

Spain Research- 2023

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Flex Market in Spain

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Economic Overview

2023 will be marked by economic slowdown

Private consumption continues to decline, due to both the continuous rise in prices and the interest rate hikes carried out by the European Central Bank (ECB) with the goal of reaching a 2% CPI level as soon as possible. The latest figure published by INE (February 2023) stood at 6%, one tenth of a percentage point higher than the previous month. After several months of consistent adjustments, the price index has now risen slightly for two months in a row, but the underlying CPI (excluding fresh food and energy products) continued to increase significantly after recording its highest level in the historical series (7.6%).

At its March meeting, the ECB raised the interest rate by 50 bps (its sixth consecutive hike) to 3.5% and announced further increases. Focus Economics forecast for March places annual CPI 2023 at around 4% in Spain, more than four percentage points below the Eurozone average. The 2% target

is expected to be reached, both in Spain and in Europe, starting from 2024 onwards. The question remains whether the next interest rate hike on May 4 will be 25 or 50 bps.

Despite warnings of negative GDP growth, 2022 exceeded expectations in Spain as well as most countries in the European framework. However, the economic outlook for 2023 is negative across all countries, with several expecting to see negative rates. Spain is projected to be among the top 5 Eurozone countries in terms of economic growth (1.2%), almost one point above the European average (0.3%).

As a whole, the labour market continues to expand. The number of people registered with Social Security grew in February, adding 143,704 new members to the system. The SEPE list also grew with an extra 2,600 individuals registered, but it should be pointed out that this is a much lower

figure than the average for February in the historical series (around +18,000). The Focus Economics projection shows a slight increase in the unemployment rate in Q1 2023, but it is expected to remain at levels between 12.5-12.7% until the end of the year, similar to those recorded in 2022.

As a result, the current economic climate does not appear to be the most favourable for the business sector to design real estate strategies based on results and future workforce numbers, forcing companies to be more agile in adapting to new circumstances.

In recent years, the ability to adapt to unforeseen events has been a key competitive advantage, and the tools and resources to facilitate change are highly valued.

Flex Business

Changes in work and consumer habits, together with the arrival of new generations in the labour market and the integration of the collaborative economy into professional settings, have been the driving forces behind a new office model that has revolutionised the market.

Initially, the format of shared offices in a single business centre was common. However, the arrival of new operators offering spaces with designs that encourage communication, interaction and community building in collaborative work environments has quickly caught the attention of small companies, generally linked to the tech sector. Another important group of tenants is made up of freelancers and self-employed workers, who previously worked mainly from home. These spaces not only provide a suitable environment for work but also offer opportunities for interacting with other professionals, creating social and professional networks and establishing business synergies.

In addition to the social aspect of a pleasant working environment, the frequent, often monthly renewals that accommodate the changing needs of jobs and services have been a major advantage of flex spaces.

As the market has evolved, flex spaces have undergone a transformation. With demand expanding to include medium-sized companies and large corporations, coworking areas have shrunk and private areas (offices) have increased, now accounting for the majority of flex operators' business.

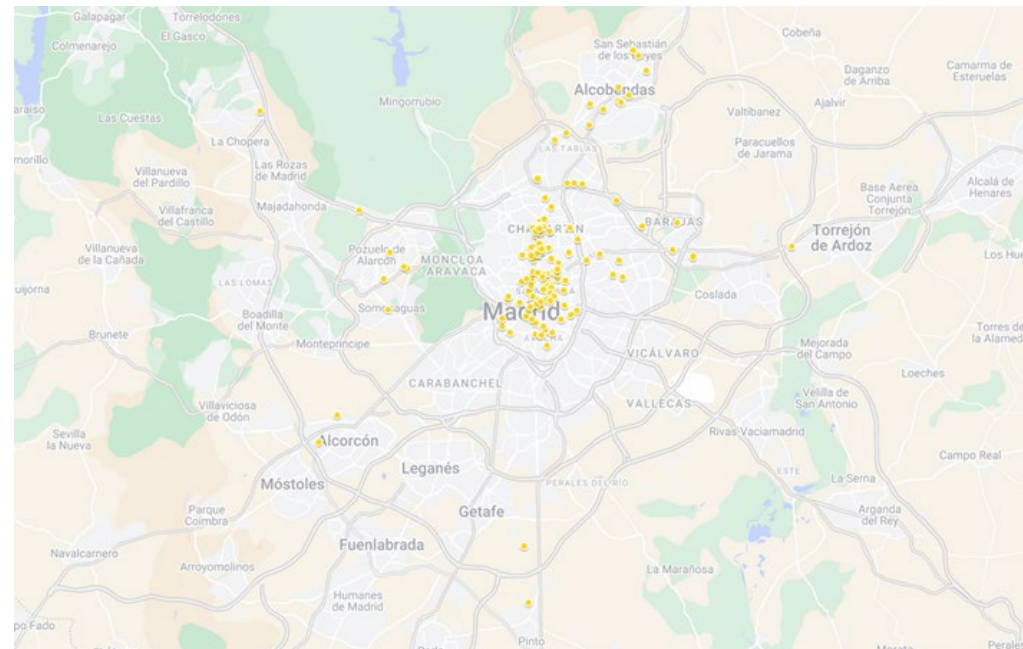
A further development in the business model of flex operators is the so-called Space as a Service (SaaS), whereby an occupier hires a large space to completely adapt it to their needs, both in terms of surface area and image and design. The high level of customisation will be compensated by longer contract periods.

