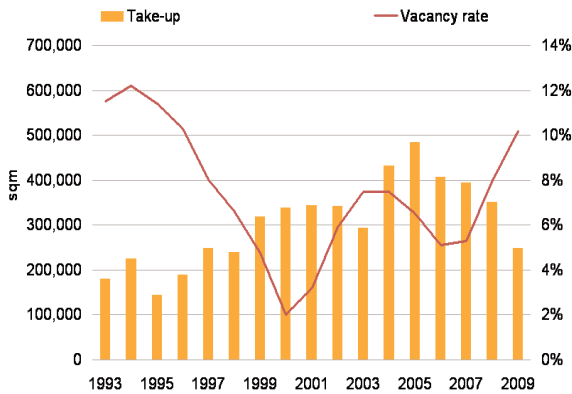


Barcelona office market

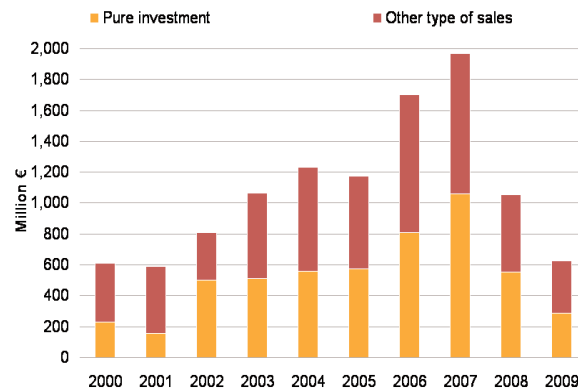
Winter 2009-10

Take-up and vacancy rate



Source: Savills Research

Investment volume



Source: Savills Research

“The year 2009 has been dominated by unheard of levels of economic uncertainty, a factor which, without doubt, has influenced many business decisions in the real estate market. This year should bring greater levels of certainty, which, in turn, should contribute to improved performance of the markets in all its facets”

Eusebi Carles (Managing Director Barcelona)



- The precarious economic situation in the country has resulted in a considerable reduction in the leasing of office space. The volume of take-up in 2009 fell by 30% in comparison to 2008. The first quarter suffered most greatly from the weak economic situation, whereas take-up improved considerably in the last quarter, comprising 40% of the total area leased throughout 2009 as a whole. This quarterly improvement in take up allows us to envisage an incipient recovery in the occupational market.
- The average vacancy rate in Barcelona stands at 10.2%, a level which had not been reached since 1996. The Decentralised areas and the New Business Districts have been most affected by this increase in vacancy, given that several large projects have been delivered in these locations.
- Rents have suffered their sixth consecutive quarterly fall. The prime rent in Barcelona at the end of 2009 was at €20/sqm/month, which represents a quarterly decrease of 7% and 28% if we compare it to the peak of the market.
- 2009 ended with an overall level of investment of €626 million, far below the record levels reached in 2007. The underlying figures reveal a much weakened market, given that if we exclude the mortgaged properties taken back by banks and owner occupational deals the real investment figure falls to €288 million. In 2010 some of the prevailing uncertainty should be lifted, which in turn we expect to have a positive effect on the investment market.

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Economy, demand and supply

Economy

The large number of stimuli applied to the economy have succeeded in stopping its freefall, both with regard to the financial crisis and the real economic crisis and allows us to believe that the worst is behind us. According to government statements, "the economy is now in a position to begin its recovery". However, this recovery has to then be transferred to consumption, which proves a little more complicated, given the depressed situation of the labour market.

Euribor ended January, 2010, at 1.22% after 14 months of continuous reductions, which brings respite to consumers. Although the change in direction of inflation (prices rose by 1.1% in January, 2010, its highest level since December, 2008) can lead one to think that there is a threat to the future evolution of interest rates, the most probable outcome is that the ECB will maintain interest rates until it is sure that there are strong indicators of recovery in both consumption and investment, especially while unemployment continues to rise.

However it will be necessary in 2010 to monitor whether or not the economy is capable, of maintaining levels of activity which are minimally adequate, once the stimuli have been withdrawn.

Letting Market

Take-up and demand

The volume of take up in the Barcelona office market during the last quarter of the year rose to 99,800 sqm, which added to the more than 148,000 sqm of the previous three quarters, gives us a figure of 248,000 sqm, 30% lower than in 2008.

However, it is important to highlight that the level of take-up in the last quarter of the year practically doubled that of the third quarter, making up nearly 40% of the total take-up for the year. It is also important to underline that it was in the first quarter that the greatest consequences of the economic downturn were felt, with levels of leasing 35% below the quarterly average.

This quarterly growth allows us to envisage an incipient recovery in demand, which has been favourably influenced by large deals such as the move to Cornellà de Llobregat by insurance company AXA Winterthur from its head office a 9,000 sqm deal, or the lease of more than 3,000 sqm by Cofely at the recently inaugurated Torre Realia in Plaza Europa.

Deals of over 3,000 sqm have made up 55% of the area leased during the last quarter and 44% of the area leased over the whole year.

