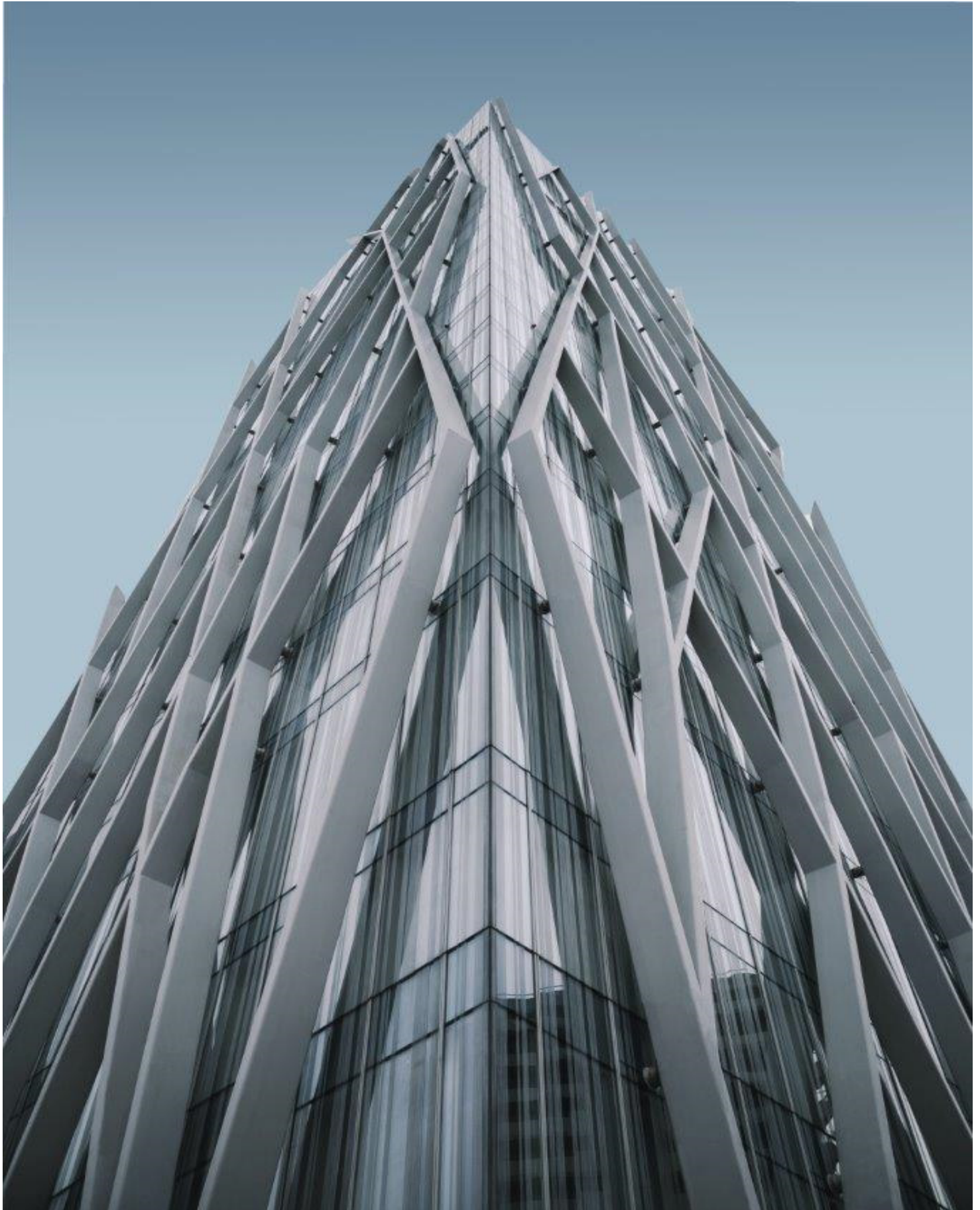


Barcelona Offices



👉 The Barcelona market continues on its upward trajectory this quarter, recording a take-up of 102,000 sq m. The key driver of the growth was the return of large deals, highlights a 25,000 sq m prelet in the Estel Building 👉