Advantages of a Flex Office

- **Flexibility of space:** The number of workstations can be adjusted based on the occupier's needs, as well as the type of space, whether private or shared.
- **Flexibility of contract:** The space is available for immediate use and is equipped with all the necessary technical and technological features, including work furniture.
- **Flexibility of services:** The occupier has access to a wide range of complementary services related to their business activities (web development, administrative support, etc.).
- **Flexibility of location:** Some operators allow the occupier to use spaces in different locations within their network of centres.

Fig. 1 - Flex stock in Madrid

Flex stock and % of total market



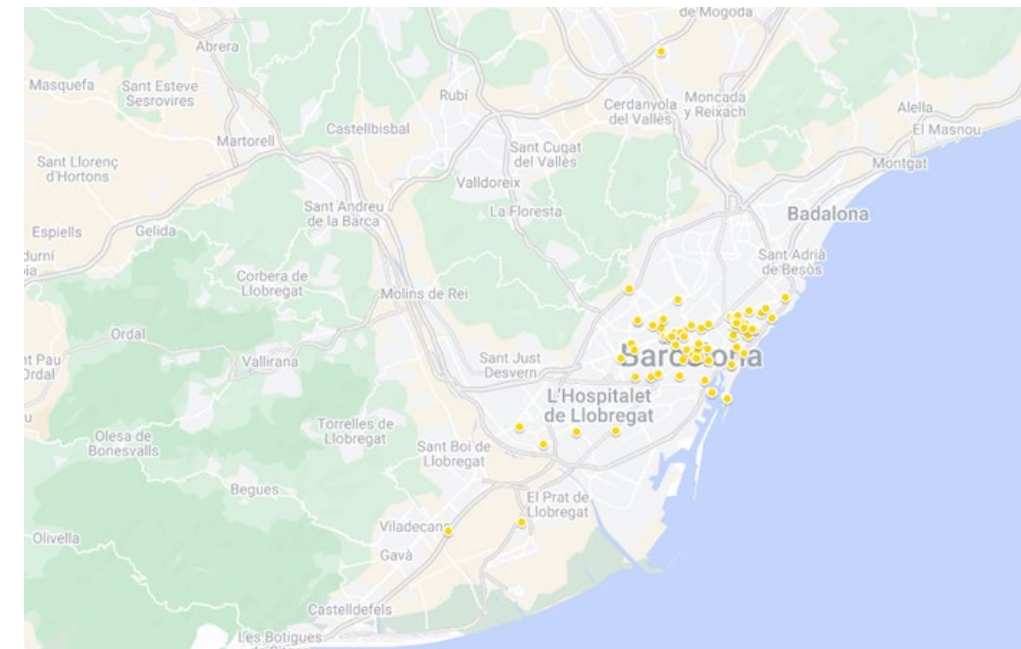
Source: Savills Research

Flex
1.6%
total office
market

80%
of flex spaces
within the
M-30

Fig. 2 - Flex stock in Barcelona

Flex stock and % of total market



Source: Savills Research

Flex
3%
total office
market

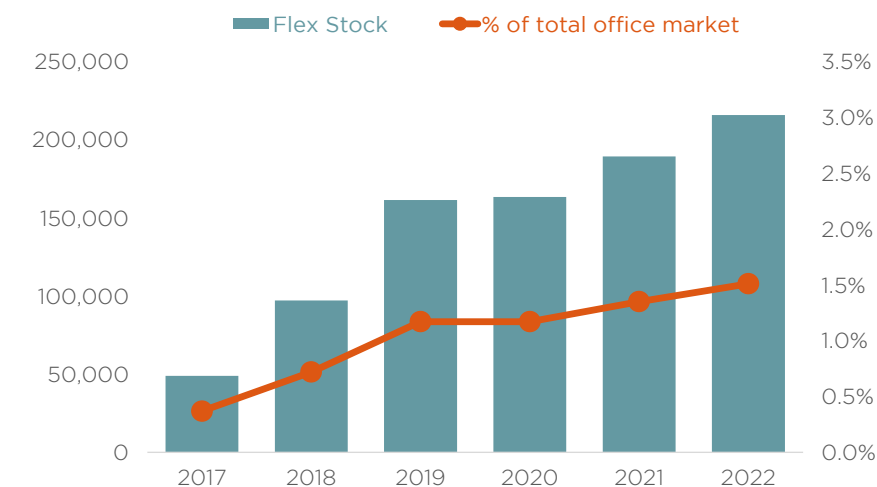
53%
of flex spaces
in the NBA

Stock

The case of the two main office markets: Madrid and Barcelona

Fig. 3 - Flex Stock evolution in Madrid

Flex Stock and % of total office market



Source: Savills Research

By the end of 2022, flex spaces in major national economic centres accumulated close to 450,000 sq m, distributed evenly between Madrid (57%) and Barcelona (43%). However, the presence of flex spaces in each city varies greatly, as the Madrid market is almost double the size of Barcelona's (14.2 million compared to 6.5 million).

While flex spaces in business buildings represent around 1.6% of the total in the capital, in Barcelona they account for around 3%.