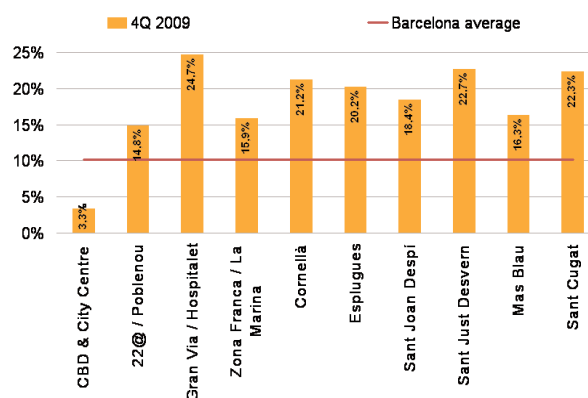
By zone, the New Business Districts and the Decentralised areas continue to be interesting locations for companies, especially in times such as now where the reduction in costs has become the main objective when looking for a new premises. These

areas are responsible for 50% of all take up. New Districts such as Plaza Europa are already welcoming their first tenants, who have absorbed more than 14,000 sqm.

Supply and vacancy rate

The office stock in Barcelona is currently 5.3 million sqm, of which 547,000 sqm are vacant. The handover of several large projects principally located Decentralised areas and New Business Districts has brought about an increase in the average vacancy rate, which has now surpassed 10%, a figure which had not been reached since 1996.

Vacancy rate by submarket



Source: Savills Research

Among the most important projects are the four buildings complex of Can Ametller and the Vallsolana Garden Business Park, both in Sant Cugat del Vallès, Torre Realia in Plaza Europa and the Diagonal 22@ building in 22@ district in Poblenou. These areas are the ones that have been most affected by the increase in the vacancy rate.

New supply in 2010 has been drastically reduced. Of the nearly 500,000 sqm expected for this year, only 236,000 sqm will see the light, of which 36% are already accounted for. This swift correction that has taken place in the market will prevent significant increases in the vacancy rate and the consequent plummeting of rents which this could cause

Rents, investment and outlook

Rents

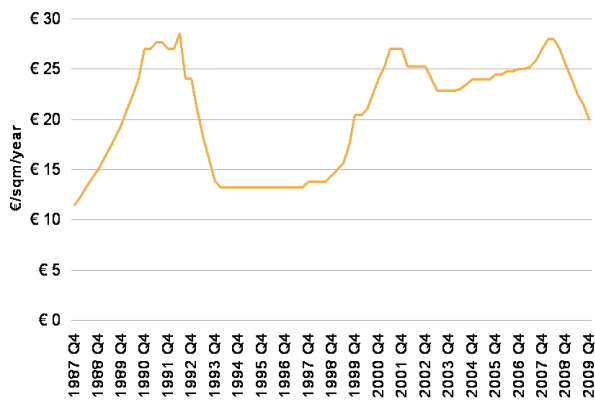
The impact that the economic crisis has had on the cost structures of companies has resulted in higher priority being given to savings on rents, which has become the determining factor when looking for office space. The adjustment of rents by certain owners with the objective of stimulating demand, along with other factors such as the increase in vacancy, have brought about a subsequent fall in rental values.

Prime rents continued to fall during the fourth quarter, reaching €20/sqm/month. This level represents a quarterly decrease of 7% and 28% if we compare it to the peak of the market.

This has become an opportunity for companies currently looking for offices, also taking advantage of other incentive formulas being offered by some landlords to potential tenants, such as rent free periods, stepped rents, and to a lesser degree, contributions to fit out costs.

We forecast that this downward adjustment in rental values will continue but at a more moderate rate given the significant decrease already accumulated.

Quarterly evolution of prime rents



Source: Savills Research

Investment market

There was an increase in investment activity in the fourth quarter over the third quarter, which is usually the case due to the effect of reinvestment requirements. It must be said, however, that this was not difficult to achieve in a year of such weak investment activity.

In numerical terms, the year closed with a total volume of €626 million, far below the €1,048 million in 2008 (-40%) and the €1,962 million in 2007 (-68%). In quality terms 2009 reveals underlying figures which are even more negative, since if we exclude the mortgaged properties taken back by banks and owner occupational deals the real figure for investment falls to €288 million.

While it is true that the prevailing message from within the investment community was one of caution and therefore the need for security of returns, it is also true that there is a growing realisation that the ideal investment product they are looking for does not exist or is, at least, scarce, resulting in many investors beginning to study alternative locations and formats to traditional core office deals in which to place their capital and are increasingly prepared to assume greater levels of risk than they would otherwise desire.

This last factor may lead to some growth in investment volume by generating interest and investment activity beyond the boundaries of Avenida Diagonal and Passeig de Gràcia. In addition, the fall in asset values over the past 30 months which has left many loans on the verge of default, could result in an increasing number of quality investment products coming onto the market, as a result of refinancing agreements.

Outlook

During 2010 it is foreseeable that some elements of uncertainty will begin to disappear, which should have a positive effect on the levels of investment, whose greatest threat is uncertainty.

The prevailing recession-uncertainty combination in 2009 is likely to be repeated to a certain degree in 2010, but unlikely to be at quite the same level. For this reason an increased level of activity is expected.

Our forecasts for 2010 suggest an increased demand for office space, at a minimum during 2009, and a consolidation in rental values towards the second half of the year.

It is at that moment that the fall in rents should cease, given that these have already reached levels close to their natural floor and because, furthermore, the handover of new developments has come to a halt as the last projects commenced in 2007 have already been delivered and no new developments have started since then. Therefore after mid 2010, the market will be absorbing a stock which is not going to grow in the next two years in any significant form.

Barcelona office market

Survey map



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