

MARKETBEAT OFFICES



BARCELONA/SPAIN

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ECONOMIC ENVIRONMENT

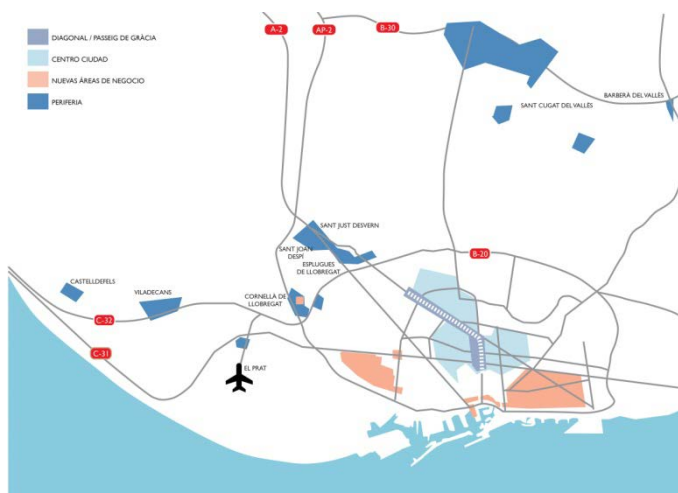
The statistics continue to provide positive data on the Spanish economy. This year tourism will once again become one of the driving forces of the economy, due to the fact that 2014 is expected to be another record year for visitors. In addition,

and for the first time since early 2008, the number of people in work has increased in comparison with that of a year ago. The Labour Force Survey for T2 states that 192,400 jobs have been created over the past 12 months, this being in fact the sharpest decrease in unemployment since the collection of these statistics began in 1964. Exports, which reached a record in T2 of 2013, have since decreased. This decrease is due in part to the strength of the euro, which reduces the competitiveness of export products and services, and in part to the weakness of external demand.

However, in its latest report the Bank of Spain has raised its forecast for GDP growth in 2014 to 1.3%, which is 0.1% more than in its previous forecast. This figure rises to 2% for 2015. Domestic demand, another of the basic drivers of the economy, continues to accelerate. The uncertainty which has dogged consumption so much over the last few years is disappearing; this is boosting the acquisition of consumer durables, as many decisions of this kind had been postponed because of the general economic climate. Finance for companies is also increasing after a long period in which the cost of restructuring the banks made it almost impossible for businesses and individuals to gain access to finance. As the changes in the Ibex indicate, investors have confidence in the Spanish economy, while the risk premium, which caused so much suffering exactly two years ago now, is around 120 points, fortunately a long way from the 500 points it reached at that time.

The correction of significant imbalances, such as overendebtedness, is still not complete. Similarly, although it is possible that the property market will stabilise through this year, this will take time to translate into a recovery of activity in housebuilding nationwide; it will therefore continue to hold back and act as a brake on economic activity until at least the second half of 2015

BARCELONA OFFICE MAP



TRENDS

LETTING MARKET

Supply	▼
New Construction	▼
Take-up	▼
Prime Rents	◄

TRENDS

INVESTMENT MARKET

Supply	◄
Demand	◄
Prime Yield	▼

ECONOMIC INDICATORS

	2014	2015	2016
GDP Growth	0.8	1.2	1.5
Private Consumption	1.1	1.2	1.7
Unemployment Rate %	25.2	24.4	24.1

Source: Oxford Economics April 2014

REGISTERED UNEMPLOYMENT



Source: Ministry of Work and Immigration (MTIN)

The number of unemployed has decreased by 310,400 this quarter and the level now stands at 5,622,900, the lowest since the fourth quarter of 2011. The quarterly variation of unemployment is -5.23% (-3.12% in seasonally-adjusted terms) and is the best since 2006. The unemployment rate has gone down 1.45 points to 24.47%. The total unemployment figure has decreased by 424,500 in a year, the biggest annual fall since 1999. As regards autonomous communities, the biggest decreases compared to the previous quarter are in Catalonia (69,700 less), Community of Madrid (45,200) and Community of Valencia (42,300).