By zone, the majority of flex space in Madrid is located within the M-30, accounting for almost 80% of the flex market and 3% of the total office stock, while the periphery makes up barely 0.5%. Within the city, the AZCA and Cuzco submarkets stand out, with between 7% and 8% of total office space, followed by Chamberí and the Jerónimos-Retiro area with around 5%, and Zona Centro with 4%. In Barrio Salamanca, flex space accounts for

just 3% of total office stock. As it is a larger area, the relative presence of flex space in the office market is smaller, but in absolute terms the size of the flex market (almost 30,000 sq m, 14% of the total) is the second largest in Madrid, only behind Azca (with almost 32,000 sq m, 15% of the flex market). In Barcelona, 53% of the flex space (approximately 100,000 sq m) is located in the NBA, representing 6% of the area's office market. Within the NBA, the 22@ District is the largest with almost 70,000 sq m, accounting for 70% of the NBA flex market and 37% of the total Barcelona market.

The average size of a flex office centre in Madrid is 2,600 sq m, while in Barcelona it is 2,200 sq m.

A detailed analysis shows that the more consolidated submarkets have centres with larger surface areas. In Madrid, within the M-30, the centres in Méndez Álvaro and Jerónimos both have floor spaces of >4,000 sq m, while Cuzco, Azca and Recoletos average around 3,000 sq m, and towers in the last section of Castellana and Chamberí are all between 2,500 sq m and 3,000 sq m. The average size outside the M-30 is around 1,400 sq m, but some business hubs with solid fundamentals and easy access by public transport reach much higher levels, such as

La Moraleja and Campo de las Naciones, each with >2,500 sq m. The largest centre in Madrid is WeWork located on Paseo de la Castellana 77 (Azca), with >10,000 sq m.

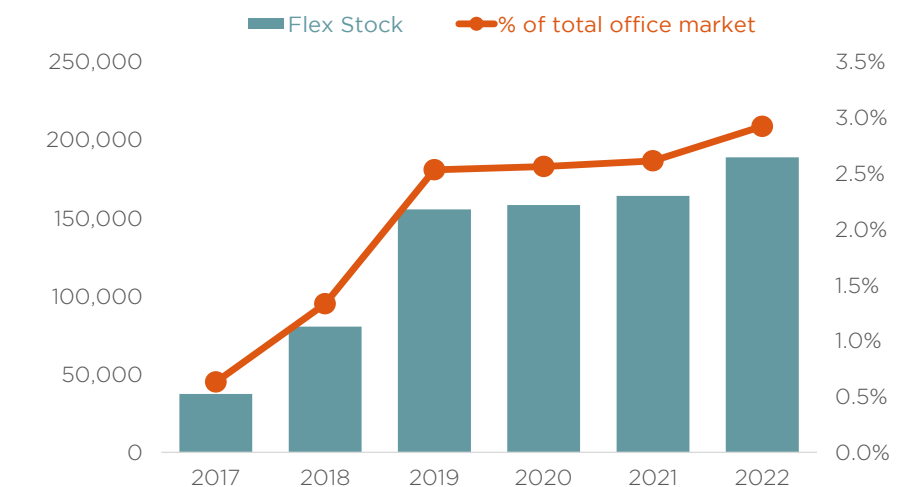
In Barcelona, 22@ once again stands out, with an average size of nearly 3,500 sq m,

almost 57% higher than the market average. This area is also home to the largest centres, each with 8,300 sq m (WeWork de Pallars 194 and Wojo Poblenou on Sancho de Ávila, 65).

