CUSHMAN & WAKEFIELD

January 2016

MARKETBEAT

OFFICES
BARCELONA

A Cushman & Wakefield Publication

ECONOMY

Spain remains one of the Eurozone economies that grew most in the third quarter. GDP increased by 0.8%, driven by domestic consumption (+3%) and business investment

Throughout the third quarter of the year the Spanish economy remained one of the Eurozone economies that grew most, with GDP showing an estimated positive growth of 0.8%, slightly lower than the previous quarter's increase of 1%. Estimates provided by *Oxford Economics* point to this figure remaining steady at close of year. Domestic demand, divided equally between domestic consumption and business sector investment, continued to be the main driver for growth.

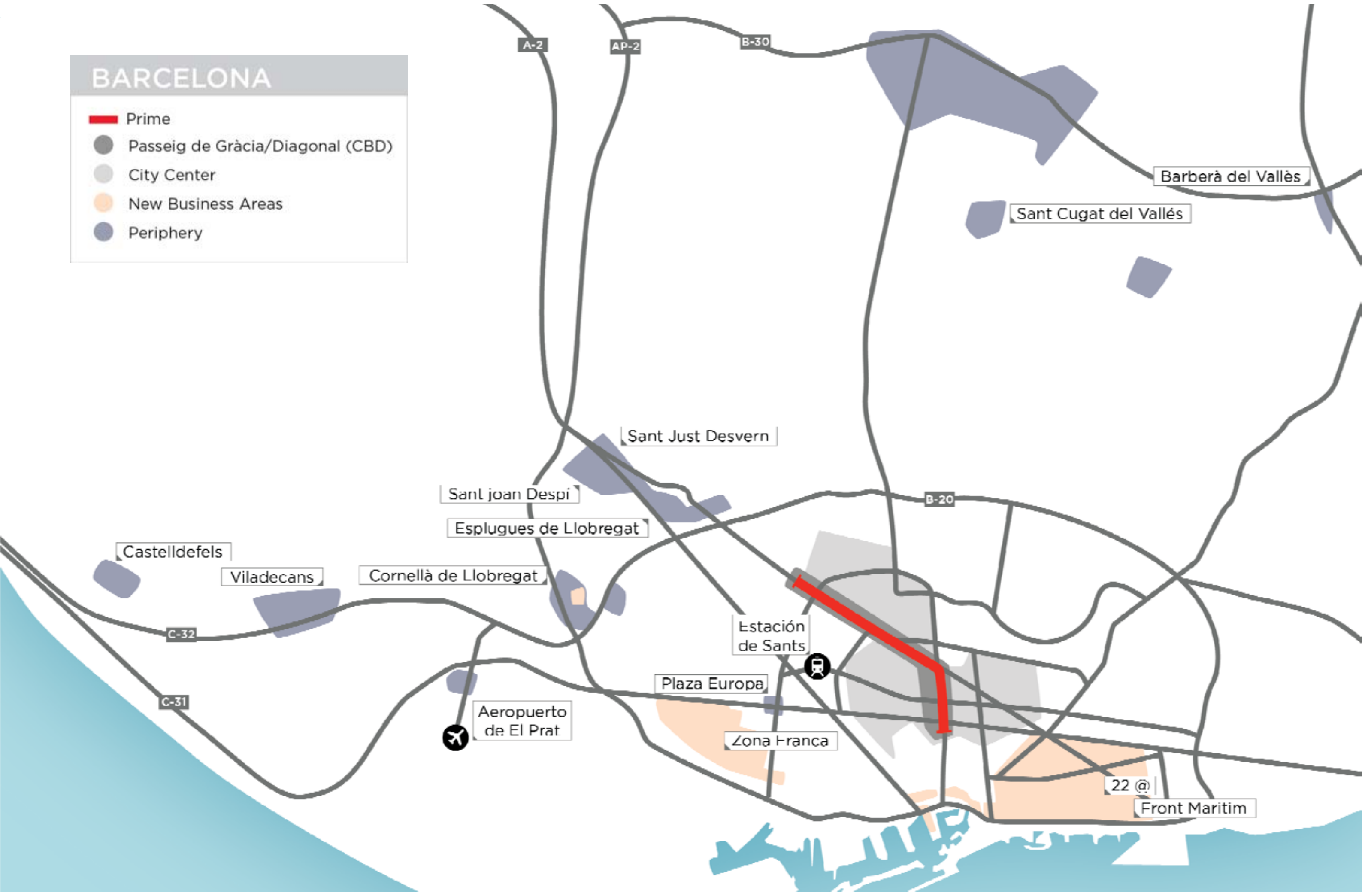
Private consumption grew by 3% during the quarter; this was due to job creation, improvements in confidence levels and an increase in disposable income resulting from the reduction in fuel prices. The volume of company investment in 2015 is estimated to have almost doubled in comparison with that of the previous year, 6.1%. The positive evolution of public consumption also contributed to the positive performance of the economy, 2.5%.

