

# MARKETBEAT

## OFFICES BARCELONA

A Cushman & Wakefield publication



### ECONOMY

Economic momentum in Spain remains strong, with GDP rising 0.7% on the quarter in Q2 (down slightly from 0.8% in Q1), and it continues to be one of the fastest-growing economies in the Eurozone

According to Oxford Economics latest report on Spain's economy, although the UK's Brexit vote caused an immediate equity sell-off and could have major political repercussions for the EU, the direct economic effect for Spain should be small.





As stated in the OE report, economic momentum in Spain remains strong, with GDP rising 0.7% on the quarter in Q2 (down slightly from 0.8% in Q1), and it continues to be one of the fastest-growing economies in the Eurozone. GDP breakdown for Q2 is not yet available, but according to the report domestic demand was again the main growth driver, fuelled by the impact of ultra-loose ECB monetary policy and low oil prices on consumer demand.

However, the fiscal situation remains a cause for concern. Although the EC has granted Spain additional time to bring its deficit down below the 3% threshold, the country may now face fines as the EU has determined that the government did not implement the necessary measures to reduce the fiscal gap.

A growth of 3% is expected this year, before moderating to 2.2% in 2017. The political situation has clarified somewhat following the Popular Party's (PP) victory in the June elections, but as the PP still fell short of achieving a majority, compromises will be required to form a government.

#### MARKET INDICATORS

##### RENTAL

	Supply
	New Construction
	Take-up
	Prime Rents

##### INVESTMENT

	Supply
	Demand
	Prime Yields

SUPPLY

At the close of the second quarter of the year, and for the seventh quarter in a row, the supply of offices on the Barcelona market again saw a downward trend in comparison with the data recorded for the same period of the previous year.

The total of floor space available now stands at around 540,000 m², representing a total vacancy rate of 9.1%. This figure corresponds to a fall of 20.18% over the last twelve months.

The vacancy rate in high-quality buildings continues to fall, in fact the data on take-up show that 48% of the square metres contracted in the first semester of the year corresponds to floor space in A and B+ grade buildings.

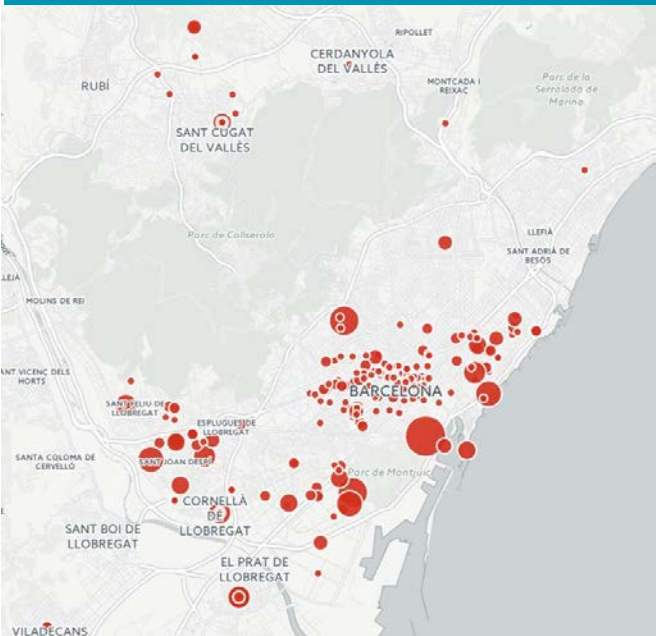
As the point map on the right indicates, the buildings with most vacant floor space are located in the Periphery and the New Business Areas.

Although it is true that there is vacant floor space in the centre of Barcelona and the Passeig de Gràcia/Diagonal area, this is in buildings where the average total floor space per building is below 900 m², which makes it very difficult to satisfy a demand that is seeking floor space in this area of over 3,000 m².

As regards the sub-zones, the vacancy rate decreased without exception at the close of the second quarter. In the City Centre and Passeig de Gràcia/Diagonal it is below 5%, while in the New Business Areas and the Periphery this indicator stands at 15% and 19% respectively.

The total stock in Barcelona now stands at more than 5,800,000 m². In the first semester of the year, approximately 25,000 m² of new offices, 40% of which already have an occupier, were incorporated into the stock. One of the most notable completions is the development located in carrer Pere IV (La Llave de Oro). This new construction already has a tenant for its 5,762 m² of new offices.

