

Barcelona Offices



“ Q4 recorded the best take-up figures and number of deals since the start of the health crisis. 2021 returned to healthy figures and exceeded the average take-up volume in the historical series ”

Economic Overview

Control of the pandemic has been the key point for economic recovery. In the last part of the year, growth is expected to be impacted by problems in the supply chains, which affect manufacturing output and cause price increases, as well as by the emergence of new strains of the virus and the consequent rise in cases, which have reactivated restrictions in certain regions and significantly affected consumption.

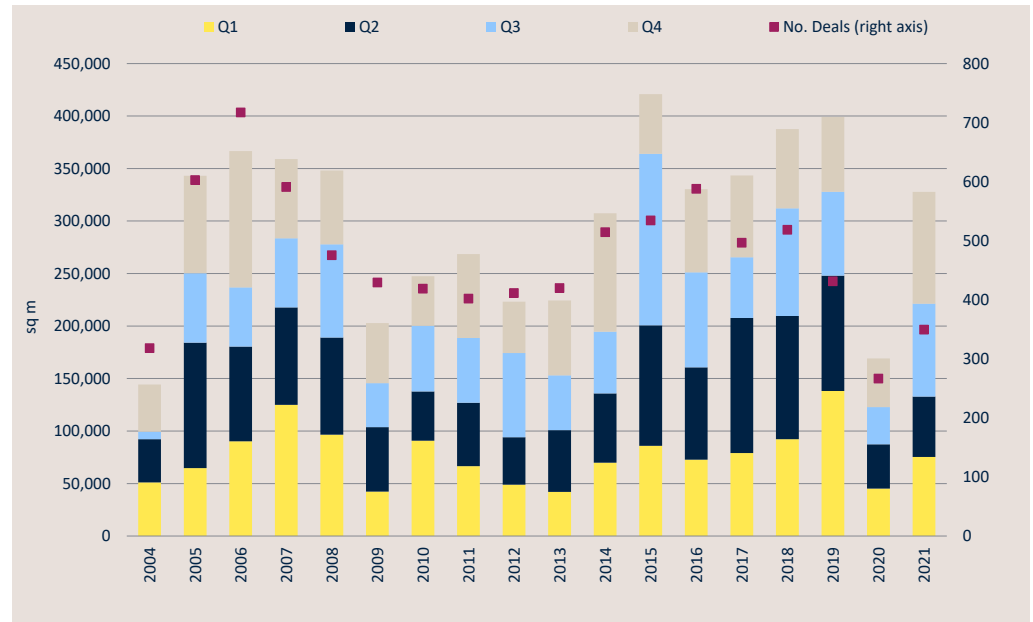
With the advanced Q4 GDP data, economic growth in 2021 would stand at 5.5%, lower than the >6% forecast by different economic institutions at the beginning of the year.

Meanwhile, the labour market continues to show signs of strength. The number of people registered with Social Security in December was the highest in the historical series (19.825 million people). In terms of the number of unemployed registered with the State Public Employment Service (SEPE), this signified that almost 77,000 fewer people were off the list than in November and just over 782,000 more than in December 2020.

The unemployment rate ended the year at 13.33%, an early sign that 2022 will reach pre-COVID levels.

Catalonia's Q1 2022 Business Confidence Index showed a slight drop compared to the previous quarter (barely two points, while the national total registered a decline of 3.3 percentage points), but in the annual total the region is leading the recovery.

Annual Take-up



Source Savills Aguirre Newman Research

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Take-up and Demand

The gross take-up volume in Q4 (close to 105,500 sq m) is the best recorded since the market felt the impact of the pandemic. In terms of number of transactions, the 109 deals represent 60% more than the average of the last quarters, and more than double the just over 50 that took place in Q2 and Q3 2020.

In the annual calculation, 2021 ended with close to 330,000 sq m, almost double the 170,000 sq m of 2020, and above the 301,000 sq m average annual volume in the historical series.

The increase in take-up was due to three megadeals ($\geq 10,000$ sq m) that took place in the second half of the year and accumulated 61,000 sq m (around 20% of the total). Discarding these deals, the resulting figure would place the increase at 68% compared to the 2020 volume without another deal of $>10,000$ sq m.

In terms of number of transactions, the year-on-year increase of 31% leaves no room for doubt: the market is moving steadily towards recovery, with the gap narrowing towards pre-COVID levels (-19%).

