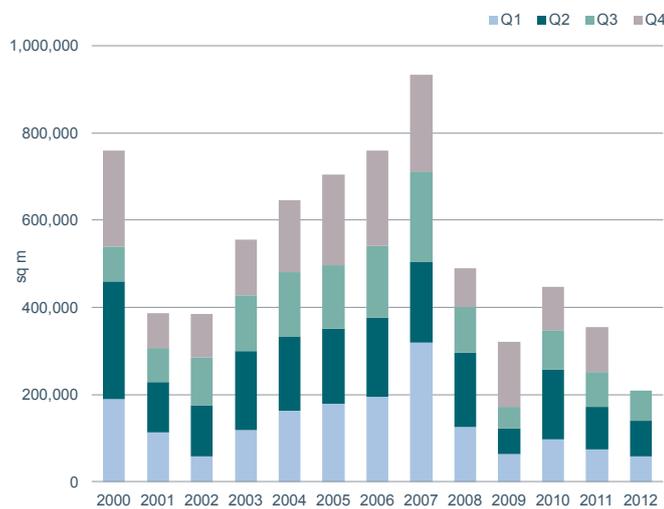


Market report Madrid Offices

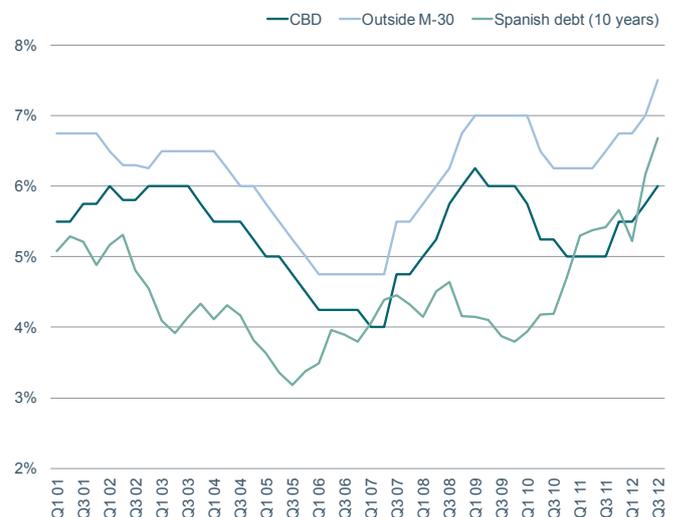
Q3 2012

GRAPH 1
Annual take-up



Source: Savills

GRAPH 2
Prime yields vs Spanish debt



Source: Savills

SUMMARY

Overview

■ The deterioration of the country's economic climate is having a direct knock-on effect on the capital's office market. Take-up continues to fall, although the take-up figure for Q3 (almost 70,000 sq m) has exceeded expectations, thanks to the completion of several large transactions (space over 5,000 sq m).

■ Available supply amounts to just over 1.6 m sq m, and this has increased the vacancy rate, which currently stands at over 12%. This increase is mainly due to more second hand space coming onto the market.

■ Several project handovers have now been postponed until 2013. We will see over the next few months if the level of new supply in the pipeline for next year will increase further - this currently stands at 150,000 sq m, 70% of which are refurbishment projects.

■ Rental prices continue to spiral downwards. Excess supply and the fact that it is impossible for occupiers to take-up all of this space, means that further adjustments will take place over the next quarters. Growth in the office market will depend on whether the economy recovers, which at present appears to be a very distant prospect.

■ The office investment market continues to be 'on hold'. The accumulated investment volume to September has fallen by over 50%, (excluding Torre Picasso) as there are very few active investors in the market. As investors are all national, their investment capacity is more restricted. International investors are approaching the market with kid gloves, and are waiting in the sidelines until economic indicators and prices come in line with their purchasing remit.

■ The achievable yield level for the CBD at the end of Q3 would be 6%.

Economic situation

We are currently experiencing a further decline in growth worldwide and this goes almost without exception. Peripheral European countries are suffering from fiscal austerity measures, and this creates uncertainty with regard to their ability to combine these necessary adjustments with a return to economic growth. Among these countries, Spain has been and continues to be the focus of international attention, to the point where it finds itself on the brink of an economic bailout, which will undoubtedly affect the economic situation in the near future.

The Spanish economy has recorded an annual decline in GDP over two consecutive quarters, which is in line with the performance of the European economy as a whole. In recent months, the risk premium for Spanish debt has received more attention, which has led to extraordinary measures such as the European bailout of the Spanish banking sector. Additional fiscal adjustments, together with the need to control the deficit, will hamper a recovery in the short-term.

