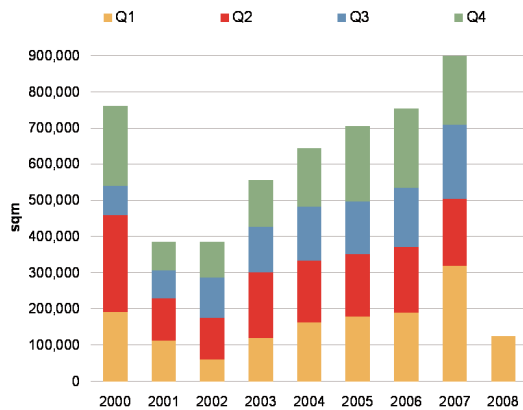


Madrid office market

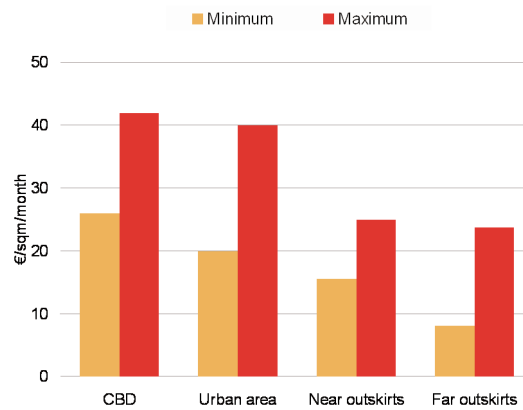
Spring 2008

Annual take-up



Source: Savills Research

Asking rents for exclusive office buildings



Source: Savills Research

“Due to the shortage of available quality space we expect rents to continue to rise albeit at a slower rate than in previous years. Yields will continue to soften, and this will provoke renewed interest from investors.”



Rafael Merry del Val - Head of Savills Spain

- The Spanish economy is experiencing certain difficulties due to higher inflation, decreasing and in private consumption, increased unemployment, uncertain GDP growth expectations. The situation of the financial markets is affecting the real estate sector as a whole but principally the residential sector.
- Both the quarterly volume and number of transactions have dropped to similar levels as seen in 2004/05.
- 40% of the surface area of the developments planned for this year will already be occupied on an owner-occupier or pre-let basis when they enter the market.
- Rental values continue their upward trend but at an increasingly slower rate. The overall year-on-year increase has reached 6%.
- The sale of the Banco Santander Central Hispano (BSCH) Financial City, on which Savills advised the buyer, has been considered the most important transaction in the European office investment market.
- Yields maintain the upward trend that began in the end of 2007. The adjustment in sales values and the stability in rents have resulted in a situation where yield levels in the Central Business District have reached nearly 5%.
- The international investment funds are monitoring the evolution of the Spanish real estate market closely in order to decide when to return to the market.

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Economy

Economy

Spanish economic situation

The Spanish economy continued to grow in the 2007 fiscal year at higher rates than those seen in other European countries. GDP's year-on-year average increase was 3.8% compared to the 2.7% seen in the Euro zone. However, a slowdown similar to that experienced by the majority of the economies during the same period was noticed in the second half of the year after the U.S. mortgage crisis, which occurred last summer. The international concern and uncertainty, which were emphasized in the first part of 2008 with regards to the financial markets, have already caused experts to reduce their initial growth estimates for Europe and the United States.

The Spanish GDP growth figure for the last quarter of the year showed a year-on-year rate of 3.5%, 0.3 % lower than the rate seen in the third quarter. The overall annual rate of 3.8% is 0.1% lower than the figure registered in 2006.

In Spain, demand components registered slightly lower increases than those seen in 2006 with consumption showing signs of slowing down and consumer confidence falling substantially although the investment in capital resources continued to register high levels. On the supply side, the slowdown in industrial growth and construction, in particular, is worth mentioning. The adjustment in the residential sector caused the annual increase in house prices to reach 4.8% at the end of the year, the lowest increase in the last ten years. The annual average was 5.8% in comparison to the 10.4% seen in 2006.

