

Barcelona Offices



“Market fundamentals continue to show the strengths of the Barcelona Office Market”

Economic Overview

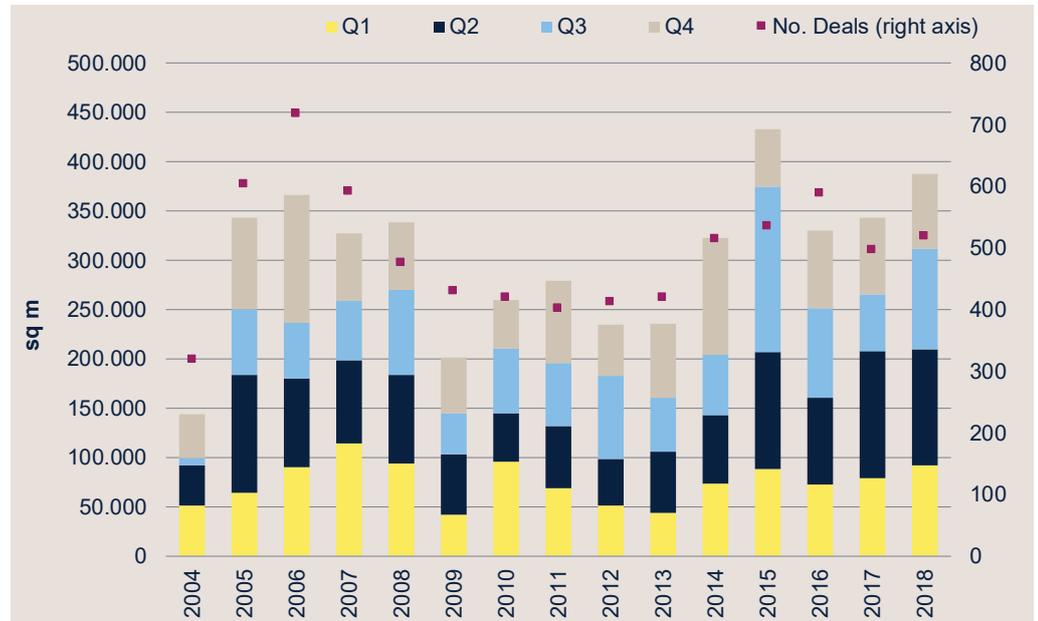
The GDP figures forwarded in Q4 2018 (2.4%) confirm the slowdown of the Spanish economy. The annual average would stand at 2.5%, in line with the forecast from Focus Economics. Over the next few years, Spain will continue to grow, albeit at a more moderate pace (an annual average of 2% up until 2021). In spite of this, it will remain above the average in the Euro zone, as it has been since 2015, with an average growth of 1.5% between 2019 and 2021.

The labour market also continues to grow. The year 2018 ended with 18.9m people registered with Social Security. This is the highest amount since 2007 and is already approaching pre-crisis levels. The unemployment rate extends the fall that began in 2013. Q4 2018 ended with the national figure at 14.45% and will continue to decline until 2023 reaching 11.7% according to Focus Economics.

According to experts, the political situation in Catalonia should have impacted on the economic evolution in the region, which, despite having a great potential for growth, is developing below expectations. Funcas (Fundación de las Cajas de Ahorro) places economic growth levels below the national average at 2.4% and 2% in 2018 and 2019 respectively.

In the labour environment, Catalonia is one of the autonomous regions where the unemployment rate has sharply dropped in the last 12 months. In Q4 2018, only 18% of its active population were unemployed.

Graph 1: Annual Take-up



Source Savills Aguirre Newman

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The dynamism of demand establishes the take-up level as the second best data in the historical series

Take-up and Demand

The Barcelona Office Market registered just over 75,500 sq m of take-up in the last quarter of the year. This volume represents a slight decline compared to the same period in 2017 (where it reached 78,000 sq m) and the lowest level since 2013.

Throughout the year, take-up has reached just over 387,500 sq m, exceeding last year’s figures by more than 11%, thus ranking as the second best year in the historical series since 2007.

The high level of activity is also reflected in the number of completed transactions, totaling 519, representing 22 more than in 2017 and the third best record in the last ten years.