Although there are many factors that are having a negative effect on the economy, there are, however, some positive aspects, such as the decline in labour costs, an increase in productivity and the increase in non-EU exports. However, the slowdown in the international economy is not helping the situation, as the country continues to suffer from several problematic issues. Domestic demand remains subdued and this is only offset by the fact that the external sector, which, as we mentioned beforehand, is being threatened by an overall downturn on the continent.

The difficulties the banking sector is experiencing and the persistent restriction of credit to businesses and individuals are affecting both gross fixed capital formation, as well as household decisions regarding investments and purchases. Consumer confidence has not recovered, and it is not expected to do so after the constant cuts in public spending and tax increases, as well as the recent increase in inflation. In addition, the job market is not showing signs of improvement, and it is not expected to do so either, given that forecasts for

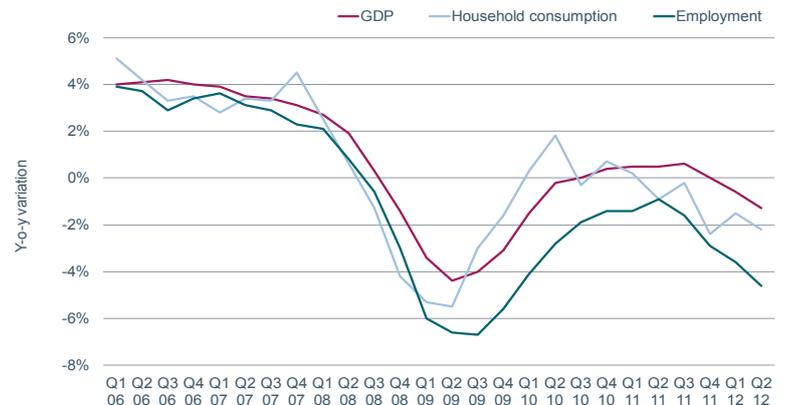
"In an economic downturn, the performance of the Spanish economy will depend on requests for further assistance or bailouts" Rafael Gil, Savills Research

the Spanish economy will continue to be downgraded in the near future.

Therefore, it is likely that all the new economic measures implemented by the Spanish Government, which are expected to have a positive effect in the long-term, will cause the economy to shrink in the short-term. Finally, in a bid to deal with the difficulties in acquiring finance that Spain is currently experiencing (at the beginning of October) it is likely that the country

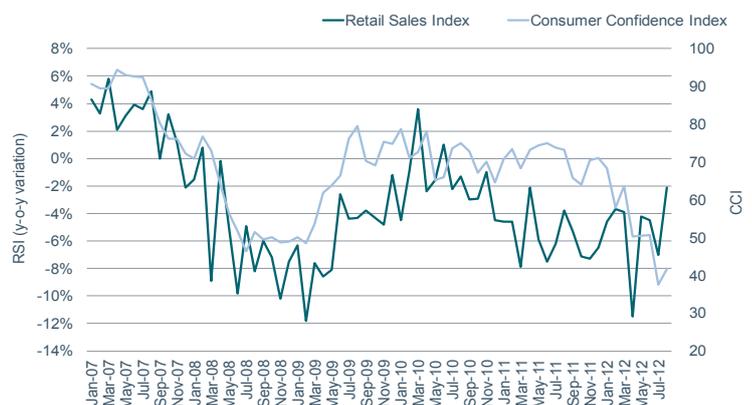
will request an economic bailout. This should be implemented in good time and in an appropriate manner. In short, upcoming events will shape how the Spanish economy will progress in the future.

GRAPH 3 GDP, consumption and employment (Spain)



Source: INE

GRAPH 4 Retail sales and consumer confidence



Source: INE, CIS

Take-up and demand

The deterioration of the country's economic climate is having a direct effect on the capital's office market. The uncertainty in the short and medium-term will freeze or delay many companies' plans to relocate their headquarters, with most companies preferring to renegotiate the rent for their current office space. The immediate effect of this is being a decline in take-up volumes. However, the amount of space (approx. 70,000 sq m) taken in the third quarter exceeded all expectations.

The main reason for this was the coinciding of various large transactions over 5,000 sq m, which made up 26% of the space taken between June and September and almost 10% of the accumulated take-up since January.

