marketbeat

Barcelona Offices

Rent dynamics

MARKET SUMMARY

The take-up of office floorspace reached 251,250 sq m in the first half of 2019, making it the best six month period over the past decade. The occupancy of new office floorspace amounted to 103,450 sq m between April and June 2019.

Operators of flexible spaces have expanded, cornering 16% of take-up during the second quarter of the year. The top 2 deals in terms of total floorspace corresponded to newly constructed buildings: Cellnex signed a pre-letting deal for 8,440 sq m in the Torre Llevant and Indra Sistemas will expand to 6,980 sq m in a newly refurbished building located in Sant Joan Despí.

In line with the normal functioning of the Barcelona market, leases on floor areas below 500 sq m predominated, representing 50% of deals. A total of 74 deals were recorded during the second quarter, 15 of which exceeded 2,000 sq m. Some 18% of the total number of contracts signed corresponded to floor areas of between 1,000 and 2,500 sq m and 11% to sizes of between 2,500 and 5,000 sq m.

In terms of zones, the demand during the first half of the year was centred on the New Business Areas, cornering some 58%. Take-up in the city centre and CBD represented 23% of the total, whereas Out of Town cornered 21% of the total.

With a vacancy rate of less than 5%, the available supply of office floorspace in the Barcelona market remains low. In terms of square metres, this represents a figure of 312,000, of which only 19,000 sq m is located in the CBD. This translates into a vacancy rate of 2.1%. In the New Business Areas this indicator hovers around 5%, whereas on the Out of Town area it stands at below 13%.

The new supply of office floorspace anticipated for delivery over the short term will be unable to ease the upward pressure on prices generated by the strength of the market. The volume of floor space still awaiting delivery is at a level that can easily be absorbed by current demand.

Prime rent stood at €27.25/sq m/month at the close of June. This is some 9% greater than the figure seen one year ago and represents an increase of 21% in comparison with 2017. Average closing rents followed the same trend and, at the close of the second quarter, had reached €16.80/sq m/month. This figure is some 10% above the average closing rent in 2018.

The market continues to display very strong fundamentals and 2019 could prove to be a record year. This is materialising in the form of new investment deals which closed the first half of the year at a figure of 914 million Euro.

MARKET INDICATORS Q2 2019

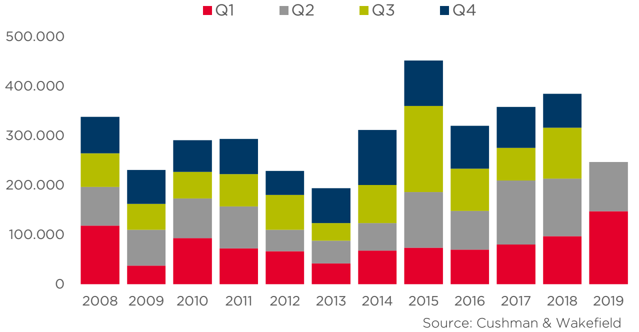
Occupancy

- OFFICE STOCK: 6,600,000 sq m
- NEW BUILD 2019 H1: 86,000 sq m
- TAKE-UP 2019 H1: 251,250 sq m
- PRIME RENT: €27.25/sq m/month

Direct investment

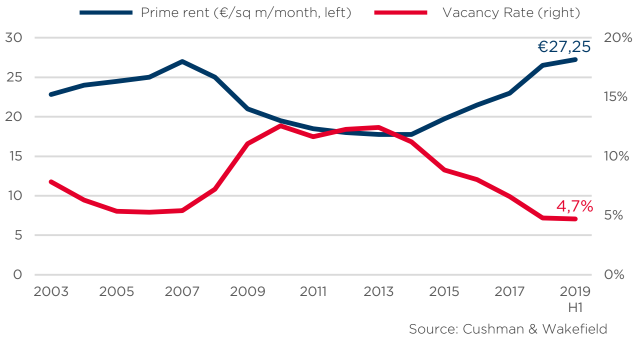
- OFFICE VOLUME: €914m
- PRIME OFFICE YIELD: 3.5%

Trend in take-up by quarter (sq m)



Source: Cushman & Wakefield

Prime Rent and Vacancy Rate



Source: Cushman & Wakefield

Office rent dynamics

Average rents vs. Prime rents

X-ray of a period of expansion

This report will study the performance of rents, focusing upon price changes and short term dynamics.

