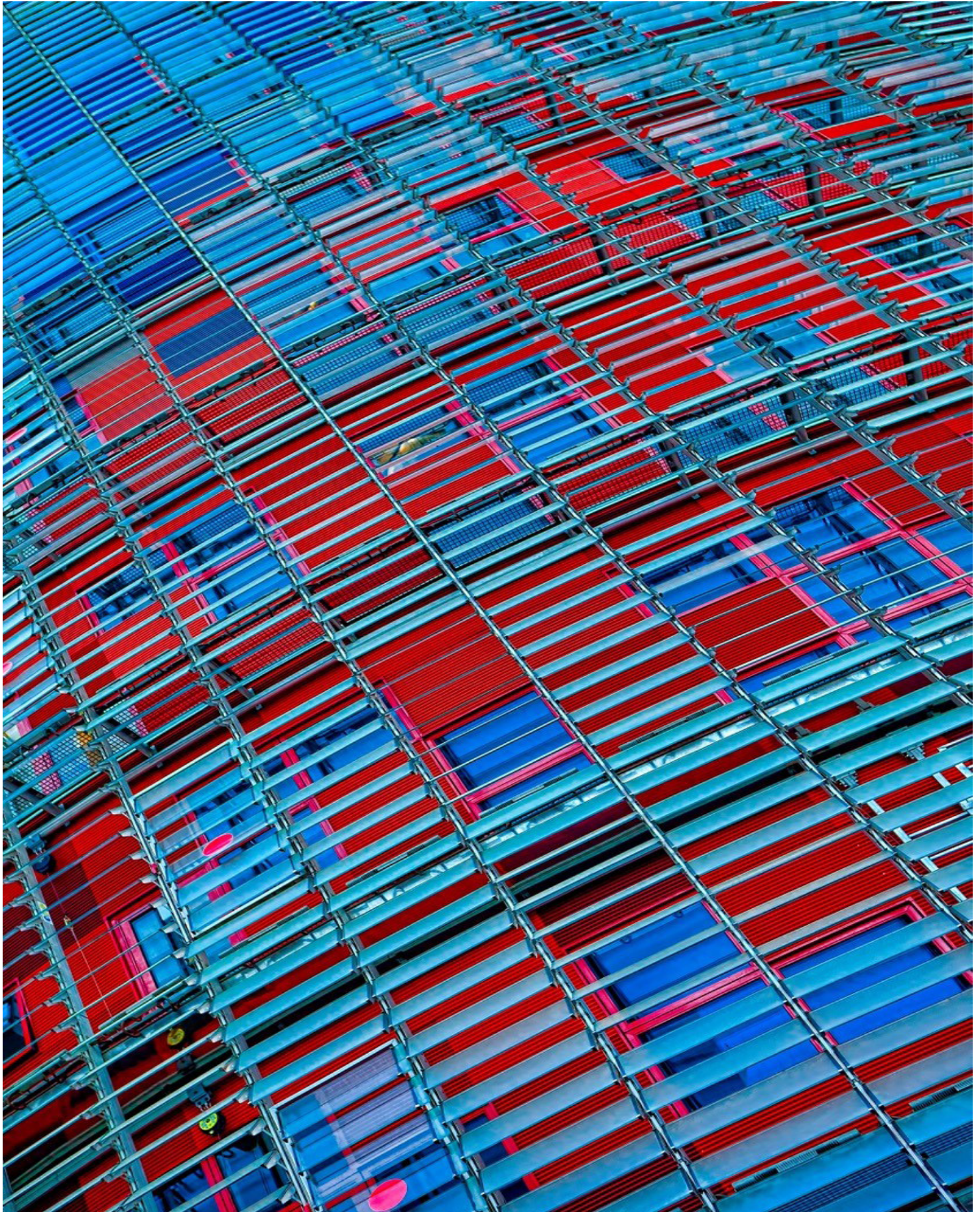


Barcelona Offices



“ The positive performance of the occupier market reflects the continued importance of office space in the business sector, despite the widespread implementation of hybrid and flexible working policies ”

Economic Overview

The eruption of the conflict between Russia and Ukraine in the midst of the post-pandemic recovery process will affect the growth of the world economy.