Although businesses are generally approaching the market with caution, not everyone has the same expectations, and some are making the most of opportunities to let space at prices that are already at the lowest levels recorded since the last downturn in the market (2004).

Refurbishment projects are playing an important role in this regard, as the three largest transactions this quarter (all over 5,000 sq m) were for refurbished space, or properties which were expected to be refurbished.

City centre vs periphery

If one analyses take-up within the M-30 ring road in Q3, the results are unusual. It is more common for the majority of space to be taken amongst the periphery areas outside of the M-30, as new business complexes have moved outside of the city, due to the fact that there is a limited amount of space to build new developments in the urban area. It is precisely in this area where occupiers with large space requirements found a solution to their space requirements. Average take-up levels are at an all-time high: 59% outside the M-30 and 41% in the city centre.

On the other hand, between June and September 2012, 62% of space taken was located in the city, and the remaining 38% was located in submarkets further outside the city centre. We can find out why this was the case if we undertake a more in-depth study of transactions over 1,000 sq m, as 70% of these transactions were located in the urban area, and 65% of this figure related to large office spaces.

At this point, we need to refer to refurbished space once again, as around 75% of transactions for large space taken in the city related to properties which were recently put onto the market or those that had been refurbished.

On the other hand, out of the contracts that have been signed in the periphery, hardly 40% of space relates to new offices.

GRAPH 6

Public Sector demand



Source: Savills

Annual accumulated figure

The total accumulated figure since January stands at 210,000 sq m, which is 16% below the figure registered over the same period last year. With regard to transactions, the difference slightly exceeds -1%, which has caused a sharp decline in the average size of deal.

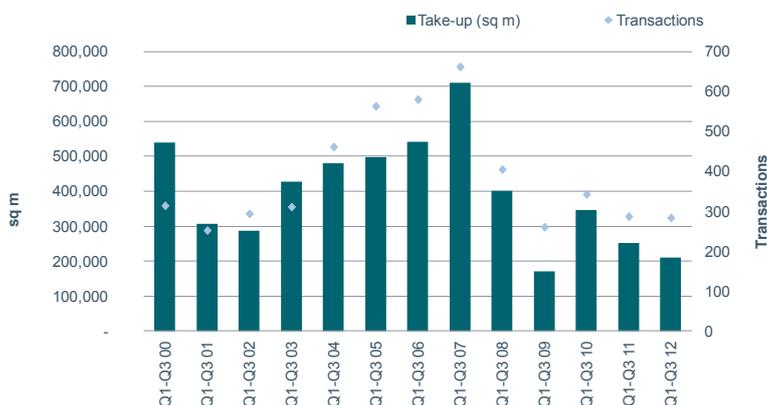
The overall yearly forecast stands at around 300,000 sq m. The unlikelihood of the market reactivating before the end of the year, together with the bleak economic outlook, may mean that we may not even achieve this forecast, which would represent the lowest level on record since 2000.

Public Sector

The three government bodies remain out of the office market. Their analysis of their actual space requirements, space optimisation and cost reductions have started to bear fruit and in many of their properties have had their rents renegotiated. They will soon relocate to properties they own, which until now have been either under-utilised or vacant, and to others properties which they will occupy let at very low rents.

GRAPH 5

Historic trend - Q1-Q3 take-up



Source: Savills

Current availability

Over the summer months, the supply of office space in Madrid continued to rise. At the end of Q3, just over 1.6 m sq m of space was vacant. The vacancy rate hit an all-time high of 12%.

However, it was the opposite case for the CBD. The vacancy rate remained below 4%, a slight quarter-on-quarter decline.

As has been the case for several quarters, the increase in supply was mainly a result of occupiers vacating office space, while there is still limited new or renovated space coming onto the market. On the other hand, owner-occupied properties or those with pre-let contracts have restricted the amount of new space available to hardly 10,000 sq m, which is just over 25% of the total figure delivered between June and September.

Significant new completions

One of the most highly awaited deliveries, as a result of the continuous delays, has been the refurbishment of the José Periel Pastor building, the old headquarters of Catalana Occidente, in the heart of Paseo de la Castellana. The property is owned by Mutua Madrileña, and will house the headquarters of the legal firm Pérez Llorca.

In terms of volume, we would highlight Banco Popular's new DPC (data processing centre) in the immediate surrounding area of Campo de las Naciones. The building has already been fitted out and has the furniture in place in order for the bank to start operating; therefore everything suggests that they will move there soon.

