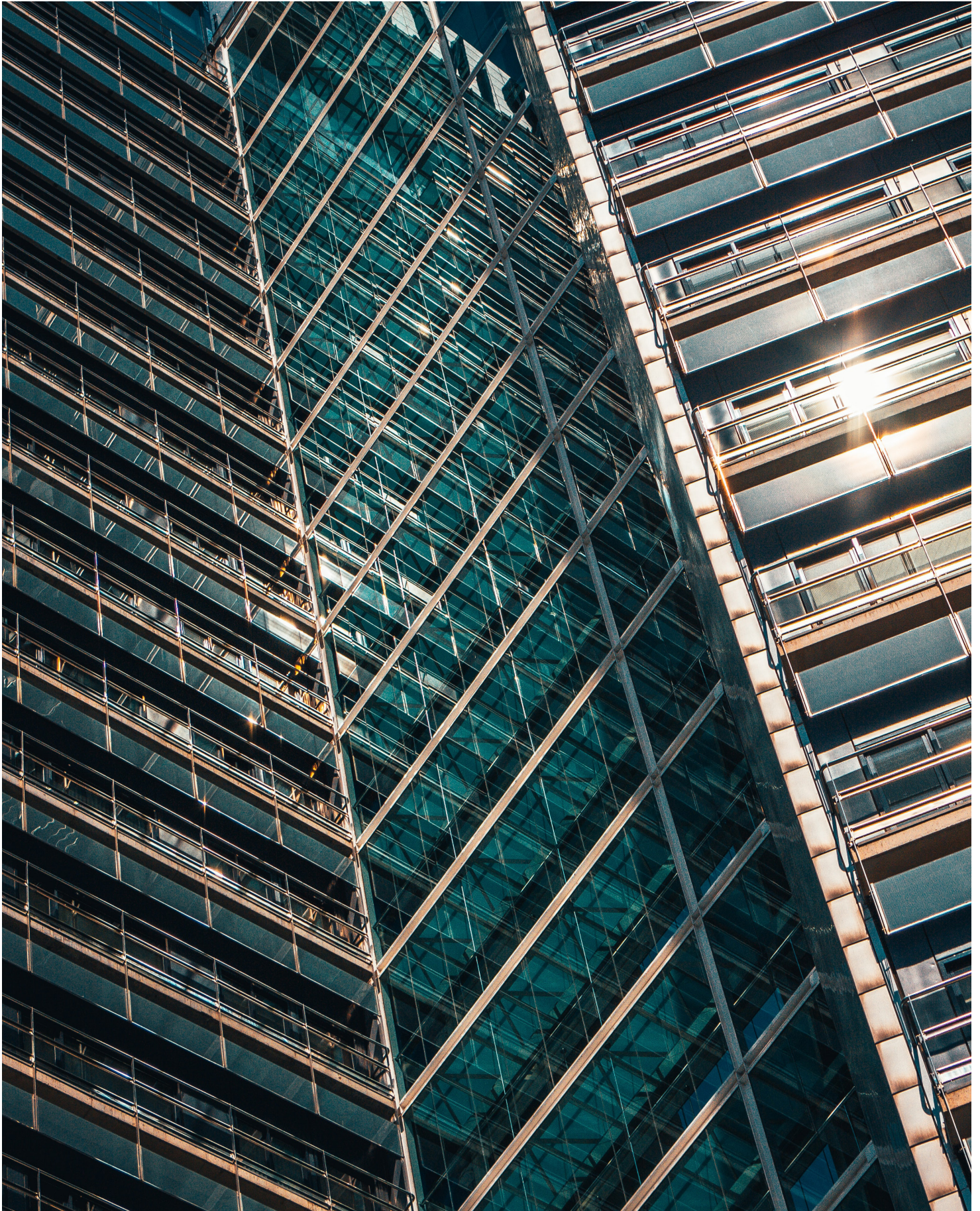


Barcelona Offices



“ The end of 2023 leaves a bittersweet taste in the Barcelona market. Although take-up in Q4 doubled in comparison to the previous quarter, this “acceleration” has not managed to recover from a complicated year, in which low volume deals have predominated ”

