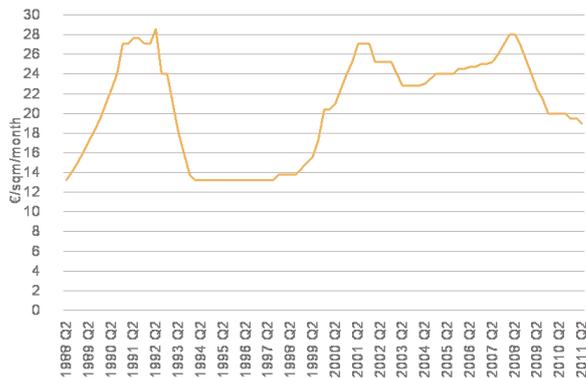


# Barcelona office market

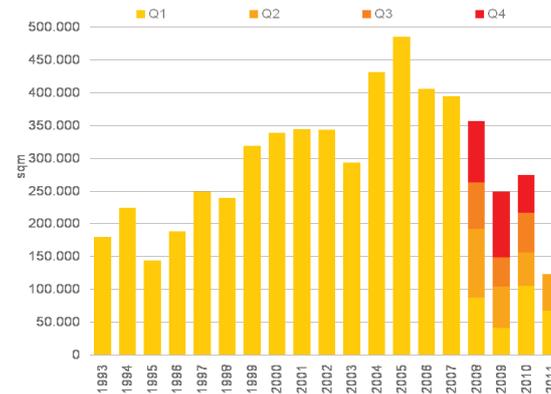
## Q2 2011

### Quarterly prime rents



Source: Savills Research

### Annual gross take-up



Source: Savills Research

**“The market is clearly going through a period of transition, awaiting for news confirming an economic recovery, which are taking longer than expected to arrive. When the debt markets stabilise and the occupier market shows signs of improvement, these will clearly indicate that the market is prepared for a new cycle and a change in trend.”**



Eusebi Carles (General Manager Barcelona)

- During the second quarter of 2011, the gross take-up levels remained similar to the previous quarter, reaching a total of 64,000 sqm. This figure demonstrates that the market remains weak with another quarter in line with the weakest performance in the past 10 years.
- With regards to supply, the development pipeline has been reduced significantly until the end of 2012, with only 19,000 sqm of new space coming into the market as available to add to the current supply. This will have a positive effect on the vacancy rate which will start stabilizing following the increase of 8 percentage points seen since 2007.
- Rental values have shown a general decrease in all areas during the second quarter of the year. While awaiting for the long hoped-for market recovery which would reverse this downward trend, the progressive stabilization of the vacancy rate should at least help maintaining rents at similar levels to those being currently witnessed.
- The total investment volume for the first half of the year shows that investors remain extremely cautious with the vast majority remaining inactive. The price gap between what prospective buyers are willing to pay and sellers are looking to achieve remains significant and as a result means that transactions are not taking place.

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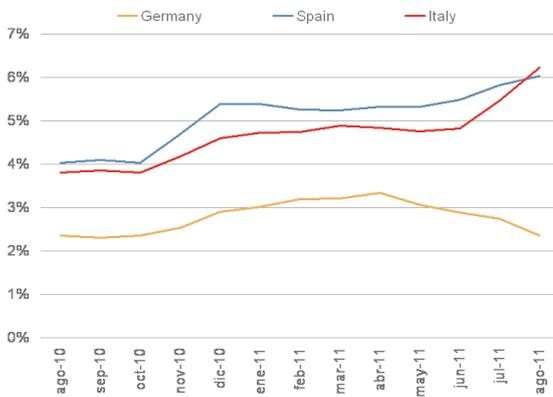
# Economy, demand and supply

## Economy

The global economy continues to be shaken by never-ending political contention and strong financial volatility on both sides of the Atlantic. The absence of a political agreement with regards to the problems in Greece has rocked the foundations of the European Union and is causing the risk premiums of periphery countries to reach record highs, which is putting risk at significantly high levels for countries the size of Italy or Spain.

Following the rescue package agreement for Greece in mid July, both countries have come into focus for the cost of their debt, which following an upward surge reached a record high in early August over 400 basis points above the cost of German bonds.

### Long term government bond yields (10 years)



Source: Eurostat

Taking the above into account, Spanish citizens are continuing to suffer from a sluggish job market, although the beginning of the summer season helped to reduce unemployment for four consecutive months and unemployment fell by 193,500 at the end of July. Inflation has also provided some respite for personal budgets - it was 3,1% in July, which is one tenth of a percent below June's figure and has fallen for the third consecutive month.

## The letting market

### Demand and take-up

The Barcelona office market remains at a constant in terms of market activity, but it is still not showing signs of being able to exceed the psychological 350,000 sqm take-up limit by the end of the year (this figure relates to annual average for the past 10 years); which would permit that a certain dynamism would return to the market.

Take-up in the second quarter of 2011 reached 64,000 sqm, which shows a 5% decline compared to the previous quarter. However, take-up increased by 26% year-on-year. As a result, we end the first half of the year with gross take-up totalling 132,000 sqm.

Demand continues to mainly come from companies relocating and/or restructuring their processes and who are looking for more efficient and modern space, enabling them to reduce costs, while others are making the most of the situation to renegotiate contracts with their current owners.