Future supply

With just three months to go until the end of the year, 60% of space in the pipeline has been delivered. Having said this, some projects have been delayed until 2013, and in the next few months we will see if the handover dates for other developments will be delayed by a further few months.

To date, the amount of new or renovated space expected to come onto the market in 2013 is around 150,000 sq m, 70% of which relates to refurbishment projects. Fit out and refurbishment projects for several office buildings in the capital are common, as they enable owners to adapt outdated complexes to new working and communication styles, without increasing the total level of stock in the market. The relocation of large companies such as Cuatrecasas and Repsol will enable vacant space to be updated to current requirements; however they are not the only projects. Some of the space has already been taken, and as such will come onto the market occupied, for example PwC's old headquarters on Paseo de la

Castellana 43 and Almagro 40, which were pre-let by Abengoa and Linklaters respectively.

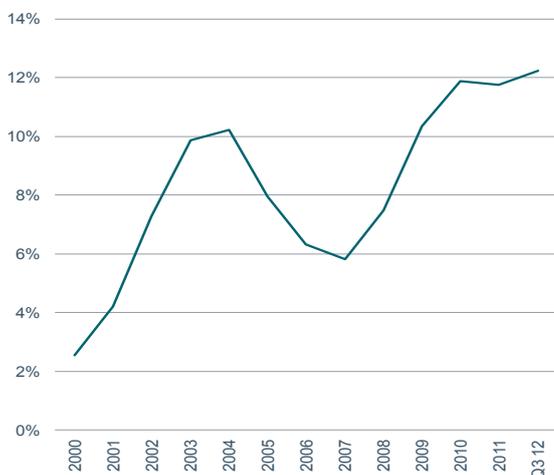
Sustainability

Occupiers are beginning to catch onto the benefits and competitive advantages linked to sustainability in offices, and these are becoming a factor to take into consideration when searching for office space. It is not a key factor when it comes to making a final decision, but the subsequent energy savings and increased comfort levels within the facilities will be taken into account.

The vacancy rate of completed office space in the capital, which has been certified or registered with international certifications (LEED and BREEAM) stands at 10%. Although this is a high percentage, it is below the global market level.

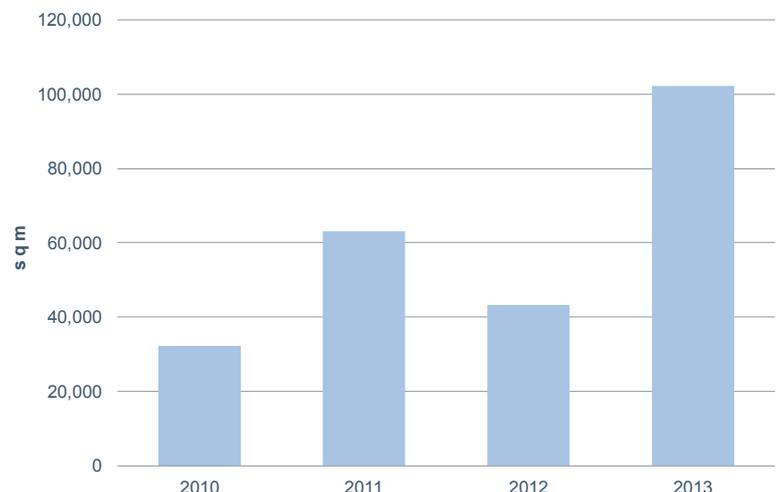
Rental prices are the main factor to take into account when selecting a new location. This may be the reason why there is not a significant difference between rental asking prices for certified buildings or those in the process of being certified, and other similar buildings (in terms of the year they were built, lettable space etc.) in their direct catchment area.

GRAPH 7
Availability rate



Source: Savills

GRAPH 8
Pipeline: refurbishment projects



Source: Savills

Rents adjust even further

The increase in the amount of supply and ailing demand continue to push rents downwards. The market is not showing signs of recovery and forecasts for the Spanish economy set by different official and private national and international organisations are becoming ever more negative.

The light at the end of the tunnel is fading further and further away as time goes by, and the office market will not begin to recover until the economic situation improves.

The average rental price for all office properties (exclusive and high-tech) between January and September was around €15 per sq m/month, which is a year-on-year decline of around 10%. However, the gap between minimum and maximum values exceeds 20 euros. On the other hand, submarkets have been performing differently, and, as always, the areas furthest from the city centre are suffering more from the issues in the market. In some areas, rental prices are at the same levels as prime industrial properties, and despite this, they are unable to find tenants for these properties.