3.4%
CPI January 24

Forecast 2024
2.5%

2.0%
GDP Q4 2023

Forecast 2024
1.3%

11.8%
Unemployment
Rate Q4 23

Forecast 2024
11.72%

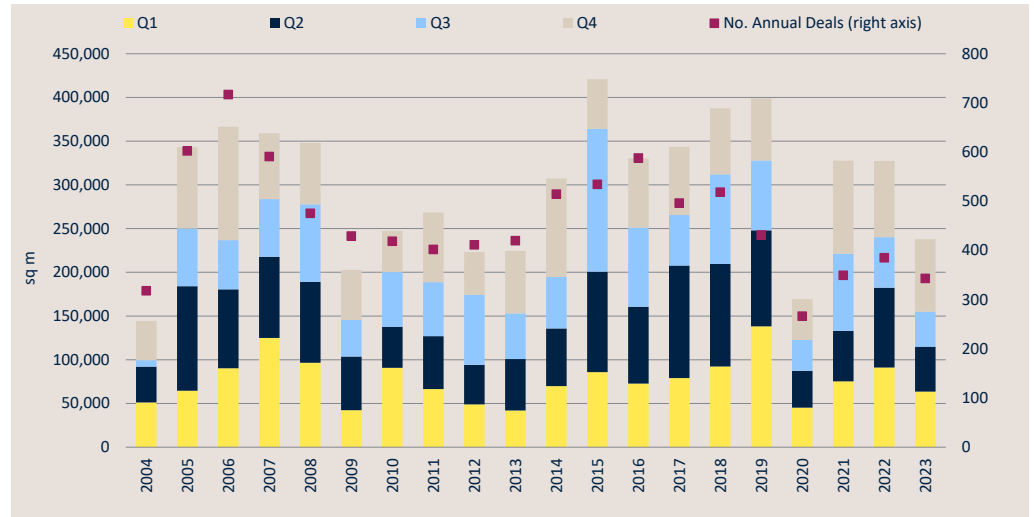
18.5%
2024

Forecast offices
employments

78.4
CCI 2023

+18% y-o-y

Annual Gross Take-up



Source Savills Research

Barcelona Offices

Take-up and Demand

The end of the year leaves a bittersweet taste in the Barcelona office market. On one side, take-up in the last quarter was the best in 2023, with almost 83,000 sq m, double that of Q3. However, this increase in the surface area signed for has not offset a difficult few months in the sector, which closed with around 238,000 sq m signed, 27% down on the previous year.

In terms of the number of transactions, there has also been a downward adjustment: 343 deals compared to 385 in 2022 (-11%). In relation to the average of the historical series, which stands at 461 signings, this represents a 25% decline, while in comparison with the average of the last five years (355 agreements), this percentage drops to 3%.

Although better take-up figures were expected, the reactivation of certain demand processes that had come to a standstill during the year, together with the arrival of new potential users looking for spaces of considerable volume, invites optimism for 2024. It should also be taken into account that the macroeconomic recovery expected in the medium term will have a positive impact on the Barcelona market, which means that a return to positivity in the market is closer.

Deal size

The average deal size in Q4 23 was just over 1,000 sq m. The signing of 25,000 sq m in Torre Nova Fira by the Catalan Government is the reason why the average value has reached an unusual level in the Barcelona market. Without this mega-operation (the second of the year), the average would be 700 sq m, the best quarterly average of the year. In

terms of annual figures, in 2023 the average area signed for was also almost 700 sq m, an 18% year-on-year decline.

Activity has been characterised by low-volume operations, resulting in lower take-up. In the whole of 2023, only eight deals were closed on spaces >3,000 sq m, compared to 19 in 2022. In addition, no mega-deals (>10,000 sq m) were signed last year and take-up was 27% higher. The surface area agreed in 2021 was also 90,000 sq m more, but the difference in the number of transactions was smaller, only seven more, which shows the predominance of contracts in small surface areas.

The segment between 1,000 sq m and 3,000 sq m experienced the largest reduction in weight, from 21% of all transactions in 2022 to just over 13% in the following year. On the other end of the spectrum, operations <500 sq m are gaining in importance, accounting for 64% of the demand (56% in the previous year). Although the increase in the weight of this type of operation has been high, the good news is that it remains below the average of the historical series, almost 70%. In addition, the number of agreements signed in spaces between 250 sq m and 500 sq m is double that of those of <250 sq m.

In terms of take-up of medium-sized areas, between 500 and 1,000 sq m, they account for almost 20% of transactions, the highest percentage since 2004.

