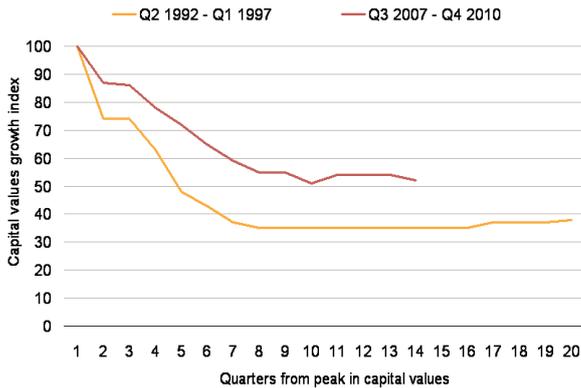


# Barcelona office market

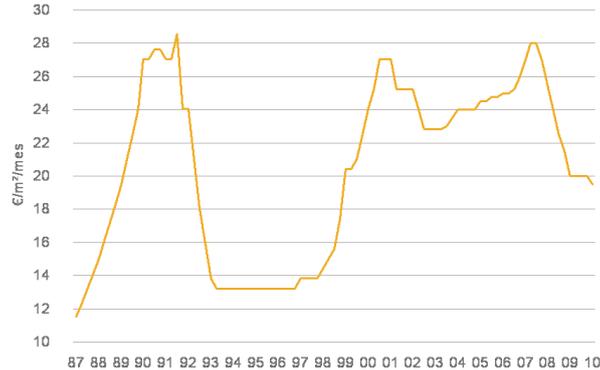
## Q4 2010

### Comparison of the last two cycles



Source: Savills Research

### Quarterly prime rental growth



Source: Savills Research

**“2010 was a transition year. The market has bottomed out but the pace of the upturn appears to be slow. Occupier and investor confidence should return to the market in 2011, particularly in the second half of the year.”**



Eusebi Carles (General Manager Barcelona)

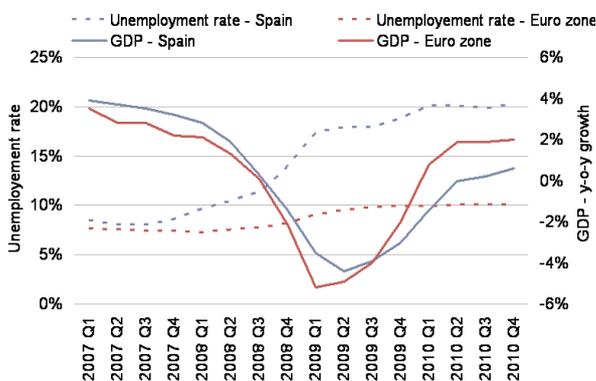
- The Barcelona office market ended 2010 without any major changes compared to 2009. Aggregate gross take-up improved slightly compared to 2009, although not enough to confirm a substantial change of fortunes.
- The delivery of new projects increased the city's office stock by 204,000 sqm and only 55% of this came onto the market as vacant supply. The continued flow of new office buildings coming onto the market between 2008 and 2010 has started to tail off and it appears that the market has finally begun to feel the effects of the restrictions imposed by the economic crisis.
- Average rents in Barcelona remain relatively stable in almost all sub-markets, although underlying conditions have continued to deteriorate. The first quarter of 2010 put a provisional stop to the decline in nominal rents, which remained constant over the whole year, with the exception of the CBD.
- Prime yields also remained stable over the year, and did not exceed 5.75%. The lack of rotation in the Barcelona market restricted the amount of transactions in the market and we predict that yields will be even lower than this for any “trophy assets” which are sold in the future.

# Economy, demand and supply

## Economy

The main economic indicators highlighted in INE's (Instituto Nacional de Estadísticas - National Statistics Institute) national accounts show a relatively positive evolution. GDP grew by 0.6% year-on-year in the fourth quarter of 2010, which was an improvement of four tenths of a percent compared to the previous quarter and this came on the back of an increase in both domestic and external demand.

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



Source: Banco de España

The ghosts lurking in the Spanish economy seem to have disappeared for the time being and the Government has maintained its forecast for 1.6% growth in 2011. The Spanish economy is facing up to several challenges, including an increase in petrol prices (as a result of the Libya crisis) and raw materials, fiscal consolidation, sovereign debt and increasing inflation. The latter increased by three tenths of a percent in February with an annual rate of 3.6 %, which has not been seen since October 2008.

## The letting market

### Demand and take-up

The Barcelona office market ended 2010 without any major changes compared to 2009. There were slight improvements both in the occupier and investment markets compared to 2009, but up until now these have not been significant enough to confirm a change in trend.

Accumulated gross take-up over the year amounted to 274,000 sqm, a 10% annual increase. Although this indicates that things are improving slightly, take-up levels continue to paint a picture of a weak market, which remains significantly below average levels achieved over the last decade (-30%). In this sense, net take-up continues to swing between negative figures and zero, which is restricting growth.