Among the most active companies seeking office space, it is important to highlight Glovo App, MyTaxi, Utopicus, We Work, Travel Perk and Spaces. All these companies are linked to the new consumer trends.

Meanwhile, Barcelona continues to make progress in consolidating its position as an international technical hub with the entry of companies that take advantage of the quality and living conditions of the city to attract talent. Companies such as Everis, CCC Holding (Facebook) and Criteo were some of the main active firms seeking office space.

Deal Size

The average deal size throughout 2018 reached 741 sq m, 7.3% more

than in 2017, and the second highest level in the historical series.

In terms of size range, of particular note is the annual increase of 53% in the demand for spaces higher than 3,000 sq m, with 23 closed deals, the highest historical level ever reached. This shows that large companies are willing to invest heavily in the Catalonian market. The range between 201-500 sq m, which best represents the business structure of the city of Barcelona, has grown in number of deals by 16%, a good sign showing the dynamic business activity in Barcelona.

The range of small deals up to 200 sq m and the one between

“Companies linked to new consumer trends boost market activity in Barcelona”

“ La escasez de oferta disponible en Prime CBD y CC desvía la demanda hacia NBA y Periferia. Esta última, ha doblado el volumen de contratación respecto a 2017”



The just over 387,500 sq m taken up in 2018 represent an 11% y-o-y increase



The number of transactions also increased. With close to 520 letting agreements, the market grew by 4%



The vacancy rate continues to trend downwards. The overall market stood at 5.44%, with prime CBD and CC almost reaching full occupancy



The imbalance between supply and demand continues to favour rents in the expansion phase



The investment market has felt the impact of the lack of product. After H1 with practically no activity, H2 resulted in the most investment activity in the historical series

1,001-3,000 sq m demonstrates a drop of 10.5% and 8.2% respectively. In the latter, despite the decline, the number of closed deals is way above the historical average.

Activity by Market Zones

The current limited availability in the two central markets of the city, prime CBD and CC (City Centre), has resulted in decreases in the annual take-up in both areas. Specifically, they have moved from representing 38% of take-up in 2017 down to only 31% in 2018. By contrast, NBA (New Business Areas), with 44% of the total demand (169,890 sq m), and the Periphery, which has doubled its total demand with respect to 2017, have performed excellently.

The new supply that is being incorporated into the market, concentrated largely in the NBA area, is attracting those companies requiring quality spaces which follow the latest market trends. This represents those companies that need large spaces and were particularly active in 2018. Specifically, 12 of the 23 deals of more than 3,000 sq m were located in NBA and six in the Periphery.

Current Supply

The vacancy rate has continued to drop throughout 2018 reaching 5.44% at the end of the year, accounting for 329,553 sq m of vacant space and the return to pre-crisis levels. The decline in vacancy rates has been widespread, although especially significant in the CC and Periphery areas, where decreases of 40,943 sq m and 51,292 sq m respectively were recorded.

The vacancy rate at the end of the year stood at 1.31% in prime CBD and 2.83% in CC. Combining both markets, there is only 85,000 sq m available generally distributed over independent modules and office floors, and not valid for medium-sized and large-scale space requirements.

Meanwhile, the high level of demand for space in NBA has pushed the vacancy rate to its historic low, 6.69% (87,098 sq m available). There are submarkets in this zone, such as Glories, with vacancy rates below 4%. Finally, the Periphery, despite the significant decrease recorded in the last 12 months, continues to have a vacancy rate above 12%.

New Supply

In 2018, after the incorporation of 143,850 sq m into a total of nine buildings (87% pre-let), the developer activity in the period 2019-2020 seems to be slowing down considerably.

Over the next two years, the new supply will reach a total of 168,500 sq m, 54% of which will be located in 22@. The rest of the new supply will enter into the different submarkets of NBA and the Periphery, with the exception of the comprehensive refurbishment of Paseo de Gracia 17 in the prime CBD.

The new supply expected for 2019 shows, up until the end of this report, an occupancy rate of 58%, of which just over 86% is concentrated in 22@. For the new supply forecast for 2020, 100% is currently available. The largest project will enter the market in the first half of 2019. This refers to the building complex on Pallars/Llacuna which will incorporate 23,166 sq m into the market, of which just over 5,100 sq m are occupied.

