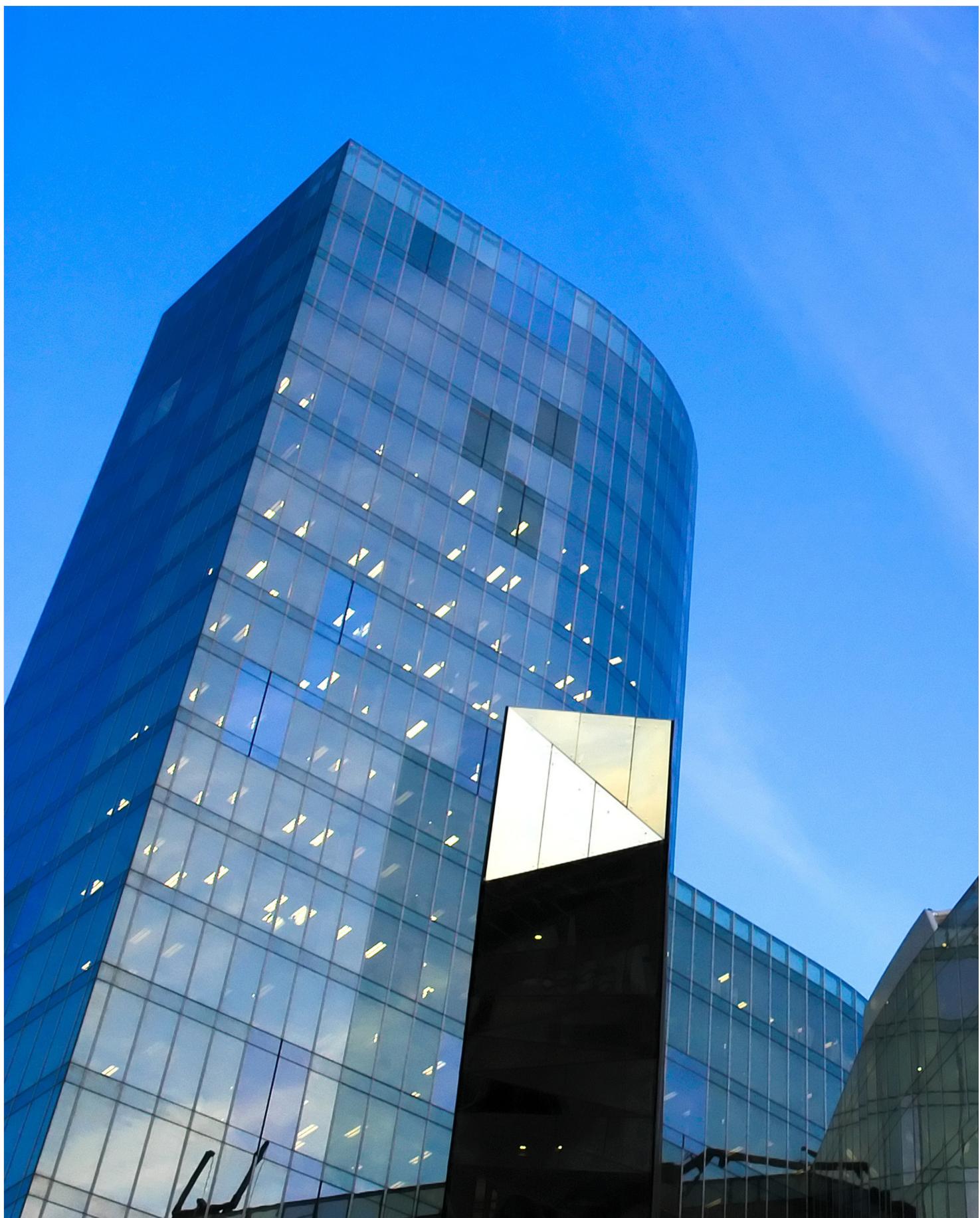


Barcelona Offices



“The take-up of nearly 140,000 sq m during Q1 2019 represents not only the best record of the first quarters in the historical series, but also the largest quarterly volume in Barcelona”