The Partido Popular won the elections that took place on 20th December, but lost its absolute majority. At the time this publication went to press, this outcome meant that there were problems in forming a new government.

ECONOMIC INDICATORS

RENTAL	INVESTMENT
Supply	Supply
New Construction	Demand
Take-up	Prime Yields
Prime Rents	

The slowdown in China's growth rate, global instability and the performance of the stock markets continue to have an impact on growth forecasts for the global economy and therefore for the Spanish economy as well. According to *Oxford Economics,* Spanish GDP will have increased by 3.25% in 2015 and should increase by 2.9% the following year. Forecasts for 2017 onwards are more modest, at around 2.3%.



SUPPLY

Vacant office space available in Barcelona at close of year fell significantly in comparison with the figure recorded for the same period of the previous year. The overall vacancy rate is now in single digits, 9.9%. The volume of vacant floor space is approximately 575,000 m^2, a drop of 9% when compared to the previous quarter. The interannual adjustment for this indicator, 20%, shows a very positive evolution for the sector.

The vacancy rate in the Barcelona office market was at its highest in 2010, when it was over 14%. Between 2009 and 2010, more than 300,000 m^2 of new vacant office space was added to the stock. The overall rate has adjusted from the peak in that year and now stands at 29.5%.

If we look at vacancy by area and quality, we can see that less than half of vacant offices fall within the superior quality category (Classes A and B+) and only 3.18% are located in the area that covers Diagonal/PG and the City Centre. The decrease in available supply can be attributed not only to the record levels of demand recorded in 2015, but also to the low levels of completion of new stock in the market. No new speculative projects were added to the Barcelona office stock in this last quarter.

In the Passeig de Gràcia/Diagonal and City Centre areas, the vacancy rate stands at 4.5% and 6% respectively. In the New Business Areas and the Periphery, the vacancy rate is somewhat higher, standing at over 15%, although it is true that over the last year this has decreased in the Periphery for the first time in the last seven years, currently standing at under 20%.

VACANCY ACCORDING TO BUILDING TYPE

Source: Cushman & Wakefield

Over the next 12-36 months we will see the completion of a number of speculative projects currently under construction. The Benson Elliot “Parc Glòries” development on the Campus Audiovisual in 22@ will have a total of 25,000 m^2. La Llave de Oro is completing the construction of a office building of approximately 6,000 m^2 in carrer Pere IV; completion is expected before the end of the year.

In terms of refurbishment, an important building is La Rotonda (Torre Andreu), an old residence located in Avinguda Tibidabo owned by Nuñez i Navarro. This building will have a total of approximately 11,000 m^2 of offices divided between floors of 1,500 m^2.

DEMAND

Total take-up in Barcelona in 2015 was 420,000 m², 35% higher than the previous year. Demand recorded its best result as regards take-up for the last ten years, reaching the levels recorded in 2005. This growth trend has become evident over the past two years, with take-up in 2012 and 2013 that did not reach 200,000 m² being followed by increases of 110% and 27.27% in 2014 and 2015 respectively.

The New Business Areas continue to attract the highest percentages of take-up; 40% of floor space taken up was in this area. Deals in the Periphery represent approximately 26% of total volume and the remaining 34% correspond to take-up in the City Centre and the Prime area (Passeig de Gràcia/Diagonal).

Demand continues to be focused on quality space. Of the total floor space taken up in Barcelona, and its location reflects this, 69% of demand was for offices in A and B+ buildings.

Noteworthy among the main deals of the year was the pre-leasing by the Generalitat de Catalunya of approximately 46,000 m² in the Marina del Port district of Barcelona's Zona Franca. It consists of a development being managed by AXA, which is expected to start work mid-2016.

Another of the year's big deals is a turnkey development. Laboratorios Echevarne has acquired land in Sant Cugat del Vallès, where its new head offices will be built. The building will consist of approximately 10,000 m².