Large companies that bought or completed pre-let contracts to locate their future headquarters in existing properties or those under construction contributed to most of the take-up volume - transactions over 3,000 sqm amounted to over 45% of the total space taken in 2010. However, the increase in the amount of transactions completed for medium-sized offices between 500 and 1,000 sqm has been the most significant, and this has affected traditional demand for small office spaces (less than 500 sqm) in Barcelona. In 2009 medium-sized office space transactions amounted to 11% of total demand, whilst in 2010 they amounted to 28%. This can be interpreted in several ways:

1. Small companies continue to suffer the most in the current economic climate, and the best option to reduce their fixed costs is to renegotiate office rents, thus avoiding high relocation costs.
2. Medium-sized companies (and large companies that have reduced their space requirements) are in a stronger position to negotiate, which allows them to decide whether to relocate and make the most of the opportunities in the market, whilst benefiting from the amount of efficient properties available with very competitive rents and owners ready to offer them innovative incentives.

New business districts have increased in popularity in 2010. Companies that are traditionally found in the CBD have prioritised space efficiency and energy saving over the traditional criteria of location and a prestigious address. This is apparent by the fact that this year, well-known companies such as Telefónica or KPMG have relocated to areas such as 22@ district and Plaça Europa, alternative locations that have affected the occupancy rates in the CBD.

### Supply and vacancy rate

Over the last year more than 204,000 sqm was added to the office stock in the city, which currently totals more than 5.5 million sqm, 679,000 sqm of which is currently vacant.

The average vacancy rate in Barcelona fell slightly over the last quarter of the year, from 12.5% in the third quarter to 12.2% at the end of the year. This correction is mainly due to various office projects coming onto the market in the last quarter which were already sold or pre-let, such as the 24,000 sqm Telefónica headquarters in Edificio Diagonal 00 and the CMT headquarters (over 12,000 sqm), both of which are located in the 22@ district. Out of the 50,000 sqm of new stock that came onto the market over that quarter, only 3,000 sqm was available.

# Rents and investment market

## Vacancy rate by sub-markets



Source: Savills Research

The amount of new office buildings coming onto the market (which was considerable even between 2008 and 2010) is beginning to tail off and the market is beginning to feel the effects of the restrictions imposed by the economic crisis.

The market was focused on investment activities until 2007, but given the lack of core product for sale, it moved towards different types of pre-sales, including forward purchase or forward funding structures. This is one of the main reasons why speculative projects were completed in 2010 in the midst of the crisis.

The amount of new projects coming onto the market in 2011 will decrease considerably by 51% compared to 2010 and this will decrease even further in 2012 (-80%). Only 35% of the office pipeline for the next 24 months will come on to the market as vacant space.

This scenario will allow us to draw an optimistic evolution of the vacancy rate, which we estimate will slow its growing trend during the next few months but it will not decrease significantly in the short-term.

## Rents

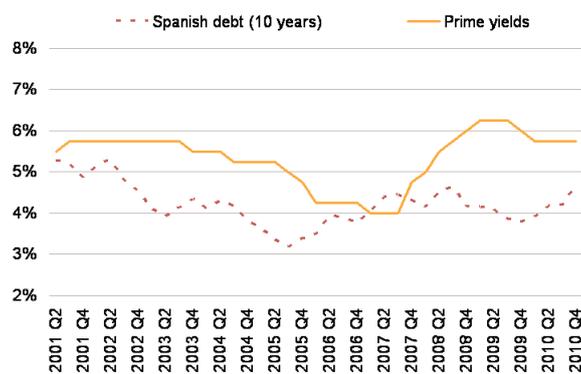
As we mentioned in the previous report, average rents in Barcelona are still on the horizontal stretch of the "L" shape. Nominally speaking, rents remained stable in all areas over the year, with the exception of prime rents which fell by 2.5% quarter-on-quarter in the fourth quarter to €19.50/sqm/month.

The increasing vacancy rate in Paseo de Gracia has caused a slight fall in asking rents in some properties located in this area, who fear their occupancy rates will be affected due to the high level of supply of new and efficient properties emerging in different areas of Barcelona. These assets will need to consider refurbishments and to adapt to occupiers' requirements of space efficiency in order to keep the demand for which the prestigious location still prevails.

## The investment market

In 2011 the office investment volume in Barcelona totalled €654 million. Out of this, traditional investment transactions only amounted to €289 million, whilst owner-occupiers completed €332 million of transactions. The remaining €33 million were for two office transactions where the properties will be renovated and changed to hotel use.

## Prime yield performance



Source: Savills Research, INE

The market continues to suffer due to a lack of supply of product and this is restricting the amount of transactions being completed. At the same time, in a market that theoretically should be providing opportunities, there is still demand from institutional and private investors.

The restructuring of savings banks and greater capital requirements imposed on them, may restrict financing further; making it more difficult to carry out leveraged transactions. Hence, it is likely that there will be more demand for equity in transactions that are not already leveraged or the existing loan can be assumed.

# Barcelona office market

## Survey map



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