

Barcelona Offices



“ Despite the slowdown in the market over the summer period, cumulative take-up volume since January has grown by 9% ”

Economic Overview

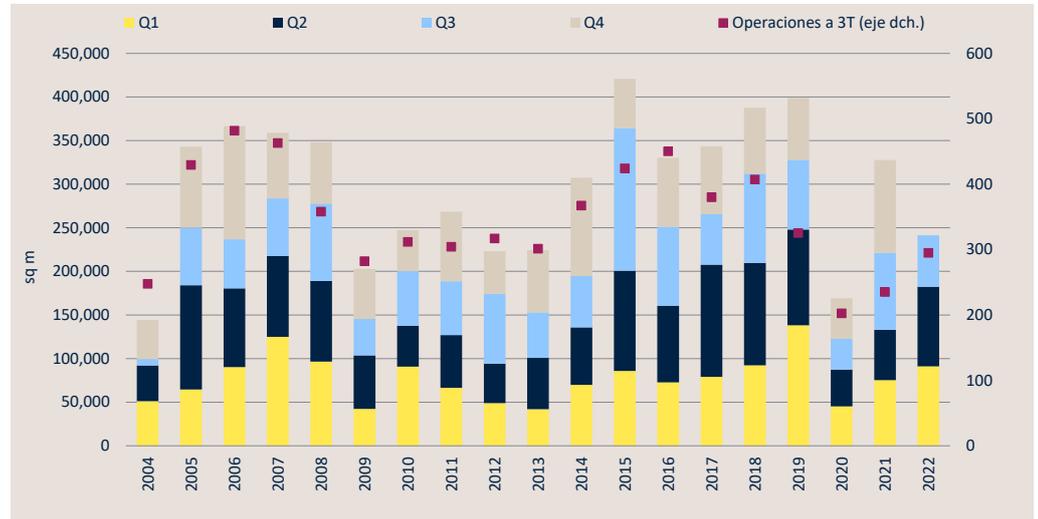
All signs point to economic activity slowing down in the coming months, influenced by the headwinds affecting global and European forecasts. GDP figures in the coming quarters will be impacted by the environment of uncertainty, the energy crisis, inflation (which already exceeds double digits), as well as the tightening of financing conditions. According to Focus Economics’ October forecasts, GDP will stand at 3.7% in Q3 and 1.4% in Q4, closing the year at an annual total of 4.3%.

For the time being, the slowdown in the economy will not result in a technical recession (two consecutive quarters with negative growth), but during 2023 GDP growth is expected to be very limited, with quarterly levels between 1-2%.

After two rate hikes in July and September the European Central Bank (ECB) has announced further increases in order to control inflation. Price increases will also be dependent on external factors, such as the intensity of the energy crisis, but it seems certain that the CPI will continue to grow well above the optimal 2-3% level, affecting private consumption (the main component of GDP).

Despite these conditions, the labour market grew in September. The number of people registered with Social Security once again surpassed the psychological barrier of 20 million, registering growth of almost 1% compared with the previous month. It is also worth noting that this is the best September figure in the historical series.

Annual Gross Take-up



Source Savills Research

Barcelona Office

Take-up and Demand

Cumulative take-up to September (around 241,500 sq m) increased 9% compared to last year, indicating the market’s continued good health.

In the quarterly analysis, the Barcelona office occupier market was affected by the summer lull, with just over 59,000 sq m signed across 83 transactions between June and September. Comparing this with the same period of last year shows a decrease in surface area and an increase in the number of deals, with the average deal size standing at just over 710 sq m (almost 1,190 sq m in Q3 2021), a decline of 40% year-on-year.

It should be noted that in Q3 2021, two deals of >10,000 sq m were signed, totalling more than 30,000 sq m. Disregarding these outliers (transactions of >10,000 sq m represent 0.4% in the historical series), the market reflects a certain stability in terms of take-up (growing by 3%).

Deal Size

Although demand continues to predominantly be concentrated in the size range of <500 sq m, the presence of small spaces has progressively decreased. While in the historical series they make up 70% of transactions, the cumulative data in 2022 for office deals of <500 sq m accounts for just 56%.

Meanwhile, spaces of >500 sq m are gaining in prominence. The fastest-growing space range compared to the historical series was 1,000-3,000 sq m, which in 2022 represents 19% of transactions, nine percentage points above the historical series average.

Between January and September, 69 deals of >1,000 sq m were signed, compared to 66 during the entire year of 2021.

The largest transaction of the quarter (7,500 sq m) took place in Plaza de Europa (the NBA), ranking third in the cumulative total, only surpassed by two transactions each of around 9,800 sq m, one in 22@ and the other in Viladecans.