The average deal size reached 900 sq m in 2021, almost 50% above the 2020 level. When extracting transactions of $\geq 10,000$ sq m from the analysis for both years, the average size would stand at 755 sq m, indicating a rise of 27% compared to 2020.

In any case, it is important to note that all transactions of $\geq 10,000$ sq m registered since 2016 correspond to private companies, rather than institutions from various public administrations.

Deal Size

Activity according to the range of deal size shows an increase in the number of transactions in all segments, except for spaces of <200 sq m, which went from 34% of demand in 2020 to just over 27% in 2021. Compared to the average of recent years, there is also a slight decline, albeit more modest (just three percentage points). Companies using this type of space are probably opting for flex operator solutions.

Transactions that underwent the greatest increase were those between 200 and 500 sq m, the most common range in the historical series. In 2021 it accounted for 36%, while in 2020 it barely exceeded 34%. The occupier profile of this segment (small and medium-sized companies) has a higher capacity for action and more agility in decision-making, favouring a greater presence in the market.

Meanwhile, ranges of 3,000 - 5,000 sq m grew by 0.3 percentage point and spaces of 1,000 - 3,000 sq m by 1.4 p.p. Sizes of $\geq 1,000$ sq m (19% of deals) advanced by 4 p.p. compared to 2020 data and by almost six p.p. compared to the historical series, which is supporting solid take-up growth in the Barcelona market.

“ The vacancy rate recorded the most moderate growth in recent quarters. The positive take-up rate will slow down the steady growth registered since 2020 ”

Activity by Market Zone

The New Business Areas (NBA) regained the prominence they lost in 2020. In 2021, they accumulated just over 139,000 sq m across 81 transactions, accounting for 42.5% of take-up and 24% of the number of registered transactions. Within the NBA, 22@ comprised 74% of take-up (>100,000 sq m), i.e. almost four times more than the mere 28,000 sq m recorded in 2020.

It is worth noting that five of the six deals of >4,000 sq m in 22@ took place in recently delivered new buildings or properties currently under development that will enter the market in the coming months. Despite the upturn in available supply in the Barcelona office market, new developments and projects under construction are an excellent alternative for occupiers looking for large spaces in buildings that meet the highest quality standards.

The average deal size in the NBA (around 1,650 sq m) is well above the market average and is almost three times the average surface area transacted in Prime CBD and City Centre.

Prime CBD and City Centre had a reduced presence in terms of take-up volume. In 2021, they accounted for 35% between them, while in 2020 this figure was 44%. In terms of deals, however, they remained stable. Nevertheless, the average deal size rose slightly thanks to the recovery in take-up figures. Both areas stood at around 600 sq m compared to around 500 sq m in 2020.

As for the Periphery, its presence decreased slightly, both in terms of take-up and number of deals, but the signing of several of the year's largest deals in municipalities in this area enabled the average deal size to rise considerably, from 700 sq m in 2020 to 1,000 sq m in 2021.

Flexible Offices

During the months of lockdown, the imminent end of the office was declared. Today, it seems more than evident that this prediction will not come true, although it cannot be denied that the ongoing unprecedented situation has accelerated changes in the way of working and the traditional office model.

After a year of restraint in the expansion policy, flexible office operators have once again begun to open new centres. Flexible spaces are no longer the exclusive territory of start-ups and freelance workers,

generally linked to the technology, innovation and design sectors, which share spaces where collaborative work is encouraged.

It is increasingly common for companies of different sizes to opt for workstations in flex centres, generally in enclosed spaces, where they find all the comforts of a traditional office in a desired location and for a shorter period of time than is usual in the traditional market.

2021 ended with nine deals signed by flex operators, with an additional 11,600 sq m in the Barcelona office market. This represents 4% of total take-up and falls short of the 18% registered in 2019 but is up from the 1% posted in 2020.

The focus of operators continues to be on the NBA and City Centre. The largest transaction (3,900 sq m) was led by IWG which, under the Spaces label, will open a new centre on Via Augusta. IWG is also expanding its Regus centre on Gran Via de les Corts Catalanes (near Plaza de Catalunya) by 1,150 sq m.

Stock and Current Supply

The Barcelona office market grew by just over 11,000 sq m due to the entry of three new developments, two in the Technology District and another in Sant Cugat, bringing it to almost 6.3 million sq m by the end of 2021.

On the supply side, the 540,000 sq m available places the total market vacancy rate at 8.6%, up one tenth of a percentage point from the previous quarter. After seven quarters of continuous growth, this is the most moderate increase, so the upward trend could slow down if the market's positive take-up rate continues.

