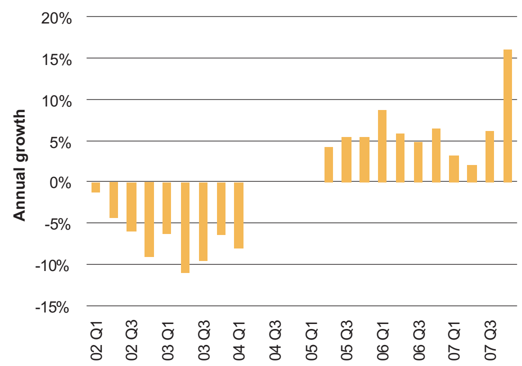
Barcelona office market

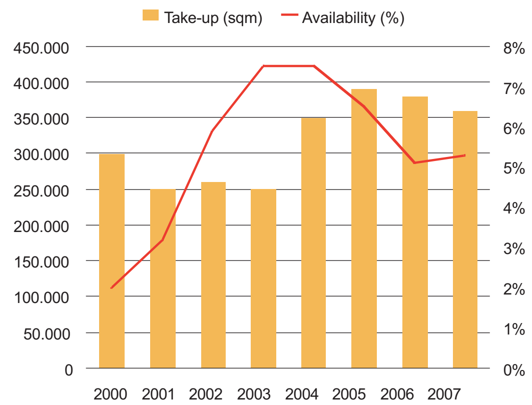
Winter 2008

Rental growth and yield compression



Source: Savills Research

Take-up and vacancy



Source: Savills Research

"The investment market in 2008 will be marked by an increase of quality leased office buildings. The drivers of demand should remain strong with rents following a moderate upward trend".

Ian Cassidy - Director

- The office market in Barcelona continues to strengthen maintaining the high levels of take-up of the previous 3 years, thus confirming the current situation of stability in occupational demand.
- New supply in the next 12-24 months, particularly in City Fringe and Out of Town locations is expected to balance out the demand for modern office accommodation, which is currently in limited availability.
- The scarcity in supply, together with dynamic demand have resulted in continued growth in rents, particularly in areas such as 22@ due to the shift in demand towards City Fringe locations, and in the CBD where the vacancy rate is very low.
- The volume of office investment has reached record levels, approaching €2bn. The lack of liquidity and the increase in interest rates following last summer's financial crisis has caused a decrease in investment activity towards the end of 2007.
- Yields have started to increase after years of constant compression, reaching levels of between 5.0% and 5.5% for CBD product.
- We expect the market to remain stable in 2008 with healthy demand, low vacancy and moderate upward rental growth. The majority of new supply is expected for 2009 and 2010.

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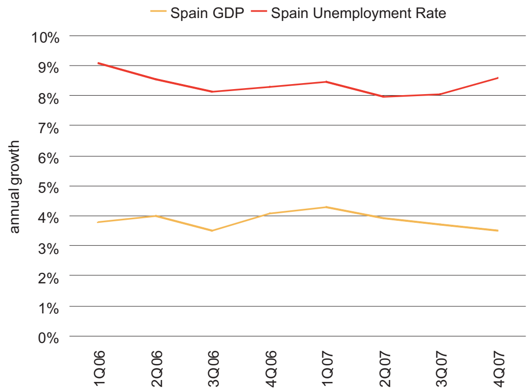
Demand and supply

Economy

At the end of 2007, the Spanish economy began to show a return to more sustainable growth rates. The latest data shows a firm progress resulting in a year-on-year growth of 3.8% (the estimated growth for 2007 without the final data from the fourth quarter). This rate continues to be higher than the rate of 2.7% registered in the Euro Zone. Household consumption registered a year-on-year increase of 2.9% while public administration spending accelerated reaching a year-on-year increase of 5.8%.

GDP and unemployment



Source: INE

Leasing market

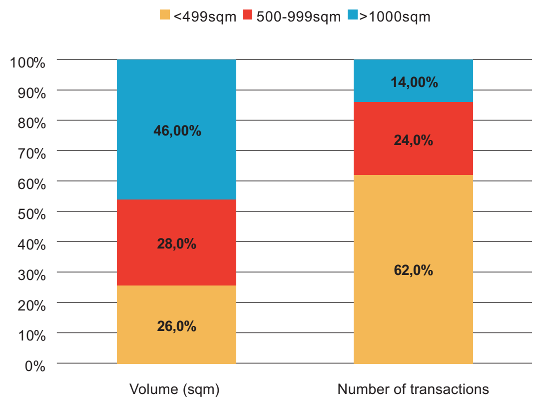
Demand and take-up

Total take-up in 2007 was 360,000sqm, 2.7% lower compared to 2006, reflecting a relatively stable demand level. Sant Cugat del Vallès and 22@ continue to mature as significant office submarkets, absorbing a large proportion of demand for offices above 500sqm, which cannot be accommodated by the City Centre. Demand for offices of less than 500sqm continues to dominate the number of letting deals, making up some 62% of contracts, which represents 26% of the total area taken up.

By geographical distribution, Out of Town locations continue to be very active, accounting for some 35% of take up, principally due to a number of major deals signed in Sant Cugat del Vallès and Cornellà de Llobregat. The growing acceptance of companies to move to City Fringe and Out of Town locations has resulted in an increase in take-up in these areas.

The business sectors that have been most active during 2007 are Technology, IT and Telecommunications. These accounted for approximately 20% of leasing deals and nearly 23% of gross area taken up. These deals were particularly notable in Sant Cugat del Vallès and in 22@, an area which was originally conceived for companies associated with new technologies.

