

Barcelona Offices



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Economic Overview

The national economy is starting to show signs of recovery, as reflected by several indicators published by INE.

GDP in Q2 2021 registered a year-on-year increase of 19.8% and in the quarter-on-quarter comparison it grew by 2.8% after two quarters at levels around zero.

The Business Confidence Index for Q3 also reflects a strong increase, standing at 128.9, which represents a growth of 33.4 points compared to the same period of the previous year and 14.1 compared to Q2.

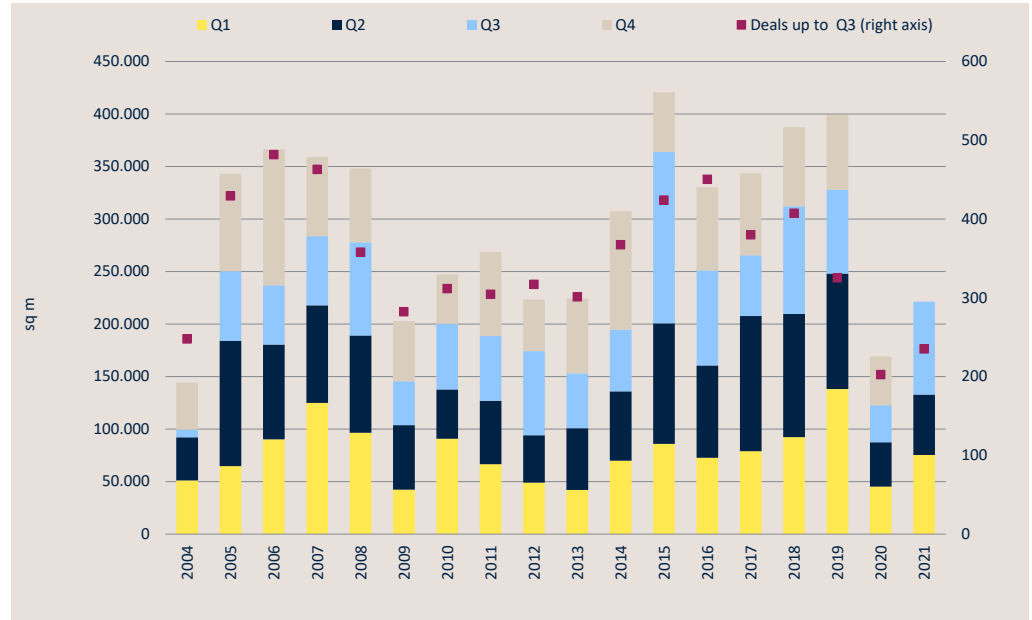
In the regional analysis, Catalonia (with 121.83) is among the five regions with the best results in the cumulative average for 2021.

As for the Business Turnover Index, since March the year-on-year comparison of monthly data has been growing steadily, with an average of 30%, although the peak occurred in April, with an increase of 58.2%.

In Q2 2021, job creation in terms of national accounting grew by 18.9% compared to Q2 2020, and, according to the latest available data, in September there were 76,113 fewer people registered with the State Public Employment Service (SEPE), making it the best September in the historical series.

The projected constant improvement in the economy will gradually alleviate the unemployment rate, closing 2021 at 15.7% (according to Focus Economics). Despite the steady recovery in employment, figures similar to those seen in the pre-COVID period will not be reached until 2023.

Annual Take-up



Source Savills Aguirre Newman Research

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Take-up and Demand

The recovery of the office market is progressing strongly thanks to the success of the vaccine rollout and the gradual easing of restrictions. This has meant that the return to the office for many companies has coincided with the return from holidays.

The volume of take-up between June and September stood at around 88,500 sq m, a 151% y-o-y increase. The usual slowdown in market activity during the summer months has had no effect in 2021, as in the q-o-q comparison the market recorded an increase of around 55%.

In the year to date, just over 221,300 sq m represents a growth of 80% compared to the same period last year and already exceeds the annual volume of 2020 by more than 30%.

In terms of the number of transactions, the year-on-year growth in Q3 was 37%, with the total between January and September standing at 16%.

Deal Size

The strong boost in take-up volume was due to the signing of large deals. Over the past nine months, 13 deals of >3,000 sq m were recorded, compared to only eight in 2020 as a whole (five between January and September).

The comparative data up until Q3 for the last five years places the number of deals of >3,000 sq m at

14, suggesting that the market is already gaining traction with a clear focus on the pre-COVID period.