It is worth mentioning that flex spaces have moved beyond traditional office spaces.

Fig. 4 - Flex Stock evolution in Barcelona

Flex Stock and % of total office market

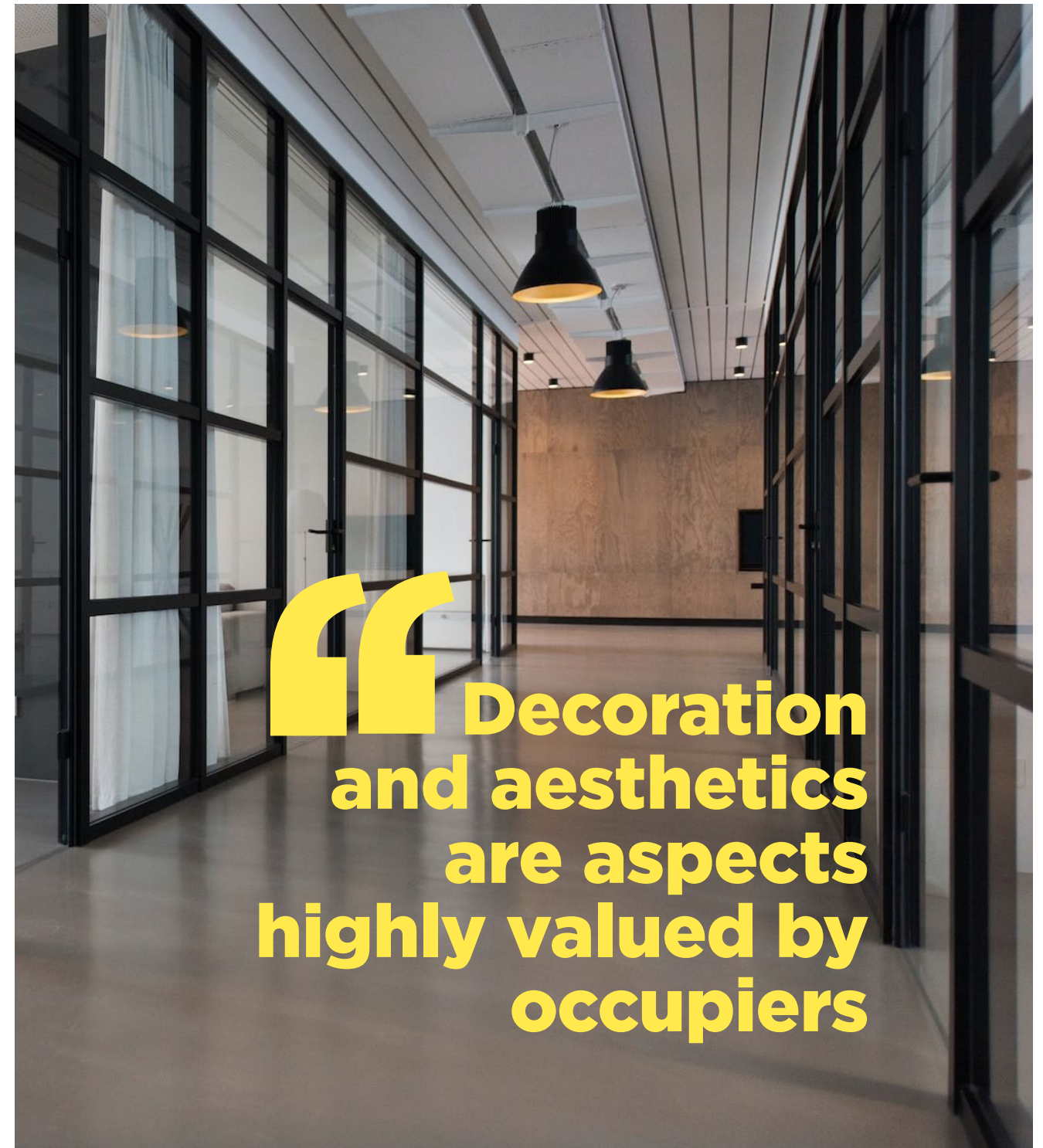


Source: Savills Research

Previously, operators were found in office buildings or commercial premises, but the growth of flex spaces has led to their presence in other types of assets, such as shopping centres, hotels, education centres, co-living spaces, etc.

