

Quarterly indicators

Vacancy	➔
Take-up	➔
Completions	➔
Rents	➔

Maximum rents

Zones	€/ m ² /month
CBD	40,50
City centre	30,00
A-1	24,00
A-2	22,00
A-6	17,50
Periphery	14,00

LETTING MARKET SUMMARY

The first 9 months of the year have been characterised by a “wait and see” approach in the Madrid office market. During this time, activity has been relatively weak in the face of an uncertain economic climate. Take-up in Q3, although low in comparison to previous quarters, was better than expected taking into consideration that the market all but closes during the month of August.

However, the economic slowdown continues to affect, (i) developers, who either struggle to obtain finance for their projects or have doubts about project viability, and (ii) occupiers, who take longer to reach a decision on whether to contract office space, unsure as to how the current crisis will pan out.

Madrid Offices

Torre Cristal-Pº Castellana 259



Pº Castellana 55



Edificio Levitt – Arroyo de Valdebebas



DEMAND TRENDING DOWNWARDS

Third quarter results confirm falling demand, although not as acute as initially feared. After a significant drop in demand during the first six months of the year, and considering the worsening economic and financial expectations, a greater decline was expected during the rest of the year, particularly during the third quarter which is normally quite slow as it coincides with the holiday period.

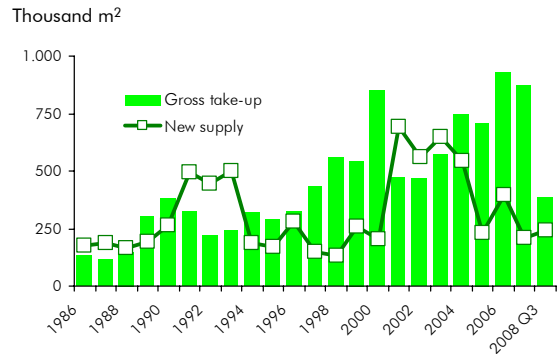
At quarter's end, Q3 take-up reached 97,000m², distributed among 87 deals. This represents a figure not too distant from the long term average for the third quarter of 109,900m². Moreover, in the A-1 and A-6 areas the registered take-up actually exceeded the long term average.

Having said this, the figures do not give much cause for optimism as they lie quite some distance below maximum levels recorded in recent times and confirm a downward trend. In this context, the drop in demand is more noticeable in decentralized areas. In recent years, these areas have witnessed a great expansion, both in terms of supply and demand, due principally to the lack of available space in central areas. This is to say that take-up has been considerably higher in decentralized areas and weaker demand will be more apparent in relative terms. However, these areas will continue to attract the majority of take-up and a renewed shift to out-of-town offices can be expected from cost-conscious tenants.

Not only has take-up volume changed, but conversations with CB Richard Ellis professionals highlight a demand that is at present indecisive and concerned about short-term factors. This is undoubtedly a consequence of economic and corporate uncertainty. As such, occupiers now show a greater preference for contracts with shorter obligatory periods. In addition, expectations as to improved tenant conditions in the short-term is leading to a further delay in some decisions.

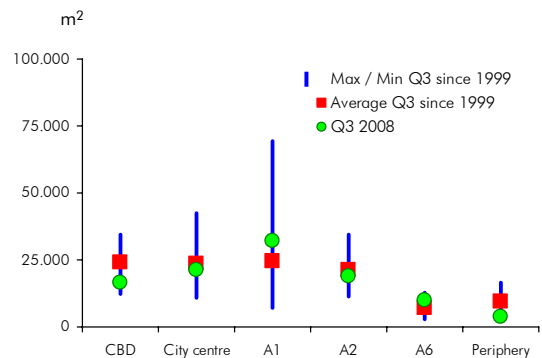
In respect to the type of product most in demand, we continue to see some large deals, as in previous quarters. However, deal sizes in the region of 1,000m² – 3,000m² are most affected by the current slowdown.