Activity by Market Zone

The distribution of take-up by zone continues the trend initiated in 2022 with a greater weighting

“ Development activity will focus mainly on refurbishment in 2024 and 2025, with 36% of the area under construction in the City Centre ”

of Prime CBD and CC compared to NBA. While in 2021 almost 43% of the take-up was closed in the NBA submarkets, this percentage has fallen to 25% in 2023. For the first time since 2016, CC activity exceeds NBA activity, with a difference of more than 20,000 sq m signed. Demand in this centrally located market has remained below 4,000 sq m, in fact, 71% of the deals in CC were for spaces of <500 sq m. A similar performance was seen in Prime CBD, where 61% of the contracts were in low-volume offices.

An increase in the weight of activity in Prime CBD and CC goes hand in hand with a greater prominence of smaller operations, typical of these areas. This situation is expected to be reversed during 2024, with the arrival of new demand for larger office space, more present in the available NBA supply.

Special mention should be made of the results recorded in markets in the Barcelona Periphery, which, although maintaining the level of signings with respect to the previous year, saw an upswing in their weight in the market, going from 22% of take-up in 2022 to almost 29% in 2023. The two mega-operations of the year were closed in the Baix Llobregat area, in the future Torre Nova Fira and in the Inneo Building (25,000 and 13,000 sq m respectively).

Flex offices

The slowdown in activity in the Barcelona office market also affected the flexible space sector. During 2023, around 11,800 sq m were signed in five transactions, two of them in the last quarter. This represents 5% of total take-up, rising to 9% in 2022, with 28,000 sq m signed.

While it is true that there has been a sharp adjustment in demand compared to the previous year, the average deal size is the highest in the last four years: almost 2,400 sq m per deal, up 43% year-on-year. This figure increases if an extension at Laietana 33, of just 670 sq m, is discounted: the average with this calculation amounts to 2,800 sq m. There is still some way to go to reach the pre-pandemic level of 3,100 sq m on average.

Operators' behaviour was similar to that of the rest of the users in terms of distribution by zones. There was a clear trend towards Prime CBD and CC, and a single transaction in Periphery, while NBA

closed the year with a zero score for flex office transactions. The take-up in Prime CBD stands out, given that in 2018 alone, according to recorded data, so much surface area had been closed in the best area of the market, with more than 6,000 sq m in just two transactions.

Stock and Current Supply

Barcelona's office stock is expanding for another year and now stands at 6.67 million sq m, 3% more than in 2022. The pace of growth accelerated during the last three months of the year, with the delivery of eight new construction and renovation projects, adding nearly 66,000 sq m to the stock. This figure does not take into account the completion of upgrading works on three assets in the City Centre, some 20,000 sq m, which add to the available supply.

Not only is office space increasing, but also the vacancy rate. The fourth quarter ended with a vacancy rate of 12.06%, two points higher than the previous year. While the major contribution to available space over the course of 2023 comes from the addition of new developments and renovations that bring new stock, the space that certain tenants were bringing to the market in the form of subletting was becoming a cause for concern in the market. After the summer, some of these users have withdrawn these “surplus” square metres from circulation, with the supply shifting its focus back to updated, more easily marketable surface areas.

In the analysis by zones, NBA continues to grow, both in terms of stock and of available surface area, with a 24% vacancy rate, (almost 446,000 sq m). As the area with the greatest development activity, 22@ has a 25% vacancy rate. It is expected that, during this year, occupiers seeking considerable volumes of space will be able to reduce the vacancy rate in the technology hub.

The signing of the two mega-deals (>10,000 sq m) of the year in the Periphery, together with a scarce commitment to new construction and refurbishment, are the perfect tandem for the area to see its vacancy rate fall for another year, to 13.86% (14.14% in 2022). Although 2023 started with a lower rate, which has been increasing since the summer, the more decentralised sub-markets managed to remain below the previous two years at the end of the fourth quarter.

The re-routing of demand towards Prime and CC, especially from small and medium-sized surfaces, leads not only to an increase in take-up in these areas, but also to a decrease in the amount of vacant space to occupy. Prime CBD has a 3.6% vacancy, the lowest figure since the pandemic. Meanwhile, CC saw a slight increase from 4.7% in Q3 to 5.4% in Q4 due to the inflow of 20,000 sq m of vacant space from three refurbishment projects.

Future Supply

Development in Barcelona's office sector is slowing down. After three years of exceeding 200,000 sq m of new and/or refurbished space per year (more than 240,000 sq m in 2022), the space under construction will contract to 177,000 sq m in 2024 and 156,000 sq m in 2025. Despite this, these figures are still high compared to the square metres that were being added or upgraded before the pandemic: between 2011 and 2019, the average was less than 60,000 sq m per year.