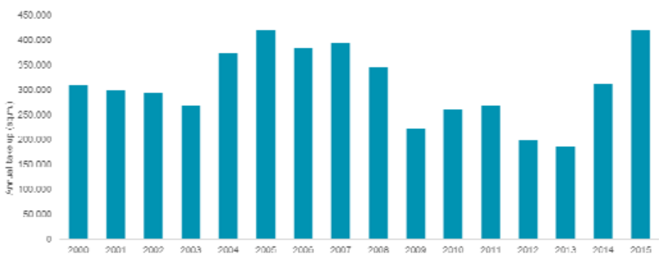
Natura Bissé also chose the turnkey formula to expand its facilities and will build new head offices in the Parc de l'Alba in Cerdanyola del Vallès (Barcelona). The plot acquired covers a total of 5,800 m² of land and will feature a building of over than 10,000 m².

This turnkey formula has been used to close the biggest deals of the year. Whilst it is true that vacancy levels outside the Barcelona CBD and in the other business areas remain high, supply is extremely fragmented, so large-scale demand has no other option but to resort to pre-leasing. This kind of deal has been on the increase over the last year and everything points to the trend continuing throughout 2016.

Smaller-scale deals continued to play an important part in annual take-up. Although it is true that 61% of total take-up corresponded to deals of more than 2,000 m², these only represented 11.25% of the slightly more than 400 recorded in 2015.

Floor space of less than 500 m² also increased in comparison to previous years and corresponded to 65% of all deals, while contracts for deals of between 500 m² and 1,000 m² represented 24% of total deals recorded. Average floor space taken up in Barcelona in 2015 was 1,042 m² at close of year.

TOTAL TAKE-UP IN BARCELONA



Source: Cushman & Wakefield

RENTAL LEVELS

The recovery of rental levels in the various office districts in Barcelona continues to consolidate, a trend we have been observing since the end of 2014. The prime rent in Barcelona is currently 11.27% higher than that of a year ago and stands at 19.75 €/m²/month.

The lack of quality product is the main reason for this increase, due to the upward pressure it puts on the rental levels of new contracts. This trend is evident in PG/Diagonal and the remaining areas, with the exception of the Periphery, where maximum rental levels remain at 9.25 €/m²/month.

8% of deals throughout the year were closed for between 18 and 21 €/m²/month, whilst only 5% of deals closed in 2014 corresponded to these levels.

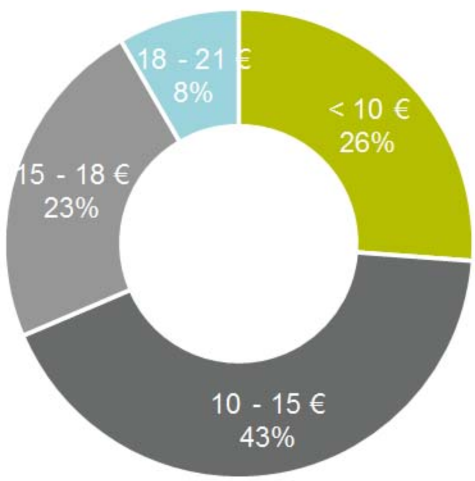
Maximum rents in the City Centre have increased 9.84% compared to the previous year and currently stand at 16.75 €/m²/month. Whilst it is true that we have not seen significant changes in the rental levels in buildings located in the Periphery, important changes in rental levels for some buildings located in the New Business Areas have been recorded. The interannual variation of rental levels in this area shows an increase of 26.42%.

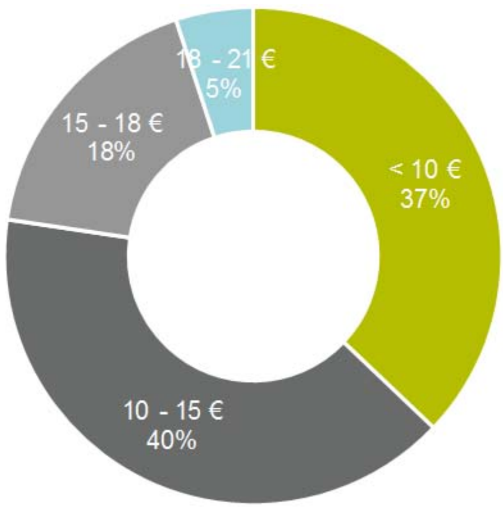
11.27%

Prime rent in Barcelona has increased more than 11% over the last 12 months

% OF DEALS ACCORDING TO RENTAL LEVELS*

*including those deals the details of which C&W had access to





Cushman & Wakefield
Passeig de Gràcia, 56 – 7th floor
08007 Barcelona - Spain

For further information, visit cushmanwakefield.es or follow us on Twitter @CushWakeSPAIN

CONTACT

Research & Consulting
Marta Esteves Costa
marta.costa@cushwake.com

Marta Esclapés
marta.esclapes@cushwake.com