3.3%

CPI April 24

Forecast 2024

3.2%

2.4%

GDP Q1 2024

Forecast 2024

2.1%

12.3%

Unemployment Rate Q1 24

Forecast 2024

11.5%

18.8%

2024

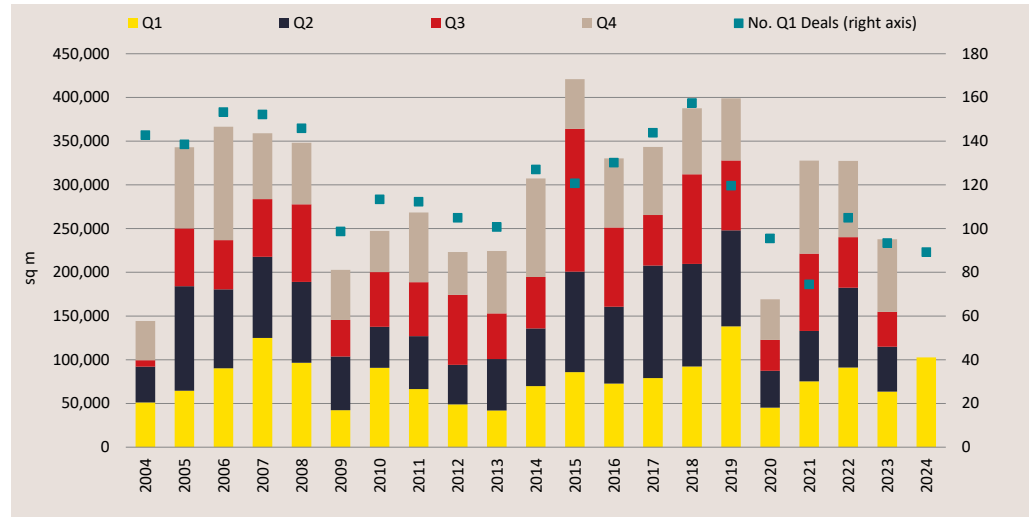
Forecast office based
employments

79.9

CCI Q1 2024

+13% y-o-y

Annual Gross Take-up



Source Savills Research

Barcelona Offices

Take-up and Demand

The market in Barcelona is picking up pace and the volume of floor area take-up has increased for the second consecutive quarter. This is due largely to the return of the big deals. In the first quarter more than 102,000 sq m were signed, a year-on-year rise of 62%. This was the first positive change in two years. Moreover, this is an excellent figure for a first quarter, which is usually characterised by subdued activity.

The strong start to the year is mainly the result of the AstraZeneca megadeal, which was the largest deal of the quarter in Barcelona. It was unquestionably the main player, having achieved several milestones, including its size, at more than 25,000 sq m. It is only surpassed in the last ten years by Glovo's almost 30,000 sq m in 2021. It is also a prelet (in the Estel Building, currently being refurbished), a "rare bird" in a market with a high vacancy rate, and because it is located in one of the most central market zone of Barcelona, the City Centre (CC). Excluding this deal, take-up in Q1 2024 would have been just over 77,000 sq m, in line with the average Q1 take-up.

Regarding the number of deals, just seven agreements more were signed than in Q4 2023, four fewer than in the same period of the previous year. The reactivation of certain types of demand at the end of 2023 will take some time to filter through. A similar situation applies with regard to decision-making among potential firms beginning their search for a new headquarters. Therefore, for the time being, the market should look forward to the conclusion of the negotiations that extended into 2024.

Deal size

The average take-up size in Q1 2024 rose to nearly 1,200 sq m, around one hundred metres more than in the previous quarter. As in the latter part of 2023, the average take-up size surpassed a four-figure number, thanks to a >10,000 sq m deal. When excluding the AstraZeneca agreement, the average deal size amounted to 880 sq m, also an impressive figure for the Barcelona market, which typically sees an average of 660 sq m per year.

Following a year of low-volume deals in 2023, there has been a notable resurgence in the number of big deals taking place. A deal for >20,000 sq m has been signed for the second consecutive month (Generalitat in Q4 2023). A further six agreements of between 3,000 sq m and 10,000 sq m were completed over this quarter, equalling the same figure for the entire previous year. In terms of medium-sized floor areas, of between 500 sq m and 1,000 sq m, compared to their average annual share of 11.75% historically, in Q1 2024, they represented 16.5% of demand.

At the opposite end of the scale, small deals (<500 sq m), usually account for more than 60% of take-up. As a result of the higher demand for more spacious offices, the percentage of small spaces declined to 48% of the overall take-up in Q1 2024. We should also bear in mind that occupiers seeking <200 sq m are increasingly more likely to lease flex spaces, thus leading to a reduced presence in the traditional rental market.

