

Madrid Industrial Market

July 2008

“Since the start of the year, weaker demand and the foreseeable downturn in economic activity have been putting the squeeze on the industrial market.

We are starting to see some declines in both land prices and finished product. For the time being rents are remaining stable.

The length and intensity of this decline are still uncertain.

The current trend indicates that we find ourselves in a new scenario, where the ability to read market changes and interpret the needs of the demand is going to be a sizeable competitive advantage”.



Basilio González Aránguez
National Industrial Manager
CB Richard Ellis

MARKET SUMMARY

The changes now taking place in the economic environment are having an impact on the industrial sector. The development of raw materials prices, the appreciation of the euro and the limitations on liquidity are some of the factors that are most heavily affecting our production system. Outlooks point toward a potential intensification of the sector’s current readjustment toward the end of the year.

The Spanish real estate investment market experienced more-moderate growth in the first half of the year than in the year before. Because credit conditions are getting tougher and the expectations of economic growth are less rosy, non-residential property is being seen as more of a risk. Nevertheless, some segments, such as industrial property, are experiencing a more-limited downturn. So far the growth of industrial yields is proving itself to be less intense than in other segments, such as offices or retail.

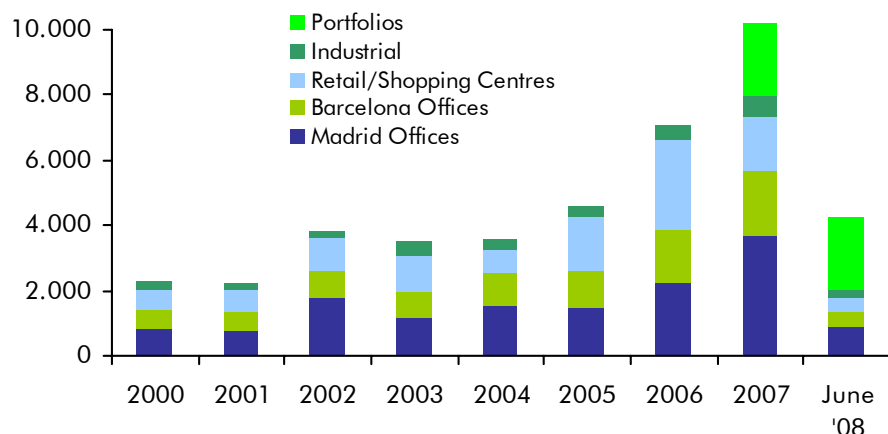
The origin of the investment suggests that foreign capital sees less of a risk in this segment.

Since the second half of last year, a certain amount of cooling off has been observed in the industrial real estate market. Tougher financial conditions are affecting new developments, while the demand is experiencing more-moderate behaviour. This change in activity is reflected in a drop in land prices. Some decline is also being observed in finished-product prices, although to a lesser extent than in land.

The industrial market’s trend indicates a change of cycle. Existing indicators and the economic environment suggest a readjustment in activity within the next few months. However, the industrial market is traditionally not very volatile, so any variations there will most probably be less intense than in other real estate sectors.

DEVELOPMENT OF REAL ESTATE INVESTMENT IN SPAIN

Million €



Source: CBRE

THE CURRENT ECONOMIC SITUATION

The economic situation has become significantly weaker since the start of 2008. The growth rate of GDP in the first quarter of the year registered a decline of eight tenths over the close of 2007, and end-of-the-year projections are pointing toward growth rates of below 2%.

The factors powering our economy's growth have fallen away significantly. Both construction and consumer purchasing have displayed very moderate development in recent months. The decline of the residential sector and household indebtedness are two of the causes precipitating the economic slowdown.

The outlook for the next 18 months indicate that this trend is going to continue, as a consequence of the rise in inflation and financial volatility. Consumer price inflation in June 2008 was situated close to 4% as a consequence of price rises for raw materials. This is the situation in most countries, but it is having a more intense effect in Spain because of our energy dependence and the weight of our service sector. Furthermore, the financial environment continues to show symptoms of instability, which is lending strength to the rise in the price of money. It is possible that by the end of the year the ECB and the Fed will raise interest rates again as a means of controlling inflation. However, it is uncertain whether the increase will have a significant impact on financing, since the finance market continues to experience a lack of liquidity that has toughened access to credit. In recent months capital markets have shown signs of recovery, which could help financial markets recover and dispel a good part of the current uncertainty. It is possible that these markets may strike a new equilibrium by the end of the year.