Economic Overview

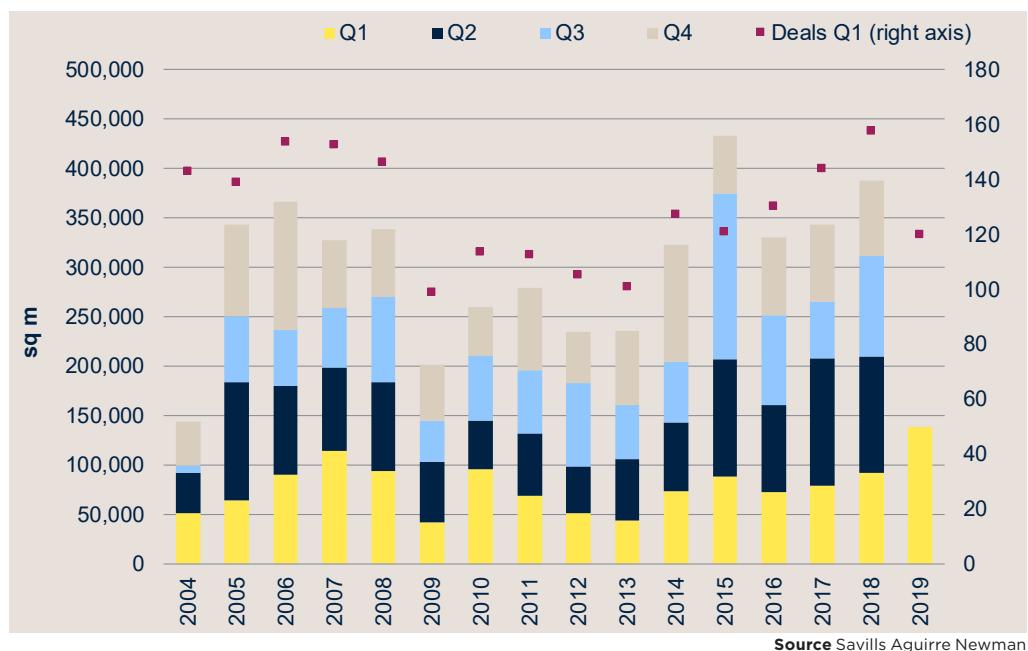
The Harmonised Business Confidence Index published by INE for Q2 2019 recorded a 2% y-o-y decrease for Catalonia but stood at four points above national figures (132.9 in Spain and 137.1 in Catalonia). Catalonia is also among the five autonomous regions with the highest figures.

For the upcoming quarter, Catalonia is expected to lead the ranking with 14.8.

Despite the optimistic outlook for the Catalan business structure, the region will be affected by the global economic slowdown, which is already reflected nationwide. The latest data published by INE, corresponding to Q4 2018, placed the economic growth of Spain at 2.3% y-o-y, although when compared with the previous quarter, this figure increased slightly.

According to national accounting data, employment grew three tenths above the national GDP, reaching 2.6%, in line with the drop in the unemployment rate at 14.45% in Q4 2018. Focus Economics maintains the forecast of steady recovery in the labour market, which, after a minor increase in Q1 2019, would link three consecutive quarters of decline to end the year below 14%.

Graph 1: Take-up by Quarter



Barcelona Offices

The robust demand fuels a market with increasingly solid fundamentals

Take-up and Demand

The Barcelona office market continues to set records. The take-up volume registered during the first three months of the year, close to 140,000 sq m, representing the highest take-up level corresponding to a first quarter, and the second of all the quarters in the historical series (surpassed only by Q3 2015, when the Generalitat signed 46,000 sq m in Zona Franca). This exceeds the volume of the same period in 2018 by 50% and the average volume of the first quarters in the entire historical series by 75%.

Despite the fact that deals of <500 sq m continue to be the most common, the number of transactions of ≥1,000 sq m increased significantly,

representing for the first time more than 20% of the total. Within this category, it is important to highlight the agreements made involving spaces of ≥3,000 sq m. Between January and March, ten deals were signed, almost half of the figure recorded during the last year (23).

By volume, it is worth mentioning two megadeals (≥10,000 sq m): one led by Agrolimen, which secured 18,000 sq m in the Fontsanta Estate of Sant Joan Despí (periphery), and the other by Caixabank, leasing 17,000 sq m in Ó Building, a property developed on an old textile factory dating from the 19th century in Can Batló (NBA).

With regards to the number of deals, the 120 signed agreements represent a drop of 24% compared to the same quarter of the previous year, while still in line with the average during the last ten years.

On the other hand, the average space taken registered the highest level in the historical series, with just over 1,150 sq m.

Activity by Market Zone

The limited availability of supply in the prime area and in the city centre continue to divert take-up to the new business areas (NBA) and the Periphery, which together accounted for just over 75% of the total volume. The 22@ district represented 67% of

“The take-up of space in the 22@ district has steadily increased from 2% in 2004 to 33% in Q1 2019”

“The space taken by coworking companies represents 13% of the quarterly take-up. Since 2014, the average space of these companies has tripled”



Deals of >3,000 sq m have accounted for 55% of take-up in the quarter.