Activity by Market Zone

Market activity was basically concentrated in two large market zones, CC and NBA (New Business Area). Together, they accounted for 94% of the take-

🏢 NBA started to pick up pace at the beginning of the year and accumulates 44% of the take-up. Five of the six >3,000 sq m deals are located in this market, leading to a drop in its vacancy rate 📉

up, and 82% of transactions. Prime CBD and the Periphery were relegated to second place, well behind the other two areas.

CC continues to attract the interest of firms looking to set up headquarters in the Catalan capital. One such case is AstraZeneca, which, taking advantage of the refurbishment of the Estel Building, has prelet a large, high-quality area (25,000 sq m) in a central location. With this signing, the CC accumulates 51% of the total take-up. Not only was this the market zone boasting the most significant deal this quarter, it was also where the highest rental agreements were made. Six out of the seven deals exceeding €25/sq m/month were finalised in the Rest of Business District and Eixample areas, the highest value of €29/sq m/month being recorded in Diagonal.

As for the NBA, it has high expectations for this year, after a tough 2023. With a take-up of 44,000 sq m, it represents 43% of the area leased in Q1 2024, a percentage considerably higher than the 25% of the previous year. It is worth noting that although fewer deals were signed here than in CC (30 vs 43), the average deal size in NBA was considerably larger, with 1,450 sq m compared to 1,200 sq m in CC. Furthermore, excluding the AstraZeneca deal, the closing average floor area in CC slumps to almost half, 654 sq m.

The NBA market has once again shown that it is the market offering the most spacious new and/or refurbished offices in Barcelona, with its hi-tech hub at the forefront. Five of the six >3,000 sq m deals are located in this market, three of which are in the 22@ district.

Flex Offices

In Q1, a little over 4,500 sq m of space was taken up by a flex operator, indicating that the expansion programmes for these types of spaces remain active, albeit at a slower pace. Their share of total take-up stood at close to 5%, in line with the 2023 level, even though it involved just one deal.

Aticco is pushing forward with expanding its network of centres. The two spaces it leased during 2023 in CC and Prime CBD, were joined by a third one in CC. The strategy adopted by the operator is to rent out large offices of over 3,500 sq m. In fact, the 4,500 sq m rented at Via Laietana 31 is the second largest deal of Q1 2024.

Yet again, in Q1 the NBA has remained off the flex operators' radar. No agreements have been signed in the zone since 2022, a situation that it is hoped will be reversed.

Stock and Current Supply

The volume of floor area on the Barcelona market is gradually expanding, quarter by quarter. At the end of Q1 2024, the stock stood at 6.68 million square metres, a year-on-year change of +2.2%, once again as a result of the 14,000 sq m development in the Aura Building on the Diagonal. This figure does not include the completion of the upgrade of Rambla Catalunya 19, which brings a further 8,300 sq m of quality space onto the market.

Although the pace of growth has slowed down once again following the uptick in Q4 2023, the outlook is positive, with eight new developments projected to be completed by December. They will add a further 70,000 sq m to the office stock in Barcelona.

The Achilles' heel remains the elevated vacancy rate, which is yet to fall below 12.00%. Despite the strong start to the year with a substantial take-up, void percentages remained virtually static, at the same levels as the previous quarter in all market zones, even rising in some. This is the case of the City Centre. Despite being the zone with the most space signed this quarter, it has seen its supply increase (from 5.37% in Q4 2023 to 5.86% in Q1 2024). This was because some of the leased space was located in buildings that were not available at the end of 2023.

A similar situation occurred in NBA: despite the best take-up figure in three years, part of it was signed in sublet floors, and a further 5,000 sq m was not on the market, which resulted in a modest decline in availability. The vacancy rate of 23.32% in this market zone is just one point less than in the previous quarter. In 22@ this percentage is 24.35%, which at least is a step away from the 25.50% of Q4 2023. The end-of-year forecast is optimistic. It is expected that the rate in NBA will continue to fall due to demand reactivation and the drop-off in new project development.

In the Periphery, vacancy rates continue to hover around 14%. Markets farther from the centre accounted for a take-up of barely 5,000 sq m. Coupled with potential evictions, supply increased in the zone, albeit slightly.

Future Supply

By the end of the year, it is anticipated that 141,000 sq m of new and/or refurbished floor area will enter the market, of which practically 87% is vacant. In the current market climate, with an abundance of supply, there is a resistance to signing prelet contracts, with potential occupiers opting to wait to sign agreements once buildings are completed. In terms of the projected new space for 2025, it is comparable to the total between April and December 2024, around 146,000 sq m. With the prelet of the Estel Building by AstraZeneca (over 25,000 sq m), the percentage of new stock already committed will be 23%.