The lowest level in Q3 was €6 per sq m/month, however it is becoming increasingly more common for firms to take space below €10 per sq m/month. Since 2009, the number of deals at very low rental prices has increased gradually from 4% to 12% for 2012

"The latest economic forecasts do not bode well and rental prices will continue to trend downwards until at least next year"

Gema de la Fuente, Savills Research

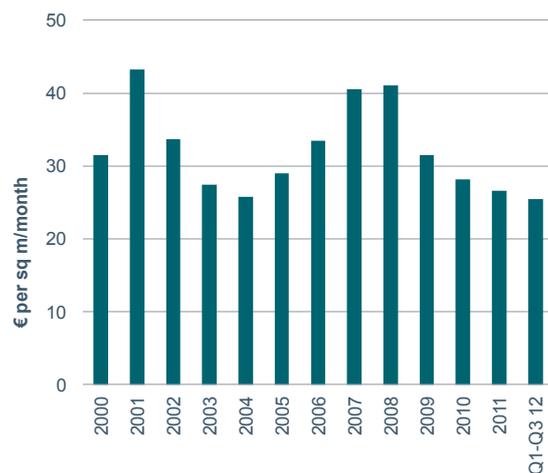
up until now. It is true this is mainly affecting peripheral areas located well outside of the city centre, but little by little, these levels are reaching peripheral areas located closer to the M-30.

Prime rents

The CBD has not managed to escape the downward spiral. The theoretical closing value for Q3 was between €25.00 per sq m/month and €25.25 per sqm/month, which is a year-on-year change of -5% and -40% compared to the previous top of the market.

The downward spiral continues and has not come to a stop, and adjustments will become even more apparent as and when there is more vacant space in the Castellana area. The Madrid City Hall will vacate Paseo de Recoletos 12 and other government bodies' space optimisation plans is likely to affect properties in the CBD.

GRAPH 9
CBD prime rents



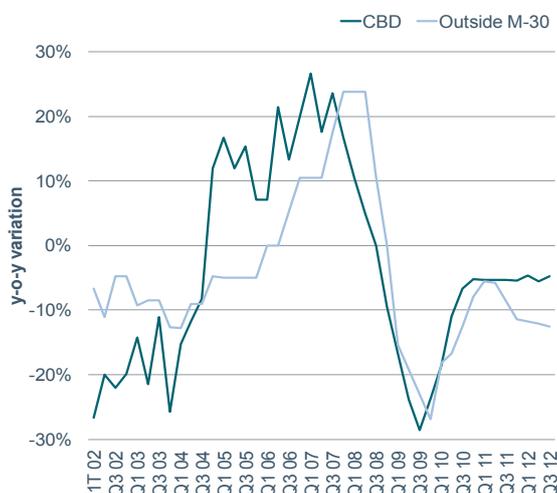
Source: Savills

TABLE 1
Main letting transactions - Q3 2012

| User | Zone | Area (sqm) | Activity |
|--------------|------------|------------|-----------------------|
| Pérez-Llorca | Urban area | 6,500 | Professional services |
| Confidential | Urban area | 5,500 | Industry |
| Linklaters | Urban area | 5,300 | Professional services |
| CBRE | Urban area | 3,500 | Real Estate |
| Clece | North | 3,100 | Professional services |

Source: Savills

GRAPH 10
Prime rents growth



Source: Savills

Investment market

The office investment market in Madrid continues to be 'on hold'. The ailing economy has taken its toll and investor activity has reached a standstill, which has caused many investors to stay out of the game.

Spain is now off international investors' radars and the few that have analysed a purchase option have seen the proposal stopped dead in its tracks when presented to their management board, as was the case with Paseo de la Castellana 89. Country risk outweighs the benefits that an investment opportunity may have.

As a result of this, national investors are the most active within this current climate of inactivity.

The accumulated investment volume between January and September did not even reach €100m. The 400 million euros relating to Torre Picasso are excluded from this study, as the uniqueness of this transaction would distort the true situation in the market. If we take this into account, investment has fallen by 56% year-on-year.

A few transactions were signed during the summer months with an average lot size of 25 million euros. And although private national investors are at an advantage given that they hardly need to depend on financing, their investment capacity is restricted to small lot sizes.

In any event, they will be more demanding given their dominance in the market.