By zone, the NBA recorded the greatest increase with almost 11,000 sq m, raising the vacancy rate to

12.2%, although 22@, the main submarket in the area, stood at 9.4%.

The Periphery has 5,300 sq m more supply and a vacancy rate of 14.9%. Prime, on the other hand, added only 375 sq m, keeping the vacancy rate stable at 4.8%, while the vacant surface area in City Centre decreased by 6,500 sq m, leaving the vacancy rate at 4.5%.

Future Supply

Between 2022 and 2023, just over 625,000 sq m is expected to enter the market across 62 new or refurbished properties (39 and 23, respectively). Currently, 17% of the surface area has already been committed, leaving around 520,000 sq m on offer. It is likely that as the year progresses, this figure will decrease as, generally, when the delivery date of buildings approaches, spaces can already be visited and transactions are carried out in these assets.

The rise in supply has brought with it a healthier level of availability, which has freed companies from the pressure of the lack of alternatives on the market, a situation which had forced many to sign pre-let deals, mainly for large spaces.

In terms of distribution by zone, 77% of new and refurbished vacant space (almost 400,000 sq m) is located in the NBA, with 22@ accounting for just over 315,000 sq m (79% of the NBA and 61% of Barcelona's total).

Rents

The achievable values reflect the stability that would have been attained with the increase in supply, despite the recovery of demand.

All areas maintained the levels of the previous quarter, although in the y-o-y comparison Prime CBD contracted by 2.7% and Prime NBA (Glòries submarket in 22@) by 1.1%.

Main Deals - Occupier Market Q4 2021

Tenant	Market Zone	Floor Area (sq m)	Activity Sector
Glovo *	NBA	30,000	Business Services
H&M *	NBA	4,100	Distribution
Universo Estelar*	Peripher	4,100	Education
Scopely	CC	2,100	IT
Inetum	NBA	2,000	IT

🗨️ **The market has reached rental stability, although the best buildings are recording slight increases, with the most outdated adjusting downwards to adapt to the situation of greater supply** 🗨️

It should be noted that the increase in availability has slowed rents in certain assets, which given the scarcity of supply, recorded higher values. Under the current circumstances, this would correspond to higher quality buildings.

On the other hand, closing values continue to climb slowly. The weighted average rent by surface area stood at €16.61 per sq m/month in the annual total for 2021, an increase of just over 1% compared to 2020. By zone, the NBA recorded the largest increase at 2.3%, with deals of ≥€20 per sq m/month gaining considerable presence, rising from 18% in 2020 to 40% in 2021 (with 6 and 19 deals, respectively).

Investment

The office market continues to attract investor interest. At national level, around €2,510m was raised, of which €1,715m was concentrated in Barcelona (around 70% of the total). This is the second best record in the historical series, behind only the €1,791m recorded in 2019.

When comparing with 2020, a year hit hard by COVID-19, the market has managed to almost triple the €580m.

The appeal of Barcelona compared to Madrid, which has historically concentrated most of the transacted volume, has been mainly due to the amount of product available on the market.

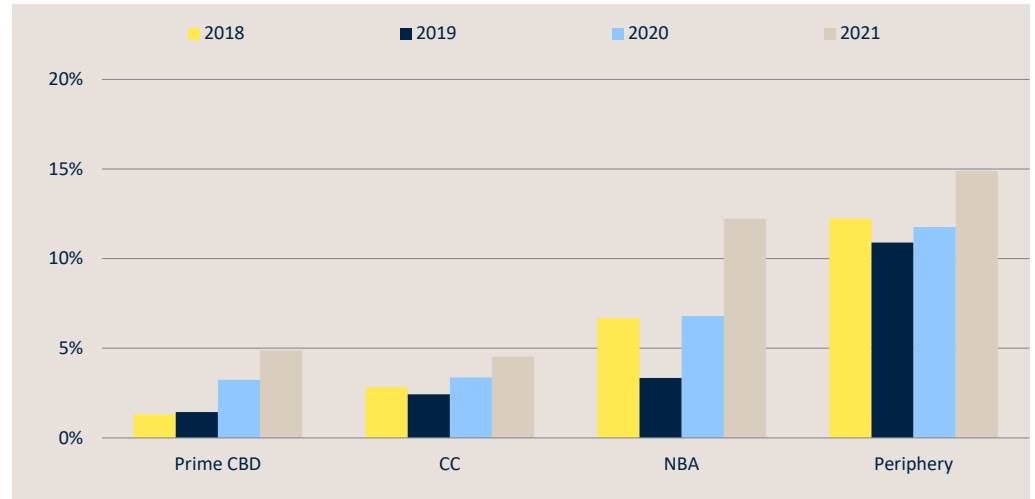
Meanwhile, all megadeals registered in the office market (those of ≥€100m), six in total, were located in Barcelona and amounted to more than €810 million, i.e. 47% of the total.