And this is not the only change in the pipeline over the next two years; the strategy of owners is also changing, with a focus on refurbishment rather than new development. Whereas until 2023, new construction represented 87% of the surface area entering the stock, between 2024 and 2025 its weight will be 44%.

The trend of renting in completed buildings

Main Deals - Occupier Market Q4 2023

Tenant	Zone	Floor Area (sq m)	Activity Sector
Generalitat de Catalunya	Periphery	25,000	Public Administration
G+D Mobile Security	Periphery	4,500	IT
Allianz Technology	NBA	4,300	IT
Aticco	Prime CBD	3,600	Flex Office
Networkia	Prime CBD	2,600	Flex Office

☺☺ Achievable values are affected by a stressed market: while Prime CBD and CC are increasing their rents - €26.75/sq m/month and €24.25/sq m/month - NBA is suffering from the continued increase in vacancy and is holding at €23.00/sq m/month in anticipation of a more positive 2024 ☹☹

is continuing, given the wide range of supply available to tenants, which makes pre-letting contracts unnecessary for the time being. As a result, only 7.5% of the total new/refurbished area expected to be incorporated by 2025 is currently committed.

NBA continues to be the focus of development activity (56% of the projected surface area), with its main area, 22@, being the epicentre of new developments. All the surface area that will be incorporated over the next 24 months will be located in this market, which will house the largest buildings that will open in 2024 (Two Parc Central with 23,000 sq m), and in 2025 (Marroc, 25-31 with 24,000 sq m).

CC not only stands out for its high take-up during the year, but also for the concentration of refurbishments on its perimeter. The 121,000 sq m that owners have decided to upgrade in the area during 2024 and 2025 account for 36% of the total pipeline, and 64% of the refurbishments. Bringing A-quality offices to the market in an area with low vacancy and with a pool of waiting demand is a safe bet, which will benefit activity in the area.

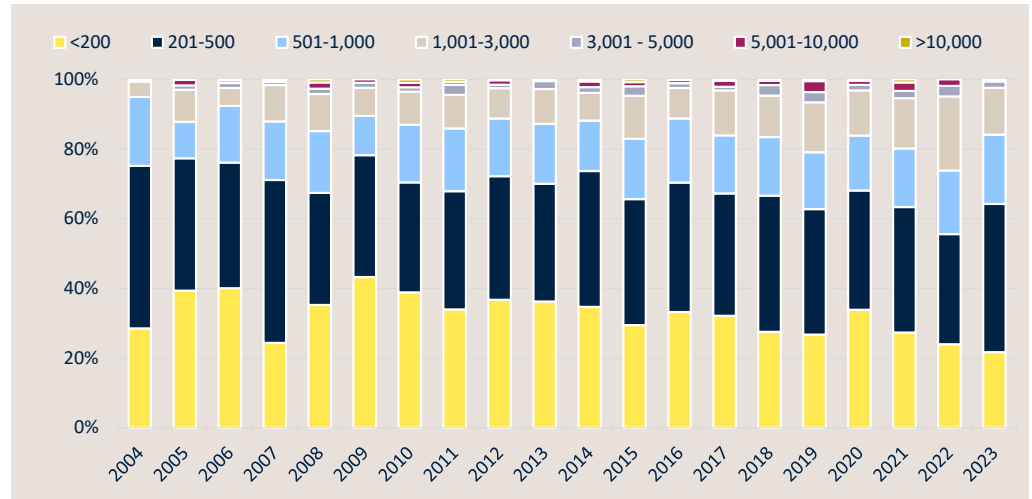
Rents

Average values in Barcelona are conditioned by a very strained market that is running at a dual pace. On the one hand, there are the Prime CBD and CC areas, with low vacancy rates, even lower in the case of the Prime area, with occupiers interested in establishing their headquarters in centrally located offices, and developers willing to offer quality space through the refurbishment of part of this stock. On the other hand, NBA, which continues to add office space, but concentrates a lot of new construction in very short time frames, boosts the vacancy rate to 24%.

The translation of these factors into achievable rents is inevitable: Prime CBD is up 50 cents from the previous quarter at €28.75/sq m/month (+4.5% y-o-y); and CC is also up, but to a lesser extent, from €24.25/sq m/month in Q3 to €24.50/sq m/month. Both figures are record highs in their respective areas, even surpassing pre-pandemic levels. NBA and Periphery remained stable for another quarter, awaiting a more positive 2024.