The slowdown in development activity is a fact: the data for both 2024 and 2025 reflect a reduction in the projected floor area, following three years when new and/or refurbished space surpassed 200,000 sq m per year (in 2023, for example, it was 222,000 sq m).

As is the case in the Madrid office market, refurbishments are gaining importance in Barcelona. Whereas until 2023, new construction represented on average 88% of the floor space entering the stock, between 2024 and 2025, its share will decline by 42%. Of the refurbishments coming onto the market over the next 21 months, almost 25.5% will be new stock, i.e. conversion of assets to office space, while a further 33% will consist of major upgrades of buildings already on the market.

With respect to geographical distribution, 22@ continues to be the epicentre of development activity. 48% of the area under construction is located in the technology district. More than 150,000

Main Deals - Occupier Market Q1 2024

Tenant	Zone	Floor Area (sq m)	Activity Sector
AstraZeneca	CC	25,500	Healthcare
Áticco	CC	4,500	Flex Office
Preply	NBA	4,200	Education
Coty	NBA	3,500	Manufacturing
Amadeus	NBA	3,400	Business Services

👉 The strong performance in CC, coupled with the focus on refurbishment projects in the zone, has led to a rise in values, with the achievable rent increasing to €25/sq m/month. The other market areas remain steady 👉

sq m are distributed over 17 buildings, 10 of which are new developments. The main owners remain committed to making this the leading market in large space supply.

Two standout options in the market are the Estel Building, in terms of volume, and Diagonal Vertical, both located in CC. The Estel Building houses close to 50,000 sq m of office space undergoing refurbishment, which is due for completion in 2025. Fifty percent of the space is already prelet by AstraZeneca. Due to the significant size of this renowned asset, the CC accounts for a substantial 42% of the projected floor area. The project of Hines, meanwhile, will provide quality space in a near prime location.

Although there is no land available for new office development, the need to renovate the existing stock is driving refurbishment, a highly profitable investment in view of the high demand for quality space in central areas.

Rents

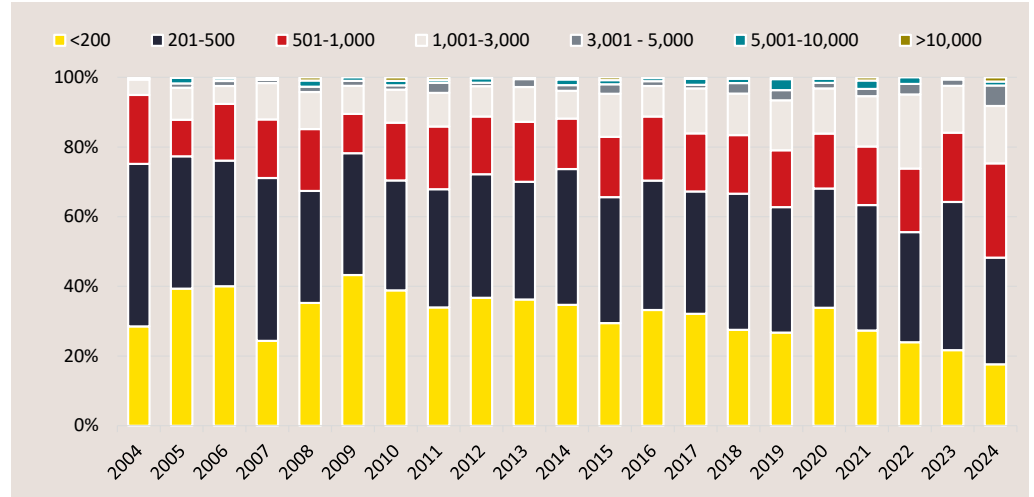
The year begins not only with improved take-up and demand data, but also with deals optimising their closing values. The average signed rental value in Q1 2024 in exclusive buildings was €17.77/sq m/month, 15% above that of the previous year. This figure is the second highest in history, only exceeded by €18.45/sq m/month in 2022, indicating that, despite the high availability on the market, landlords are not devaluing their assets, even though this may be in exchange for granting ever greater incentives to tenants, such as grace periods, installation assistance, etc.

