At a glance
OFFICES BARCELONA — 22@ Q4 2017
CONSOLIDATION OF THE INNOVATION DISTRICT

IF DISTRICT 22@ DIDN'T EXIST, ONE WOULD HAVE TO INVENT IT

With a history spanning 17 years, district 22@ (also known as the Poble Nou neighbourhood) has gradually established itself as one of the leading zones where a multitude of companies seek to locate their offices. Whereas originally this area was focused on innovators, dedicated to research and with intensive technology use, the profile of firms occupying office space in 22@ nowadays is highly varied.

Investor confidence in this district has grown, an example of this being the acquisition of the Agbar tower at the beginning of this year by the SOCIMI Merlin Properties. Merlin is currently investing around 15 million Euros in the refurbishment of the building to transform it into a multi-tenant property. The company is trusting that the strong performance of the office market will be capable of providing a future return on the capital invested in the renovation.

The strong momentum of the Barcelona property market is unmistakable and whoever passes through the zone today can witness the level of development activity from the number of cranes and building workers. New building works will begin soon and there is little concern about the existence of abandoned industrial units that still remain in the area: it is only a matter of time until these are replaced with new office or residential properties boasting the latest specifications.

This report will analyse the occupier and investment market. We are confident that the strength of Barcelona’s property market will neutralise the uncertainty faced during the last quarter of the year and the beginning of 2018. The 22@ district remains at the forefront of the city’s transformation of old industrial areas into zones that blend knowledge-based activities, residential and leisure.
**BARCELONA’S 22@ IS THE FOCUS OF DEMAND**

The take-up of office floorspace in District 22@ is increasing in line with economic recovery, making it a target zone where national and international firms are seeking to locate. The degree of growth of this sub-zone is such that to date, 32% of the take-up of office floorspace has occurred in district 22@.

Major deals have been signed in this area in recent months. The relocation of the offices of the law firm Cuatrecasas to 22@ taking floorspace of 21,053 m² represented a major encouragement. Companies committed to a change in business culture are seeking to locate in an innovative, high-tech zone that fosters that transformation.

2017 reinforced the on-going growth of 22@. The company Shibsted pre-leased 10,200 m² during the first quarter through a turnkey deal. In the second quarter, the e-commerce giant Amazon signed a lease for 10,240 m² in a newly constructed building. The most recent transactions also reflect the rapid development of flexible office space: the co-working firm Regus “Spaces” leased 3,000 m² in the first quarter of 2017 and another 3,000 during the second. In the same vein, during the third quarter the US co-working giant, WeWork, pre-leased 7,000 m² of office space and became Amazon’s new neighbour. Other notable deals were struck by the NGO Médecins Sans Frontières and Hewlett-Packard, amounting to 8,250 and 7,000 m² respectively.

**22@ ATTRACTS DEMAND FOR LARGE FLOORSPACE**

District 22@ represents the area in which Barcelona’s Central Business District (CBD) tenants are able to grow into. Businesses are beginning to look for offices in Poble Nou as an alternative to the financial heart of the city.

It is leading to geographic divergence in size of unit let. Tenants with reduced floor area requirements prefer to remain in the traditional CBD and not 22@. During the first three quarters of 2017 nine deals for floor areas of up to 300 m² were signed in 22@, amounting to a total of 1,502 m². This represents just 2% of the volume transacted in 22@. In comparison, 14 deals of this size in the CBD amounted 2,244 m².

Floor areas of 3,000 m² and above represented 61% of total take-up in Poble Nou, highlight this area’s appeal for those seeking large office floorspace.

Of course, a major factor behind interest is the scarcity of large offices (exceeding 3,000 m²) within the CBD, pushing firms to migrate to other zones.

The number of contracts remained stable since 2011, with an upward spike in 2016.
Quality index:

Table 1

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<thead>
<tr>
<th>Cadastral quality index</th>
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<tbody>
<tr>
<td>0</td>
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<tr>
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<td>A</td>
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<td>2</td>
<td>B</td>
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<tr>
<td>3 &amp; 4</td>
<td>C</td>
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<td>More than 5</td>
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Breakdown of office stock by quality in 22@:

Projects and buildings under construction in 22@:

BUILDING QUALITY INDEX

The quality of the buildings in 22@ is relatively high. We can measure this using a quality index created from data collected by the government. The building construction quality of properties in Spain (other than the Basque Country) is determined systematically by the Property Tax Register. A number is assigned from an index running from 1 to 9. Better construction quality corresponds to a lower value, 1 being best and 9 worst. In addition, there is a modernity classification of A, B or C for buildings that acts as a modifier. Consequently, the quality index runs from 0 to 9 and when analysed the buildings comprising the 22@ office stock, are all below 4.

