

## Quarterly Indicators

Vacancy 

Gross Take Up 

New Supply 

Prices 

## RENTAL MARKET SUMMARY

Corporate activity has not escaped the negative effects of the current economic and financial crisis. As such, weaker take-up seen in the first quarter of the year has been confirmed in Q2. Some developers have responded by delaying projects or by looking to develop in phases, but not in sufficient numbers to prevent an increase in the pace of new supply and a subsequent rise in vacancy rates. Given this increase in available space, annual rental growth has weakened further (and in some cases disappeared) in non-prime areas, particularly those more exposed to a market downturn in decentralised areas. On the other hand, prime rents have remained stable from Q1 levels as some tenants still show a willingness to pay high rents in order to occupy exclusive, well communicated office buildings in central areas. Of interest during Q2 has been the strength of demand to purchase offices for own-use purposes. Take-up in this segment of the market recorded a significant rise on Q1 levels.

## Offices to let and purchase

"Torre Cristal"- Castellana 259



"Edificio Arista" Rivas Futura



"Cristalia"- Vía de los Poblados



**35** ANIVERSARIO  
EN ESPAÑA  
1973 - 2008

## TAKE-UP CONTINUES TO TREND DOWNWARDS

Corporate decision making in regard to office space has slowed considerably given the current economic climate. Companies have delayed signing deals for space as the short and medium term economic prospects are uncertain. This was not reflected entirely in Q2 take-up figures as the completion of Torre Espacio (65% occupied with a significant element of owner-occupied space) boosted the quarterly total. As such, take-up in central areas rose by 20% compared to Q1 levels. However, decentralized areas registered a drop of 10%. Moreover, on a year-on-year basis total take-up in the Madrid market fell by 17% during Q2.

Demand to purchase offices for own use has been quite dynamic across the board, both in central and decentralized areas. Of note was the sale of the Edificio Vistahermosa in Beatriz de Bobadilla, accounting for approximately 50% of the 32.300m<sup>2</sup> of offices sold to occupiers during the quarter. This total represents a significant increase on the levels registered both in Q1 2008 (8,700m<sup>2</sup>) and Q2 2007 (17,200m<sup>2</sup>).

## PRICES LOSE MOMENTUM AS AVAILABILITY RISES SLIGHTLY

Despite slower demand, new supply continues to reach the market at a greater pace. A total of 123,500m<sup>2</sup> of new office space was completed during Q2, slightly higher than new completions in Q1 (102,000m<sup>2</sup>) and double the amount of new space completed in the same period a year earlier (64,000m<sup>2</sup>). This is largely due to the completion of some significant projects such as (i) Torre Picasso (53,000m<sup>2</sup>) and (ii) Torre de Méndez Álvaro (32,000m<sup>2</sup>). The increase in new supply, coupled with weaker demand, has resulted in a slight rise in vacancy rates, which currently stand at 7.27%, up from 6.85% in Q1 2008 and 6.46% in Q2 2007. Looking ahead, weaker demand expectations are likely to lead to a delay in the completion of new projects.

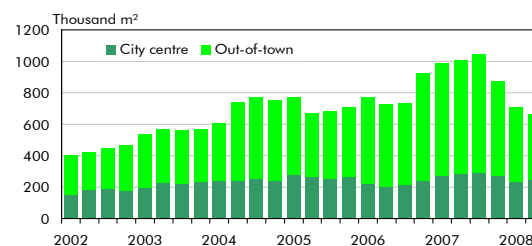
Despite showing positive annual growth, weighted average rents continue to fall on a quarterly basis. Annual growth in Q2 was above 2% while the quarterly comparison showed a fall of 6.5% - 7% for the second successive quarter. The gap between prime and average rents has widened providing a distinction between prime and decentralised product. Maximum rents remained unchanged from Q1 levels. Of note during the quarter was the increase in rents in the "Secondary" office zone, located within the M-30 ring road. Certain tenants, while not in need of prime offices, are prepared to pay a premium above average market prices to guarantee space in quality buildings in central locations.

In regard to sale prices, low availability of buildings in representative areas has held prices stable, currently between 5,000 euros/m<sup>2</sup> - 9,000 euros/m<sup>2</sup>

### RENTAL PRICES

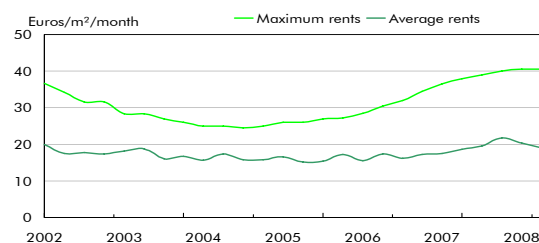
	Quarterly change %	Annual change %	Max. rent €/m <sup>2</sup> /month
<b>CBD</b>	0,00	6,60	40,5
<b>Secondary</b>	14,30	18,50	32,00
<b>A-1</b>	0,00	0,00	24,00
<b>A-2</b>	-2,10	-2,10	23,50
<b>A-6</b>	5,60	5,60	19,00
<b>Periphery</b>	0,00	0,00	14,00