Rents are clearly trending upwards based on the recovery of the Barcelona office market.

The market fundamentals, the impetus of employment the job market and the attraction of international talent have driven an increase in **average rent** of 36% between the trough seen in 2014 and Q2-2019, as well as an average annual growth rate of 12%. The benchmark rent for the best offices, or **prime rent**, has seen an average annual growth of 13% and aggregate growth of 53% over the same period.

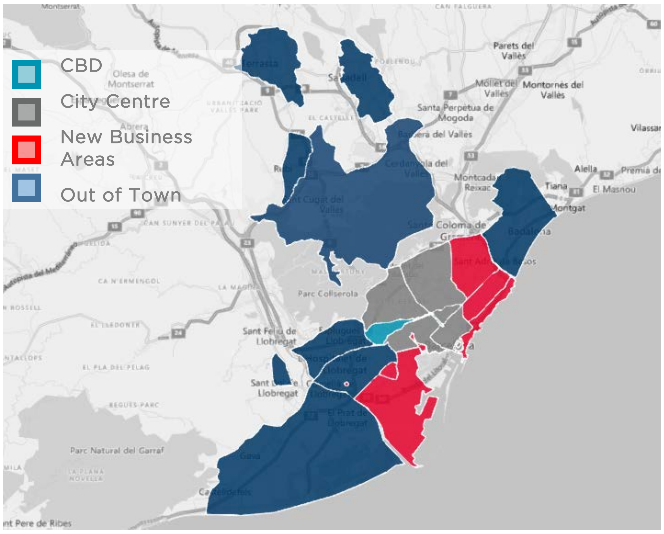
The floor area occupied within the market also determines increases. Between 2014 and Q2 2019 around 490,000 sq m have been occupied in Barcelona, reducing the vacancy rate for the city from 12% to 5% and also adding upward pressure on rents.

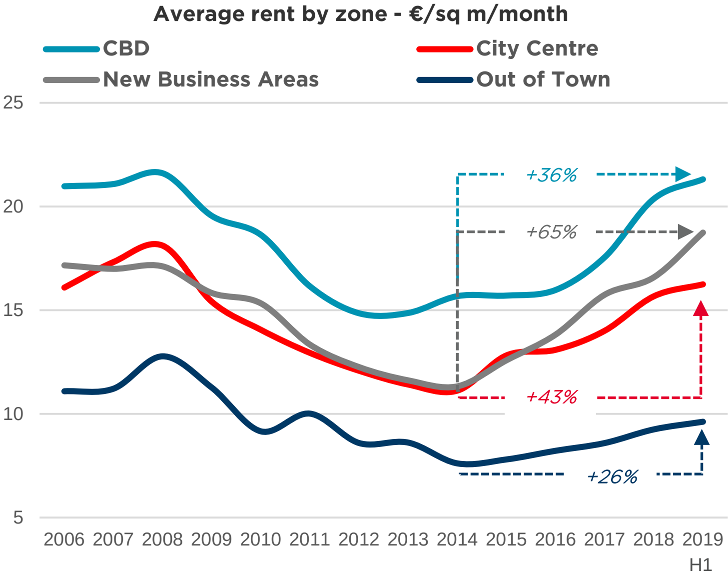
The trend among the various sub-markets within Barcelona is shared, though with varying evolutions according to differences in terms of location and the characteristics of the properties. Marked increases in rents were noted in the Central Business District (CBD) thanks to the fact that the buildings located there are high quality, with good amenities and highly valued communications. As a result, the **average rent in the CBD** has increased by 36% since 2014. This is exceeded nonetheless by **the average for the Central zone** (offices located mainly within the area of Eixample), showing aggregate growth of 43% due similarly to the excellent location and communications.