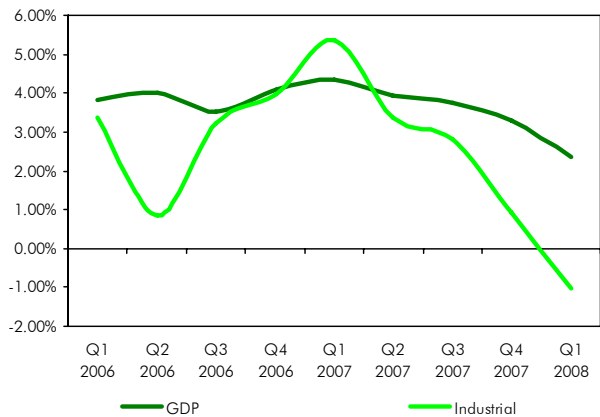
Industrial Sector

The industrial sector is significantly affected by current economic trends. During the first quarter of the year the sector "grew" at negative rates. Both the evolution of exchange rates and the growth of the price of raw materials are having an adverse effect on production and exports.

Sector employment has been losing ground since the second half of 2007. Between January and March 2008 the number of sector employees registered with the social security fell by 40,000 (-1.7%).

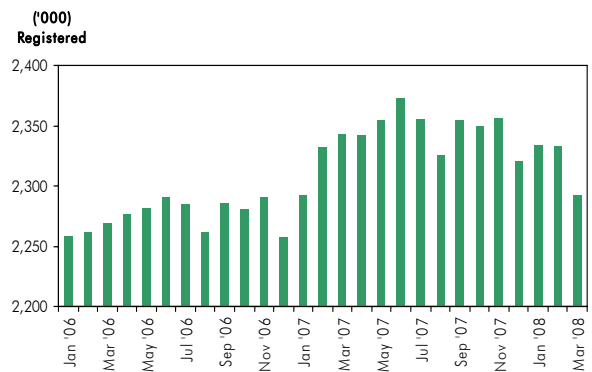
The Spanish industrial sector is also exposed to strong competition from emerging markets. The factors that can power a recovery are related to increased productivity and the development of activities that carry a higher added value.

GDP BY SECTORS



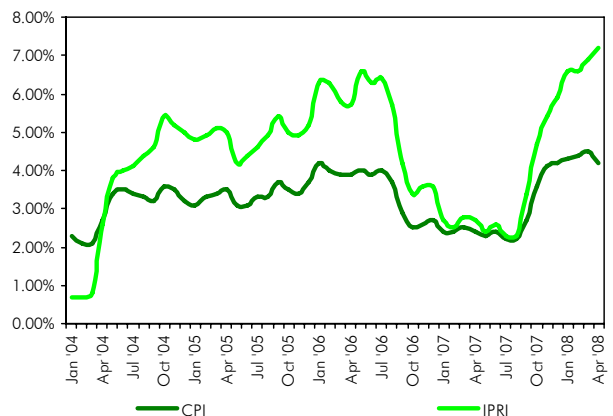
Source: Spanish National Statistics Institute

DEVELOPMENT OF EMPLOYMENT IN THE INDUSTRIAL SECTOR Social Security Registration – General Scheme



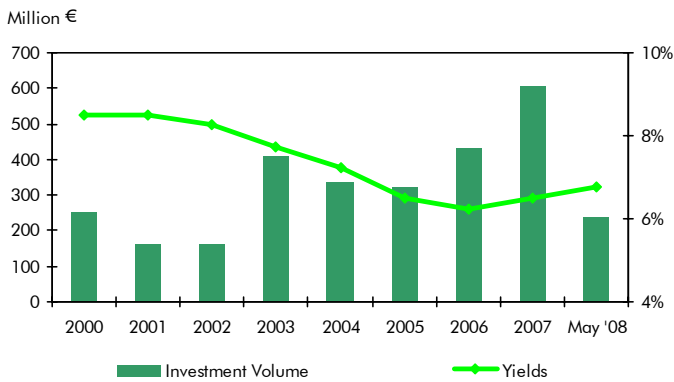
Source: Social Security General Treasury

PRICE DEVELOPMENT – CPI AND IPRI Year-on-Year Variation Rates.