Activity by Market Zone

During Q1, activity in the NBA was affected by the signing of the largest transaction in the quarter (and of the year up until September) that took place in the Periphery, resulting in an early recovery for the area. In Q3, the NBA accounted for 52% of the total, increasing its overall share to 41.5% in the cumulative total up to September.

As usual, within the NBA, 22@ is home to a large part of the demand, attracting 17% of the deals of the total Barcelona market and 24% of the take-up. Both these indicators account for around 60% of activity within the NBA.

The increase in available space in the City Centre has boosted activity in the area, accounting for 31% of the take-up (close to 75,000 sq m) and 40% of the deals (118 signings), of which 19 were between 1,000-5,000 sq m.

Quality of Buildings

Among the requirements of companies in search of offices, building quality is becoming increasingly more frequent. On the one hand, better quality buildings will more easily comply with ESG criteria, an important principle for many

“ Grade A buildings accounted for 46% of the surface area taken up, mainly concentrated in the NBA (67%), coinciding with the area with the highest developer activity ”

in the business sector (predominantly multinational companies). On the other hand, these buildings also usually come with technical features that ensure the wellbeing of occupiers, a key aspect for fostering tenant loyalty and attracting new companies.

Grade A quality buildings continue to lead in terms of surface area taken up, with 46% of the total. These tend to be the choice of large companies, as the average deal size (around 1,500 sq m) is almost double the market average (approximately 800 sq m), which corresponds to the average deal size in Grade B buildings, and more than triple that of Grade C buildings (just over 400 sq m).

The take-up of Grade A buildings is mainly located in the NBA (67%), which is also the area with the majority of new development activity.

Flex Offices

The flex market continues to grow, with the opening of new spaces and the expansion of existing centres. In Q3, close to 2,500 sq m was added to the stock of flex space in Barcelona, which now accounts for some 200,000 sq m of the office market (3% of the total).

The expansion areas correspond to the urban areas with the most demand and the highest occupancy levels (Avda. Diagonal to the L'illa Shopping Centre, the vicinity of Plaza de Catalunya and 22@), although the Periphery is also starting to appear more frequently on the flex map.

The average size of demand continues to be between 8 and 10 spaces, although occasionally there are large-scale searches (70-100 spaces) by large corporations looking to relocate to a traditional or flex space.

The advantage, in addition to having a fully equipped office from the outset, is the flexibility of the contract, which is far from the rigid structure of the conventional office model, as well as the ease of adding or reducing workstations during times of change.

The difficulty for these larger demands is the availability of space, as they generally need to occupy entire floors. As a consequence, new centres can open their doors with very high occupancy levels (even >90%) if they are in the right location.

Stock and Current Supply

Between July and September, the Barcelona market added five buildings (three new developments and two refurbishments) with 42,000 sq m of available space. For the second consecutive quarter, all new supply was located in 22@, ensuring the availability of space in one of the city's most in-demand areas.

At the end of Q3, the total available surface area exceeded 600,000 sq m, out of a total stock of 6.4 million square metres, placing the vacancy rate at 9.89%. As a result, the upward trend in vacancy rate that began in mid-2020 has been maintained.

With regards to distribution, the NBA continues to account for the largest volume of vacant space (285,000 sq m and 45% of the total supply). It also recorded the highest growth (24%) compared to the previous quarter, mainly due to the large concentration of new space in a submarket in this area.

Prime CBD, City Centre and Periphery all also increased in their available space, although their figures only increased by between 2-6%. The second-hand space reincorporated in these areas barely reached 10,000 sq m and was very evenly distributed (2,200 sq m in Prime CBD and around 3,500 sq m each in City Centre and Periphery).

The NBA has the highest vacancy rate, with 17.5%, while 22@ reaches a level of 18%.

The Periphery has an available supply of 180,000 sq m, standing at about 14% vacancy. Prime CBD and City Centre, on the other hand, are progressing at a slower pace than the rest of the market, remaining at levels of around 5%.

Future Supply

In the next 15 months (Q4 and 2023), 355,000 sq m is expected to be added, of which 16% is already committed. As projects become more tangible, they attract more interest from demand, which could lead to an increase in the volume of committed space. Increased availability has resulted in less pre-let activity, directly impacting the volume of space that enters occupied at the time of delivery. Nevertheless, during the first nine months of 2022, the level of committed space reached 45%.

It is worth highlighting the increasing importance of refurbishment projects in the Barcelona market. Up until 2020, refurbished space accounted for barely 6% of the total new surface area, but in recent years the share of these projects has increased to 40%.