The new business areas (NBA) have witnessed an aggregate increase in average rent of 65%, corresponding to a 15% annual average. This performance is explained by the strong momentum of District 22@. The aforementioned area is highly attractive to firms belonging to the technology sector as well as representing a strategic location with respect to the CBD. At an average of less than 7 years old, the modernity of the stock is also a key factor (see our report on 22@ 2019 using this link).

Rental prices on the Out of Town area (business parks in Sant Cugat del Vallès, Llobregat, the Airport and Viladecans) have climbed by some 26% at a yearly average of 6.9%. The rents here are lower, going from €7.60/sq m/month and reaching €9.60/sq m/month in Q2 2019.

MAIN OFFICE AREAS IN BARCELONA





Segmenting rents

Increase in the gap between prime rent and average rent in the city

Together with higher vacancy rates in decentralised areas, the interest from companies for more central areas has led to prime rent being 1.6 times higher than average rate at the close of June 2019. This gap has grown in comparison with the minimum value seen in 2010, when the ratio amounted to 1.3 times.

A prime rent of €27.25/sq m/month in Q2-2019 gives us an average annual increase since 2014 of 13%, which compares to annual growth of the average at 8.2%. This has widened the gap between prime rents and average rents in Barcelona. However, in both cases the aggregate growth for the period 2014 – Q1-2019 is outstanding, with both prime and average rents rising some 53% and 42.4% respectively.

Recovery of the decentralised areas

The recovery of prices in the Decentralised zone also began in 2014, an upward trend being seen in recent years although following a different dynamic dependent upon the level of demand and vacancy rates.

Highly consolidated sub-markets such as Plaça Europa, Sant Cugat del Vallès and Poblenou/22@ have seen their average rents increase since 2014 by close to 50%.

Plaça Europa also deserves special mention in that it began to consolidate as a sub-market in 2009 and currently has an average rent of €15.30/sq m/month. The scarce level of vacancies in this area (4.5%) and the high quality of the offices there will maintain upward pressure on prices.

22@ has exceeded the average rent levels of the previous cycle and it is anticipated that the new developments entering the market will continue to drive this.

Cushman & Wakefield estimates rent increases of around 4.5% per year between 2019 and 2021.