Rents

In 2018, the average rent of all the transactions increased

Table 1: Main ideas in the Occupiers Market - 4Q 2018

Usuario	Zona	Superficie (m ²)	Sector Actividad
Glovo app	NBA	5.100	Entrega a domicilio
WeWork	Prime CBD	4.700	Coworking
Moventia	Periferia	3.600	Transporte
Tessi Diagonal	NBA	3.400	Servicios profesionales
Travel Perk (*)	NBA	3.400	Viajes on-line
WeWork (*)	Prime CBD	3.300	Coworking
Regus / Spaces	NBA	3.200	Coworking
Aticco	NBA	2.700	Coworking

Source Savills Aguirre Newman / *advised by Savills Aguirre Newman



NBA continue to focus on investor activity, with 22@ district as the main centre of attraction.

close to 10% yoy. The different areas that comprise the market showed specific situations depending on the current availability in each of them and the quality of leased spaces.

Prime CBD and NBA rents have grown above average, the former close to 10.50% reaching €22.80 per sq m/month and the latter, 12.85%, reaching €17.39 per sq m/month. The CC and Periphery markets, although below average, have shown significant growth. In the case of CC, its average closing rent has risen to €15.18 per sq m/month, more than 8.57% in 2017, while the Periphery, has registered an increase close to 7.40%, reaching €8.80 per sq m/month.

In line with global increases in closing rents, achievable rents have continued to grow in all areas. Prime CBD rent has risen to €26.50 per sq m/month, representing a 15.22% y-o-y increase. The achievable rents in NBA have exceeded those of CC for the first time. The high level of interest from companies seeking prime office space in Glories, in 22@, and the existence of a modern and quality supply in this market boosted the achievable rent in the NBA by 17.80% in the last year up to €22.50 per sq m/month. In CC, the achievable rent has risen by 10.26% to reach €21.50 per sq m/month. Finally, in the Periphery, the current rent stands at €13.50 per sq m/month, registering an increase of 5.47%.

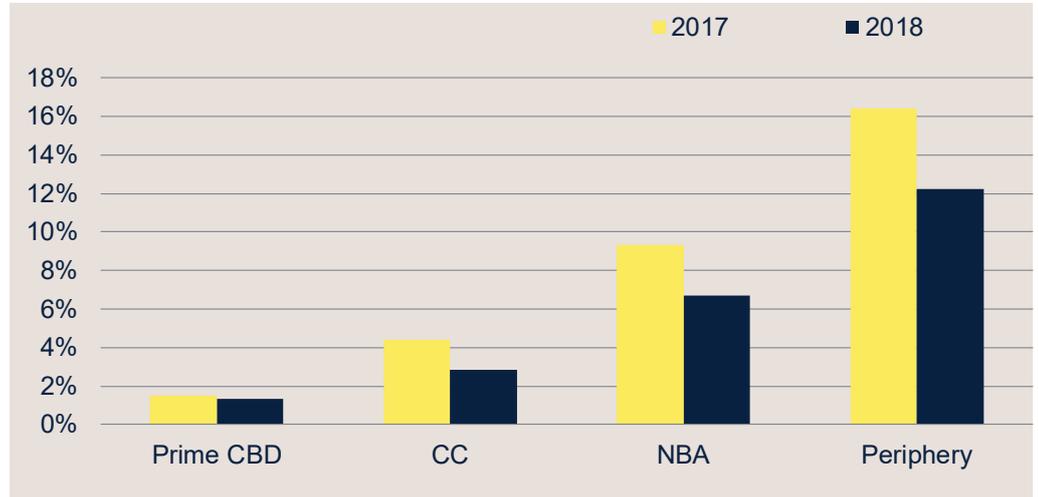
Investment Market

The year 2018 ended with an investment volume close to €660m in the province of Barcelona, 21% less than the €839m reached in 2017. This decrease can be attributed to the limited activity recorded in the first half of the year which only represented 4% of the total volume of the year.