SUPPLY AVAILABLE IN BARCELONA

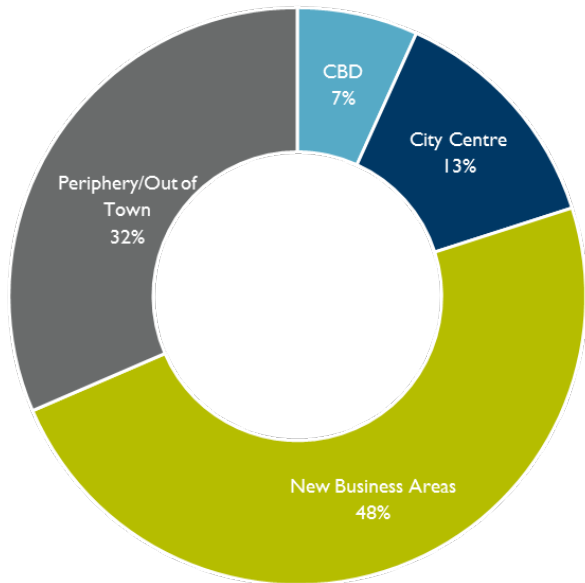


Source: Cushman & Wakefield

Another completed development, located in the city centre, is the refurbishment of the 12,495 m² of the Rotonda in Avinguda Tibidabo, which is owned by Núñez i Navarro.

We will not be seeing new completions now until mid-2017 or the end of 2018, when speculative developments currently underway will be finished. One of the most anticipated is the development in 22@ that Castellví has started building with Stoneweg & Global Danbury in carrer Tànger/carrer Badajoz, which will consist of approximately 17,000 m² of offices divided between two buildings.

A/B+ SUPPLY AVAILABLE IN BARCELONA



22@ - Pere IV, 291 - 307 - Marroc, 62-72 - Bac de Roda, 126-128



## DEMAND

Take-up rates on the Barcelona office market remain stable and healthy. Between April and June, total take-up reached 81,000 m<sup>2</sup>, 17.39% above the data recorded for the first quarter of the year. The interannual figure for the semester is negative, with a decrease of -16.82%. It should be noted that Barcelona experienced a record take-up in 2015, reaching 420,000 m<sup>2</sup> between January and December.

In comparison with the first semester of 2015, the total number of deals increased 8%. As regards the volume of deals, we have seen a reduction in the number of larger-scale ones: only 13 of the approximately 192 deals closed in this first semester exceeded 2,000 m<sup>2</sup>.

As we can see from the heat map on the right, the Passeig de Gràcia/Diagonal and City Centre areas regained prominence in the first semester, cornering more than 64.5% of the total number of deals. The New Business Areas and the Periphery attracted 35% of demand. The biggest deal of the quarter was closed in 22@, followed by another owner occupation deal for own use on Avinguda Diagonal/Gran Via Carles III in Barcelona.

Notable in the Periphery is the relocation of the head offices of Epson Ibérica SLU in Can Ametller (Sant Cugat del Vallès), a deal for somewhat more than 3,000 m<sup>2</sup>.

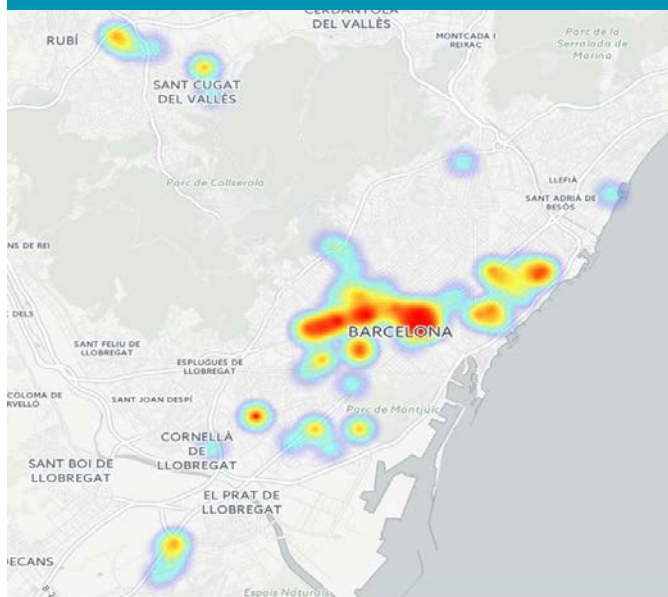
As we have seen in the previous section, vacancy outside the CBD and in the other business areas remains high and is extremely fragmented. Taking into account current vacancy rates (9.1% in total in Barcelona), it is likely that pre-leasing deals will return to the market, especially in response to large-scale demands.

As for size of deals, during the first six months of the year, small and medium-sized space played an important role in total take-up volume.