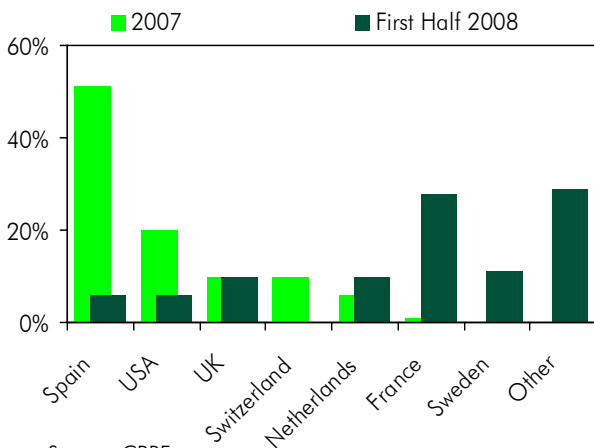
Source: Spanish National Statistics Institute

DEVELOPMENT OF INDUSTRIAL INVESTMENT IN SPAIN



Source: CBRE

INDUSTRIAL INVESTMENT
By Investor Origin



Source: CBRE

INVESTMENT TRANSACTIONS, FIRST HALF 2008

LOCATION	VOLUME (Mill. €)	BUYER	SELLER
Alovera (Guadalajara)	13	NA	Inbisa
Constantí (Tarragona)	26	Axa Reim	Teyco
Torrejón Ardoz (Madrid)	40	Axa Reim	Jesthisa
Ciempozuelos (Madrid)	27	SEB	Coperfil
Mejorada (Madrid)	30	Goodman	Kuehne Nagel
Sollana (Valencia)	24	ING	Coperfil

Source: CBRE

INVESTMENT MARKET

Since the beginning of 2008 the real estate investment market has cooled significantly due to the economic and financial environment. During the first half of the year a slippage was observed in the volume of investment on a European level. However, although the trend in Spain has been similar, the reduction in the investment volume has been less intense than in the rest of Europe.

The causes of this decline have to do with the toughening of financing conditions and the limited amount of liquidity in the market. The evolution of yields is upsetting the balance of expectations between supply and demand, leading to a slowdown in investment activity.

Since January 2008 yields have risen between 25 and 75 bps, depending on asset type. The trend for the upcoming months is clearly upward, and it is expected to continue at least until the end of the year.

Industrial Investment

The development of the investment market notwithstanding, the industrial segment is experiencing a more-moderate decline. The volume of investment during the first half of 2008 (€240M) is 70% of the total registered in the same period of the year before, a slower decline than in the office and retail markets.

Foreign capital continues to lead investment in the industrial market and activity from abroad was particularly intense during Q1 08. While foreign investment accounted for 49% of the volume invested in industrial property in 2007, its share reached 95% during the first half of 2008. In recent times the investor profile has tended to become more and more specialised. The search for relatively high yields requires a specific knowledge of the segment, to limit risks.

Industrial investment in both leased properties and development projects is strongly oriented toward the logistics business. Approximately three quarters of industrial investment made during the first half of the year went into this kind of property. Structural needs and short and medium-term growth expectations are two of the causes that may lie behind this development.

Since the start of the year the yield on prime industrial properties has experienced an increase of 25 to 50 bps, hitting 6.75% in the first half of the year. The upsurge has been more intense for secondary locations, which in some cases can boast yields of over 8%.

MADRID INDUSTRIAL MARKET

The industrial market in Madrid was progressing well for a good part of last year. However, in late 2007 and the first half of 2008 activity has been observed to ebb. The response of demand to external changes is resulting in relatively low levels of take-up. It seems that short-term economic outlooks are affecting what decisions are being taken.