During the second half of the year, the investment activity grew considerably resulting in the best second half since 2007. Investor interest in the Barcelona office market is high, its fundamentals maintain a positive performance, the main problem being the lack of products for sale. 84% of the investment volume and 56% of the transactions carried out originated from foreign investors.

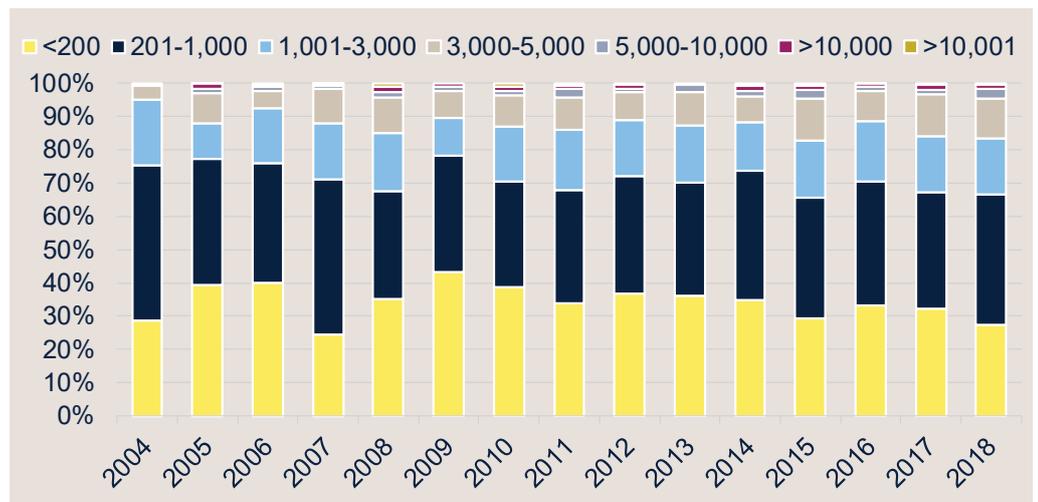
33% of the transactions were completed in the NBA zone, with 22@ being the market with the most activity registered, both in number of transactions (67% of the total

Graph 2: Vacancy Rate by Market Zone



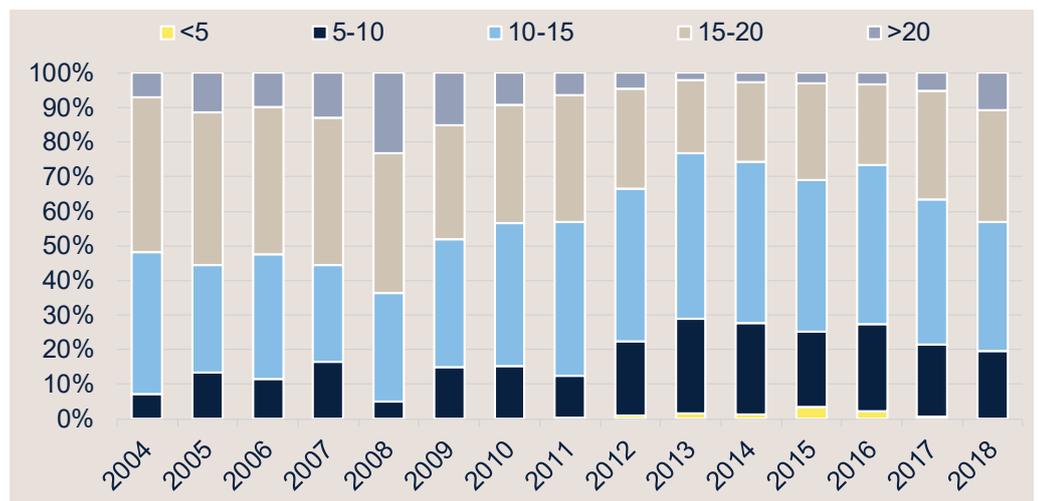
Source Savills Aguirre Newman

Graph 3: No. of Deals by Deal Size



Source Savills Aguirre Newman

Graph 4: Rent Histogram



Source Savills Aguirre Newman



Stability in yield levels. Capital values continue to grow as rents are still in the expansion phase.