In the design of spaces, occupiers place high value on decoration and aesthetics, as these aspects are directly related to the wellbeing of workers. Occupiers expect not only a pleasant working environment (adequate lighting, with natural light being especially valued, ergonomic furniture, fast and reliable connections, healthy atmosphere, etc.) but also a unique experience in collaborative and flexible spaces where they can perform a variety of tasks beyond what they can do at home.

In all cases, location is a critical factor, directly linked to the services available in the surrounding area. Ideally, it should be in the vicinity of a business hub with strong fundamentals, and for peripheral locations, adequate parking spaces are crucial.



Main Operators

IWG (including all its brands), WeWork and Utopicus are the leading operators in the Madrid and Barcelona markets, based on surface area, number of centres and average size.

In Madrid, the market is highly fragmented. Nearly 50% of the centres are operated by small and medium-sized operators, although they account for barely 20% of the total flex space, leaving the average occupied surface area at just over 700 sq m.

The top 5 ranking in the flex business (making up 57% of total flex volume) is led by IWG, Utopicus and WeWork. In terms of number of operational centres, IWG and Utopicus remain at the top, joined by Loom. These three operators represent 27% of the flex market, which rises to 34% when the top 5 are considered. In terms of average size, WeWork is the operator with the largest spaces, followed by Aticco and Utopicus.

In Barcelona, on the other hand, the market is much more concentrated. The top 5 operators in terms of space account for 55% of the surface area and 49% of the operational centres. IWG, WeWork, and Utopicus make up the top 3 in terms of space. The operators with the largest number of centres are IWG, Cloudworks and Utopicus, while those with the largest average centre size are WeWork, Aticco and Utopicus.

It is important to note that, unlike Madrid, a considerable number of operators in Barcelona have only a small number of centres (several with just one), but of a substantial size. This is the case of Wojo, mentioned above as it occupies one of the largest centres, as well as Cinc, which has 7,000 sq m on Calle Llull (22@).

The major players in the office market have recognised the flex industry as an extension of the traditional office business. Merlin Properties and Colonial, the two main Socimis listed on Ibex 35, already have flex brands, with the former's Loom and the latter's Utopicus among the top 5 operators in Madrid and Barcelona, whether in terms of space, number of centres or average centre size.

The strategy of both companies is to incorporate their flex operators into their

existing office buildings, offering occupiers added value through a mixed service that provides more flexibility to meet their needs

Take-up of flex operators' office space

Since 2017, flex operators have taken-up around 381,500 sq m in Madrid and Barcelona, accounting for just over 7% of the total. For its part, Madrid makes up around 206,000 sq m (54% of the total), representing 6% of the take-up volume, while the figure for Barcelona (around 175,000 sq m) comes close to 9% of the cumulative take-up.

Due to the strong reception from demand and positive operating results, flex operators have had ambitious expansion plans, with the highest level of take-up recorded in Madrid in 2018, just over 65,000 sq m (11% of annual total), surpassed a year later in Barcelona, with over 70,000 sq m (18% of the total). The onset of the health crisis slowed down growth, as the flexibility of contracts allowed many occupiers to cancel their commitments, which directly impacted operators' profit and loss accounts, although several transactions were recorded.

The market is gradually picking up again. Between 2021 and 2022, around 95,000 sq m was signed in Madrid and Barcelona. Madrid

Fig. 5 - Main operators in Madrid by size and number of centres

#	Total sq m	Total centres	Avg. surface
1	IWG	IWG	wework
2	utopicus	LOOM	ATICCO
3	wework	utopicus	utopicus
4	First workplaces	IMPACT HUB	monday
5	LOOM	CINK COWORKING	IWG

Source: Savills Research

Fig. 6 - Main operators in Barcelona by size and number of centres

#	Total sq m	Total centres	Avg. surface
1	IWG	IWG	wework
2	wework	CloudwOrks	ATICCO
3	utopicus	utopicus	utopicus
4	CloudwOrks	wework	LOOM
5	ATICCO	monday	monday

Source: Savills Research

tops the list in terms of volume (50,500 sq m, compared to 45,000 sq m in Barcelona), but due to the size of each market, the share of flex activity in Barcelona represents 7% while in Madrid it stands at 5%.

Traditional office occupiers consider having flex space in the same building as an added value, allowing them to access extra

workstations and other meeting rooms or event spaces when needed.

Although the market is dominated by in-house business operators, some landlords have chosen to allocate available space in their buildings to flex offices in order to offer greater service to their occupiers, either with their own brand management or handled externally.