Supply is also feeling the effects of the economic and financial crisis.. The lack of liquidity in financial markets is discouraging the development of new space. The perception of risk amongst financial institutions and the moderate expectations of growth have significantly toughened financing conditions, which is in turn is favouring the postponement of some developments.

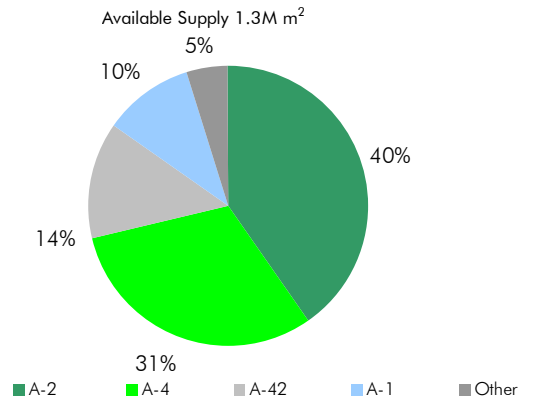
The outlook for the next few months show a continuation of this trend. However, the correction in this sector is not expected to be too sharp. The structural factors of the industrial market (the lack of quality industrial floor) ensure both relatively constant supply and constant demand, although possibly at more moderate levels.

Supply

In Madrid the volume of immediately available industrial space is estimated to be around 1.3M m². Most of it relates to developments in progress and recently constructed speculative buildings. The figure therefore does not include space that is potentially useful for turnkey projects. Considering the Madrid Institute of Development's estimate of the volume of stock in the Community of Madrid (107M m²), we can affirm that the immediate availability rate hovers at around 1.2% of the stock, significantly lower than for any other real estate sector. The high level of user occupied space and specific conditions concerning the space each production activity requires are two of the causes that can explain these low availability levels.

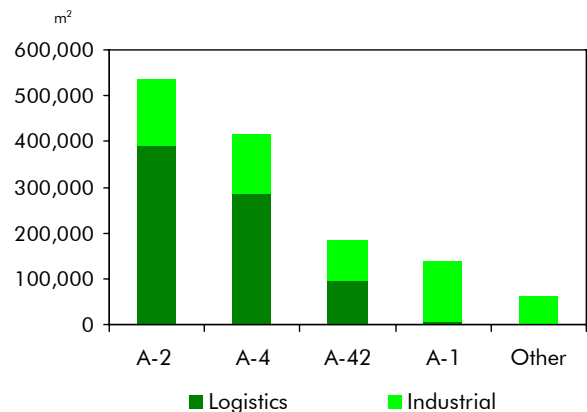
In excess of two thirds of the available real estate on the market is made up of small industrial premises less than 500 m² in size. Over the last two years such space has been in strong demand, mainly by small investors anxious to buy. However, in recent months this segment of the market has been declining sharply as a consequence of reduced liquidity. Product that offers less quality, in an inferior location and/or higher priced is likely to feel the current slowdown in demand more keenly.