SUPPLY

At the close of the second quarter of the year the supply of offices available on the Barcelona market was slightly lower in comparison with data recorded for the same period of the previous year. The total number of square metres available is however a little over 796,000m², the total vacancy rate is 13.4%, which corresponds to an inter-annual variation of -1.69%.

As regards the release of new office buildings, there has been no new space released in Barcelona since the last release announced; this is in line with forecasts. The release of the 9,000m² renovation being carried out by Colonial in Travessera de Gràcia/Amigó is expected in the next few months, in addition to the offices also being refurbished in the centre of Barcelona, at calle Balmes 49, where a little over 4,000m² will be available. These two office buildings will boost slightly the availability of speculative floor space in the centre of Barcelona.

The buildings with available floor space in the New Business Areas continue to be where the flexible and quality space is concentrated. Developments such as WTC Almeda Park or Cornerstone in 22@ are the most notable options now for companies looking for space. Total availability has decreased, although not greatly, in all business areas. Thus the vacancy rate by sub-zone stands at under 10% in the City Centre and the Paseo de Gracia/Diagonal hub, whilst in the New Business Areas and the Periphery it stands at 16.88% and 27.8% respectively.

Over the next few months the release of new buildings will be limited to renovations; in addition, the release is expected in mid-2016 of the whole of a development in which the multinationals Cisco and Schneider have played an important role. This is the refurbishment which will be carried out at the old Ca l'Alier factory. These companies will move into the complex for a minimum of 15 and 9 years respectively; in addition, it will also become the headquarters of BIT Håbitat (Barcelona Institute of Technology for the Habitat).



WTC Almeda Park – Cornellà de Llobregat

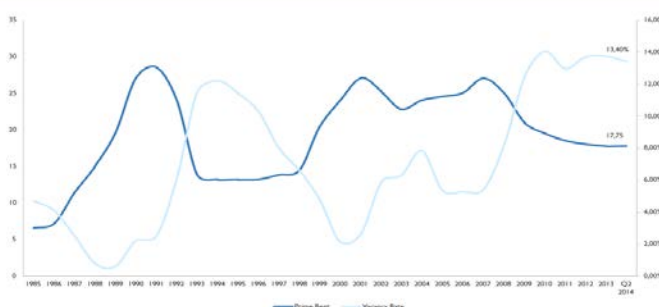
DEMAND

In this second quarter the level of take-up in Barcelona has been 55,000 m². If the amount of square metres leased in the first quarter is included, the take-up so far this year is a little over 117,000 m². If we take into account the contracts recorded in the same period of last year, we can say that the inter-annual increase is consolidating, with a repeat for a second consecutive quarter of a 30% increase in contracts. In this specific case it has been over 32%, because from January to June 2013 a take-up of only 88,000 m² was recorded. As can be seen in Graph 2, the take-up across the semester has reached levels similar to those of 2011.

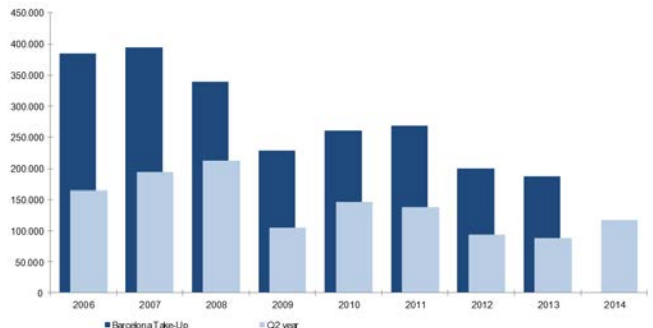
As far as the total number of deals signed is concerned, this first semester has also surpassed the figures recorded for the previous year. A total of 178 deals (as opposed to 142 recorded for the same period in 2013), of which 97% correspond to leases and only 3% to sales deals for owner/occupiers.