This slowdown in the construction sector has been decisive in the way employment rates have behaved. Employment showed a yearly growth of 3.1%, one point lower than the previous year. The growth rate for the number of people registered with the Social Security decreased throughout the year, showing an increase of 1.9% in January of 2008 in comparison to the 3.6% registered for the same period of 2006. Job offers were also more moderate (growth of the active population) while the overall unemployment rate for 2007 was 8.3% (the rate for the fourth quarter was 8.6%).

The increase in prices of crude oil and food placed the CPI at 4.2% for December, 1.6% higher than in 2006, although the average yearly variation rate of 2.8% is the lowest seen in recent years.

In an environment of international economic uncertainty, the growth of the Spanish economy is expected to continue to slow down, registering lower levels of GDP growth in 2008 (2-2.5%). These rates will continue to be higher than those seen in the Euro zone, which are expected to be around 1.5%.

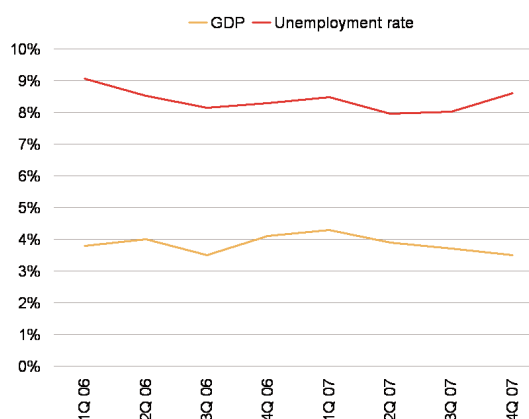
The first months of 2008

The estimates concerning the GDP growth for the 2008 fiscal year (of around 3.1%), made by the Ministry of Economy last year, are expected to be reduced in keeping with the estimates produced by the majority of the country's research services and financial institutions which place this growth in the range of 2.0% - 2.5%. This is due to the expectations that the behaviour of national demand and, more specifically, private consumption will worsen.

The number of people registered unemployed continued to grow in the first months of 2008 (an increase of 53,406 people in February, an additional of 2.3% with regards to January) confirming the change in tendency seen in the job market which began in the last months of 2007. The volume of residential transactions decreased by 27.1% in January of 2008 with regards to the same month of the previous year. The most noticeable decrease was in transactions involving second-hand properties, which confirms the adjustment in the Spanish real estate market.

Likewise, the CPI increased at a rate of 0.1% per month (4.2%, 4.3%, 4.4%, 4.5 % in December, January, February and March respectively) due to the increase in the price of crude oil and food. In March, the twelve-month Euribor, the main reference used to calculate the mortgage interest rates in Spain, stopped the downward trend it began at the beginning of the year (4.793% in December, 4.498% in January, 4.349% in February and 4.591% in March).

GDP and unemployment rate



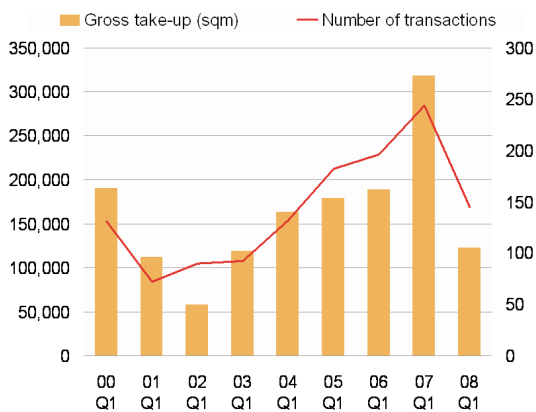
Source: INE

Leasing market - Demand

We have returned to take-up levels seen in 2003

The comparison of the data collected in March of 2008 with the first quarters of the last decade shows that the symptoms resulting from the general slowdown taking place in all of the country's economic areas have also been felt in the rental and sales markets in Madrid. Take-up level from January to March, at just under 120,000 sqm, is similar to the level registered in 2003. As far as transactions are concerned, the nearly 150 transactions recorded as comparable to the 130 transactions registered in 2004 and the 180 transactions in 2005. The activity in the leasing and sales market has relaxed due to the "election effect", which normally puts certain decisions on hold due to the possibility of a change in government, in addition to various economic factors such as private consumption, the unemployment rate, etc. The maelstrom of mega-transactions, which was seen in previous months has given way to a less dynamic market. The small and medium-sized spaces have once again become the key players in the office scene. More than 80% of lettings did not exceed 1,000 sqm and of those transactions involving large surfaces (>1,000 sqm) only 21% were for spaces of more than 3,000 sqm.