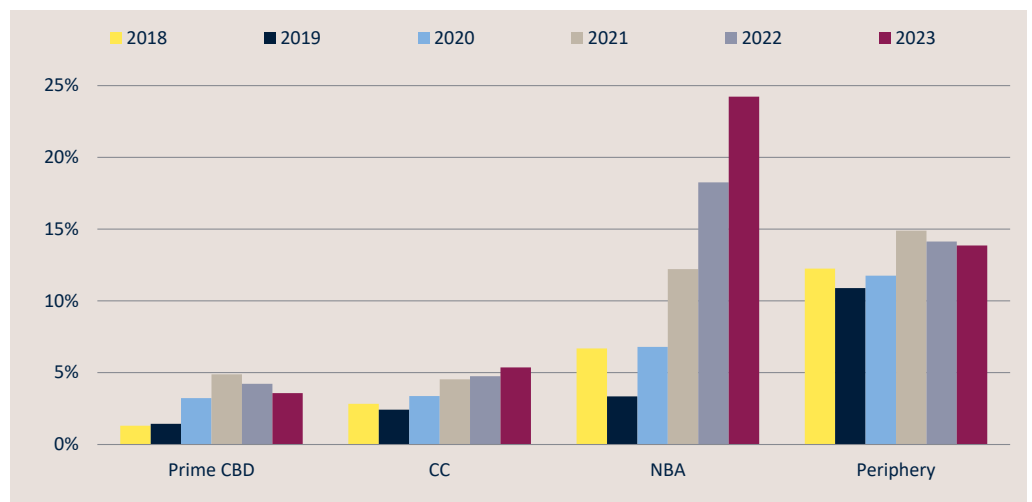
In terms of quarterly data, the average closing rent in Q4 23, calculated with all available closed values in exclusive

Deals by Range Size



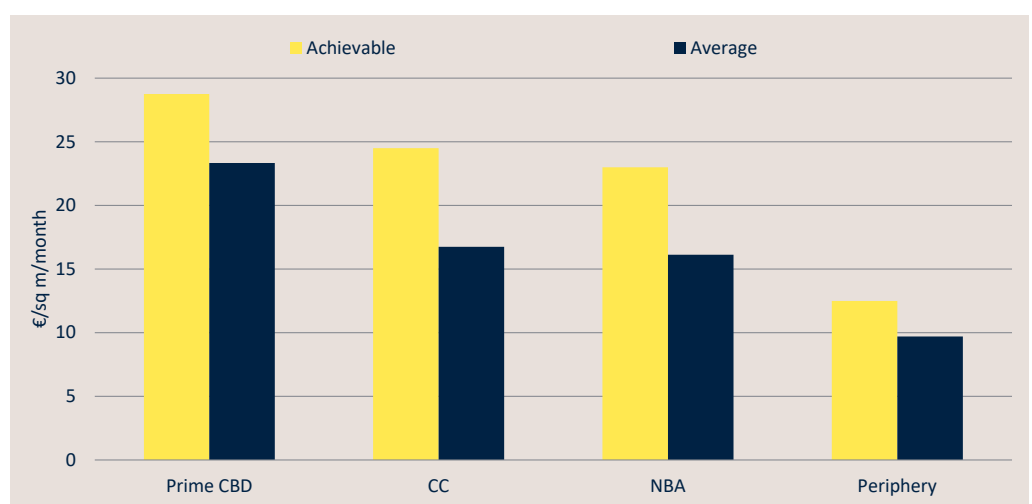
Source Savills Research

Vacancy Rate by Market Zone



Source Savills Research

Rents by Market Zone - Q4 2023



Source Savills Research

👉 **International capital maintains its interest in the Barcelona office market, which accounted for 73% of the total amount transacted. All players were of European origin and focused on core assets. Their greater financial muscle gives them access to higher ticket prices** 👉

buildings, was €17.20/sq m/month, thus maintaining the previous quarter's figure. This is almost 3% higher than in Q4 22. On an annual basis, the average for the whole year was around €17/sq m/month, the same as in the previous year, despite lower activity in the market. This result demonstrates rent concessions given by owners to be the best way to avoid devaluing assets.

In the analysis by zones, average annual rents are increasing in the best areas of the city, and decreasing in the rest. Prime CBD reached €24.00/sq m/month, the best figure since records have been kept, and CC, with an increase of 3.6%, stands at €16.70/sq m/month. The downside is to be found in the Periphery, which again fell from the double digits it had reached in the previous year (€10.70/sq m/month) to €9.70/sq m/month. In the NBA, the adjustment is more modest, barely 2%, managing to remain at €18.00/sq m/month.