As regards location, so far this year 65% of the square metres contracted has been signed in buildings

GRAPH 1 – PRIME RENTS VS. VACANCY RATE



GRAPH 2 – ANNUAL EVOLUTION OF TAKE-UP



situated in the New Business Areas and the City Centre. Cost reduction and increased floor space flexibility continue to be the overriding aims of the companies who decide to change their offices and relocate. This allows them both to provide the optimum offices for their employees whilst at the same time improving the quality of their offices and headquarters in Barcelona.

One of the most important deals of the second quarter in terms of size is the relocation of Albertis. The infrastructure and concessions company will relocate part of its headquarters in the Zona Franca to the Paseo dels Til·lers in Barcelona. In total the group has leased 5,143 m² in this building owned by Colonial, which until recently housed the headquarters of Arbor&Ausona. Colonial will invest almost three million euros in an extensive refurbishment of the façade, interior and facilities to construct a customised headquarters for its new tenant.

In the new business areas, specifically in the 22@ district, two big operations should be highlighted. One of these is the agreement which the multinational Cisco Systems and Barcelona City Hall have reached to build a centre of innovation in the old Ca l'Alier factory in Poblenou.

In addition, the most important deal of the semester by volume has been the leasing by ADP of approximately 6,810 m² in the Cornerstone building in Poblenou, where it will locate its offices. ADP has become the principal tenant of the complex, followed by Henkel Ibérica, which has also decided to locate its

new corporate headquarters for Spain and Portugal in this building after selling its current headquarters in calle Córcega to Meridia Capital Partners.

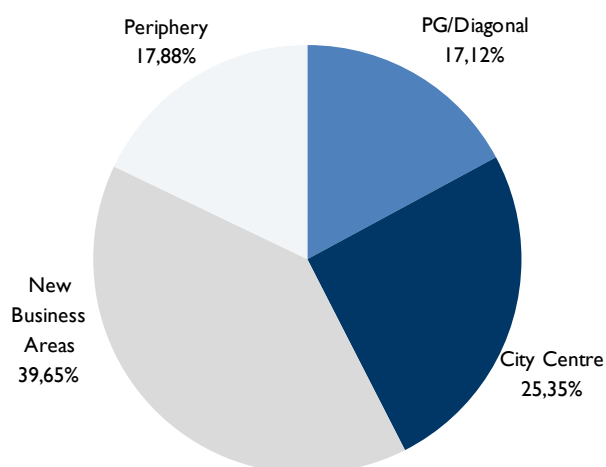
As far as the size of deals is concerned, only 7.69% of the deals recorded in the first semester of the year correspond to contracts for more than 1,500 m². Most deals, over 68% in total, correspond to deals for less than 500 m².

RENTAL LEVELS

Stability of the price of leases has remained constant since March 2013. Although it is true that deals with head rents somewhat above 19.00 €/m²/month have been signed in flagship buildings such as Alta Diagonal in the Diagonal/Passeig de Gràcia zone, maximum rents in Paseo de Gràcia/Diagonal remain stable at 17.75 €/m²/month. The correction took place in all sub-markets in the first quarter of 2013 and since then has managed to remain stable.

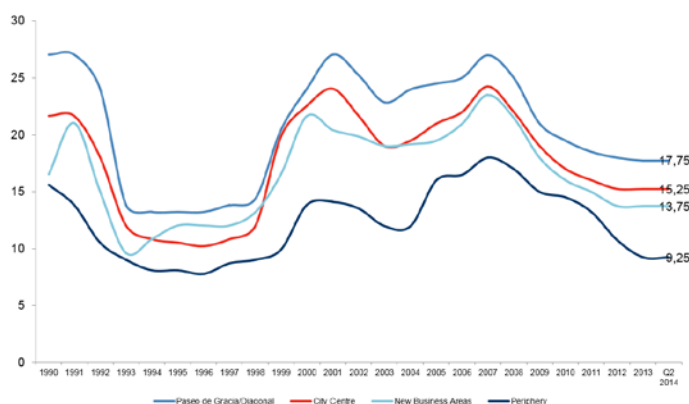
Average rents at the close of certain deals in the centre of Barcelona indicate that there could in the future be small changes in specific cases, in the same manner as in Paseo de Gràcia/Diagonal, especially in buildings where available floor space is currently undergoing refurbishment.