Refurbishments are mainly concentrated in the NBA, making up 44% of the projects (led by 22@, with 75% of the NBA's total), as well as the City Centre, with 38%. In the case of the NBA, this is the area that attracts most of the demand, while the City Centre is the area with the highest volume of office space (2.65 million square metres), which also generates a lot of interest. This is because it is in the urban area with the greatest residential presence, with a wide range of complementary services (restaurants, supermarkets, pharmacies, gyms, shops, etc.). It is worth highlighting that all the new surface area planned in the City Centre between Q4 and 2023 (82,000 sq m) corresponds to refurbishment projects.

22@ continues to be the focus of development activity in the office market, accounting for just over 50% of all new and refurbished space (almost 190,000 sq m).

Main Deals - Occupier Market Q3 2022

Tenant	Market Zone	Floor Area (sq m)	Activity Sector
Puig	NBA	7,500	Distribución
Verse	CC	3,100	Technology
Webhelp (extension)	NBA	2,235	Business Services
Semrush *	NBA	1,840	Technology
Extia	NBA	1,660	Technology

Source Savills Research / * deal advised by Savills

🗨️ While achievable values remained stable compared to the previous quarter, average closing rents showed a slight increase 🗨️

Rents

In general, rents in the Barcelona office market continue to be stable. Achievable values remain at the same levels as in the previous quarter, which, in turn, continued the figures for Q1 (except for the Periphery, which underwent a slight decline in Q2).

In the year-on-year comparison, the €27.50 per sq m/month for Prime CBD represents an increase of almost 2%. The Periphery, on the other hand, decreased by 2% to €12.75 per sq m/month. City Centre and Prime NBA (the area around Glories) remained stable at €23 per sq m/month.

The average closing value, calculated using all rental data recorded in business building transactions, reached almost €18 per sq m/month in Q3, an increase of 5% compared to the previous quarter. In the accumulated data since January, the average stands at almost €17 per sq m/month, up 7% from the 2021 figure.

The transactions with the highest rents (around €29 per sq m/month) took place in the prime area of Avenida Diagonal.

Investment Market

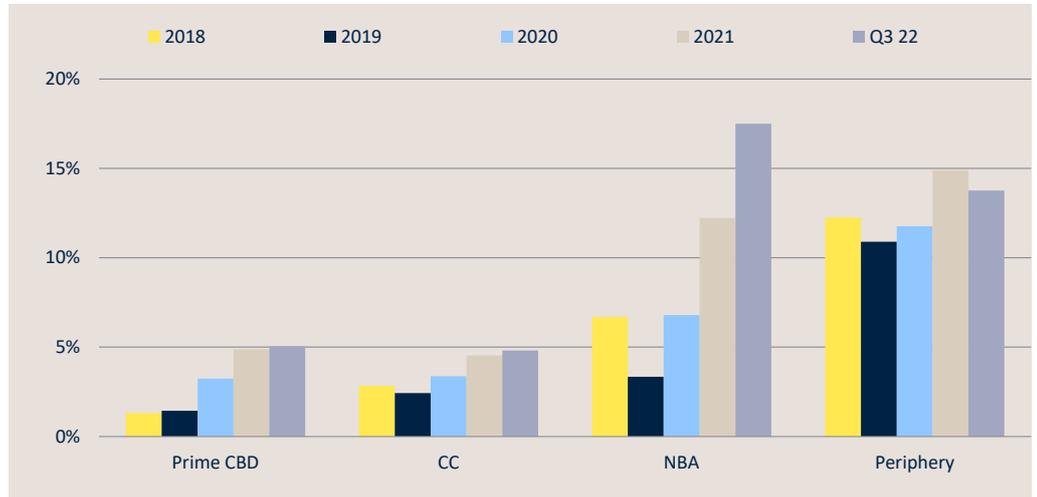
The Barcelona investment market continues to gain momentum. €460m was registered in Q3, representing 55% of the total amount transacted since January (€835m).

At national level, the share returned to usual levels (around 30% in the historical series), after attracting almost 70% of the investment volume in 2021 due to the scarcity of product available in the Madrid market.

The deal for Glovo's headquarters (>€200m) has significantly boosted the cumulative investment figure in Barcelona, with the average deal size (in terms of volume) increasing from €37.5m in H1 to €71m in Q3. Nevertheless, even excluding this deal, the average price in the quarter increased by 11% compared to the H1 figure.