Pipeline in Madrid and Barcelona

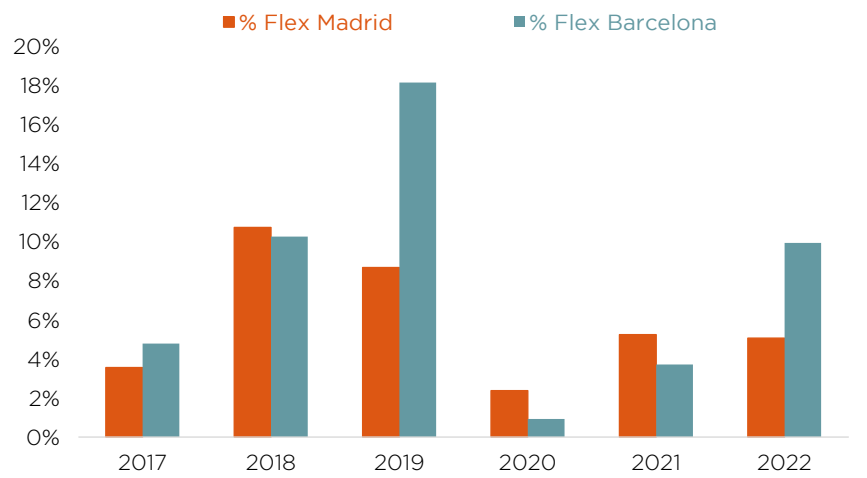
Approximately 45,500 sq m has been identified with planned incorporation in the next 24 months (2023 and 2024) across 16 projects, putting the average size at around 2,700 sq m. 60% of the new flex space will be located in Madrid, with an average size of 2,600 sq m, while the average size in Barcelona is almost 2,900 sq m.

The areas where new centres will open correspond to those with the strongest market response. In Madrid, more than 67% will be concentrated in Azca and the immediate surroundings of Paseo de la Castellana. However, centres have also been identified outside the M-30, both in consolidated markets (MadBit) and others with weaker fundamentals, where, despite having a significant volume available in small units (between 200-400 sq m), flex space is seen as an opportunity for companies for whom even the smallest modules in traditional offices exceed their requirements.

In Barcelona, the new supply will be located in the Prime CBD area and in the 22@ District.

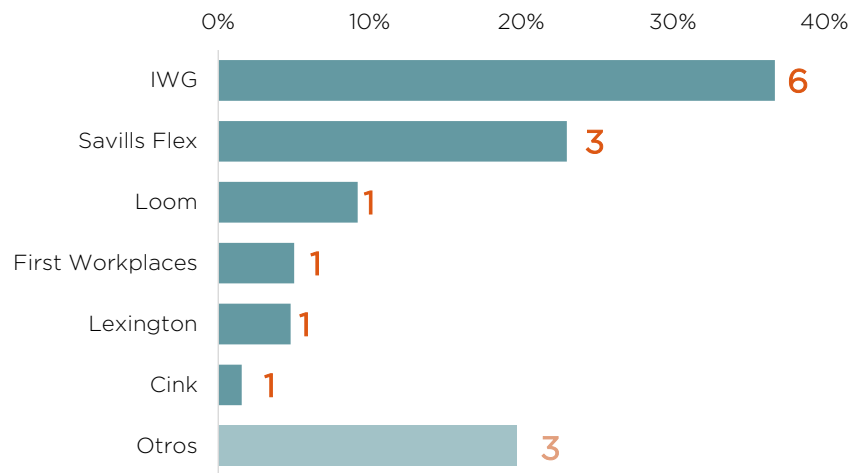
Among the main operators, IWG (with several of its brands) will incorporate the most surface area into its commercial network, with 37% of the identified surface area and 38% of the centres, followed by Savills Flex, which will incorporate three new spaces (23% of the total surface area) and Loom, which comprises 10% of the space with a new flex centre after its refurbishment in the Ruiz Picasso building.

Fig. 7 - Take-up of Flex operators (%) in the Madrid and Barcelona office markets



Source: Savills Research

Fig. 8 - Distribution of new surface area (Madrid and Barcelona) by operator and number of centres in the pipeline



Source: Savills Research



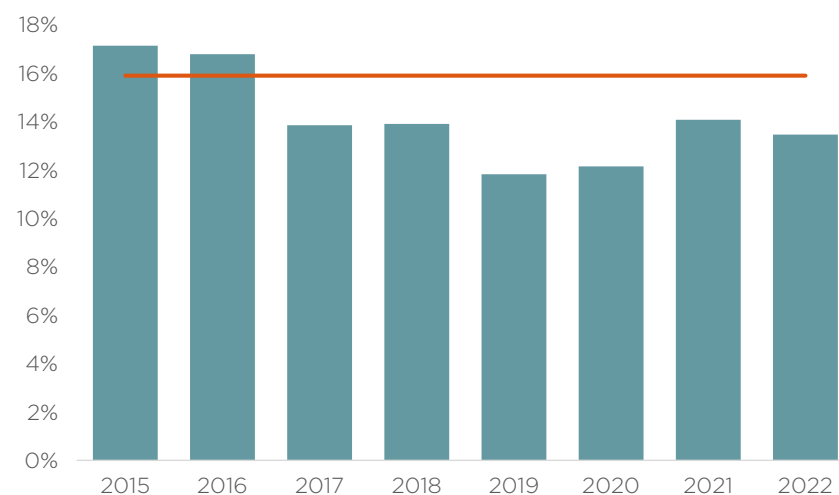
Who occupies flex spaces?