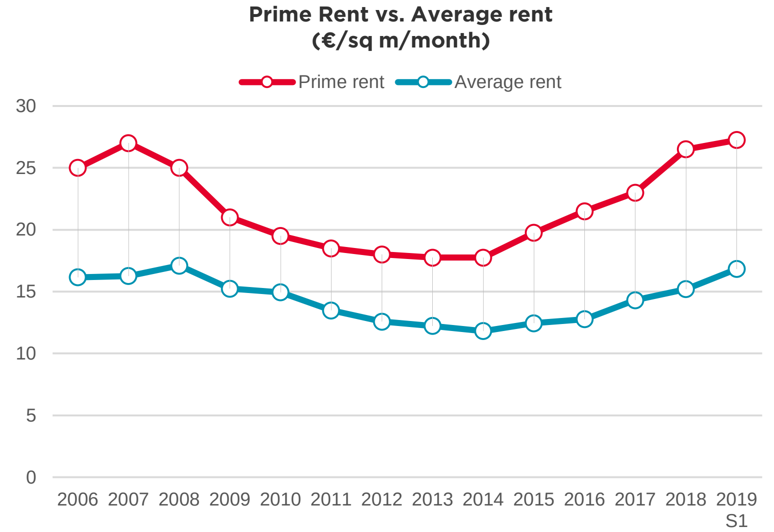
An analysis of sale prices

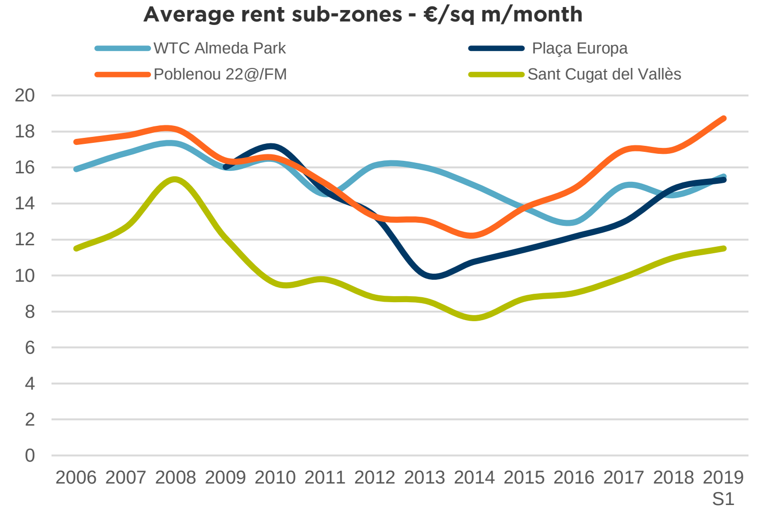
Prices per square metre of office space continue to trend upwards in the investment market, whereas prime yields remain at all-time lows at the close of the second quarter of 2019 (2.50%).

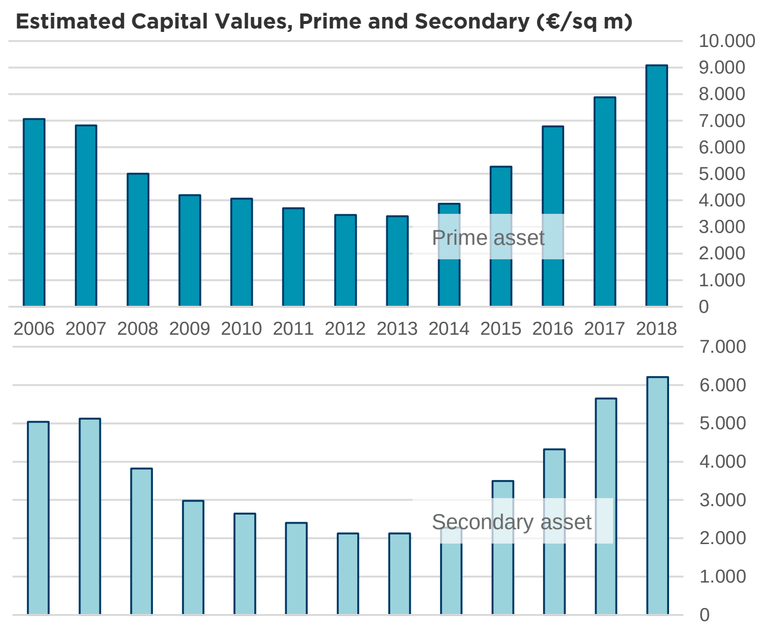
Since 2014, the abundance of liquidity in the capital markets has led to growth in the value of high specification buildings in the CBD. By the close of 2017 these assets had exceeded pre-crisis levels and a square metre of prime office space currently stands at between 8,500 and 9,500 Euro.

Secondary assets (well located offices, though of lower specification and/or with covenants) with average rents of around €24/sq m/month were reaching capital values of around €5,500/sq m in Q2-2019.

Whether we are dealing with prime or secondary office assets in Barcelona, average annual growth rates are noteworthy at 24% and 27% respectively.