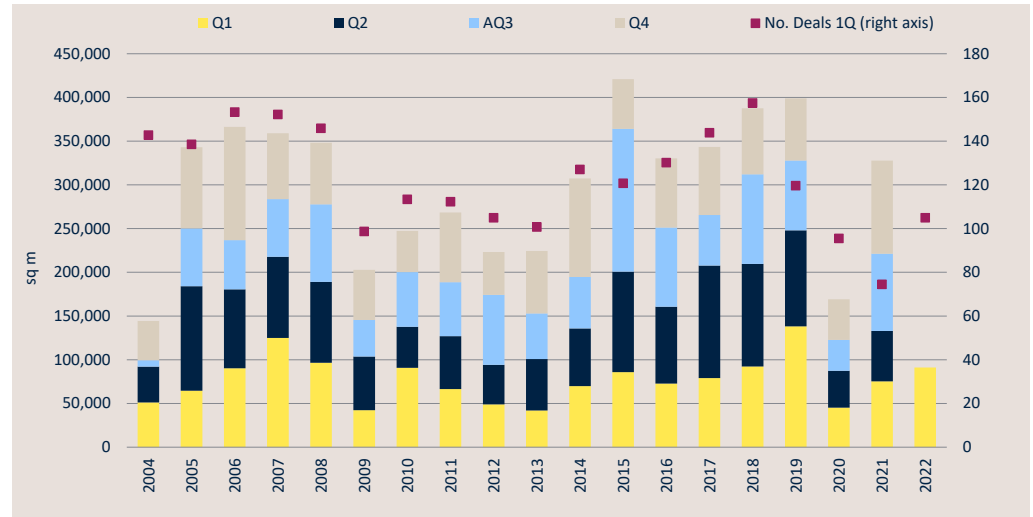
It is still too soon to predict the real consequences of the war, but the first impact has already been felt in the form of higher prices for energy, fuel and some raw materials, which will lead to higher production costs and, in turn, higher commodity prices.

The Spanish economy's exposure to the countries involved in the conflict is very limited, on the one hand due to the scant trade relations and, on the other, to the minimal dependence on Russian gas. Nevertheless, the war brings a degree of uncertainty and exacerbates the constant rise in the CPI which, since October 2021, has hit record highs in the historical series.

Continued price increases could reach double digits, which would undermine people's spending power and impact consumption figures, in turn affecting corporate margins and possibly business investment and the labour market.

In any case, various international organisations have revised global economic growth forecasts downwards, although these figures will depend on the length and extent of the conflict.

Annual Take-up



Source Savills Research

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Take-up and Demand

The Barcelona market recorded a gross take-up of 91,150 sq m in Q1. This is the third best Q1 figure in the historical series (which has an average of around 76,500 sq m) and also above the averages of the last five and ten years (86,000 sq m and 75,000 sq m, respectively). In the year-on-year comparison, it shows a 21% growth compared to the 75,300 sq m registered in Q1 2021.

In terms of deals, the 105 registered between January and March show an increase of 41% compared to the same period of last year, although this level is lower than the historical figures.

The immediate consequence is a rise in the average deal size, which strengthens the idea of the importance of office space as a key aspect for businesses. Many companies want to offer a comfortable and pleasant environment in which to carry out a large part of their corporate activity.

In Q1 2022, the average deal size slightly exceeded 860 sq m, above the average in the historical series (641 sq m), as well as the averages of the last ten years (638 sq m) and five years (727 sq m).

Deal Size

The surface area range with the highest concentration of deals continues to be <500 sq m, which in Q1 accounted for 61%. However, it should be noted that the range up to 200 sq m continues to decline (25% in Q1, compared to 29% in the last five quarters, 32% in the last 10 quarters and 33% in the historical series). Part of the demand for small deals is being diverted towards flexible space operators, where they have the ease of immediate

implementation. They can choose to renovate, expand or reduce the space, depending on the evolution of their business.

Meanwhile, the >1,000 sq m area ranges continue to gain presence in the market, well above the average share in the historical series. The range between 1,000 and 3,000 sq m accounted for 18% of transactions, compared to 10% in the historical data. Deals between 3,000 and 5,000 sq m made up 4% of the total, just over two basis points above the 1.7% in the historical series. Spaces between 5,000 and 10,000 sq m registered a more moderate share, barely 3%, but higher than the historical 1.3%. No transaction of >10,000 sq m took place in Q1, although the largest in the quarter (9,740 sq m) was close to that level.

Activity by Market Zone

The zone with the highest take-up volume was the Periphery, with 37% of the total, mainly due to the signing of the two largest deals in the quarter, which totalled just over 16,000 sq m.

The New Business Areas (NBA) accounted for only 25% in Q1, while in the historical series their share reached 38% and 43% in the last five years. In any case, demand continues to be interested in these submarkets and their presence will recover in the coming quarters, as there are currently a significant number of transactions underway.