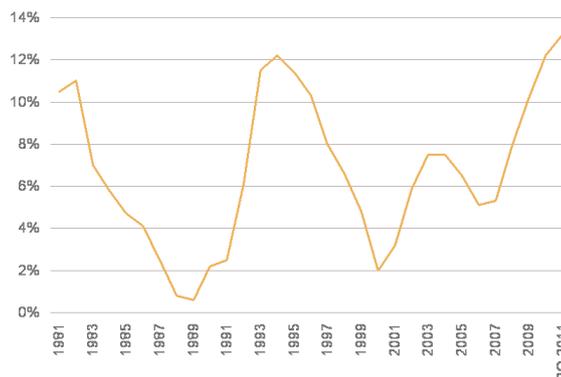
There is still an irrefutable leader when it comes to CBD versus New Business Areas. Over the first half of the year, more than 66% of transactions over 1,000 sqm were signed in the New Business Areas, with Plaça Europa being a clear example of how successful marketing can be in difficult times. Grupo Puig is one of the occupiers which have chosen to locate their headquarters in this strategic area - CatalunyaCaixa will build a turn-key project of over 14,300 sqm for them. In addition, the pharmaceutical company Ipsen Pharma and the insurance company DAS chose the Realia BCN Tower to locate their headquarters in Catalonia, and MRW will construct their future headquarters of over 6,500 sqm nearby.

However, two important transactions have also taken place in the prime area this quarter, which indicates that location is still a strategic and essential option for some companies, such as Black Lion and Kraft Foods which have chosen to locate their office in l'Illa Diagonal.

### Supply and vacancy rate

Barcelona's office stock is beginning to stabilise at around 5.6 million sqm with a vacancy rate at the end of June of 13.2%.

### Annual change in the vacancy rate



Source: Savills Research

The upturn in vacancy which has been evident since 2007 is starting to slow as a result of a considerable decline in the construction of new projects, but we do not expect this figure to decline in the short-term given that net take-up is still negative (companies which are already present in the city are letting smaller spaces, compared to the ones they have left and there are not enough new companies setting up or moving to Barcelona).

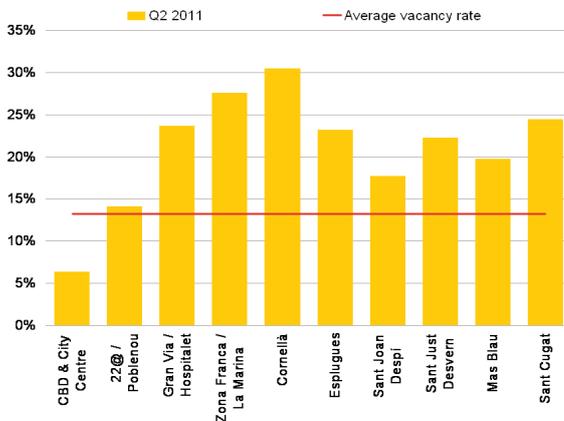
# Rents & investment market

The lack of new available office projects, which we anticipated in previous reports, is now a fact. The completion of the Catalana Parc Business Park, which is owned by Catalana Occidente in Sant Cugat del Vallès, is the last significant project to come on to the market in the next 18 months.

The *development pipeline* until the end of 2012 will mainly consist of small projects and building refurbishments in the city centre, which will be drip fed onto the market, as well as turn-key projects for corporate buildings, amounting a total of 67,000 sqm. Some of these projects are:

- VidraFoc's 4,500 sqm headquarters in 22@/Poblenou.
- Desigual's headquarter in Nova Bocana, comprised of two buildings of more than 10,000 sqm each.
- Col·legi d'Economistes de Catalunya 10,000 sqm headquarters in Plaça Gal·la Placidia.
- Fundació Pascual Maragall's headquarters of more than 10,000 sqm, which is also located in Nova Bocana.

## Vacancy rate by sub-markets



Source: Savills Research

## Rents

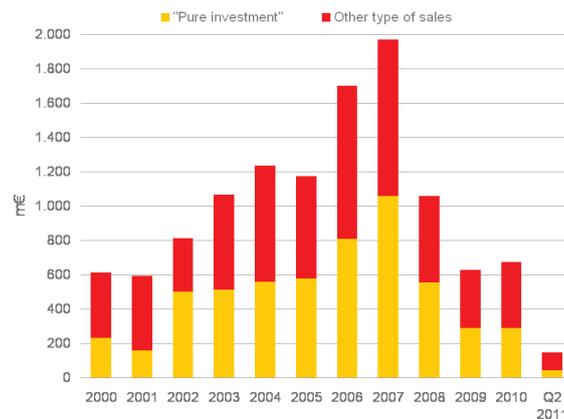
Rental values which had remained stable in recent quarters have declined between April and June. Prime rents have fallen for the second consecutive quarter by 2.5% to 19€/sqm/month, whilst in other areas rents have fallen between 2.7% and 5.5%. The city centre has been the most affected.

We expect rents to gradually stabilise as they have almost bottomed out, but owners will continue to reward occupiers with considerable incentive packages in order to retain tenants who respond to their security and solvency requirements.

## The investment market

Uncertainty is undoubtedly one of the worst, if not the worst travelling companions for investors. It makes investors even more cautious, which then converts into over pessimistic forecasts and then transactions end up being abandoned at the onset or very conservative offers are made which do not match the values that vendors are willing to accept.

## Annual investment volume



Source: Savills Research

This gap between buyers and sellers' perception of the value assets, has gripped the investment market over the first half of 2011 like never before. This has materialised into a total office investment volume of €156 million and an annualized figure of €422 million, which is one of the lowest recorded over the last decade.

Having said this, only 27% of this relates to traditional investment transactions; the rest have been hotel change of use transactions, disposals from financial institutions or owner-occupier purchases.

This level of activity, unusually low, will stabilise and minimum comfort levels will be re-established together with macroeconomic climate and when the market will start showing the first subliminal messages of recovery with a more robust occupier market as a result of adequate and sustained GDP growth.

# Barcelona office market

## Survey map



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