The rules of the game have changed, and now buyers have tightened their requirements, and are focused on obtaining high returns with low prices per sq m for quality buildings, in a good location, with solid and solvent tenants, market rents and long-term contracts. Yields are higher if any of the above factors are not achieved.

Product for sale

There is latent demand waiting for good investment opportunities. And not all potential buyers are interested in all types of properties. Right now, there are between five and ten active investors in the market, with very defined profiles, who are interested in very specific types of properties, but the supply that is currently out there is not fitting everyone's requirements.

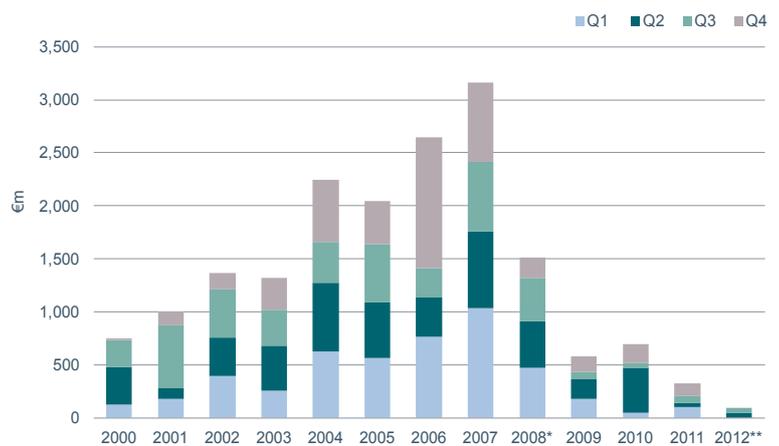
Up until just a few months ago, the lack of supply was somewhat alarming, but little by little more and more opportunities are cropping up, primarily sale & leaseback transactions.

In several cases, in addition to standard factors, investors have

shown interest in properties that have a potential change of use to residential use, once the lease agreement has ended, as they are located in very consolidated residential areas. These types of deals would fit the bill for some national investors. Other private investors are on the lookout for new interesting opportunities coming up in the CBD or the surrounding area, but the most in-demand product is also the scarcest. Even if one is willing to pay above market for the property.

The properties that the Town Hall put up for sale are not living up to expectations. The property portfolio auction received no response for the second time in a row, and by law, a 15% discount will now be applied. If there are no bids in the next round, a

GRAPH 11 Madrid office investment volume



Source: Savills / *without Ciudad Financiera Santander / ** without Torre Picasso

GRAPH 12 Prime CBD capital values



Source: Savills

"In the last few months, the Madrid office investment market has seen a lack of activity, the lowest seen this century, as well as a lack of deals closed by international investors"

Luis Espadas, Capital Markets

new auction could be called with an additional 15% discount taken off, which could mean that the properties could be sold at an overall discount of 45%. In terms of importance and price expectation, the portfolio includes the current headquarters of the Government Department of Environment, Security and Mobility, located on Paseo de Recoletos, 12. To sell it as an investment is becoming ever more complex, because some properties are or will be surrendered soon, including the aforementioned "jewel of the crown", as the area of the City Hall that currently occupies these departments will vacate the space at the end of this year.

On 10th August, the Community of Madrid also announced that it will auction 15 properties it owns. The deadline for offers is 14th December, so we still have to wait a few more months to see if the market responds well to the portfolio or not.

However, the autonomous government of Catalonia has now started to cash

in. Having switched its sales strategy from specific lots of properties to the sale of individual properties, in the first half of the year, they received 70 million euros for the sale of three headquarters sold as sale & leaseback transactions.

Historic low

Everything suggests that 2012 will register the lowest investment volume since 2000. To date, the lowest figure was achieved in 2011, at around 365 million euros. Given the outlook for the last few months of the year, it does not look like the market will make a quick recovery, and if all agreements under way are signed, the annual figure will stand at between 200 and 250 million euros.

Amongst some of the sales processes that could be signed, we would highlight a lot of four buildings in a business park. Two of these are occupied, and the remaining two are vacant. This lot has sparked interest amongst several companies that would purchase a block of properties to occupy the space as an owner-

occupier, whilst making a return on the deal.

Other buildings in the complex were sold in 2006, just before the financial and real estate crisis, and the prices currently being offered are between 40% and 50% below the figures achieved in 2006.