By rent bracket, there is a continued rise in the number of >€20/sq m/month transactions. While they represented 31.7% in 2023, at the start of 2024, this percentage had risen to 33.3%. It is worth recalling that their share before the pandemic was 27.8%.

The rise in the average closing value is a reflection of the increases in average rents in all zones, with the exception of Prime CBD. In CC, the best performing area in the quarter, an average of €18.86/sq m/month was reached, the highest figure since records have been kept. It is 13% above its value of a year ago. It should be noted that not only was the maximum rent of €29.00/sq m/month signed, but all > €25.00/sq m/month transactions (except one in 22@Glories) were completed in offices located in CC.

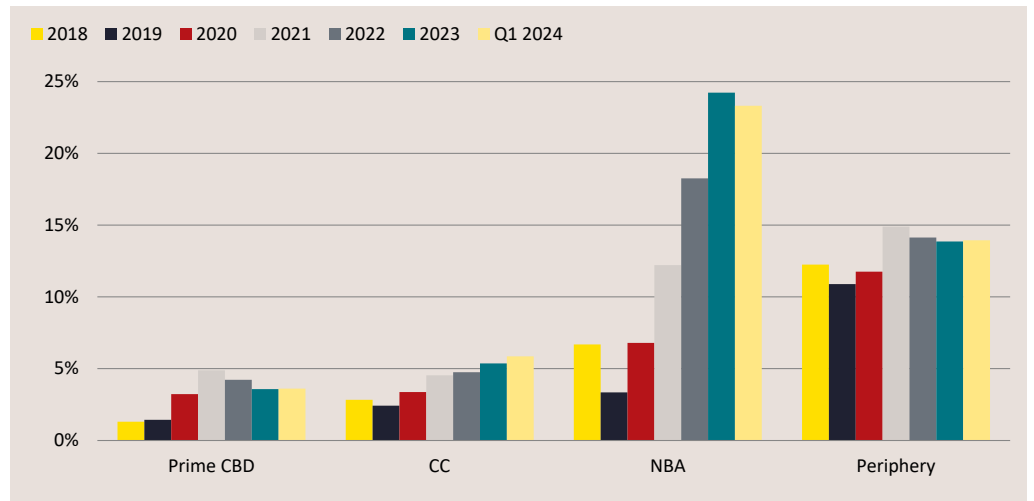
After ending the year with a sharp quarter-on-quarter decline in its average rent falling

Deals by Range Size



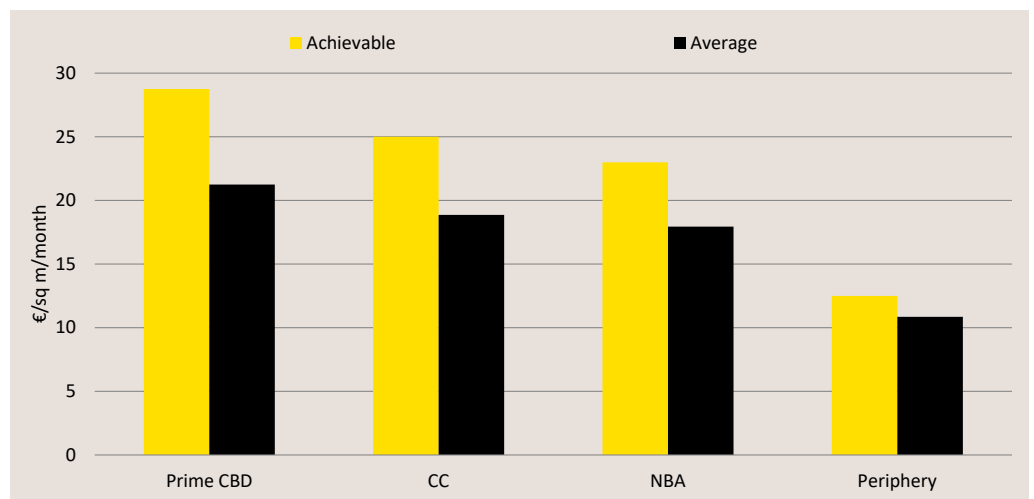
Source Savills Research

Vacancy Rate by Market Zone



Source Savills Research

Rents by Market Zone - Q1 2024



Source Savills Research

“ The investment market is in a “wait and see” mode, having been heavily stigmatised by the negative performance of other locations such as the United States. Although differences in business culture, such as higher workplace attendance, means that is difficult to make comparisons ”

from €19.57/sq m/month in Q3 2023 to €16.12/sq m/month in Q4 2023, NBA appears to be rebounding to €17.94/sq m/month in Q1 2024. The offer of quality spaces is a hallmark of the area: 20 of the 30 deals signed in the first three months of the year were in category A buildings with higher rents.