On the other hand, the Prime CBD and City Centre areas remain active thanks to the increase in supply. In recent years, the vacancy rate in both areas has increased by 2.5 percentage points to almost 5%, which translates to 86,000 sq m more

👉 Although the vacancy rate has grown steadily since Q2 2020, the increase in Q1 2022 (0.1%) was minimal. Possible delays in the delivery of ongoing projects will also temper the evolution of vacant space in the market 📈

supply. Most of the new supply came from second-hand vacant space, as only 20,000 sq m was from the reincorporation of buildings undergoing refurbishment projects.

Activity Sectors

According to the Top Tech Cities of the Future ranking, published by fDi Magazine, Barcelona ranks eighth among Europe's tech cities of the future, thanks to its huge ecosystem of digital hubs, start-up incubators, technology centres, universities, among other factors.

Regarding deals of >1,000 sq m, the services sector accounts for 44% of take-up, with a significant number of flexible space operators and companies related to training and education. This is followed by the technology sector with 20%.

Another notable group is companies linked to the healthcare industry in different areas, whether it be product distribution or the development of tools.

At a time when e-commerce continues to grow, it is also worth highlighting the change of headquarters of companies related to logistics activity.

The regional public administration also participated in the market in Q1 2022, with a total of 6,100 sq m distributed across two deals.

Flexible Offices

The return to the office has also recovered activity in the flex market and operators continue to be on the lookout for new expansion opportunities. In Q1, three deals by flex operators were identified, totalling just over 5,000 sq m, representing 6% of total take-up in the quarter. The three deals took place in spaces of >1,000 sq m, two in the City Centre and the other in Prime CBD, although the area with the most flex operator activity in Barcelona continues to be the NBA.

The market will continue to grow as, due to the high level of occupancy, several firms (both large and small operators) are already actively looking to expand space throughout the year.

On the demand side, Barcelona is a very attractive location for international companies that choose to establish their headquarters in a cosmopolitan city. Due to its pleasant climate and the enormous

appeal of the beach in the heart of the city, Barcelona is great for attracting and retaining talent. A large number of applications have been received from companies based in Eastern European countries looking to open offices away from the war in Ukraine.

Flex space occupiers have a clear preference for central and well-connected spaces, such as the Diagonal axis or the area around Plaza de Catalunya, although the seafront is very well received due to its proximity to other coastal areas. Tech companies opt mainly for 22@, with its huge technological ecosystem.

The average demand starts with around six workspaces, although there are increasingly frequent requests from larger companies that start looking for between 20 and 40 spaces. Thanks to the flexibility offered by the operators, these companies can expand their space according to their needs in a short period of time.

Stock and Current Supply

The office market, which now has 6.34 million sq m, ended Q1 with just over 550,000 sq m available, bringing the vacancy rate to 8.7%. Since Q2 2020, as a direct consequence of the health crisis, the volume of supply has increased steadily (eight consecutive quarters), although Q1 2022 registered the smallest growth (barely 0.1%).

Of the total supply, 20,000 sq m of new space from various refurbishment projects accounted for 39% of the total new space delivered between January and March 2022. The general increase in availability has reduced the activity in the pre-let market, as occupiers have several alternatives to suit their space requirements and are not forced to opt for projects under development. In any case, supply with the highest quality levels that

meet all ESG standards is mainly concentrated in newly constructed buildings, and in newly built or comprehensive refurbishment projects.

In terms of the distribution of supply by zone, as usual the smallest volume was concentrated in Prime CBD, with just over 7.5% of the supply and a vacancy rate of 5%, followed by the City Centre with 22% and a vacancy of around 4%. The NBA and Periphery shared equally the remaining 70% and also recorded very similar vacancy rates, 13% and 14% respectively. 22@, the main submarket of the NBA followed the trend of increasing supply, although its vacancy rate remains below the figure for its area (10.8%).

It should be noted that the Periphery fell in supply compared to the previous quarter due to the timing of several large transactions.

Future Supply

The broken supply chain, aggravated by the transporters' strike and the war in Ukraine, is affecting the construction schedules of many of the projects, which is likely to delay the delivery of certain assets. The visibility of the real impact of postponements will become clearer as the year progresses.

For the time being, 516,000 sq m is expected to be added to the market by the end of 2023, distributed between 31 new buildings and 21 refurbishment projects.