The concentration of large transactions directly affected the average price per asset, which stood at €50.5m.

International capital clearly dominated the market. Institutional funds and insurance companies, with greater financial strength, participated in the market's major deals (including the six megadeals). The average volume per building paid by cross-border companies exceeded €60m, while domestic companies only reached €26m.

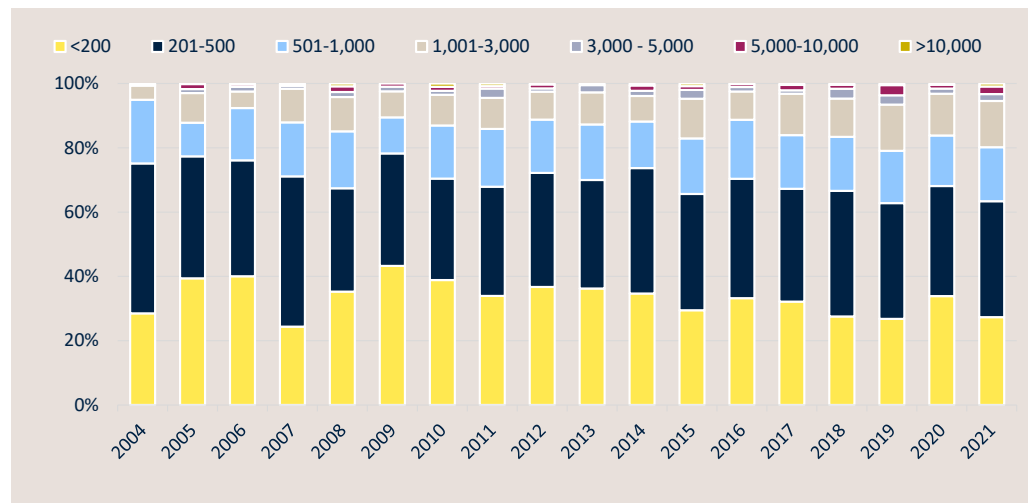
In the face of uncertainty such as that experienced during the health crisis, risk aversion is the most common characteristic among players. In 2021, 75% of the volume transacted corresponded to core and core+ products, although value added

Vacancy Rate



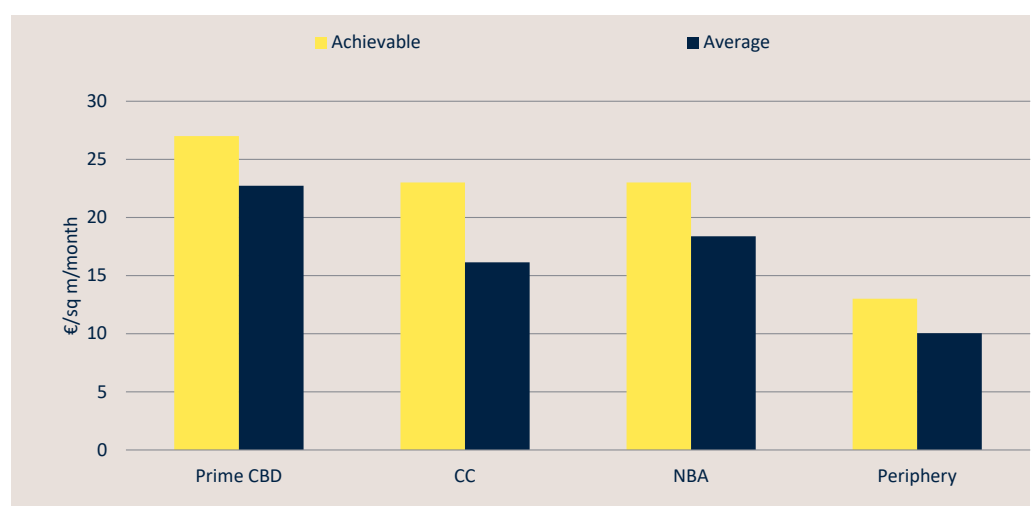
Source Savills Aguirre Newman Research

Deals by Surface Range



Source Savills Aguirre Newman Research

Rents by Market Zone - Q4 2021



Source Savills Aguirre Newman Research

🍷 **Barcelona emerged as the centre of investment activity in 2021, with almost 70% of the total volume transacted at national level. 22@ is also in the focus of investors, accounting for 49% of the volume and 38% of deals** 🍷

assets in good locations also came into consideration.