GRAPH 3 – TAKE-UP FIRST SEMESTER



Source: Cushman & Wakefield

GRAPH 4 – PRIME RENTS BY SUB-MARKET



Source: Cushman & Wakefield

INVESTMENT MARKET

There is no doubt that the investment market in Barcelona is moving towards recovery. So far this year, three office investment deals have been recorded in the city, with a total volume of €94.5m. Although the total volume is less than that recorded in the same period last year (€216m), there are several deals currently in the process of being closed and when closed could represent an excellent result in terms of volume at the end of the financial year. Two of the deals pending confirmation are the sale of 13 Generalitat buildings to Zurich and the sale of the Telefónica headquarters at Diagonal 00.

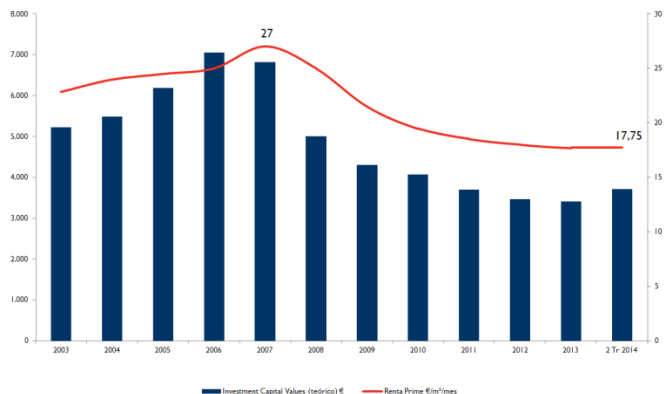
The undeniable interest of certain groups in studying a change of buildings from office to hotel use in the city centre, especially those assets which might include a significant commercial component, has without doubt helped with the market recovery.

One of the deals signed in this second quarter of the year that stands out is the purchase by Hispania of two office buildings from General Electric Retail Estate, with a total floor space of 18,500 square metres. The deal reached €40.15m and has aroused the interest of investor groups which, after a long period of absence from the market, have begun to study opportunities such as this. The two buildings are part of a complex of five buildings surrounding the Glòries Shopping Centre development.

In this particular case, the buildings have passed into the hands of Hispania, a listed Spanish company (SOCIMI) created in January 2014 whose main objective is the acquisition and management of real estate assets in Spain. The arrival of the SOCIMIs in the Spanish market has without doubt invigorated the office, residential and retail sector.

The correction in rents and the decrease in prime rental levels, which have moved from 6% to 5.75%, together with the gradual stabilisation of the economy in general, are contributing to this change in dynamics. Graph 5 shows the evolution of the capital values in the Paseo de Gracia/Diagonal zone. The graph demonstrates that capital values in the zone have dropped by approximately 46% in the last 7 years. In the Periphery, the decrease has been even greater, more than 60% in some cases.

GRAPH 5 – CAPITAL VALUES



The arrival of new capital on the market, together with prospects for improvement in the labour market and increases in rental levels forecast over the next few financial years, is having the effect of reducing the rental levels acceptable to investors. Prime rental levels decreased by 25 basic points in the last quarter and are currently at 5.75%, although given the low levels of asset rotation in the Barcelona CBD most of the activity has taken place in the more decentralised locations, where the owners are generally more international. Given the supply seeking opportunities, investors are increasingly more likely to buy buildings with a certain amount of vacancy or in non-prime zones, so the rental levels for these kinds of assets are also experiencing a downward correction. Where we still have not seen changes is in more secondary locations on the periphery such as Sant Cugat del Vallès, Mas Blau or Viladecans, due to the continuing high vacancy levels, which will have a negative impact on the potential growth of rents in the future.

GRAPH 6 – PRIME YIELDS EVOLUTION