The agreements for spaces of >3,000 sq m represented 10% of total deals by count, when in the historical series they only reached 3%.



The vacancy rate continues to trend downwards. The global market stood at 5.1%, with prime CBD and CC almost reaching total occupancy.



The imbalance between supply and demand continues to favour rents in the expansion phase. Some areas have grown at a double-digit.

space taken in the NBA, and 33% of the total market in Barcelona.

In the Periphery, the submarkets of Cornellà and Sant Just Desvern represented 54% of the deals signed in this area, although they accounted for 28% of the total of Barcelona. The transaction of Agrolimen in Sant Joan Despí considerably increased the municipality's participation within the periphery (60% of the total). However, if we were to discard the 18,000 sq m of the new headquarters that the food holding company will develop on the site of the current factory, Cornellà and Sant Just Desvern would occupy the first two positions in terms of take-up in the periphery.

It should also be noted that transactions of ≥1,000 sq m took place mainly in the NBA and Periphery. Both areas accounted for almost 80% of transactions and 85% of space taken, with NBA representing

60% in both cases. The demand for large spaces also places higher stakes in quality product being incorporated into the market.

Coworkings

The proliferation of coworking offices in the market has also had an impact on take-up volume. The nine deals identified as flexible space represented 20% of the total area taken, with the average space standing at just over 3,000 sq m. The largest deal was carried out by WeWork (8,300 sq m) in the 22@ district and the smallest (980 sq m) was taken by Cloudworks on Rambla de Catalunya. Since 2014, the average space taken in coworking offices has tripled.

Current Supply

The vacancy rate continues the downward trend that began in 2013. The first quarter ended with close to 315,000 sq m of space available for immediate occupancy, representing 5.1% of the total stock (6.11m sq m). Hence, the vacancy rate is already below the figure recorded in the

last market peak (5.8% in 2007). The distribution of the available supply leaves the prime CBD area almost reaching total occupancy, with a vacancy rate of 1.2% (representing just over 10,000 sq m). The City Centre stands at 2.7%, which considerably limits the options when searching for space. While the New Business Areas have reached 6.35%, which reflects a healthier level, some areas have levels as low as <4% (such as Glories). The Periphery, on the other hand, accounts for about half of the total available space, which represents a vacancy rate of 11.7%.

Future Supply

Over the next 24 months, the incorporation of 170,000 sq m is expected, 57% of which has already been committed. Focusing on 2019, 77% of the new planned spaces will enter the market already committed, which clearly reflects the scarcity of available quality space on the market.

Tabla 1: Main Deals - OCCUPIERS MARKET Q1 2019

Tenant	Market Zone	Floor Area (sq m)	Activity Sector
Caixabank	NBA	17.209	Bank - Finances
WeWork	NBA	8.294	Coworking
Institut Municipal d'Hisenda *	NBA	6.094	Public Administration
Aticco	CC	5.500	Coworking
Arvato - Bertelsmann - Majorel	NBA	4.332	Business Services
Idom *	Periphery	3.750	Engineering
Talent Garden	NBA	3.538	Coworking
N26	NBA	3.246	Business Services
Busining Desarrollos Empresariales	CC	3.132	Coworking
Everis	NBA	2.600	Business Services

Source Savills Aguirre Newman / *advised by Savills Aguirre Newman

• The weighted average rent per sq m displays growth in all market zones and shows that the largest transactions also register high rents •

By zones, NBA account for most of the new and refurbished space, with 74% by 2020. NBA also contain the largest volume of committed spaces (58,000 sq m of the identified 96,000 sq m) and will host 100% of the speculative space planned for 2019. This will increase the options for a demand that is clearly attracted to urban areas with good transport links, ancillary services, as well as new and quality stock.

Rents

The average closing rent in the Barcelona office market stood at €15.60 per sq m/month at the end of Q1 2019, an increase of 14% y-o-y. By zones, all experienced growth, except for the Periphery, which dropped slightly more than 10%. NBA, with an average rent of €18.80 per sq m/month, posted the highest increase (37% y-o-y).

When analysing the weighted average rent by surface area (€16.60 per sq m/month), the year-on-year variation reached 26%, leaving all values above average, which indicates that larger transactions registered the highest rents. In this section, all areas reflected growth, including the Periphery, although only by 1%.