Of the total planned surface area, 15% is already committed, which puts the new supply at around 440,000 sq m. However, the figure will vary throughout the year, affected by the proximity of the delivery date of the building and the ease of visiting the projects to get a feel for what could be the new headquarters for a prospective occupier.

Main Deals - Occupiers Market Q1 2022

Tenant	Market Zone	Floor Area (sq m)	Activity Sector
Vueling	Periphery	9,740	Transport
Hipatia Educación	Periphery	5,940	Education
Volkswagen *	NBA	5,555	Industry - Manufacturing
ILerna Online *	CC	4,800	Education
PayFit *	NBA	4,540	Technology

👉 The level of rents in Prime CBD is showing signs of recovery, while for the time being the rest of the market remains stable. The current macro situation will determine the consolidation of rental growth in the best buildings located in prime areas, which will subsequently expand to the rest of the market 👉

The distribution by zone of the new supply in the pipeline is to be expected. The NBA continues to be the focus of development activity, where 323,500 sq m is planned, of which 270,000 sq m (83%) is located in the 22@ technology district.

Rents

The stability of the achievable values from the last few quarters was disrupted by a modest 2% increase in Prime CBD, which at the end of Q1 stood at €27.50 per sq m/month. The other areas remained at the same levels as in Q4 2021.

The average rent, calculated with all the identified values of the quarterly transactions, also reflected an increase in Prime CBD, while there continued to be declines in the other areas.

It should also be noted that while in Prime CBD concessions and incentives are returning to levels close to pre-pandemic, in other areas they continue to be an important feature in attracting demand.

Pending the evolution of the current macroeconomic situation, it remains to be seen whether the growth in Prime CBD will consolidate and then expand to other areas.

Investment

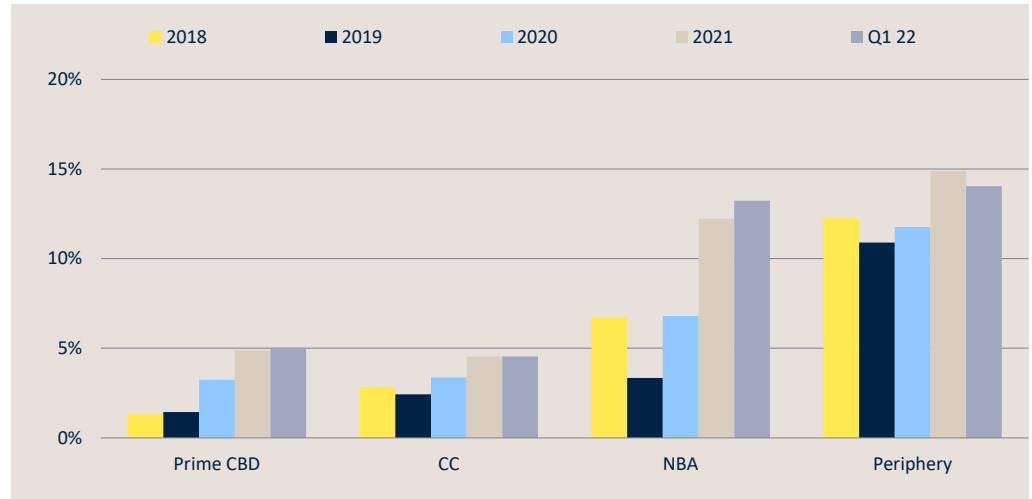
The office sector is gradually regaining its presence in the commercial investment market. Greater control over the pandemic and the gradual return of employees to office buildings has diminished the uncertainty that has been looming over the office product. This has put the focus back on an asset class that historically has accounted for 40% of the volume.

Between January and March, the market registered €563m, a year-on-year increase of 96%.

Barcelona's contribution to the domestic market in Q1 was minimal, with only one transaction. The Australian fund Macquarie has entered the Spanish market with the acquisition of @Mar building, located in the Technology District.

