

Barcelona office market

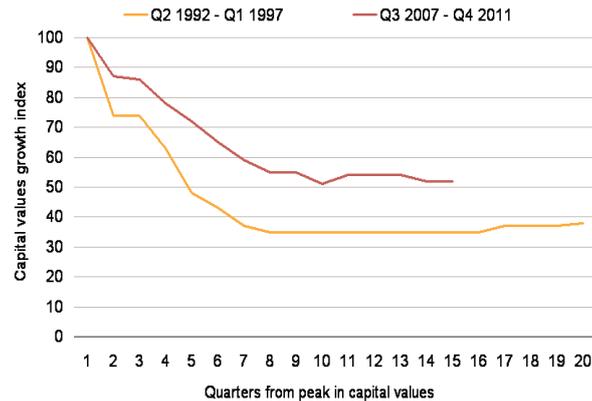
Q1 2011

Annualized gross take-up



Source: Savills Research

Comparison of the last two cycles



Source: Savills Research

“Both year-on-year take-up and investment volume are at record lows. If we take into consideration macroeconomic forecasts and compare them with market fundamentals, we may be reaching the lowest point of the recession curve.”



Eusebi Carles (General Manager Barcelona)

- Economic uncertainty is hindering the recovery of the Barcelona office market. Gross take-up increased by 10% quarter-on-quarter during the first quarter, exceeding 66,000 sqm. This is far from positive and indicates that the market is still weak; take-up is still at the lowest level recorded in the past decade and mainly reflects company relocations for cost savings.
- The office pipeline in Barcelona is drying out due to the postponement of many office developments after the property bubble burst. Only 46% of the 201,000 sqm of new projects expected to be completed in 2011-2013 will enter the market as vacant supply.
- The average vacancy rate in Barcelona this quarter stands at 12.8%. We expect it to slightly exceed 13% by the end of 2011, but it should remain fairly stable afterwards due to a lack of new available projects coming onto the market.
- Nominal rents remain stable in almost all areas, with the exception of the city centre, where they have declined by 2.7% quarter-on-quarter as a result of the increase in supply that has been caused by those companies that have chosen to relocate to New Business Areas.
- The investment market remained dormant during the first quarter of 2011. As a result, quarterly annualized investment volume was the lowest recorded since 2001.

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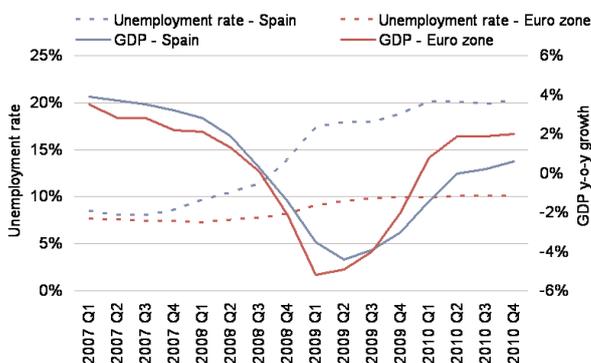


Economy, demand and supply

Economy

Uncertainty is still rife in the Spanish economy, but it seems that the measures adopted by the Government a few months ago are a step to the right direction. The decline in public deficit in March and the increase in the Social Security surplus indicate that the control measures are beginning to have an effect. The decline in risk premiums, which were below 210 basis points in the beginning of May, indicates that international finance markets are more confident about Spain. This is moving the country out of the danger zone, despite the recent collapse of Portugal, which was expected to bring Spain to the edge.

Divergence in economic recovery



Source: Banco de España

However, there are various global factors which can have a considerably detrimental effect on the sluggish growth of the Spanish economy. The incessant increase in oil prices as a result of the conflicts in oil exporting countries continues to push up inflation, which is now above the European average (March 2011: 3.6%). The rise in consumption prices together with the increase in the ECB's interest rates will affect the incomes of families and businesses further, and this will have an immediate effect on investment and consumption, deteriorating (even more) the national demand.

Letting market

Demand and take-up

In an environment where small and medium size firms who represent the bedrock of the catalan industry are still suffering, office demand is heavily dependant on relocation processes of firms needing to restructure and optimise their use of space. The limited creation and attraction of new companies and the endlessly depressed labour market are stopping offices from achieving positive net take-up levels.

Gross take-up increased by 10% quarter-on-quarter in the first quarter of 2011, exceeding 66,000 sqm.

Activity this quarter is considerably lower than take-up levels reached during the first quarter of 2010, mainly as a result of large corporate transactions that took place at the beginning of 2010. Despite this, this quarter has started relatively well for the occupational market - if we do not take the three large transactions signed in Q1 2010 into account (Grupo Ferrer, Grupo La Caixa and CH Werfen), there would have been a 15% y-o-y increase.

The trend we highlighted in previous reports was confirmed in the first few months of the year: over 60% of space taken has been for properties located in New Business Areas, with Plaça Europa becoming increasingly important. These areas, which initially caught the attention of companies looking for space over 1,000 sqm are beginning to attract smaller companies as well, who are following the example of large companies that were the pioneers of "decentralisation", looking for more competitive rents and more efficient space. This has started to free up space in the city centre, where there was a chronic lack of supply. However, in many cases the supply which has been created by these firms moving premises is obsolete space.