The two largest deals of the year (both with >10,000 sq m) took place in Q3: one in the 22@ Technology District and the other in the Periphery.

The average deal size in the market stood at just over 940 sq m, 55% above the 2020 level (606 sq m) and 33% above the level of the last five years (770 sq m).

Activity by Market Zone

The City Centre and Prime CBD continue to account for the majority of deals. Between January and September, around 130 firms were registered (137 in the 2020 annual total), representing 54% of the total number of transactions. The demand profile corresponds to small and medium-sized companies, which are generally more agile in their decision-making.

In both submarkets, the average deal size of around 600 sq m appears to confirm this, because, although some deals exceeded 1,000 sq m (12% of the total), the majority of transactions were <500 sq m.

In any case, the New Business Areas are regaining the presence they lost in previous quarters, accounting for 30% of deals in Q3 (just over 20% between January and June) and 49% of take-up (32% in H1). In the cumulative total, the market share of

💡 **Refurbishment projects are an interesting alternative to new developments in order to access upgraded buildings and adapt them to the needs of current demand. In the next 15 months, 110,000 sq m is expected to enter the market, representing 27% of the total planned new space** 💡

these areas (25% and 39%, respectively) is now in line with the levels recorded in the historical series (24% and 38%).

Within the NBA, 22@ remains the main driver of the area and the market, making up >50% of the activity in the new business areas (in terms of both take-up and number of deals) and also accounting for 25% of the transactions of >1,000 sq m in Barcelona. All transactions of >3,000 sq m in the NBA took place in the Technology District.

Flexible Offices

Several operators in the flexible space segment remain active in their expansion plans. In Q3, First Workplaces and Loom grew, the former with a new office in Plaza Europa and the latter with the extension of a floor in Torre Glòries. Between the two firms, close to 2,300 sq m more have been added to the flexible space market.

The average deal size in this segment during the three quarters of 2021 (1,330 sq m) dropped by 11% compared to 2020 and is 55% below the average in the historical series (around 3,000 sq m).

The aspect that remains the same is the interest in the location in the city centre and in consolidated NBA submarkets. In this sense, 22@ is also the centre of flexible space, with 81% of the spaces signed by operators in the NBA and 43% of the total in Barcelona.

Stock and Current Supply

The entry of two new office developments in the NBA (in 22@ and in the Fira area) and the reincorporation of a small building in the City Centre bring the size of the Barcelona market to 6.28 million square metres. Compared to the previous quarter, the market grew by 1.1% which, although a very moderate increase, is higher than the quarterly average of the last two years (0.26%).

On the supply side, there was an increase of over 1% to 529,300 sq m, which represents a vacancy rate of 8.4%. The level of availability continues to grow steadily since mid-2020, when it barely reached 4.6%.

On the one hand, the increase in available space is due to the high volume of new empty spaces that have entered the market in recent months (51% since January 2021, whereas between 2015 and 2019 they only represented 15%). On the other hand, the rise is also due to the second-hand space

that has been reintroduced following companies vacating their offices in order to adapt their space needs to the current situation (as part of the business sector is already implementing hybrid working models combining face-to-face and remote working).

The spaces freed up by companies that have been forced to resize teams, resources and spaces as a result of the pandemic should also be taken into account.

All areas of the market increased their supply and vacancy rate. Prime CBD and City Centre, both at around 5%, have the lowest levels in the market, but it should be noted that at the beginning of 2020 they were between 1.5% and 2%.

Meanwhile, the New Business Areas vacancy rate surpassed the psychological barrier of 10% in Q3 2021 (for the first time since 2017) to stand at 11.5%, although 22@ remains well below at 8.6%.

Finally, the Periphery continues to have the highest rate in the market (14.6%), although it is the area that grew the least in terms of supply compared to the previous quarter.

Future Supply

In the next 15 months (from Q4 2021 to end of 2022), the Barcelona market expects just over 400,000 sq m, of which 73% (293,500 sq m) will correspond to new developments and 27% to refurbishment projects in existing office buildings. In 2020 and 2021, refurbishment projects accounted for just over 45% of the total and are an interesting alternative for upgrading buildings and adapting them to the needs and requirements of current demand.

Along with the location, the quality of the buildings is already one of the main factors in the search for a new headquarters, as it will be used as an instrument, on the one hand, to attract and retain talent and, on the other, to encourage back to the office the part of the workforce that is most predisposed to remote working.