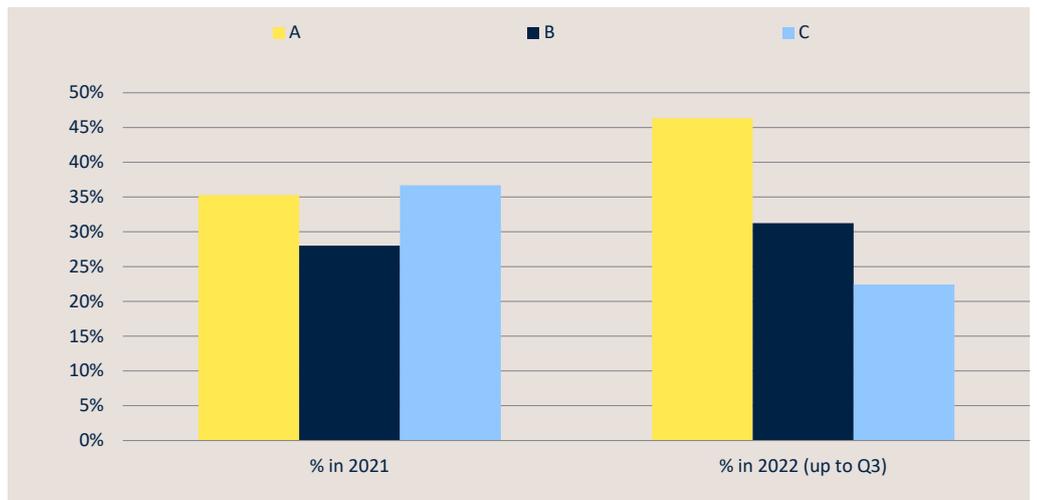
Glovo's deal was the largest transaction of the quarter in Barcelona and the second largest in Spain, led by the sale of Caixabank's headquarters at 51 Paseo de la Castellana (Madrid), which also closed for >€200m. The three largest transactions in Q3 were also the largest in the first nine months of the year, with the podium being completed by BBVA's headquarters in Bilbao (around €150m).

Vacancy Rate



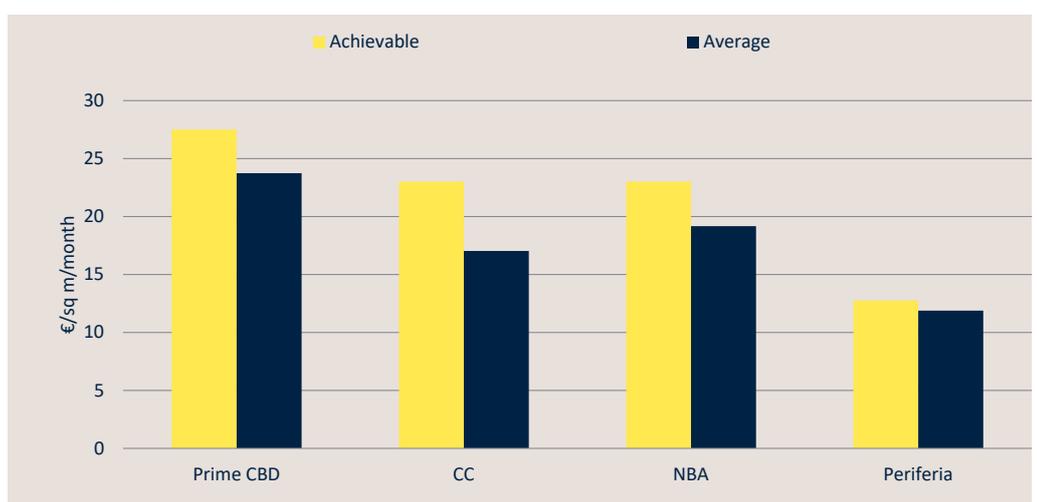
Source Savills Research

Take-up by Building Quality



Source Savills Research

Rents by Market Zone - Q3 2022



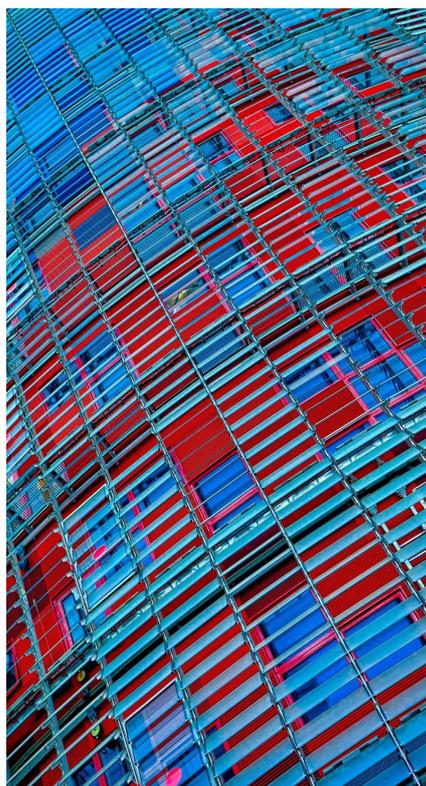
Source Savills Research

👁️ **Barcelona remains on the radar of investors, who are mainly interested in core assets. The macroeconomic environment could result in a slowdown in activity in the coming months or extend decision-making periods** 👁️