The most relevant transactions this quarter include Corporación Orizonia letting 5,200 sqm at Plaça Europa 17-19, Alstom Power letting two floors (1,200 sqm) in the iLlacuna complex in the 22@ District and the purchase of the second building which will comprise Desigual's future headquarters in Nova Bocana.

Supply and vacancy rate

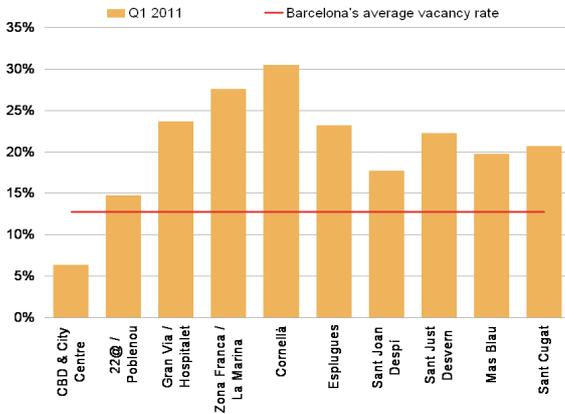
Three years after the start of the crisis, the office market is beginning to feel the positive effects of the decline in new projects in the pipeline, when a lack of financing and the explosion of the property market caused many office developments to be postponed, many of which still do not have an official start date.

The current office development pipeline for 2011 comprises 113,000 sqm of new projects. This figure is considerably lower than the figure in 2010, when new supply amounted to over 200,000 sqm (-55%).

During the first quarter of 2011, 25,500 sqm came onto the market, 70% of which was already pre-let (RBA headquarters in 22@ District). The remaining 30% was for a refurbished property at Calle Balmes 112, and a new office building located on Calle Pujades 50 in Poblenou. Both properties increased office supply in the city, which currently amounts to 719,000 sqm with a 12.8% vacancy rate.

Rents and investment market

Vacancy rates by sub-markets



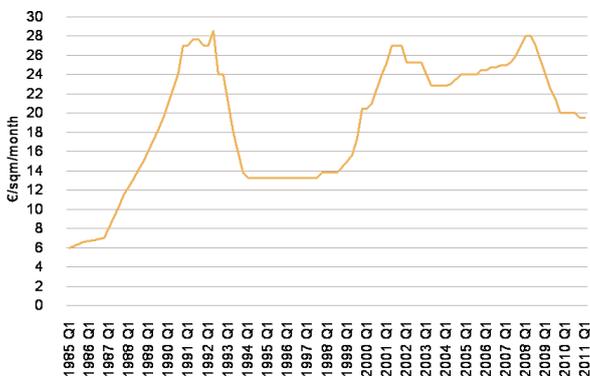
Source: Savills Research

Hardly any new project with available space are expected to come onto the market up until the end of 2011. Just one new project is expected - six corporate properties totalling 29,000 sqm, owned by Catalana Occidente in Sant Cugat del Vallès. One refurbished property in the centre of Barcelona, located in Calàbria 169 and owned by Núñez y Navarro, will also come onto the market. This new space will increase the vacancy rate slightly towards the end of 2011. We expect it to remain stable from 2012 onwards to start its downward trend in 2013.

Rents

The gradual stability in vacancy rates is helping to maintain prime rents at the same levels recorded in the previous quarter (€19,50 sqm/month).

Quarterly top prime rental values



Source: Savills Research

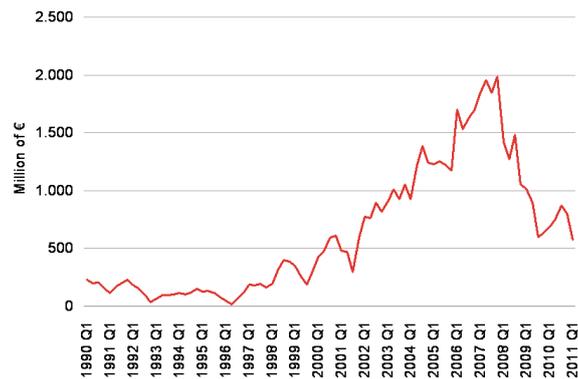
The relative strength of nominal rents is compensated for by the wide range of incentives offered by owners in the first few months of the contract to their future tenants, in order to encourage businesses to move premises.

However, rents in the city centre have decreased slightly by 2.7% as a result of the increase in supply, where companies that have chosen to move mainly to New Business Areas have left obsolete and difficult-to-market vacant space behind.

Investment market

This has been the worst quarter in terms of gross annual investment volume, since Q3 2011, when investors panicked following the events of 9/11 in New York.

Annualized investment volume



Source: Savills Research

Generally speaking, we are witnessing an investment market with few sales processes with a very low success rate. This has resulted in very modest levels of activity in the first few months of this year - Solvia was the only company to sell 19,600 sqm of buildable land in the 22@ District to foreign investors. Four sales transactions were also completed for owner occupation.

Although there are currently a number of deals in the pipeline, indications are that transactional volume overall for 2011 will be low. This situation is likely to continue as long as there remains a notable differential between the price purchasers are willing to pay and those vendors are willing to sell for.

Barcelona office market

Survey map



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