One of the guiding factors of the new normal is to create attractive and multi-purpose spaces that combine traditional work areas with other uses that favour teamwork and interaction with colleagues and clients, always taking into account the well-being and comfort of all employees.

Meanwhile, pre-letting is back on the scene. After the slowdown due to the decline in take-up, large corporations are once again interested in securing large spaces in new or refurbished product, as reflected in the percentage of new space that will be incorporated into the market.

Around 20% of the total new surface area planned for the next 15 months is already committed. The percentage is a far cry from the 82% average recorded between 2015 and 2020, but the reactivation of this format encourages optimism, as many companies are still analysing the working model that best suits their circumstances and business in terms of their real estate footprint.

The NBA continues to account for a large proportion of the new and refurbished space coming onto the market (74% between the last quarter of 2021 and 2022), with the Technology District as the main submarket (68% of the total and 93% of the NBA).

Rents

The average closing market rent (calculated using all data collected from transactions in business buildings) stood at €15.61 per sq m/month in Q3, the third consecutive increase since the beginning of the year, albeit modest. Quarter-on-quarter growth reached 1.8%, although the year-on-year comparison remains negative (-2%).

By market zone, all areas recorded slight adjustments compared to Q2 except for the NBA, as in Q3 several of the highest rents in the new business areas were closed (six of the top 10, between €22 - €25 per sq m/month).

Main Deals - Occupier Market Q3 2021

Tenant	Market Zone	Floor Area (sq m)	Activity Sector
Webhelp	NBA	19,000	Services
T-Systems	NBA	7,500	IT
Apple	City Centre	4,800	IT
Wallbox *	NBA	2,500	Distribution

Source Savills Aguirre Newman Research / * deal advised by Savills Aguirre Newman

💡 The average rent at the end of Q3 recorded the third consecutive increase since the beginning of the year. Although the growth is very moderate, it has now reached an accumulated 3% 📈

In terms of achievable values, City Centre, Prime NBA (Glòries area in 22@) and Periphery remained stable, although with a y-o-y variation of between 1% - 3%.

Prime CBD was the only area that continued to trend downwards (25 cents compared to Q2) to stand at €27 per sq m/month.

Investment

Barcelona is the focus of office investment in Spain.

Between January and September, close to €1,270m was registered, representing 72% of the national total, contrasting with the relative weight of 27% in the historical series.

The existence of product and the quality of the assets for sale are the main drivers of the market, which is attracting the attention of numerous investors whose expectations are not being met in other locations.

In the y-o-y comparison, the volume of investment is almost three times the cumulative figure as of Q3 2020, driven by five megadeals (≥€100m), which accounted for around 55% of the total amount transacted.

It should be noted that 100% of the Spain's megadeals registered in the office market in 2021 have taken place in Barcelona.

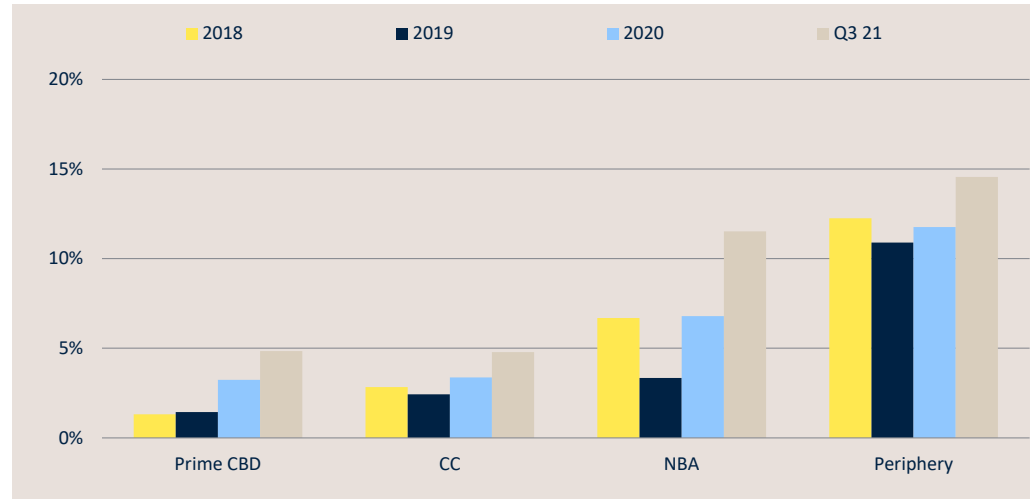
The centre of investment activity in Barcelona continues to be the 22@ District which, with close to €800m, makes up just over 60% of the total. The rest of the transacted volume was distributed unevenly between the City Centre, Zona Franca (within the NBA) and the Periphery, with 26%, 8% and 4% respectively.