The quality groupings are shown in table 1. It is anticipated that the quality of the stock in 22@ will improve with the gradual incorporation of new buildings into the market.

ENERGETIC CONSTRUCTION

Developer activity remained at a standstill for many years. This is no surprise bearing in mind the property market took the impact of the economic crisis head-on.

As the recovery of the office market of Barcelona and its area of influence took shape, developers steadily began initiating new development of office buildings.

Some of these buildings have recently been delivered and work is underway on others. Recent land acquisitions will sustain the momentum of construction.

In this area, Meridial Capital acquired 43,400 m² of land in Barcelona’s technological district, where it will construct 32,200 m² of offices. Another significant land acquisition was undertaken by the US fund Värde Partners, buying 52,000 m² which will give a total gross floor area of 51,710 m² of offices.

Having constructed a 20,000 m² office building, the law firm Cuatrecasas bought a further site in 22@ in November 2017, where it will build another office complex of 9,200 m². Completion of this is anticipated for the close of 2020.

For 2019 it is expected that some 405,300 m² of new office floorspace will be incorporated into the market of Barcelona and its area of influence. Of this volume, 270,000 m² correspond to developments located in Poble Nou (60%).

Other projects consisting of ready-to-build land with a works licence are expected to commence in the near future. In total, these projects will contribute around 108,500 m² by the close of 2020, of which 24,500 m² will be in 22@. This figure will grow as more land becomes ready for building.

Vacant floorspace in 22@ amounted to 99,720 m² at the close of the third quarter of 2017, out of a stock of 793,330 m². This translates into a vacancy rate of 12.6%. The available floorspace also includes the iconic Torre Agbar.
Average rental prices 22@:

Average rental prices in 22@ are following the same trend as the Barcelona office market, a consistent pattern of increase since 2013. Prices in 22@ rose vigorously during the first three quarters of the year and it is anticipated that these will continue to trend upwards. The new supply of buildings being delivered to the market in the coming years will not be enough to suppress rental growth. The asking rents for building under development are already above the average rent for 22@.

Strong appetite from investors for 22@

Together with Madrid, Barcelona is the main gateway for the flow of international capital into Spain. This is particularly significant in a market context where around 70% of the funds invested in Spain originate abroad.

Within this market, investors have 22@ locked in their sights. With a dynamic occupier market and a sliding vacancy rate, the risk of having empty buildings in this sub-zone are proving to be ever lower. This attracts investors and the resulting purchaser pressure compresses yields. Within the zone of 22@ the average yield for offices one year ago had a range of 4.5%-5%; recent months are seeing the yield below 4%.

Investment in the Catalonia office sector during the first three quarters of 2017 reached 665 million Euro. Almost half (48%) of this volume was destined towards the acquisition of assets located in district 22@.

The most significant deal of the year in the Barcelona was the acquisition of the Torre Agbar (the star asset in 22@) by Merlin Properties for 142 million Euros. The asset has a floorspace of 30,000 m² and is currently being refurbished. The SOCIMI will spend 15 million Euros to transform the building to pure office use under a multi-tenant model.

The second most significant deal in 2017 was also struck in 22@ with the acquisition of the Luxa office complex (Luxa Gold: Let to Wework and Luxa Silver: Let to Amazon) for 90 million Euros.

The most significant transaction carried out during 2016 corresponded to the retail sector: the real estate division of Deutsche Bank acquired the Diagonal Mar shopping centre for a total of 493 million Euros. This asset is located right on 22@’s doorstep. The fact that the retail offering in Poble Nou is very limited and anticipated as being unlikely to expand over the short term put upward pressure on the price for this asset. Diagonal Mar is currently undergoing refurbishment with a budget of 34 million Euros, a further demonstration of the appreciation of this asset thanks to its location and the scarce offering of shopping centres in the city.