at above 12.5%.

Encouraging news is the drastic fall in the completion of new developments, either due to financing difficulties or strategic decision taken by developers. This will mean that the number of projects delivered will decrease by more than 80% in 2011, which will help to stabilise the vacancy rate at around 13% until the end of that year.

Ironically, 2010 will be the year with the highest delivery of projects since 2007 (increase of 36% compared with 2008 and 30% with 2009). This was due to the fact that a large number of the projects which have been delivered this year were started at the end of 2007, spurred on by the then strong economic growth sentiment and easy access to financing.

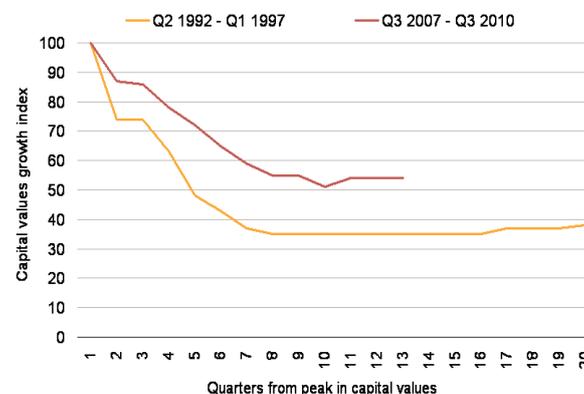
Between the months of July and September, new developments completions increased the office stock by more than 45,000 sqm. Amongst some of these projects we would highlight the second building in the D38 complex, the Catalan Audiovisual Council's (Consell Audiovisual de Catalunya) new 3,000 sqm headquarters in the 22@ district, the office building developed by Metrovacesa next to the future Las Arenas shopping centre, as well as a new office building in the Plaça Europa. Without a doubt this last area is the worst affected area due to the delivery of various projects over the past few months. The delayed construction of some buildings which were initially expected to be delivered by the end of 2009 has meant that between March and September more than 50,000 sqm of office space will have come on to the market, which will set the vacancy rate at 34%. This figure is less alarming if we take in to

consideration that this area has attracted renowned companies over the past months and has accounted for almost 12% of the transactions above 1,000 sqm. Therefore if this trend continues said vacancy will gradually subside and will be benefitted by the almost complete lack of new projects coming on to the market over the coming 18-24 months.

## Rents

The rents in Barcelona seem to have entered in to an extended "L" after four consecutive quarters of stability. Rent in the prime area continues to be at 20€/sqm/month, compared to the 28€/sqm/month achieved at the top of the market at the beginning of 2008, and registering slight year-on-year corrections of -7%. There are now no corrections in the areas such as 22@ district, where practically all vacant space is new-built and owners have carried out significant rental discounts since the start of 2008. However, it is important to highlight that over these quarters underlying lease terms and conditions have become tougher (rent-free periods, rental discounts, contributions, etc.), which indicates that rental prices have fallen by more than just nominal figures.

## Comparison of the last two downturns



Source: Savills Research

## Investment market

There have not been any significant changes in the investment market over the past few months. The sale of the buildings Diagonal 640 and Diagonal 416-420 (Les Punxes) confirms that investors are aiming their sights at those areas that offer the highest level of comfort in terms of commercial risk. Without a doubt, if there was more turnover of properties and more properties were put on the market in the prime area, there would be no shortage of investors from this group who would be interested in carrying out this type of transaction.

# Barcelona office market

## Survey map



## For further information please contact:



**Eusebi Carles**  
Director Barcelona  
+34 93 272 4100  
ecarles@savills.es



**Frédéric Stravraky**  
Agencia Oficinas  
+34 93 272 4100  
fstavraky@savills.es



**Muna Benthami**  
Research Barcelona  
+34 93 272 4100  
mbenthami@savills.es



**Eri Mitsostergiou**  
Research Europe  
+34 93 272 4100  
emitso@savills.com

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