Take-up and number of transactions - 1st quarter



Source: Savills Research

Pre-leasing contracts, still present in the market

The shortage of available quality space in specific areas has favoured the continued presence of pre-leasing contracts. But contrary to what occurred during the previous fiscal year, the pre-leasing contracts are involving space in buildings, which will be put on the market shortly. In this regard, the "turn-key" contract signed by Peugeot for space in the Las Tablas Urban Development Plan (PAU) has marked the difference since BAMl will develop the new headquarters of 9,000 sqm on a plot of land bought by Pryconsa last year.

Sales to users section has been directly affected by the current market situation. Less than 5% of the registered transactions involved the purchase and sale of property. Among these transactions, two concerning "high-tech" buildings carried out in fringe city areas are most noteworthy. Contrary to the overall behaviour of the market, where the distribution of transactions is primarily concentrated inside the M-30, the sales have taken place mainly in the outer periphery.

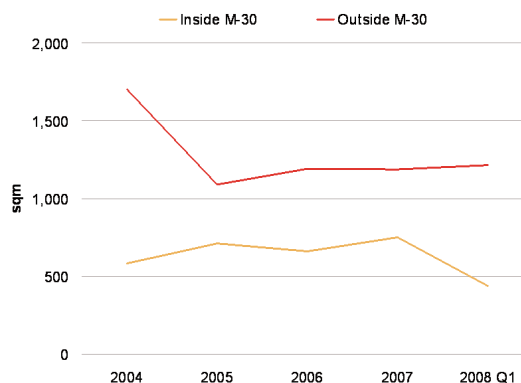
The city centre continues to be the most demanded area

44% of transactions have taken place within the urban area and CBD. Users continue to be interested in central locations although a slight decrease has occurred with respect to the last analysis of the previous year. The shortage of available space in buildings destined for tertiary use or the absence of alternatives for medium and large-sized surfaces continue to divert the take-up of offices towards less central areas. The north-east quadrant of the market has registered nearly 60% of the quarterly take-up.

Professional Services, the sector with the most activity

Those companies which provide services to other businesses continue being the most active sectors. The most demanded locations by these users continue to be the Central Business District and its surrounding areas although they are increasingly expanding their search radius and are opting for areas near the M-30 with good transport networks. The Public Administration has had a very low key presence since it was responsible for only 3% of the transactions and 3% of the gross take-up as well.

Average transacted area in respect to the M-30



Source: Savills Research

Supply

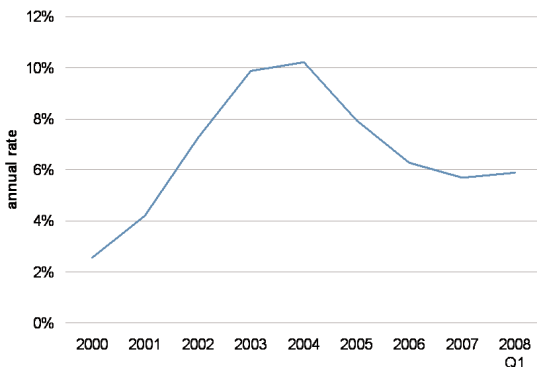
A slight increase in availability figures

The overall availability figures are increasing very slightly. Supply has increased by 4% approximately 690,000 sqm in buildings dedicated exclusively to office use registered in the analysis for 2007. This raises the total amount of vacant space to slightly more than 720,000 sqm. The slowdown in supply growth has been closely related to the fact that more than 50% of the new developments which were put on the market during the first three months, were already occupied by tenants who signed leasing contracts during the previous fiscal year or just before the property was delivered.

The stock has increased as well although this rise was barely perceptible since the growth, for the second quarter in a row, was below 1%. Thus, we continue to have just over 12 million square meters available.

The office availability level remains at circa 6%.