Investor interest in core and core+ assets has remained, limiting risk as much as possible. However, unlike the Madrid market, there have been some transactions of product under development in 22@ which, due to the high degree of consolidation of the market, minimises exposure to possible contingencies.

The average deal size is slightly over €55m and is in line with the international capital average (€61m), which clearly leads the market. Foreign companies made up 83% of deals and 91% of the volume transacted.

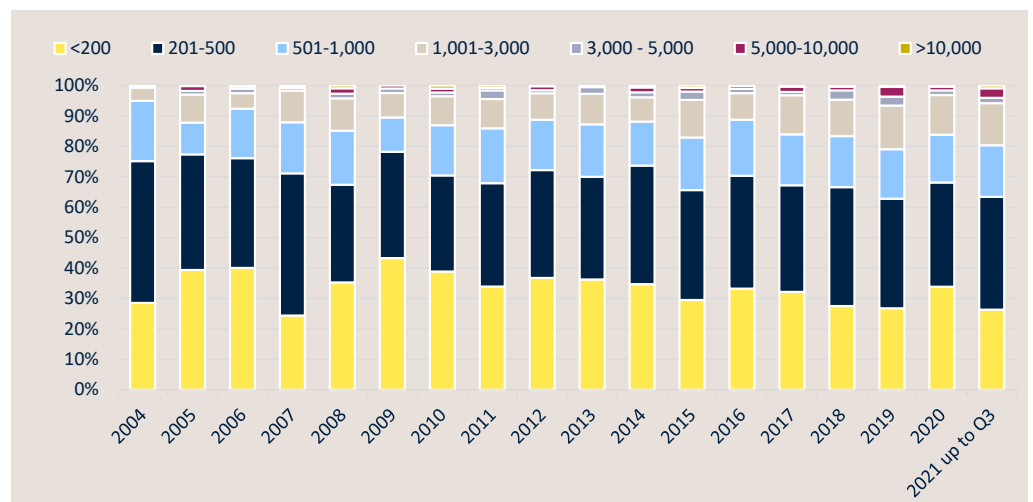
By origin, funds from Germany accounted for 59% of the total, followed by French

Vacancy Rate



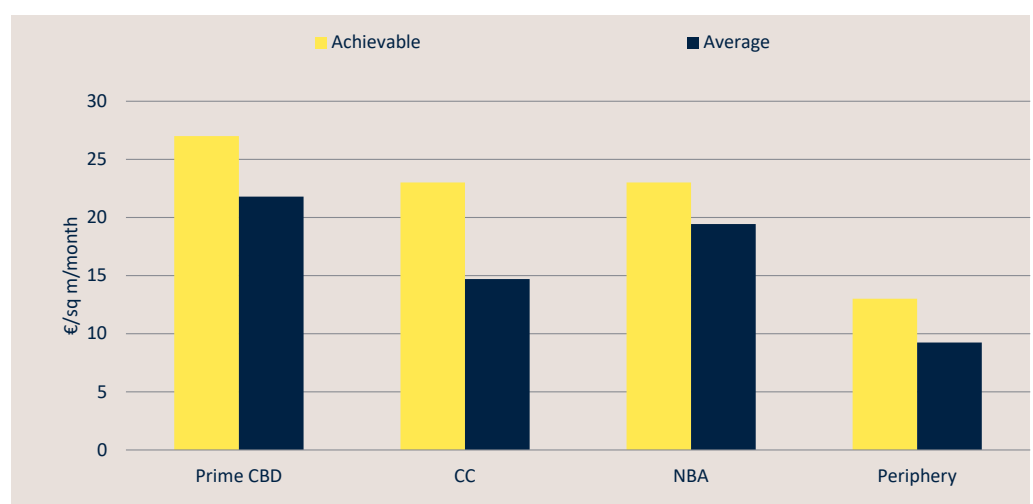
Source Savills Aguirre Newman Research

Deals by Surface Range



Source Savills Aguirre Newman Research

Rents by Market Zone - Q3 2021



Source Savills Aguirre Newman Research

👉 **Barcelona continues to be the main centre of investment activity in 2021, with 72% of the total volume transacted nationwide. Investors find quality product and their confidence in market fundamentals has remained** 👉

capital (16%) and US capital (13%). Four of the five deals worth ≥€100m were signed by German companies (funds and insurance), and the fifth by a French fund.