Space of less than 1,000 m<sup>2</sup> increased in comparison with previous years and represented 78% of total deals. Contracts for deals of over 1,000 m<sup>2</sup> represented 22% of total deals recorded.

Average floor space contracted in Barcelona so far this year is 777 m<sup>2</sup>. As far as large deals are concerned, the annual average for this kind of lease, for more than 2,000 m<sup>2</sup>, is 3,370 m<sup>2</sup>.

### DEMAND IN BARCELONA Q2 2016



Source: Cushman & Wakefield

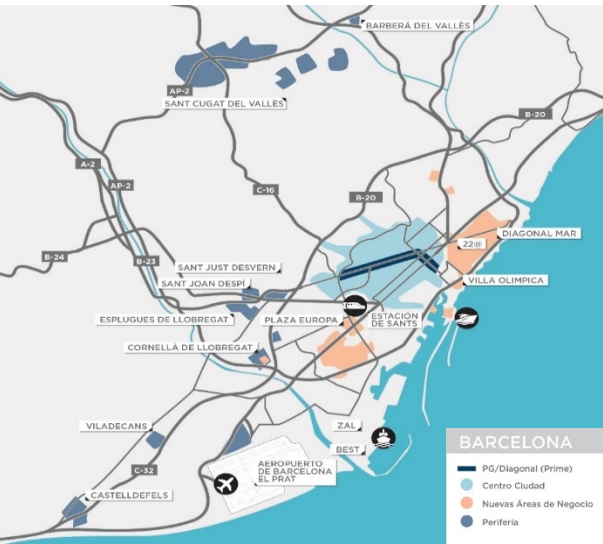


## RENTAL LEVELS

Since the end of 2014 we have been witnessing a clear recovery of rental levels in the Barcelona office market. In the second quarter of 2016 we again saw a consolidation of this figure for the best buildings in the best areas. The prime rent in Barcelona is now 10.5% above that of a year ago and currently stands at 21.00 €/m<sup>2</sup>/month.

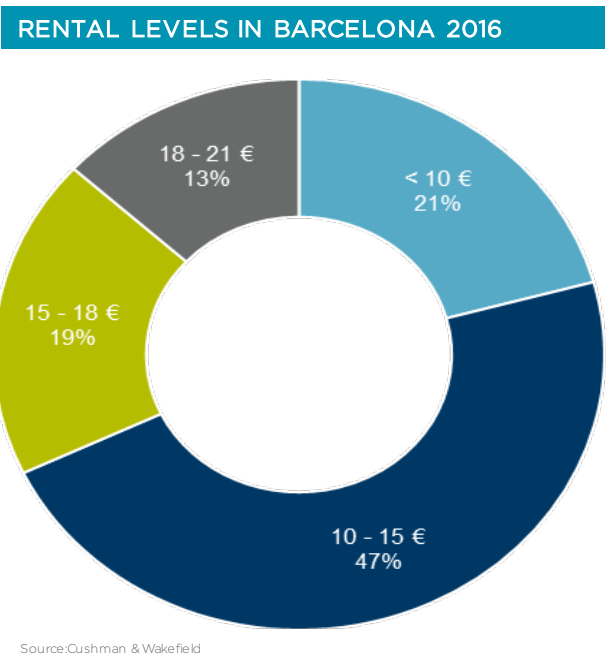
Rental levels are being pushed upwards in new contracts, mostly in buildings located in the CBD of Barcelona, in which vacant floor space is now below 4%. The fact that there is a lack of quality product in this area of Barcelona is putting upward pressure on rents in the best buildings. It should be pointed out that in December 2013 the vacancy rate in PG/Diagonal was above 10%.

This trend is not only being recorded in PG/Diagonal, but also in the best buildings in the City Centre and New Business Areas. In this last quarter, maximum rents in the city centre increased 12.5% in comparison to levels recorded a year ago. As for the New Business Areas, the interannual increase in rental levels currently stands at 11.11%.



Having analysed the main rental deals in Barcelona, we have come to the conclusion that the lack of product in PG/Diagonal is having a direct influence on the behaviour of the highest rents in high-quality buildings in the main sub-zones of Barcelona; sub-markets such as 22@, Front Maritim and the City Centre are good examples of this.

Throughout the first semester, 68% of deals signed were for less than 15 €/m<sup>2</sup>/month and 19% of contracts were for between 15-18 €/m<sup>2</sup>/month. Deals with the highest rents corresponded to 13% of the total, these having been signed for rental levels of between 18 and 21 €/m<sup>2</sup>/month.



12.5%

Maximum rents in the City Centre have increased more than 12% over the last 12 months

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