Annual vacancy rate

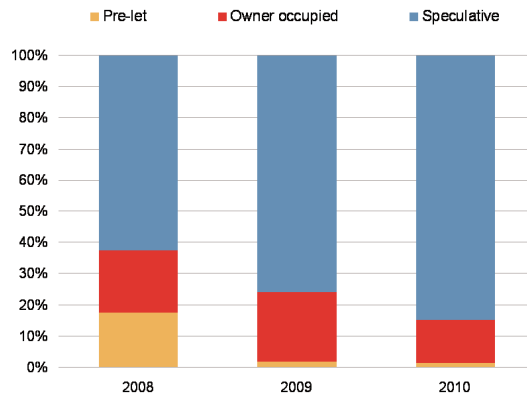


Source: Savills Research

Pre-let agreements from 2007 will occupy 20% of the new surface area planned for 2008

We expect the supply situation to remain stable throughout the year since nearly 40%, of the 500,000 sqm planned for this year, already have leasing contracts or will be occupied on an owner-occupier basis. On the other hand, it is likely that some projects will suffer a certain delay in the termination of their construction thus, as occurred last year, the total new surface area for 2008 will be reduced. As the year progresses, we will be able to make more specific estimates of the new surface area and how this will affect the available volume.

Future supply



Source: Savills Research

The highest percentage of new developments will be concentrated in central urban area

The geographic distribution of the surface area corresponding to the developments planned for 2008 shows an unprecedented situation: just over 25% of the new developments are located within the city limits. The three towers which will complete the CTBA (Cuatro Torres Business Area) will add more than 135,000 sqm to the capital's office stock although just 80,000 sqm will enter the market since the Caja Madrid tower will be the new headquarters for the financial institution.

Just over 42% will be located in the various business areas that make up the first ring in the peripheral zone. Some of the more noteworthy projects are several developments in Manoteras and the first section of the A-1 motorway, the new business complex in Méndez Álvaro and several buildings included in the Cristalia Business Park.

By building type, the surface area corresponding to those properties dedicated exclusively for office use represents nearly 80% of the total. However, when this analysis is associated with the status of the building's occupation when delivered, 71% of the "high-tech" space will already be occupied when put on the market while only a third of the total number of exclusive buildings already have users. The improvements in transport infrastructure and the excellent price/quality ratio of the technological buildings favour the consolidation of zones which began a restructuring process at the beginning of the decade.

Rents and Transactions

Positive growth

Rents continue to rise.

The year-on-year growth of the overall market was approximately at 6% although the behaviour of the various business areas has shown marked differences. Thus, within the city, the values along the Castellana-axis have remained stable while those properties located on the adjacent streets have increased by 20%. The overall analysis of the entire urban area shows a growth of 10% with respect to the same period of the previous year. Outside the M-30, the most significant increases have taken place in strongly consolidated areas. In these areas, such as the first section of the A-2 motorway or Vía de los Poblados, located areas surrounding Campo de las Naciones, properties have been recently put on the market.

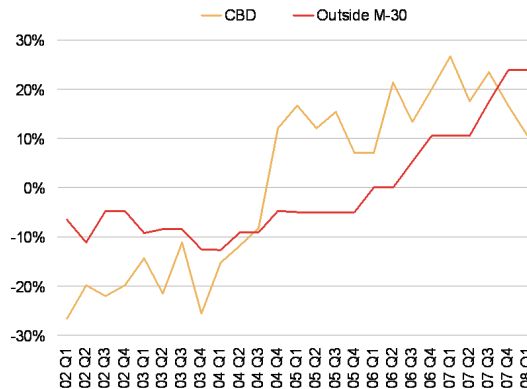
When comparing this information with last quarter's figures, we can extend the feeling of balance and stability which is currently felt in the capital's Central Business District to the rest of the market. The general growth in rents since the last part of 2007 has reached just more than 1.5%. The prime zone, and the areas in its immediate vicinity, is the area which has registered the largest growth, reaching 11.25%. Those areas with an excess in office supply have begun to experience a downward correction.

As far as the maximum closing values in the Central Business District are concerned, the price range continues to be between 40-42 €/sqm/month although the average value considered has reached just over 35.50 €/sqm/month. The maximum rent ceiling came close to 50 €/sqm/month. However, since it concerned a particular transaction in a very specific building we can not use this figure as a reference. The highest starting value for an immediately available building located on the Castellana continues to be 42 €/sqm/month for the Standard Life and Torre Espacio buildings.