The profile of flex space occupiers is very varied and has evolved over time. From start-ups and self-employed professionals to large companies that choose the flex model as an alternative to traditional offices or as a complement alongside them.

In today's climate, where many businesses have adopted remote working, the option of paying only for what is used, an intrinsic aspect of flex offices, is an attractive alternative, particularly for smaller companies that can switch from traditional offices to flex spaces.

In Madrid, the data shows a decline in transactions for spaces of ≤ 200 sq m, which since 2017 have accounted for only 14%, more than two percentage points below the historical average.

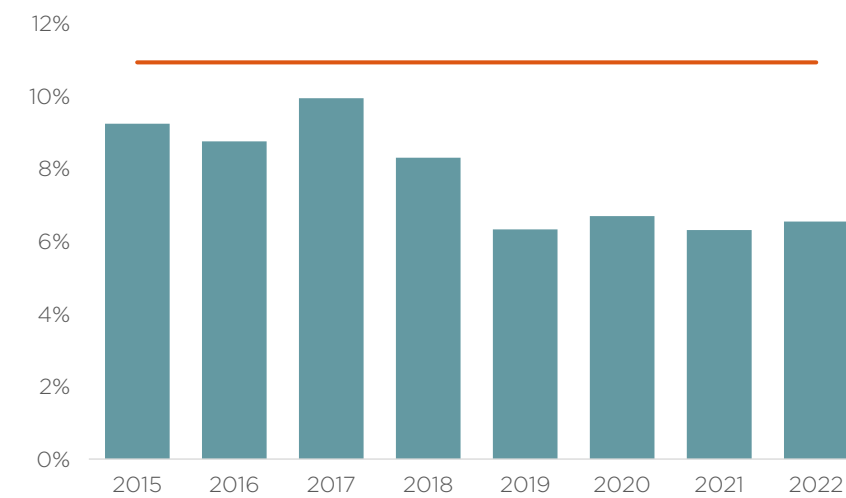
Fig. 9 - Deals of ≤ 200 sq m in business buildings
Madrid



Source: Savills Research

“Demand for Flex spaces comes from a diverse range of business profiles, from self-employed individuals to large companies across different industries”

Fig. 10 - Deals of ≤ 100 sq m in business buildings
Barcelona



Fuente: Savills Research

In Barcelona, due to its smaller size, the analysis has been carried out on transactions of ≤ 100 sq m. The trend in the historical series is more pronounced than in Madrid, with the average standing at 11% and in recent years closer to 6%.

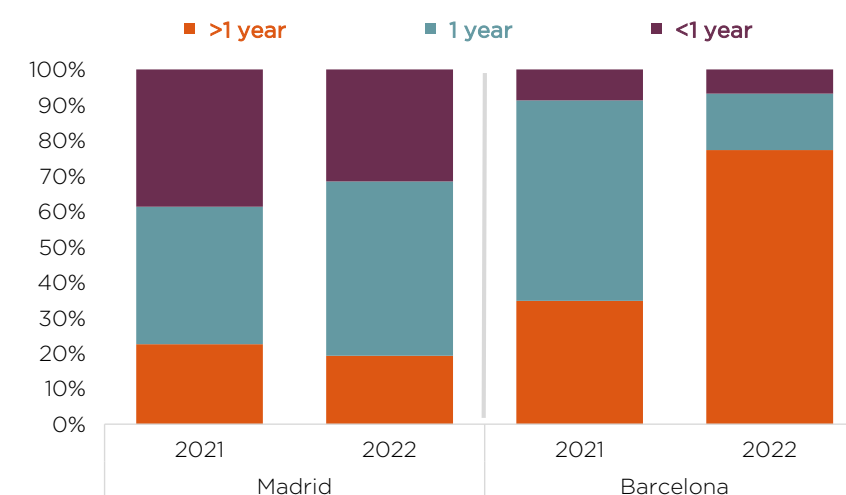
Based on the sample of transactions available for the last two years, there has been a clear growth in activity. In both Madrid and Barcelona, the number of workstations transacted in 2022 (1,750 workstations in Madrid and 1,610 in Barcelona) was more than double compared to the previous year. In terms of number of contracts, there was a 40% year-on-year increase in Madrid (81 contracts), while in Barcelona it was close to 80% (48 contracts).