AVAILABLE SUPPLY BY LOCATION Distribution M²



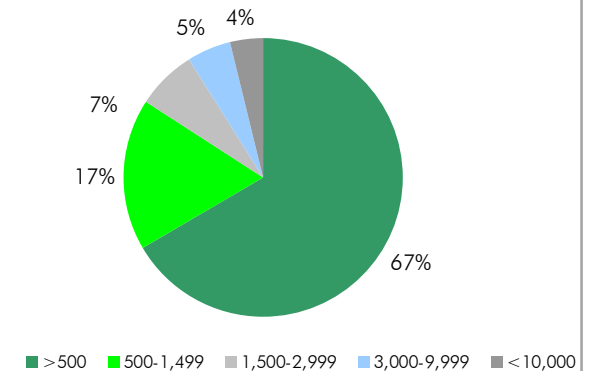
Source: CBRE

AVAILABLE SUPPLY BY LOCATION AND USE



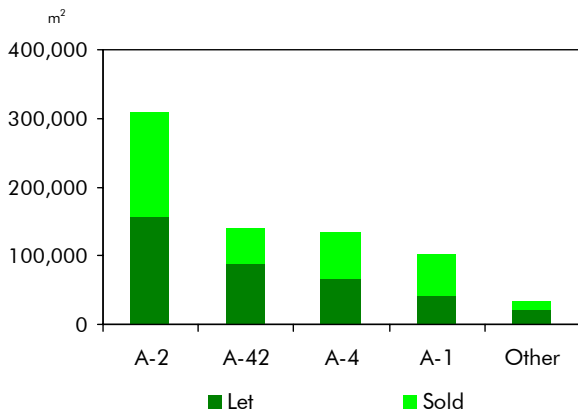
Source: CBRE

AVAILABLE SUPPLY BY AREA Distribution of Industrial Premises



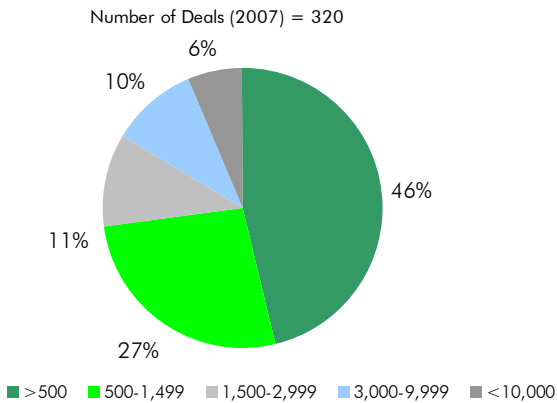
Source: CBRE

ABSORPTION BY LOCATION



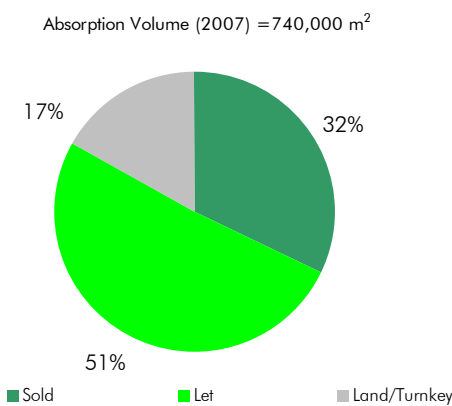
Source: CBRE

DISTRIBUTION OF ABSORPTION BY AREA Deals Closed 2007



Source: CBRE

DISTRIBUTION OF ABSORPTION BY TYPE OF USE



Source: CBRE

Demand

On the basis of information exchanged by the main operators, the absorption volume for industrial space in 2007 can be estimated at around 740,000 m², 17% of which were land and/or turnkey deals. The estimated volume of absorption of built space is around 615,000 m² or the equivalent of 42% of the available area. The data may partially underestimate the total volume, as it does not include deals closed directly by the owners. However, the data does provide a credible picture of demand.

The area around the main highways — A-2, A-4 and A-42 (Autovía de Toledo) — is where over 80% of absorption occurs. A good part of this demand is from logistics businesses seeking handy sites close to the main communication nodes. The number of deals recorded involving areas of over 3,000 m² (16%) confirms the existence of a major demand for large spaces where distribution and storage businesses can do business.

The absorption of small areas makes up a significant volume of demand, over 46% of the deals closed in 2007. Nevertheless, during the first half of 2008 the demand for this type of space fell significantly. The disappearance of small investors, combined with the adverse economic environment affecting small and medium enterprises, is having an impact on absorption activity.

Rents and Prices

The trend toward the change of use is transforming many industrial parks into commercial and office areas. Highest rents and selling prices continue to show up in the locations closest to the capital, specifically in locations where the pressure from alternative uses is at its strongest. In municipalities such as Alcobendas, San Sebastián de los Reyes and Las Rozas the pressure that tertiary activity is putting on industrial space has driven the rent on industrial premises up to over €10/m²/month. Similarly the prices of both land and finished industrial premises in these areas are situated at levels comparable to those of retail and office space.

So far the biggest declines have been in the price of land ready for construction. The shortness of liquidity and the toughness of financing are driving some maximum prices downwards. However, despite some one-off declines, rents has not yet shown a clear tendency and are remaining stable in most markets.