For the second quarter in a row, the average value in Prime CBD has seen an adjustment to €21.25/sq m/month, narrowing the gap with CC. This is a very skewed figure as just four transactions amount to a mere 800 sq m, and three of them in B and C grade buildings. The low availability in the Prime market shifts the demand for larger and better-rated space to the CC.

The market development is reflected in achievable rents: Prime CBD remains at €28.75/sq m/month (+2.7% y-o-y); and CC rose again but at a higher pace, from €24.50/sq m/month in Q4 2023 to €25.00/sq m/month in Q1 2024. Regarding NBA and Periphery, they remain stable for another quarter, as we wait to see how activity develops in the coming months.

Investment Market

The real estate investment market remains sluggish. The slightly more than €2.1 billion registered in all real estate segments between January and March leaves a negative balance of 37% compared to the same period of the previous year.

On the positive side, the quarter-on-quarter comparison shows a very modest 1.4% increase.

An analysis by sector shows the varying fortunes of the different markets. While offices experienced a downward adjustment of 67%, the recovery of investor confidence in the retail market and the return of operations in shopping centres have considerably boosted the volume in this segment to almost €800 million. This represents 37% of the total real estate market, a jump from the historical average of 23% and five times higher than the figure recorded in Q1 2023.

It is said that offices are the new retail. The category has been stigmatised by the performance of other international locations, primarily US cities, despite the fact that cultural, structural and market size variations make them difficult to compare to European cities.

It is becoming increasingly clear that remote work has not (and will not) be the end of workspaces. Based on data from INE, there has been a decrease in the percentage of people employed in Catalonia who have not worked remotely since 2021 (when records began), falling by four percentage points, from 23.4% to 19.4%, and representing more than 410,000 people. However, there has been an increase in the number of people employed who have the option to work remotely but choose not to, with the figure now reaching almost 691,000.

The hybrid model is the most common in the country's main business hubs, and requires the provision of a work space. With the paradigm shift, one workstation per employee is no longer considered, transforming (some) spaces into areas for encouraging collaboration or socialising.

Once businesses identify their evolving needs and adjust accordingly, the occupier market will regain its dynamism and, as the market reactivates, investment activity will surge back with full force.

Meanwhile, the quarterly figures show a volume of business of just over 100 million euros, spread over five operations, of which one deal alone accounted for 50 million euros.

Stoneshield was responsible for three of the deals and represented almost 80% of the total. After acquiring several assets in the Madrid periphery for its life sciences business, it is currently replicating the model in the Baix Llobregat. It has also acquired land in the same zone.

Another notable deal has been the acquisition of a residential building in the CC for conversion into offices. Local regulatory restrictions make it difficult for the market to readjust based on its needs, which

means that repurposing projects, turning offices to living or hotels, so common in Madrid, are not present in the Barcelona market.

Meanwhile, there is a noticeable increase in the demand for newly renovated office spaces re-entering the market in the CC. This has led to the transformation of conveniently located buildings into office spaces, with easy access to public transport and nearby amenities.

Yields

While we wait for the tenant market to firm up, yields continue to rise. At the end of Q1 2024 the Prime CBD yield stood at 5% (gross), 15 bps higher than in the previous quarter, while Prime Non CBD (Glories) was 5.25%, 25 bps higher than in Q4 2023.

Despite the impact that the current economic situation has had on the fundamentals of 22@, the yield level is very close to that of the CBD in Barcelona and the area is still attracting interest. A market regular has recently acquired a plot for the future development of 12,000 sq m of office space.

The lowering of interest rates announced by the European Central Bank for the summer will kick-start the decline in yields, although each segment, market and product will advance at its own pace.

In offices, some further increase could be recorded before the start of the crunch phase.

Main Deals - Investment market - Q1 2024

Asset	Zone	Purchaser	Vendor
Gaspart Fàbregas i Roses, 81	Periphery	Stoneshield	Tickehau
Baix Llobregat, 3-5	Periphery	Stoneshield	Bayer
Gall, 20-22	Periphery	Stoneshield	Cocoon Medical
Rambla Catalunya, 34	CC	Private	Wildspitx
City Park - París F Building	Periphery	Freo	Advenis REIM



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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