Investment

The inertia of slowing investment activity inherited from 2022 continued into 2023, which showed a steady quarter-on-quarter decline in both the volume transacted and the number of deals. The annual total reached €260 million, comprising 15 transactions (all of them single assets), a far cry from the annual average mark of the last few years (since 2012) of just over €800 million.

The situation of general uncertainty, the extrapolation of the weak fundamentals of the American markets (with high vacancy rates and low office attendance), coupled with the weak performance of the local user market have been the levers for the market slowdown.

In the annual totals, 58% of the volume (around €150 million) and 60% of the transactions (nine) involved off-market assets. The limited visibility of these assets reduces exposure to the market, preventing product "burn-in" on the one hand, and the excess competition that can occur in open processes on the other.

The absence of sizeable transactions is also behind the poorer performance of the investment market in Barcelona.

The biggest deal, just shy of €70 million, took place at the beginning of the year on a future development in 22@. By contrast, three deals were recorded above this mark

in 2022, two of them mega-deals (≥€100 million), totalling €375 million (40% of the total).

As in the user market, the Technology District has decreased its presence in the investment market. The five transacted buildings accounted for one third of the total, compared to 40% in 2022. The adjustment also affected the average volume per asset, which fell from €65 million in 2022 to €24.3 million in 2023.

Similarly, the prominence that the City Centre is gaining among companies looking for new headquarters has spilled over into the investment market.

The number of operations registered was the same in both years (seven), although the weight in volume reached 34% (22% in 2022).

The presence of international capital in the market is noteworthy. 73% of the total amount transacted and 47% of the assets that changed hands had a cross-border stamp, indicating that, despite the "ambient noise", some international companies continue to bet on the market that traditionally led the tertiary investment market.

All cross-border companies were from Europe, with a majority presence of funds, their focus

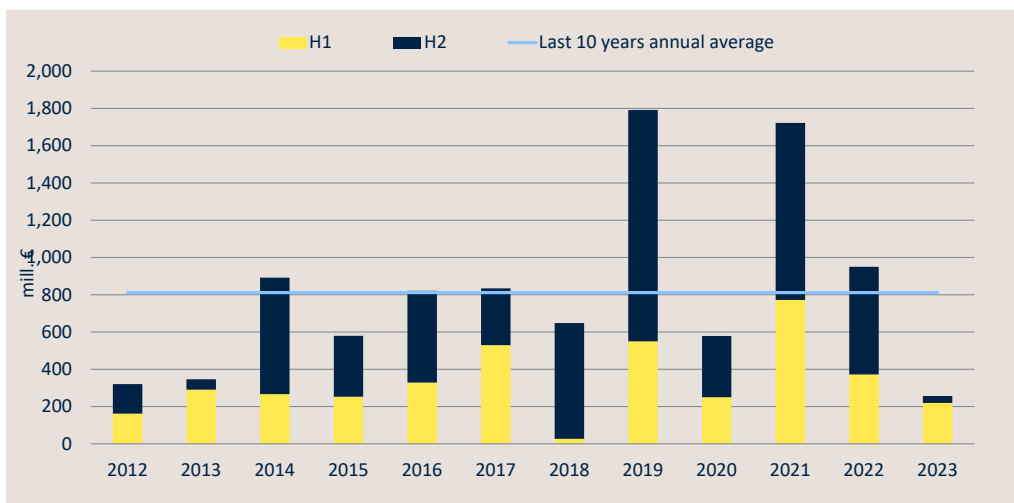
being on core assets, and their greater financial capacity reflected in the average ticket: €27 million compared to €8.6 million for domestic companies.

Yields

The reduced activity in the investment market and the absence of comparables makes it difficult to establish an achievable level of yields. The year closed with a further increase in yields of 10 basis points (bps) in Prime CBD to 4.85% (gross), and an average of around 25 bps in the other areas.

In the current environment, yields will continue to expand, even after the European Central Bank starts to cut interest rates, which is currently expected to occur in the summer.

Investment Activity in Barcelona



Source Savills Research

Main Deals - Investment market - Q4 2023

Asset	Zone	Purchaser	Vendor
Paris*	CC	Private	Private
Josep Pla, 95	NBA	Bon Preu	Enciclopedia Catalana

Source Savills Research / *advised by Savills



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.

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