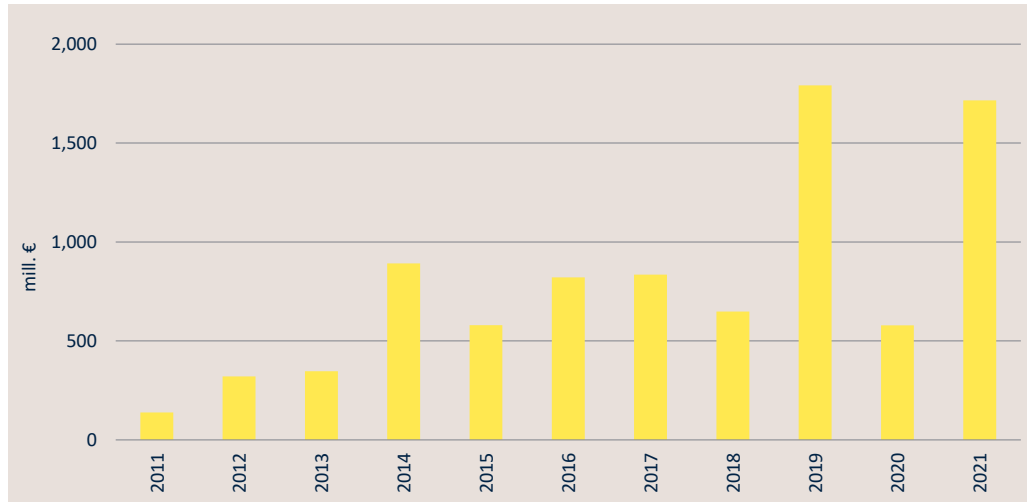
By zone, the Technology District accounted for 49% of the total volume. Although most of the deals were focused on core and core+ product, it was also home to three of the five value added deals. The increase in availability and the huge volume of new space planned for the coming months have not managed to overshadow the recovery of demand for space in this submarket, which explains why investors remain confident.

The largest transaction in Q4 was the Estel building (€120m). The former Telefónica headquarters will return to the office market after several years, with a plan to change its use to residential. Bain Capital, together with Freo, will carry out a comprehensive refurbishment of the building, making it a market point of reference in the heart of the Eixample district.

Yields

Achievable yield levels remain stable. Prime CBD remains at 3.60% and prime NBA at 4.10%, although the high volume of liquidity and buying pressure could favour compression in certain assets that meet the criteria of location, quality, good covenants and long-term contracts at market rents.

Investment Activity in Barcelona



Source Savills Aguirre Newman Research

Main Deals - Investment Market - Q4 2021

Asset	Market Zone	Purchaser	Vendor
Ed. Estel	CC	Bain Capital + Freo	Sunrich
Torre Sabadell *	Prime CBD	Hines	Banco Sabadell
Tánger, 66	NBA	BNP Paribas Reim	UK&European Investments
Via Augusta, 123 *	CC	Catella AM	Renta Corporación

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

Outlook

- The uncertainty created by the health crisis is fading as the level of vaccination increases and there is more knowledge and information about the progression of the virus.
- The reduced uncertainty will lead companies to resume the search for offices or accelerate the decision making of processes already underway. In fact, in the short term, several deals are expected to be closed by 2022.
- The entry of a significant volume of new space should not be a cause for concern, as long as the buildings are in the right locations (consolidated area) and meet the highest standards of quality and sustainability, as companies, increasingly committed to ESG criteria, are looking for headquarters that reflect their commitment to the environment and society.
- On the other hand, if the pace of activity after the summer of 2021 is maintained, the market will be able to absorb new floor space at healthy levels.
- Top quality buildings will be reflected by rental levels of new developments, which will set the highest values.
- The strength of the occupier market will continue to attract investment demand. The year begins with transactions underway that will close as early as 2022, and with processes that will see the light of day in the coming months. The profile of Barcelona's office building owners, which is more institutional and short-term in nature, ensures the rapid turnover of assets and the existence of product on the market.
- The high level of equity could compress yields in very specific cases as long as it is a quality, well located asset, with a solvent tenant and a long-term contract.



Savills Aguirre Newman Research

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