The growing interest of large corporations in flex spaces is evident in the rise of the average deal size, measured by the number of workstations. In Madrid, the average number of workstations increased from 13 in 2021 to 22 in 2022, while in Barcelona, the average rose from 23 to 34. It is important to note that larger deals are becoming more frequent, with both cities recording deals for >100 workstations (four deals in Madrid and four in Barcelona). These deals usually have contract lengths of over one year, which has also impacted the overall average contract duration.

The data shows that contracts of less than one year are more prevalent in Madrid than in Barcelona, although the presence of these shorter contracts has decreased in Madrid in the last year, while remaining stable in Barcelona. On the other hand, there has been a notable increase in contracts lasting more than one year in Barcelona.

The distribution of activity in both markets corresponds to the areas with the highest density of flex space.

Fig. 11 - Average contract length (Flex market)
comparison between Madrid and Barcelona

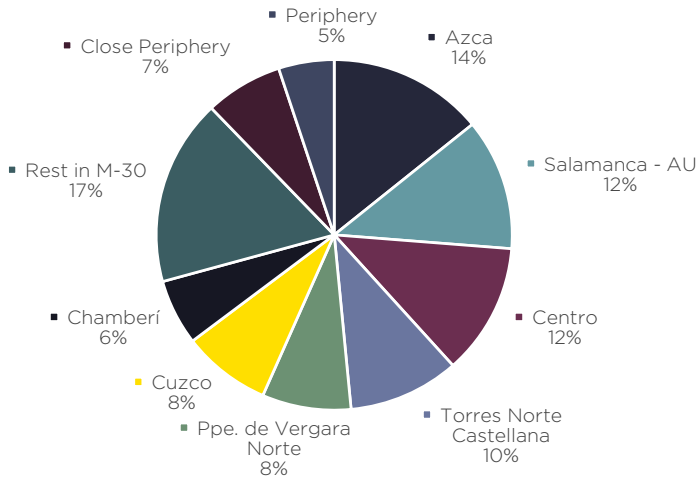


Source: Savills Research

In Madrid, the Eje Castellana area accounts for almost 40% of the total number of workstations marketed through real estate consultancies, with Azca, Torres Norte Castellana and Cuzco standing out with 15%, 10% and 8% respectively. This is followed by Barrio de Salamanca and City Centre, each with 12%. The Inner Periphery (submarkets between the M-30 and M-40) and the Outer Periphery contribute 6% and 5% of the total, respectively.

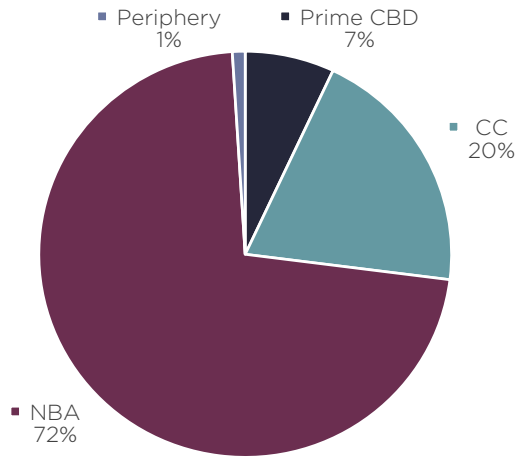
In Barcelona, 40% of transactions are distributed between Prime CBD and City Centre, although they account for only 27% of the total number of workstations. The New Business Areas account for 72% of the transacted workstations, as all transactions of >100 workstations in the period analysed were located in the 22@ District. In total, 22@ accounted for 55% of workstations.

Fig. 12 - workstations transacted between 2021-2022 (Flex) in Madrid by zone



Source: Savills Research

Fig. 13 - workstations transacted between 2021-2022 (Flex) in Barcelona by zone



Source: Savills Research

Flexibility and Loyalty

In an increasingly competitive market with a growing number of brands and services, loyalty is a critical factor in optimising the business of flex operators. High tenant turnover is characteristic of flex spaces, so retaining tenants is essential. Keeping clients satisfied is just as important as attracting new ones.

Location and design are important factors when choosing a flex space, but the primary focus for operators should be managing its community of members. By hosting events that foster interaction and networking among tenants, as well as promoting collaborations and activities with external communities that provide mutual benefits, operators can enhance the coworking experience.



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 all sectors, helping them make the right decisions at each moment

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