NBA) and volume (60%). Plaza Europa and Zona Franca, also in the NBA zone, were also the focus of investor interest in 2018.

Yields

The risk of the current political situation impacting on the investment market did not materialise. The achievable yields have remained stable at 3.75% in the prime CBD area and 4.50% in the best assets out of the city centre.

The interest rates that seem to extend their low levels, the investor pressure and the rising trend of rents justify the low yield levels that had been observed.

Outlook

The expectation of a solid economic growth above 2% allows us to be positive in terms of the evolution of demand in 2019. However, reaching the high levels of 2018 will be difficult, and it is most likely that there will be a setback in the take-up with respect to the said year.

Maintaining the trend in 2018 involving the concentration of demand in the NBA and Periphery markets in the light of the very low supply in the city's central markets (prime CBD and CC).

The low level of new supply that will be incorporated in the medium-term, the years 2019 and 2020, will not have negative effects on the overall vacancy rate. This will continue to trend downwards due to the lack of available space and positive take-up expectations.

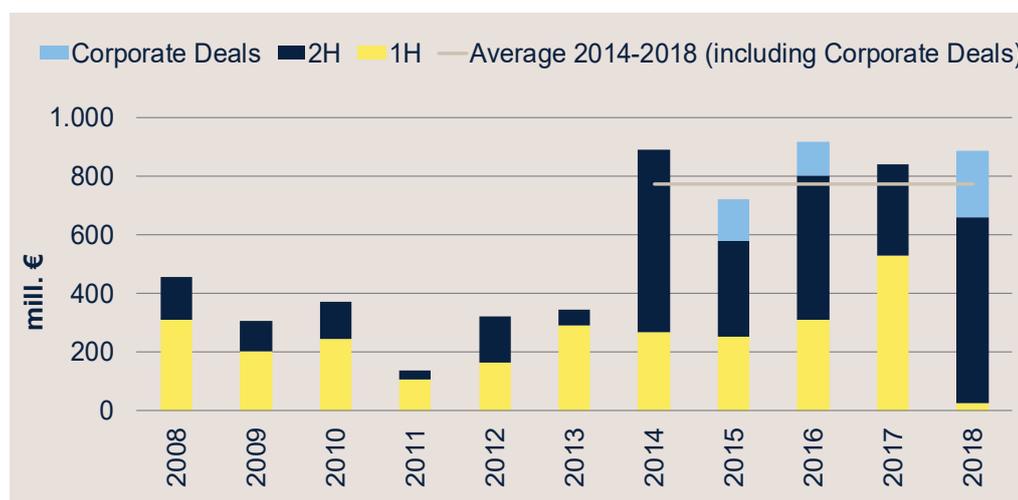
Upward trend in rents will be driven by precrisis low vacancy levels, both in the city centre and the NBA and Periphery.

Table 2: main deals in the investment market - 2h 2018

Activo	Zona	Comprador	Vendedor
Avinguda Diagonal, 662 - Ed. Planeta	Prime	Blackstone	Inversiones Hemisferio
Avenida Diagonal, 177-183 - Ed. Imagina	NBA	Hines	Mediapro
Avinguda dels Països Catalans, 51 - Sede Nestlé	Periferia	Savills IM	Meridia Capital
Paseo de la Zona Franca, 32 - Distrito 38 (*)	NBA	BNP Paribas RE	Goldman Sachs
Plaza Europa, 10 y 22-24	NBA	nd	Arcano
Complejo "Can Jambredu"	NBA	Universitat Oberta de Catalunya (UOC)	Invesco
Avda. Diagonal, 595 - Dpto. Medio Ambiente de la Generalitat	Prime	Inmobiliaria Colonial	Family office
Joan Miró, 21 (*)	Centro Ciudad	AEW Europe	Lar España Real Estate Sociimi

Source Savills Aguirre Newman / *advised by Savills Aguirre Newman

Graph 5: Investment Activity in Barcelona



Source Savills Aguirre Newman



Savills Aguirre Newman Research

We carry out a thorough and objective analysis of the real estate market in order to provide our clients with accurate information on the current situation in each of the sectors, helping them make the right decisions at each moment.

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