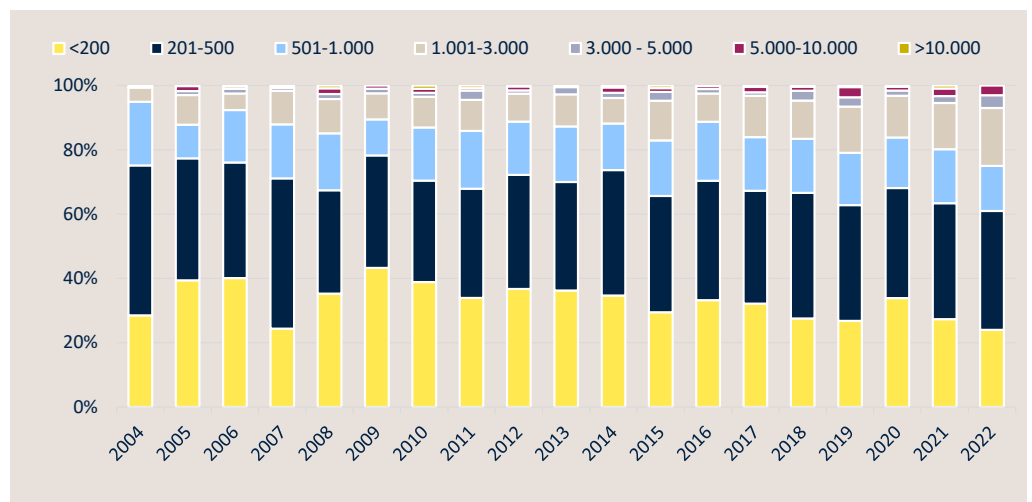
It should be noted that the single transaction does not reflect the current market situation. After an intense previous quarter, with close to €500m distributed across 10 transacted assets, no deals were carried over from one year to the next. However, several orderly sale processes

Vacancy Rate



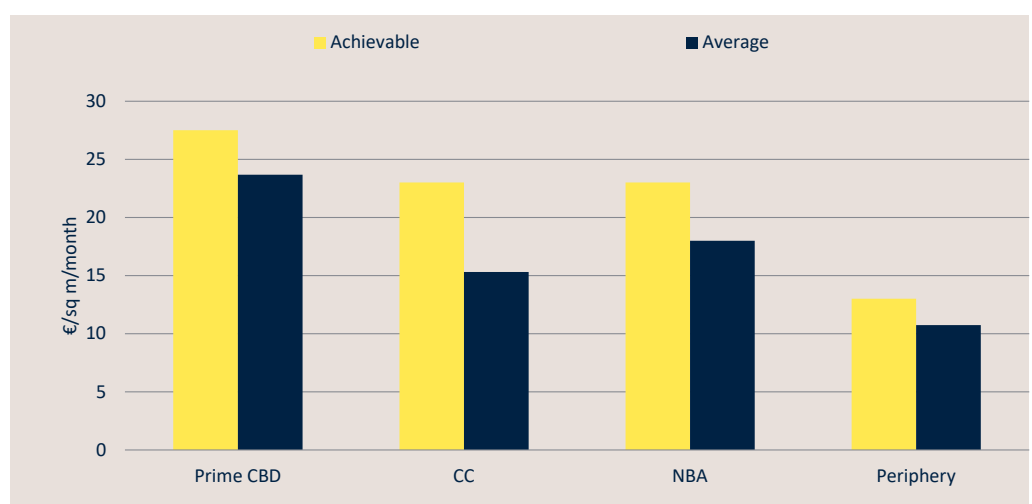
Source Savills Research

Deals by Surface Range



Source Savills Research

Rents by Market Zone - Q1 2022



Source Savills Research

👉 The single transaction recorded in Q1 does not adequately reflect the market reality. There are several processes in DD or at an advanced stage of negotiation that will be closed during Q2. The annual total is expected to once again exceed €1,000m 📈

were launched between January and February, of which several are progressing favourably.

At present, various assets are already in the DD phase or in advanced negotiations, which gives us optimism for Q2. There is also a pipeline of product pending market entry, which will ensure considerable movement in the sector. Although much of the activity will come from open processes, some transactions will be derived off-market.

The profile of investors active in the market continues to be a risk-averse international fund, which is clearly committed to core and core+ products but does not rule out entering into forward purchase or forward funding models, provided they are located in well-established business environments.

In this regard, 22@ will continue to be the focus of investment and development activity in response to the solid fundamentals of the area and the occupiers' firm interest in setting up their headquarters in the immediate vicinity.