Outside the M-30, the maximum rents vary between 22 and 24 €/sqm/month for those leases signed for spaces in the north-east quadrant of the inner periphery. These were marked by contracts in buildings which have recently been put on the market or which will be put on the market in the very near future. This quota has also been reached on the A-1 and A-6 motorways although it has been for spaces with less than 1,000 sqm.

The decrease for properties for sale has negatively affected the price per sqm. The general market behaviour is tending to adjust prices. This adjustment has been sharper in the outer periphery. This is the area where we see the largest differences, reaching up to 20%, between the value expectations of the buyers and those of the sellers. Those quality products located in areas with few or no alternatives for the buyer are still being bought for more than their market value, however, this overvaluation is less noticeable than it was a few months ago.

Prime rents evolution



Source: Savills Research

Major leasing transactions

Tenant	Area	Size (sqm)	Sector
Unisys	East	1,800	ICT
Oracle	A-6	2,000	ICT
Grupo Publicis	East	6,300	Professional services
Técnicas Reunidas	North	8,000	Professional services
Confidencial	Campo de las Naciones	8,500	Financial
Peugeot	North	9,300	Industry

Source: Savills Research

Major investment transactions

Buyer	Area	€m	Building
Propinvest (*)	A-6	1,900	Financial City BSCH
La Caixa	CBD	85	Paseo de la Castellana, 51
Caja Duero	South	60	P.E. Nozar
Realia	A-1	49	BP - Arroyo de la Vega
HNA (*)	South	44	Retama, 7
Metovacesa	North	43	Avda. Manoteras, 14
Metrópoli	North	34	Manuel Tovar, 6

Source: Savills Research

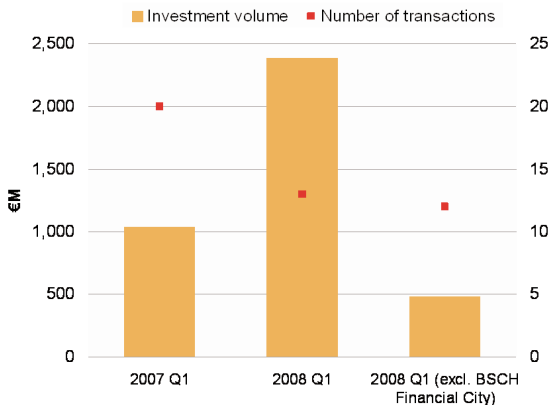
(*) Advised by Savills

Investment market

The Banco Santander Central Hispano (BSCH) Financial City, the largest transaction in the European Market

The investment volume for the first quarter of the year reached nearly 2,400 million euros which represents more than 130% with respect to the same period of the previous year and 79% of the yearly total for 2007. It must be made clear, however, that the mid-quarter report has been vastly distorted by Europe's most important transaction. The sale of BSCH's Financial City, for which the buyer was advised by Savills, reached 1,900 million euros which represents nearly 80% of the total quarterly volume. In order to have a more objective view of what is actually happening, we have chosen to exclude this transaction. Thus, the volume for the first three months reached around 500 million euros which is 53% less in comparison to the volume seen in the first quarter of 2007. The number of transactions has also registered a considerable decrease, 40% less than those signed between January and March of 2007. In other words, investment activity has become weaker, but the feared paralysis has not occurred.

Comparison investment volume 1st quarters 2007 and 2008 (incl. & excl. BSCH Financial City)



Source: Savills Research

National Investors, the market's main players

Until now, and with the exception of the transaction we have excluded from this analysis, the market has continued to be dominated by national investors in both sales and purchases. The profile of the seller is a "national development company". In order to provide further details, we can add that the majority of these have a business line dedicated to residential development and are traded on the stock market. The slowdown seen in the sales rates of houses, on the one hand, and the poor stock market results, on the other, have caused many companies to sell their non strategic assets in an attempt to alleviate their acquired debts. Up to now, the products being offered for lease