Take-up by size of accommodation



Source: Savills Research

Supply, stock and vacancy rate

The total office stock amounts approximately 5.1m sqm of which around 273,000sqm are vacant space. This corresponds to a vacancy rate of 5.3%, which is only slightly higher than the previous year level due to the limited delivery of new supply and healthy take-up.

Vacancy rates in City Fringe and Out of Town locations have reached 12% and 13% respectively. These figures include projects that have been completed recently and are at the initial letting stage. We expect these to be gradually absorbed and therefore allow vacancy rates to drop.

Lack of new supply and higher rental levels in the City Centre and CBD areas have pushed companies to relocate to City Fringe and Out of Town locations, where there is a greater availability of modern, efficient office product at more competitive rents. This is coupled with improving transport facilities and infrastructure. Mas Blau, has matured significantly, having seen a reduction in the vacancy rate from 34% to 17% over the last 18 months. The Out of Town locations with the lowest vacancy rate is Sant Cugat at 1.4%, similar to the level found in the City Centre.

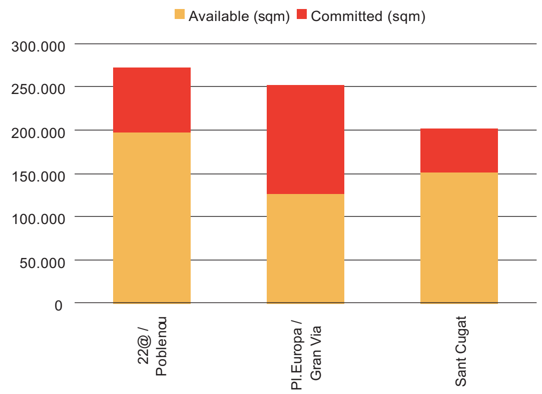
Over the next 24 months a potential 800,000sqm of new office buildings will be completed. More than 250,000sqm of these projects are already either pre-leased or under owner occupation. Whilst there is a potential for a substantial increase in supply over the coming years, we are of the opinion that the current anticipated supply is sustainable given current take-up rates and the potential for conversion to alternative uses of relatively poor quality existing office stock.

Nearly 35% of these projects are located in 22@ (275,000sqm). Other areas with considerable new supply in the pipeline are Sant Cugat del Vallés (25%) and Gran Via Sud – Plaza Europa (32%). Plaza Europa, a newly developing City Fringe location set

Investment market and outlook

around the Gran Via, will consolidate in 12-18 months when most of its projects will be delivered, including exclusive office towers in a strategic position between the city centre and the airport.

Development pipeline



Source: Savills Research

Rents

Top rents in Barcelona continue their upward trend. There has been a particularly marked increase in the CBD area, with rents reaching between €28-30/sqm/month, and asking prices for prime buildings rising to €32/sqm/month. Whilst the general trend is towards rising rents, there is a discrepancy of rental values among the different office locations of the city.

Another area of significant growth is 22@ where the large number of projects has created a supply of new state of the art offices in terms of both technical specification and efficient distribution. This has led to an increase in average rent of 10% with deals being signed at rates ranging between €17 and €21/sqm/month.

The lowest values have been registered in areas that after a number of years of low demand, have now begun to consolidate. An example of this is Mas Blau where the average rent has settled at around €10/sqm/month. The arrival of the new metro line 9 to this location in 2010 should substantially improve these rents.

Investment market

The volume of office investment in Barcelona during 2007 reached record levels close to €2bn. This takes into account leased product and projects, forward sales, etc. There was a marked acceleration in product being offered on the market in the fourth quarter, with several developers / property companies looking to offload non-strategic assets and portfolios in order to face debt commitments. This situation was directly related to the international debt crisis, fuelled initially by the sub- prime mortgage crash in the United States and other events.

The credit crunch and rising interest rates both reduced the number of potential buyers, and contributed to a general rise in yields, which for prime offices has now risen to between 5% and 5.5% for good quality leased product. In the second semester, some deals of product that was openly offered on the market were not completed as the anticipated yields (pre-summer) were not achieved. A number of development sites were also sold in the fourth quarter, at levels significantly below those achievable in the first semester. There was also a marked slow down in the market for floor by floor sales, very popular in recent years with small investors. This is due largely to a direct link with the struggling housing and mortgage markets.

In terms of buyers, Spanish funds and private Spanish investors were less active, whilst international investors showed a growing interest in the market, anticipating the movement of pricing and yields in a direction more favourable to their requirements. These investors also have the advantage of greater liquidity and lower gearing requirements.

Outlook

Take-up should remain relatively strong in 2008, reaching levels similar to those of the past two to three years. The financial crisis has not yet spread throughout the economy and corporate demand remains strong. 2008 will also see some of the new developments in 22@ and Plaza Europa / Zona Franca and some Out of Town locations, coming onto the market, yet the majority of this product is anticipated for 2009 and 2010. We expect therefore that through 2008, vacancy rates should remain low, levels should stay similar to 2007 and rents should maintain a moderate upward trend.

With regard to the investment market, the first semester is likely to be one of “wait and see”, as the banks consider their lending positions. A number of large property companies are looking to close corporate / share deals to resolve their financial problems, with the potential spin off asset sales following in the latter part of the year and into 2009. Investors are very cautious regarding speculative purchasing, forward acquisitions, etc. This in part is due to the fact that investment quotas are expected to be filled with leased assets and portfolios. The buyer profile is likely to remain similar to the latter part of 2007, with more activity from German, British and other international funds as pricing levels reach their more conservative expectations. Opportunity and Value Added funds are also monitoring the market closely in anticipation of very attractive deals becoming available.

Barcelona office market map

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