### ANNUALIZED GROSS TAKE UP



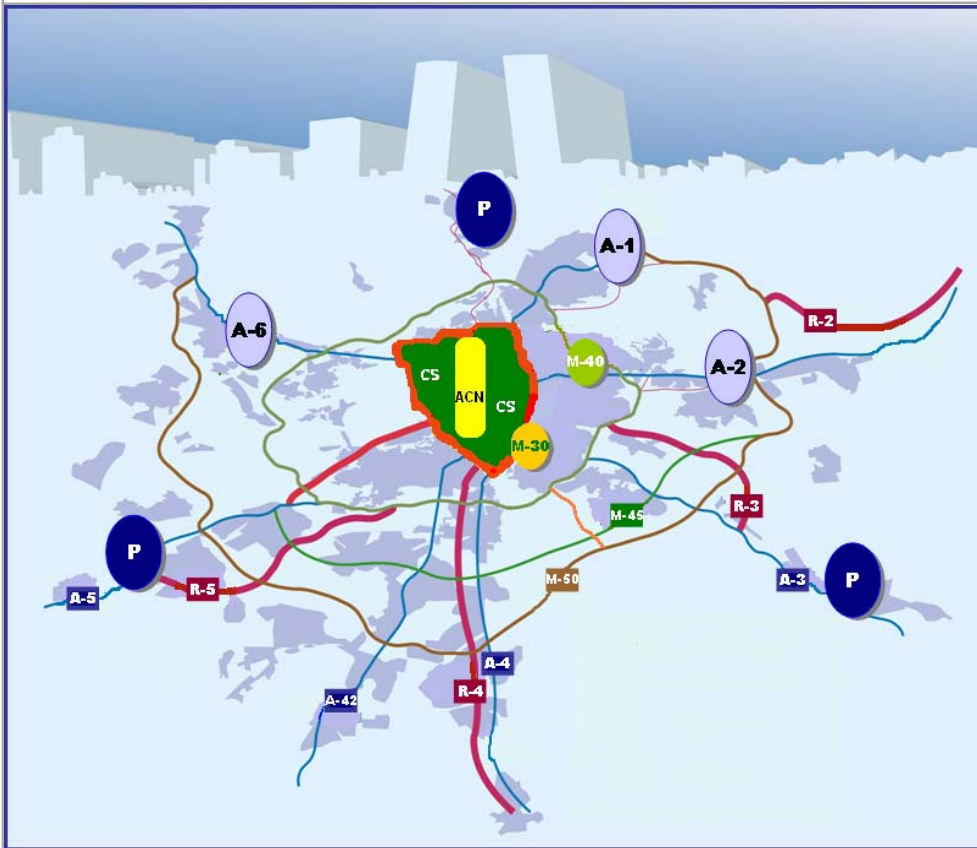
Source: CBRE

### MAXIMUM & AVERAGE RENTS



Source: CBRE

		MARKET INDICATORS				FUTURE SUPPLY		
		2006	2007	Q1 2008	Q2 2008		Pipeline 2008	Pipeline 2009
<b>CBD</b>	AVAILABILITY	103.000	118.000	113.000	127.300	Available	26.775	56.250
	TAKE-UP	180.000	161.000	15.000	54.200	Reserved	50.225	0
	Vacancy rate	3,20%	3,70%	3,55%	3,93%	TOTAL	77.000	56.250
<b>Secondary</b>	AVAILABILITY	90.000	81.000	87.000	90.000	Available	11.402	26.600
	TAKE-UP	63.000	111.000	15.000	26.400	Reserved	25.800	0
	Vacancy rate	3,80%	3,41%	3,65%	3,71%	TOTAL	37.202	26.600
<b>A-1</b>	AVAILABILITY	224.000	250.000	279.000	262.800	Available	95.845	132.900
	TAKE-UP	394.000	349.000	50.000	31.700	Reserved	48.655	9.000
	Vacancy rate	12,20%	12,32%	13,22%	12,34%	TOTAL	144.500	141.900
<b>A-2</b>	AVAILABILITY	199.000	178.000	164.000	172.000	Available	46.000	178.500
	TAKE-UP	190.000	102.000	41.000	28.100	Reserved	0	9.000
	Vacancy rate	10,10%	8,81%	8,07%	8,39%	TOTAL	46.000	187.500
<b>A-6</b>	AVAILABILITY	96.000	56.000	29.000	50.300	Available	14.600	32.700
	TAKE-UP	59.000	115.000	4.000	5.700	Reserved	5.400	5.800
	Vacancy rate	9,30%	5,31%	2,76%	4,79%	TOTAL	20.000	38.500
<b>Periphery</b>	AVAILABILITY	45.000	55.000	97.000	122.000	Available	45.000	6.400
	TAKE-UP	41.000	35.000	8.000	9.500	Reserved	30.000	0
	Vacancy rate	9,70%	12,09%	21,32%	26,8%	TOTAL	75.000	6.400
<b>Total Madrid</b>	AVAILABILITY	757.000	738.000	769.000	824.400	Available	239.622	433.350
	TAKE-UP	927.000	872.000	133.000	155.600	Reserved	160.080	23.800
	Vacancy rate	6,90%	6,64%	6,85%	7,27%	TOTAL	399.702	457.150



Source: CBRE

**MAIN OFFICE SUBMARKETS**

The Madrid Office market is divided into several main submarkets, which are described below:

1. ACN (Central Business District): from Plaza de Cibeles to the 4 towers Business Area, it comprises the surrounding districts of Paseo de la Castellana (Chamberí, Salamanca and part of Tetuán and Chamartín).
2. SC (Secondary Central): the rest of the central metropolitan area (inside the M-30), not including the previous.
3. A-1: the influence axis of A-1 motorway, from the M-30, including all its business parks.
4. A-2: the influence axis of A-2 motorway, from the M-30, including all its business parks, Campo de las Naciones and San Fernando business park.
5. A-6: all the western area outside the M-30, including the areas of Las Rozas, Pozuelo and Boadilla.
6. P (Periphery): The remaining isolated office nucleus and business parks, especially Tres Cantos, Rivas, Alcorcón.

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