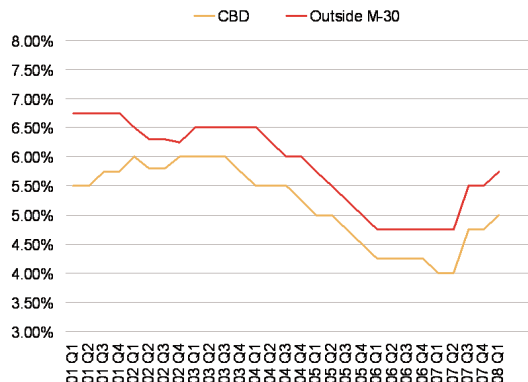
are located in peripheral areas and with yield rates above 6% or properties which are not considered strategic and located in the areas further away from the city. At the other extreme, we find the small and medium-sized investors who have not had much presence in the market in recent years. Their liquidity or the ease with which they can obtain financing due to their low level of indebtedness have encouraged these buyers to purchase good products at reasonable prices.

In this regard, there is still a considerable difference between the value set by the seller and the buyer's expectations. The current situation has given the upper hand in the negotiations to the buyer, who will tend to lower the final price. Nevertheless, the buyers continue to be very demanding with regards to the requirements of the properties. The occupation rate, or, lacking this, the rent guarantee, and the "quality" of the tenants, the length of the contracts, etc, are aspects which are greatly valued in order to minimise risks and to be able to obtain financing.

Yields on the increase

Yields continue their upward trend. The stability in rents and the correction in the sales values are favouring the increase in yield levels. In prime locations, both inside as well as outside the M-30, a growth of 25 basis points has been seen which implies a growth of around 5% for the Castellana area. Foreign investment funds are paying very close attention to the evolution of the market and are interested in seeing yields reach the optimum levels set by their parent companies as well as quality buildings being put on sale in the Central Business Area and the surrounding areas.

Prime yields



Source: Savills Research

Outlook

The forecasts for the Spanish economy indicate that activity will slow though it will still remain higher than the rate seen in the Euro zone

According to the latest data from Consensus Economics (April 2008), the GDP is expected to grow by around 2.3% this year, a slight reduction in the estimate of this figure and the figure corresponding to private consumption (with a year-on-year variation of 1.9%) with regards to forecasts made recently. This slowdown should continue into 2009 when the price index, however, should show a notable moderation (from 3.7% in 2008 to 2.6%).

The problems in the construction sector and those regarding credit restrictions will be some of the causes of this trend change. The newly elected government, in order to soften its effects, has announced fiscal policies and increases in public spending.

GDP for the Euro zone will grow at 1.5% in 2008 (increasing to 1.7% in 2009) and private consumption will grow by 1.3% (1.6% in 2009). This will keep Spanish growth above the European Community's average although inflation in Spain will continue to be greater than that registered on the continent (2.9% in 2008, 2.1% in 2009).

Spain - Economic forecast (y-o-y variation)

	2006	2007	2008	2009
GDP	3.9%	3.8%	2.3%	1.9%
Consumer spending	3.7%	3.1%	1.9%	1.8%
CPI	3.5%	2.8%	3.7%	2.6%

Source: Consensus Economics

Several large demand requests in progress

Activity in the Madrid office market has been moderate since the beginning of 2008. According to initial calculations we believe that the annual volume could reach around 500,000 sqm, but there are several large demand requests in the market which would increase this figure by more than 10%, making it closer to 600,000 sqm. On the other hand, the creation and restructuring of various bodies of the central government are expected to generate the need for space, thus returning to the normal behaviour seen in the public administrations, which usually demand large-scale spaces. The estimated take-up forecast for this year is clearly below the 900,000 sqm (a historic

record) reached in the previous fiscal year but the reduction is less than what was seen between 2000 and 2001 when the figure was nearly 50% lower.