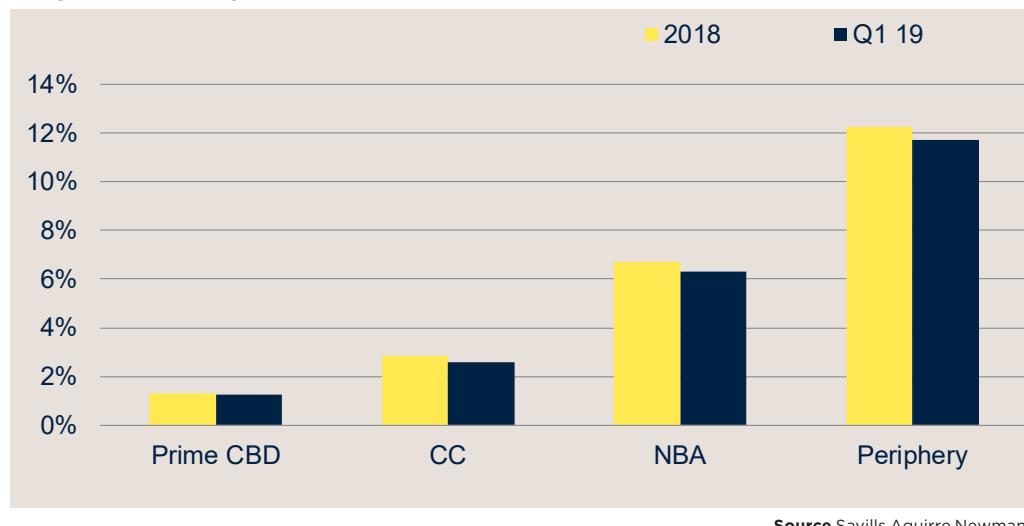
Against a backdrop of strong demand, shortage of current availability and a highly controlled future supply, the achievable rental levels experienced remarkable growth. The prime CBD has reached €27 per sq m/month, 12.5% higher than Q1 2018, but the biggest increase took place in the NBA, reaching 15%. For the second consecutive quarter, the achievable rent (€23 per sq m/month) surpasses the city centre figure (€22 per sq m/month). The evolution of the achievable values of both markets reflects the performance of the market in the last quarters. Since Q2 2018, NBA have stood at between €1.5 and 2.7 above the city centre. Moreover, the achievable level in the Periphery now stands at €13.50 per sq m/month, recording a 4% y-o-y increase.

Investment

The national office investment market ended its first quarter with the highest level in recent years. The nearly €850m almost doubles the figure recorded in the same period of the previous year and has exceeded 80% of the average volume of all first quarters since 2008.

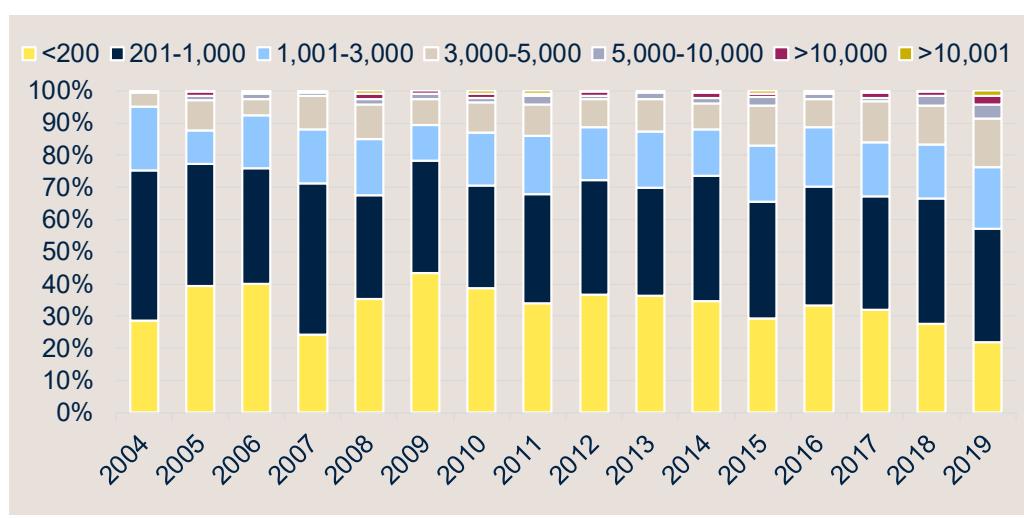
Barcelona had a low participation in the national total, accounting for 15%, with just over €125m transacted. The pattern last year appears to have repeated, with more than