Rents adjusted for inflation

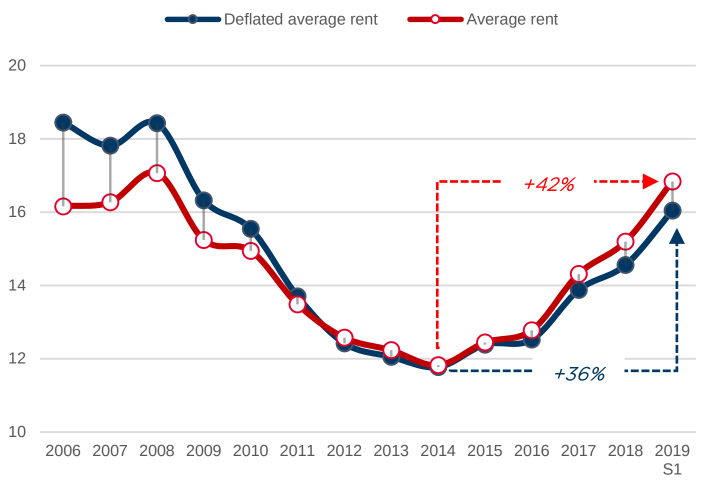
Changes in rents are a consequence of the overall increase in prices, regardless of market fundamentals. That is why the rents collected for study in different periods are not directly comparable (base values) and must be adjusted by means of the CPI (or the inflation adjuster implicit in GDP), thus producing real values for rents.

Once the series of figures has been adjusted for inflation, the graph on the right shows that in June 2019 the average base rent is above the real rent. This indicates that rental growth in Barcelona (since 2016, baseline for the index) has mainly been driven by fundamentals and, to a lesser extent, by inflation.

The average base rent increased by some 42.2% during the period 2014 – H1-2019, 35.6% of which was driven by fundamentals. The resulting difference (6.6 percentage points) was due to inflation.

In nominal terms, the current average rent is at the same level as during the foregoing cycle. However in real terms the gap between the peaks of 2008 and and the present day is greater. This may be interpreted as the margin which office assets in Barcelona possess in order to increase their rents.

Inflation-adjusted and average rent (€/sq m/month, 2015 prices)



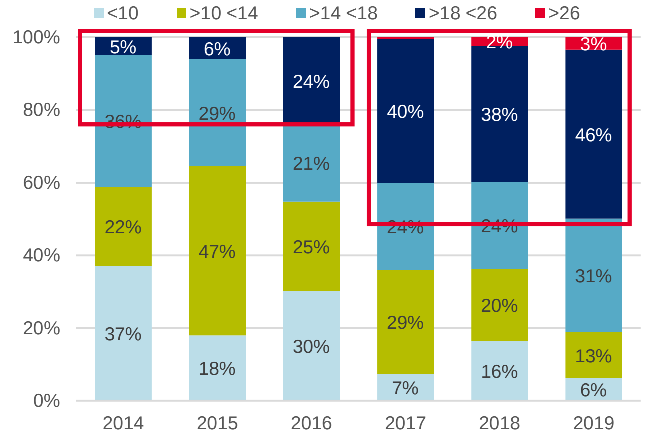
New occupancy and greater added value

A greater proportion of high rents in new office lease contracts has been noted over the last two years. This is evidence of the fact that companies are willing to pay more for the floorspace that they lease. As well as good building specifications, this is due to their interest in efficient working environments from the point of view of both energy and space. Wariness from corporates regarding their talent base and capacity to hire the best employees forms the basis of this.

Some 40% of the leased space in 2017 and 2018 attracted a rent exceeding €18/sq m/month. This compares with the average figure of 5.5% for 2014-2015.

In contrast, leases with rents below €10/sq m/month only swallowed up 6% of the total floor space transacted during the first half of the year. This amounts to a fall of 22 percentage points in comparison with the period 2014-2016.

Take-up of office floorspace by rent range (€/sq m/month)



Forecasts

Sustained employment creation and the growth of the national and regional economy point towards average and prime rents in Barcelona continuing to rise, at least until 2022. An average annual increase of 4% in average rent and 2.7% in prime rent is estimated.

	2019	2020	2021	2022
Prime rent	27.5	28.30	29.0	29.7
YoY change	*+3.6%*	*+3.1%*	*+2.6%*	*+2.3%*
Average rent	17.4	18.1	18.8	19.6
YoY change	*+14%*	*+4.0%*	*+3.5%*	*+3.0%*

Note on methodology 1: Annual growth calculated as compound annual growth rate or CAGR.
Note on methodology 2: Capital values estimated as the ratio of the average rent over the yield recorded.

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