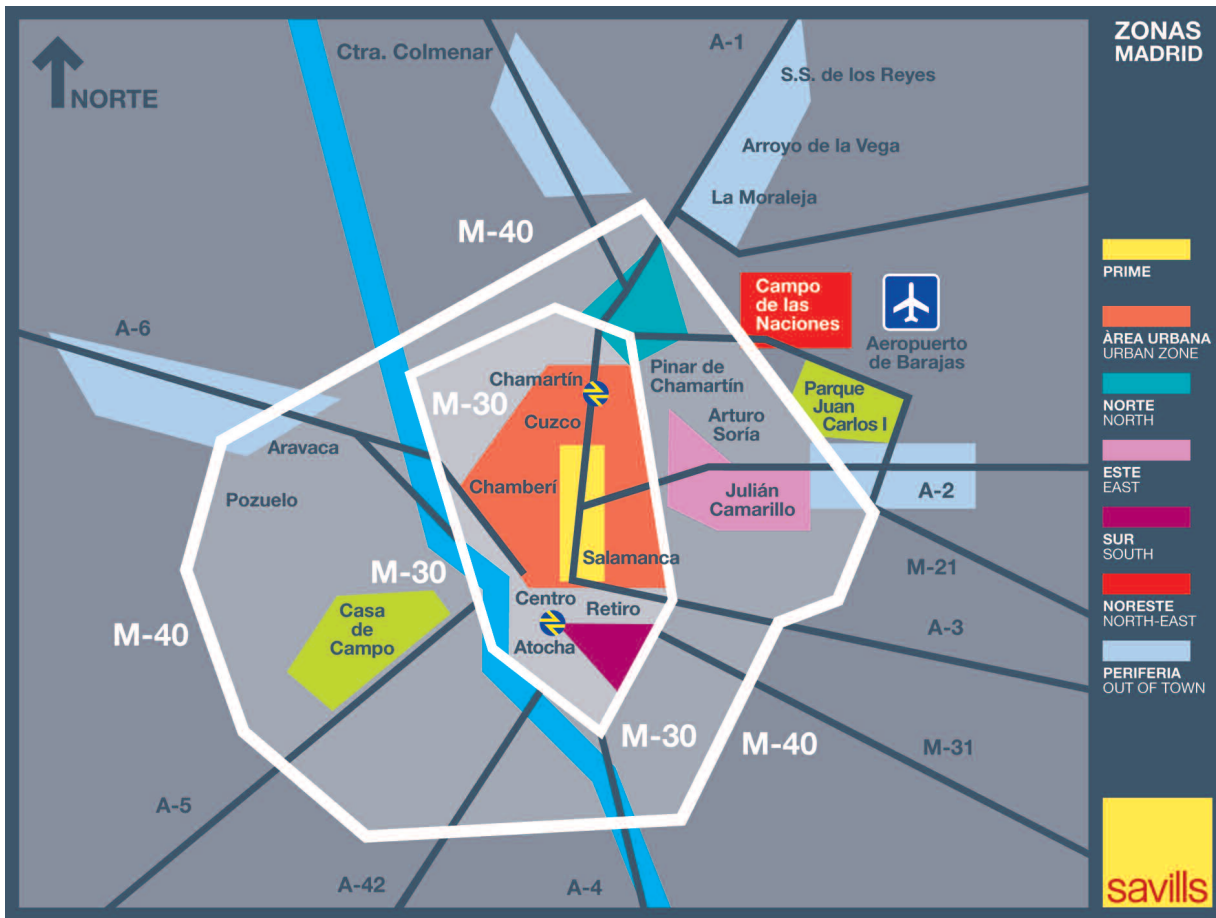
As far as the incorporation of new developments into the market is concerned, of the nearly 500,000 sqm planned for this year, 40% of the surface area will already be occupied by the owner when it enters the market, such as the Caja Madrid Tower in the CTBA, or by tenants most of which signed pre-lease contracts last year. Nevertheless, a few transactions have been carried out during the first quarter concerning buildings which will soon enter the office market.

Rent behaviour will be determined by the basic economic principal of supply and demand. With a generalised slowdown in the market, those zones that have a supply shortage will maintain their current values and a gradual decrease in prices will begin in the areas that are less consolidated and farther from the centre.

Continued activity in the investment market

The investment market continues to be active. The yields maintain the upward trend that began at the end of last year. The current situation has left many investors who do not have liquidity and for whom it is difficult to access financing out of the game, thus competitiveness in the market has decreased significantly. As we first mentioned several months ago, real estate portfolios belonging to real estate companies are entering the market due to the need for these companies to obtain liquidity and alleviate their acquired debts. The available product is found mostly in secondary zones, but, in the upcoming months, quality properties located in the city centre and the Central Business District are expected to enter the market. This is the moment that we expect the return of international funds in the market, as they will be able to acquire high quality product at more attractive pricing.

Madrid office market map



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