SUPPLY & DEMAND



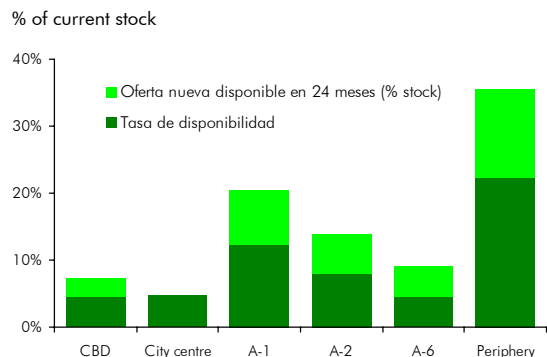
Source: CBRE

HISTORIC THIRD QUARTER TAKE-UP



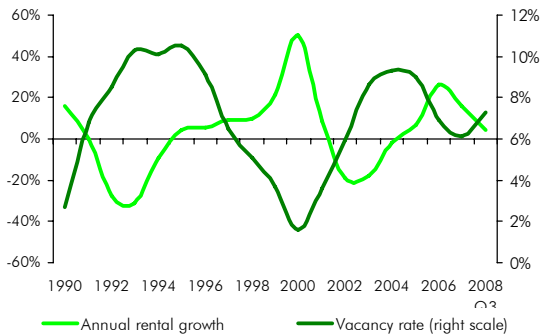
Source: CBRE

CURRENT & FUTURE AVAILABILITY



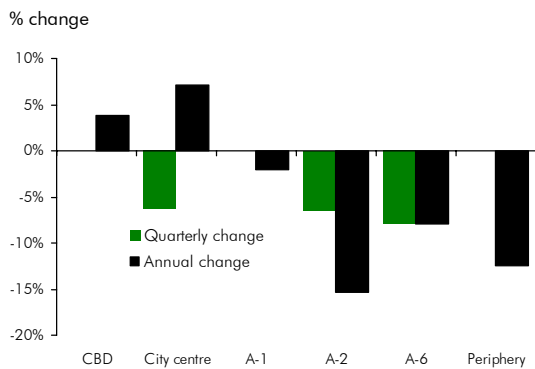
Source: CBRE

PRIME RENTS AND VACANCY



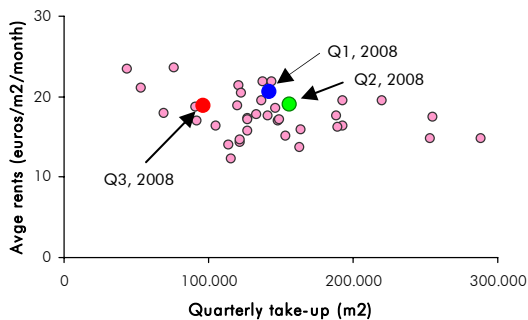
Source: CBRE

% CHANGE IN MAXIMUM RENTS - Q3 2008



Source: CBRE

AVERAGE RENTS & TAKE-UP - Quarterly since 1999



Source: CBRE

In regard to the sale of offices to occupiers, the purchasing capacity of buyers has been severely curtailed by credit restrictions and this has impacted negatively upon market activity.