Graph 2: Vacancy Rate



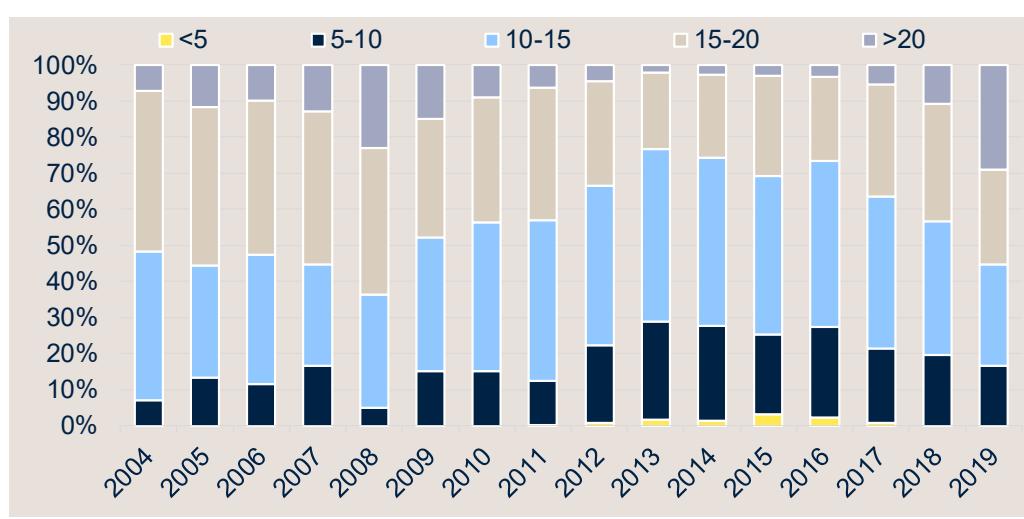
Source Savills Aguirre Newman

Graph 3: Number of Deals by Deal Size



Source Savills Aguirre Newman

Graph 4: Rent Histogram



Source Savills Aguirre Newman

With close to €500m in the investment pipeline, the same annual volume of 2018 could be recorded during the first half of the year

90% of investor activity in Barcelona taking place during the second half of the year.

In any case, when comparing Q1 2018 with Q1 2019, the investment volume has increased by almost five times.

Among the assets transacted between January and March, one property stands out in terms of volume. Located in the 22@ district, Starwood acquired the premises from the portfolio of Autonomy (also made up of four other buildings in Madrid). This is

Outlook

The occupier market continues to show signs of strength. The continued flow of requests to change the headquarters of Catalan companies is not negatively impacting the occupancy of office space.

It is increasingly common for companies to set up businesses in Spain to opt for Barcelona as their start of location. These companies are operating primarily within the new technologies industry. The appeal of a cosmopolitan city and the ability to attract and retain international talent are key factors for businesses that wish to establish themselves in Barcelona.

The vacancy rate continues to trend downwards thanks to the dynamism of demand. The controlled entry of new space into the market (with only 23% of new and refurbished spaces being incorporated vacant) also favours the drop in available spaces.

The imbalance between supply and demand will continue to push rents upwards.

The investment market pipeline will reach €500m by summer, which makes it possible to be optimistic towards the end of the year. The investor interest stems both from national investors as well as international players, who are investing heavily in a market that clearly registers excellent results.

the second acquisition undertaken by the American fund in Spain, after purchasing the San Fernando Business Park (Madrid) in 2018.

Also situated in the 22@ district, the new McCann headquarters was acquired by Patrizia. This is a comprehensive refurbishment of the old Kin laboratory, which the advertising company pre-let before it was incorporated into the market.

In 2019, it will not be necessary to wait until after the summer to witness the recovery of the market, as several agreements were closed during the first weeks of the second quarter.

Among them, the Meridia portfolio, which was integrated into the Meridia II vehicle, passed into the hands of the fund manager Partners Group. The portfolio is comprised of 18 buildings, three of which are located in Barcelona.

It is important to indicate that despite the recent upheaval of the political situation and

the uncertainty generated by the Independence movement, the international players keep Barcelona on their radar as one of the markets with the most solid fundamentals in Europe.

Yields

Yield levels remain stable. Prime CBD continues to hold for another quarter at 3.75%, while prime yield outside the city (NBA) remains at 4.50%.

Some recent contracts have been signed even below the achievable levels, taking into account that they corresponded to new and refurbished properties, with long-term lease contracts at market prices.

Table 2: Main Deals - INVESTMENT MARKET January - April 2019

Asset	Market Zone	Purchaser	Vendor
Ciutat de Granada, 123 *	NBA	Patrizia	Kin Laboratories
Pallars, 195	NBA	Starwood	Autonomy
Plaza Europa, 10 y 22-24	NBA	Arcano	Private investors
3 office buildings Meridia II	Several locations	Patern Group	Meridia

Source Savills Aguirre Newman / *advised by Savills Aguirre Newman

Graph 5: Annual Investment Activity in Barcelona



Source Savills Aguirre Newman



Savills Aguirre Newman 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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