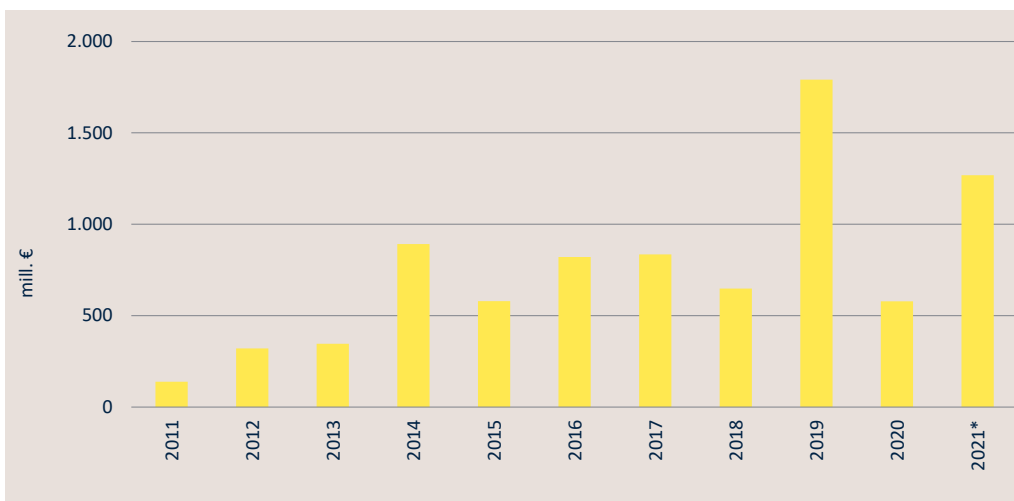
The largest transaction of the quarter, and of the year so far, was the sale of five buildings occupied by the Generalitat that AXA transferred to KanAm Grund Group, completing the package of eight it acquired in 2009. One of these assets was the headquarters of the Consejo Escolar de Cataluña on Via Augusta 202, alongside four more buildings integrated in the Pentagon project, for which it paid €280m.

National capital (9% of the total) registered a more modest average (€29m), with volumes between €10 and 55m.

Yields

Although Barcelona has more product available for investment than Madrid, buying pressure compressed prime yields by 15 bps in the previous quarter. Yields remained stable in Q3 at 3.60% in prime CBD and 4.10% in decentralised prime

Investment Activity in Barcelona



Source Savills Aguirre Newman Research/ *up to Q3

Main Deals - Investment Market - Q3 2021

Asset	Market Zone	Purchaser	Vendor
Portfolio Pentagon *	CC	KanAm Gund Group	Axa
Tánger, 36	NBA	KanAm Gund Group	Private investor
Sancho de Ávila, 55-63	NBA	Invesco	LCI Escuela de Diseño
Can Fatjo dels Aurons, 9 - Parc Cugat	Periphery	Tikehau Capital	Inmobiliaria Colonial

Source Savills Aguirre Newman Research / *advised by Savills Aguirre Newman

Outlook

- The fully vaccinated population reached 70% in September, coinciding with the end of the usual holiday months, which served as a milestone for the business sector to begin returning to the office.
- Although most companies maintain the option of remote working as an extension of the unprecedented situation in 2020, a new way of working, likely to incorporate a hybrid model between face-to-face and remote, will be implemented in the office market. The crux of the matter will be to determine the actual footprint, as there are almost as many solutions as there are companies and, for the time being, it seems that the reduction in space will be less than expected at the beginning of the pandemic.
- The anticipated recovery for the second half of the year has left its mark on the Q3 results and this trend is expected to continue over the coming quarters.
- The volume of new space will continue to increase the vacancy rate, which will slow down as demand identifies its real need for space in the medium to long term and, consequently, the need for a change of location.
- The evolution of both parameters will impact rental performance. If demand is not able to absorb all the new space on the market, the expected growth in rents will slow down and may even decline.
- The Barcelona investment market will continue to be the focus of investors, where they will find open sales processes with the type of product they are seeking (core and core+ in good locations).
- The market's historical fundamentals also moderate the perception of risk for value added with new developments.



Savills Aguirre Newman Research

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