Yields

The market continues to be in free fall. The current ailing economic climate and the uncertainty shrouding the coming few months have had a devastating effect on various investors' intentions of purchasing properties. International investors are monitoring the market from a distance, and are waiting in the side-lines until economic indicators, prices and yields, come in line with their purchasing conditions.

National investors are more active, but they are also keeping a watchful eye on events covered by the financial press each day, in the hope that they will see what the political leaders' next moves will be, and the consequent effects these will have on the capital's office market.

The combination of subdued demand and demanding occupiers, as well as economic indicators not showing signs of recovering anytime soon, gives us no grounds for optimism. On the other hand, the lack of deals makes it difficult to establish where yields are currently at in the different market segments. However, there is not a shadow of a doubt that yields have generally moved out.

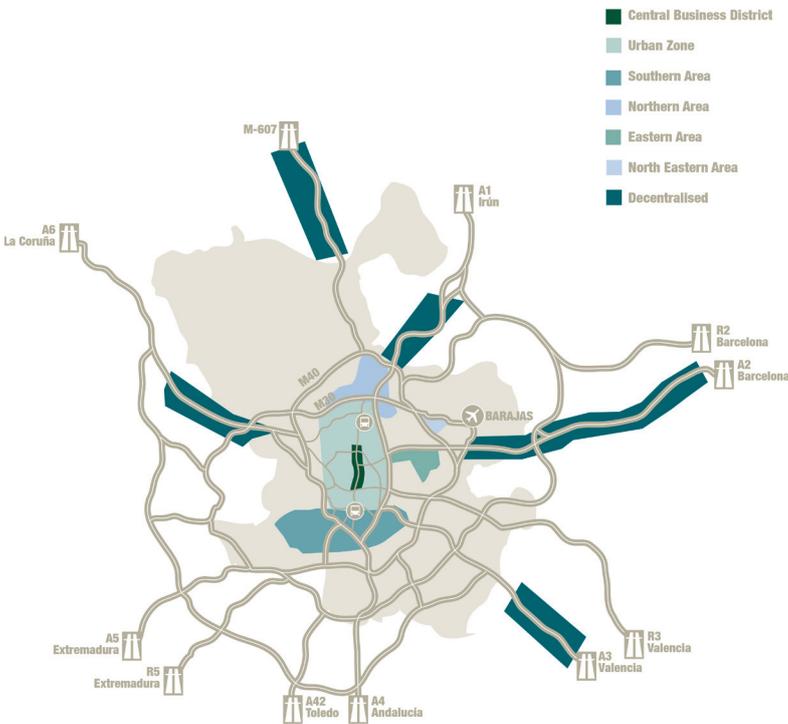
The theoretic level for the CBD at the end of Q3 would be 6% and the prime areas outside the M-30 would reach 7.50%. In both cases, the difference compared to yields in Q3 2011 is 100 basis points, and there is a difference of 200 basis points for the CBD and almost 300 points for prime office space in the outskirts. ■

GRAPH 13
Prime CBD yield



Source: Savills

MAP 1
Madrid Office Market



OUTLOOK

2012

■ The annual forecast for take-up will probably be close to 300,000 sq m, but it is likely that this figure will not even be achieved, which will make this year's take-up volume the lowest since 2000, which is even lower than that of 2009.

■ When the macro 50,000 sq m Avenida de América 115 project comes on to the market, it will drive the vacancy rate up towards the 13% mark. It is still unclear whether it will be delivered on time and whether it will be partially let when it comes on to the market. Rumours have been banded around for months that a telecommunications company could be interested in taking more than half of the space.

■ The most recent economic forecasts have set 2013 as a turning point, hence rents will continue to trend downwards until at least the end of next year.

■ The weakness of the economy and short-term uncertainty has left the investment market in virtual stasis. There are various sales processes under way, but given the instability of the market, any unforeseen event could hamper the negotiations and scupper the deal. If all of the deals under way are signed, the annual investment volume will be at approximately 200 - 250 million euros, which would be a new historic low, which prior to now was the figure of 365 million euros registered in 2011.

Savills Team

For further information please contact



Luis Espadas
Capital Markets
+34 91 310 10 16
lespadas@savills.es



Pablo Pavía
National Investment
+34 91 310 10 16
ppavia@savills.es



Ana Zavala
Office Agency
+34 91 310 10 16
azavala@savills.es



Gema de la Fuente
Research
+34 91 310 10 16
gfuente@savills.es



Rafael Gil
Research
+34 91 310 10 16
rgil@savills.es

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