Industrial Prices and Rents in Madrid

Ring	Highway	City/Town	Land		Industrial Premises			
			Max	% Y/y var.	Sold €/m ²		Let €/m ² /month	
					Max	% Y/y var.	Max	% Y/y var.
1	A-1	Fuencarral	1,250	0.0%	2,000	0.0%	10.00	0.0%
1	A-1	Alcobendas	1,250	0.0%	2,000	0.0%	8.00	0.0%
1	A-1	San Sebastián de los Reyes	1,300	0.0%	2,100	0.0%	10.00	0.0%
2	A-1	Algete	500	0.0%	1,200	-7.7%	6.50	0.0%
2	A-1	Tres Cantos	700	-12.5%	1,500	-6.3%	6.50	0.0%
2	A-1	Colmenar Viejo	500	0.0%	1,200	0.0%	6.00	0.0%
1	A-2	Barajas	900	-10.0%			8.75	0.0%
1	A-2	Weekend	900	0.0%	1,500	-6.3%	7.50	0.0%
1	A-2	Coslada	700	-12.5%	1,500	-11.8%	8.00	6.7%
1	A-2	San Fernando	600	0.0%	1,400	0.0%	6.60	0.0%
1	A-2	Torrejón de Ardoz	500	13.6%	1,350	0.0%	6.00	0.0%
2	A-2	Daganzo	270	0.0%	1,100	0.0%	5.00	0.0%
2	A-2	Alcalá de Henares	360	-14.3%	1,250	0.0%	5.80	0.0%
2	A-2	Camarma de Esteruelas	330	0.0%	1,100	0.0%	5.30	0.0%
2	A-2	Meco	300	0.0%	1,000	5.3%	5.00	0.0%
3	A-2	Azuqueca de Henares	300	0.0%	950	0.0%	4.70	0.0%
3	A-2	Chiloeches	290	0.0%	800	-5.9%	4.50	0.0%
3	A-2	Alovera	270	0.0%	900	0.0%	4.50	0.0%
3	A-2	Cabanillas del Campo	260	0.0%	775	0.0%	4.20	0.0%
3	A-2	Yunquera de Henares	110	-15.4%	700	0.0%	3.90	0.0%
3	A-2	Fontanar	110	-15.4%	650	0.0%	3.90	0.0%
3	A-2	Torija	120	-14.3%	-	-	3.20	0.0%
1	A-3	Vicálvaro	800	-20.0%	1,600	-11.1%	8.00	-5.9%
1	A-3	Vallecas	900	-25.0%	1,700	-10.5%	8.50	-5.6%
1	A-3	Mejorada del Campo	450	0.0%	1,200	0.0%	5.50	-8.3%
2	A-3	Arganda del Rey	600	-20.0%	1,500	-16.7%	7.00	0.0%
1	A-4	Villaverde	850	-15.0%	1,600	-5.9%	7.50	0.0%
1	A-4	Getafe	600	-7.7%	1,500	-6.3%	7.00	-2.8%
1	A-4	Pinto	480	0.0%	1,400	0.0%	6.50	1.6%
2	A-4	Valdemoro	420	0.0%	1,250	0.0%	6.00	0.0%
2	A-4	Ciempozuelos	390	0.0%	1,000	-16.7%	5.50	0.0%
3	A-4	Seseña	330	0.0%	1,100	0.0%	5.50	7.8%
3	A-4	Ontígola	180	0.0%	700	0.0%	4.00	17.6%
3	A-4	Ocaña	120	-7.7%			3.00	3.4%
1	A-42	Leganés	850	6.3%	1,500	-11.8%	7.50	-6.3%
1	A-42	Fuenlabrada	600	0.0%	1,500	-6.3%	7.00	0.0%
2	A-42	Parla	750	-6.3%	1,500	0.0%	6.50	0.0%
3	A-42	Illescas	420	-6.7%	1,200	0.0%	5.50	0.0%
1	A-5	Alcorcón	800	-20.0%	1,700	-15.0%	8.00	0.0%
1	A-5	Móstoles	750	-25.0%	1,700	-10.5%	8.00	0.0%

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