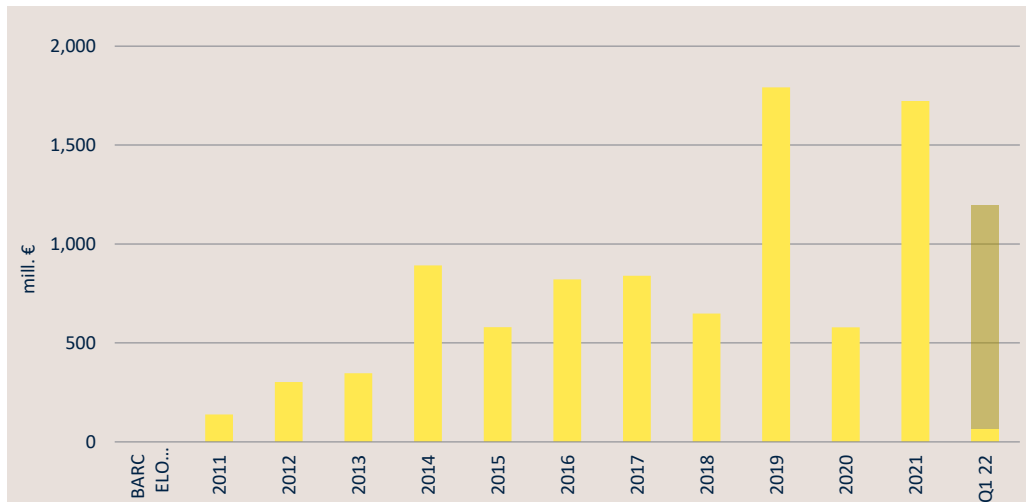
Everything indicates a promising annual total, with a diversity of product available on the market, adapted to the needs and interests of a wide range of investors who remain interested in actively participating in Barcelona.

Yields

In terms of achievable yields, prime yields have compressed due to the high level of interest in entering the market, the high degree of liquidity as well as buying pressure. The CBD fell 20 bps to 3.40% in Q1 2022, while Prime NBA, which corresponds to the Glories area of 22@, dropped 10 bps to 4%.

Significant interest from demand and growing volume of liquidity in the market could compress the yield in very core product in prime locations, meeting the criteria of quality, ESG, good covenants with long-term contracts, etc.

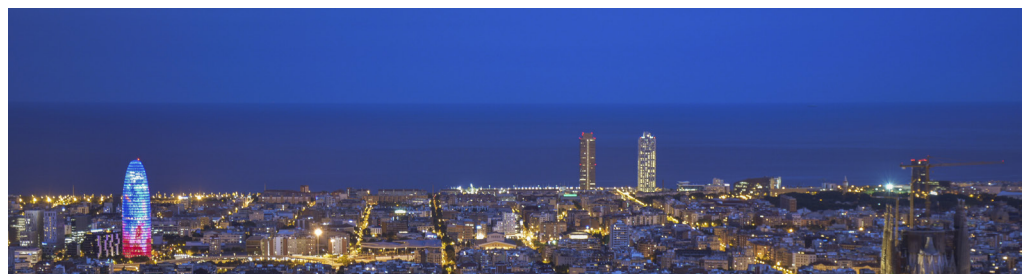
Investment Activity in Barcelona



Source Savills Research

Outlook

- The high COVID incidence figures have been overshadowed by the influenza-like spread of the disease and the decline in the number of patients admitted as well as deaths. However, another threat is looming over the international balance. In a globalised world, Russia's war will affect not only the countries in conflict, but the whole planet, albeit in different ways.
- The evolution of the economy will be closely linked to the progression of the conflict, which could generate some uncertainty for the business community, favouring the postponement of a possible change of headquarters until there is greater visibility on the horizon.
- The Q2 Business Confidence Index placed Catalonia among the best performing regions and above the national average, but it is important to note that it declined for the second consecutive quarter.
- Demand activity will determine the evolution of availability. Despite the continuous increase in supply since Q2 2022, the market is at a healthy level of availability. Demand now has different options and alternatives, which also results in greater bargaining power.
- The pipeline of product currently on the market presents a promising annual total. This includes orderly processes or off-market activity, as well as other processes underway that will incorporate more assets available for sale in the short term, with several deals in progress of >€80m. Most of the year's investment activity will be concentrated in 22@ district.
- Investors maintain their interest in Core and Core+ products, which account for 82% of the total expected to close by the end of the year.





Savills 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.

Offices

Hipólito Sánchez

Head of Offices

+34 93 439 54 54

hipolito.sanchez@savills.es

Marie Laure Fenet

Director Office Leasing

+34 93 439 54 54

marie.fenet@savills.es

Carlos Bajo

Director Office Capital Markets

+34 93 439 54 54

marie.fenet@savills.es

Natalia Montal

Associate Director Office Leasing

+34 93 439 54 54

natalia.montal@savills.es

Research

Gema de la Fuente

Research

+34 91 319 13 14

gema.fuente@savills.es

Pelayo Barroso

Research

+34 91 319 13 14

pelayo.barroso@savills.es

Isabel Gil

Research

+34 91 319 13 14

isabel.gil@savills.es

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