Asset quality tops the list of requirements on the investors' wish list, with location continuing to be a key aspect. Sites in well-established markets with solid fundamentals, and that meet the needs of office occupiers (ease of access by public transport, complementary services, etc.), are strong in demand. However, the assets' standards of design, construction, technical and technological features are increasingly in vogue, and serve as a key way of attracting and retaining tenants.

When analysing investment volume by type of transaction, the core product continues to lead the market, accounting for 62% of the total (48% excluding the Glovo outlier), followed by core+ and value-added assets, with 29% and 9% respectively. Core+ and value-added transactions are focused on improving facilities, repositioning the asset and designing a product that differentiates it from the competition in the environment and overall market.

Regarding the origin of capital, international investors continue to be the main drivers of activity, accounting for 62% of the volume transacted. This percentage rises to 71% if we take the largest transaction into account, carried out by GMP Property Socimi, which is owned by GIC (Singapore's sovereign wealth fund).



Yields

The rise in interest rates in July and September suddenly made financing more expensive, acting as a lever to increase achievable yield levels, which rose a further 40 bps (55 bps since the beginning of the year). At the end of Q3, Prime CBD stood at 3.95% and Prime NBA at around 5%.

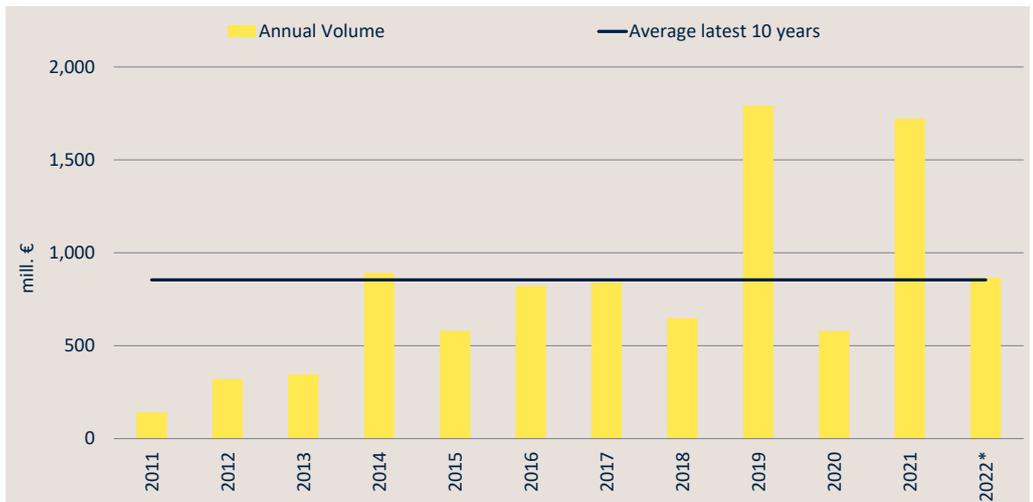
The ECB's announcement of more hikes until the end of the year points to additional growth in the short term.

The mismatch between the price expectations of buyers and sellers could slow down the market, which still has a lot of liquidity and is continuing to pique the interest of investors.

The need to sell, on the one hand, and the dependence on access to credit, on the other, will be key factors for setting the pace of the market.

A priori, equity investors will have a clear competitive advantage over other market players, but the extent of decision-making processes will also be key. In this regard, domestic investors would be better positioned than international players, as they depend on approval by a committee that is sometimes unfamiliar with the unique characteristics of the market.

Investment Activity in Barcelona



Source Savills Research / *up to Q3

Main Deals - Investment Market - Q3 2022

Asset	Market Zone	Purchaser	Vendor
C.E. Mile 22@ *	NBA	GMP	Freo
Avda. Josep Tarradellas, 2-6	CC	Franklin Templeton Investments	DWS Real Estate
Portfolio Meridia (2 ed.)	Periphery	Confidencial	Meridia
Pau Clarís, 158-160 *	CC	Franklin Templeton Investments	KanAm Grund Group
G.V. Cortes Catalanas, 129-131 Torre Cerdà *	NBA	Conren Tramway	Generali

Source Savills Aguirre Newman Research / *deal advised by Savills



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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