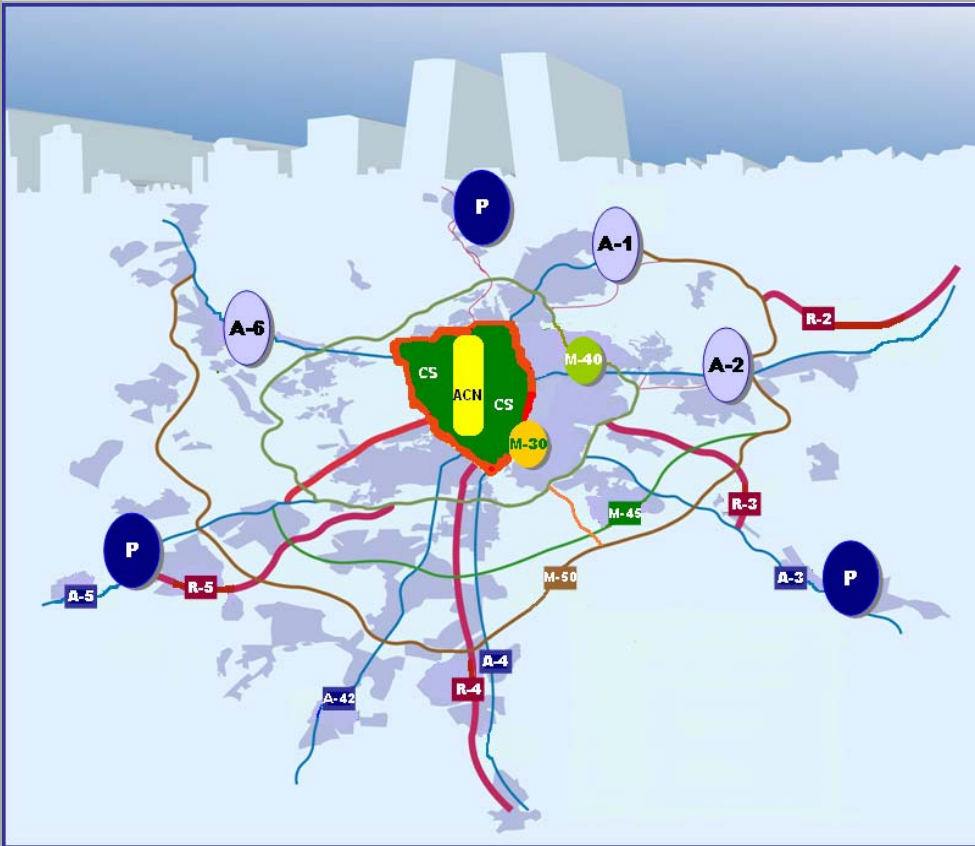
VACANCY & OUT-OF-TOWN PRICE DISCOUNTS

The volume of office space available to let increased only slightly in Q3 as a low number of completions helped keep vacancy rates in check. The volume of new space coming onto the market during the last quarter was restricted to 12,000m² in the A-1 area (Alcobendas and Las Tablas) and 3,000m² in the A-2 area (Hortaleza). However, there are signs to indicate that the respite in vacancy rates could be short lived and availability will start to rise. Companies are at present looking to reduce fixed costs and some will look to downsize on staff, and in turn office space. This may intensify going forward should the economic and financial uncertainty persist.

However, these same economic and financial upheavals, while impacting negatively upon demand, may in turn also lead to a reduction in new supply coming onto the market and therefore provide some balance to a certain extent. Some developers are struggling to obtain finance and are opting not to push ahead with those developments still in the planning stage. This is likely to impact solely on pipeline figures from 2010 onwards as anything before that is already under construction.

Companies which seek office space in out-of-town locations have greater margin to negotiate more attractive letting conditions. As a consequence, the gap between rents in these areas and central locations has widened. In effect, out-of-town areas are trading at a greater discount to prime locations. As demand becomes more elastic during difficult times, out-of-town locations become more attractive and this acts as a brake on prime rental growth. Prime rents remained unchanged during Q3 while rents in decentralised areas once again came under pressure. Over the coming quarters we may witness a shift in demand to cheaper, modern offices with good access in decentralised locations, therefore potentially leading to a correction in prime rents.

		MARKET INDICATORS				FUTURE SUPPLY		
		2007	Q1 2008	Q2 2008	Q3 2008	Available	Pipeline 0 – 12 months	Pipeline 0 – 24 months
CBD	AVAILABILITY	118,000	113,000	127,300	144,113	Available	80,180	97,566
	TAKE-UP	161,000	15,000	54,200	16,175	Reserved	90,900	90,900
	Vacancy rate	3.70%	3.55%	3.93%	4.44%	TOTAL	171,080	188,466
City centre	AVAILABILITY	81,000	87,000	90,000	112,665	Available	0	0
	TAKE-UP	111,000	15,000	26,400	16,343	Reserved	5,000	5,000
	Vacancy rate	3.41%	3.65%	3.71%	4.66%	TOTAL	5,000	5,000
A-1	AVAILABILITY	250,000	279,000	262,800	261,114	Available	101,500	200,400
	TAKE-UP	349,000	50,000	31,700	31,856	Reserved	40,000	30,600
	Vacancy rate	12.32%	13.22%	12.34%	12.20%	TOTAL	141,500	231,000
A-2	AVAILABILITY	178,000	164,000	172,000	162,600	Available	116,020	130,970
	TAKE-UP	102,000	41,000	28,100	18,680	Reserved	15,480	19,430
	Vacancy rate	8.81%	8.07%	8.39%	7.92%	TOTAL	131,500	150,400
A-6	AVAILABILITY	56,000	29,000	50,300	48,398	Available	14,600	47,300
	TAKE-UP	115,000	4,000	5,700	9,815	Reserved	11,200	11,200
	Vacancy rate	5.31%	2.76%	4.79%	4.60%	TOTAL	25,800	58,500
Periphery	AVAILABILITY	55,000	97,000	122,000	101,152	Available	45,000	66,000
	TAKE-UP	35,000	8,000	9,500	3,990	Reserved	30,000	30,000
	Vacancy rate	12.09%	21.32%	26.80%	22.23%	TOTAL	75,000	96,000
Total Madrid	AVAILABILITY	738,000	769,000	824,400	830,042	Available	413,550	542,236
	TAKE-UP	872,000	133,000	155,600	96,860	Reserved	136,330	187,130
	Vacancy rate	6.64%	6.85%	7.27%	7.31%	L TOTAL	549,880	729,366



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. City centre (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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