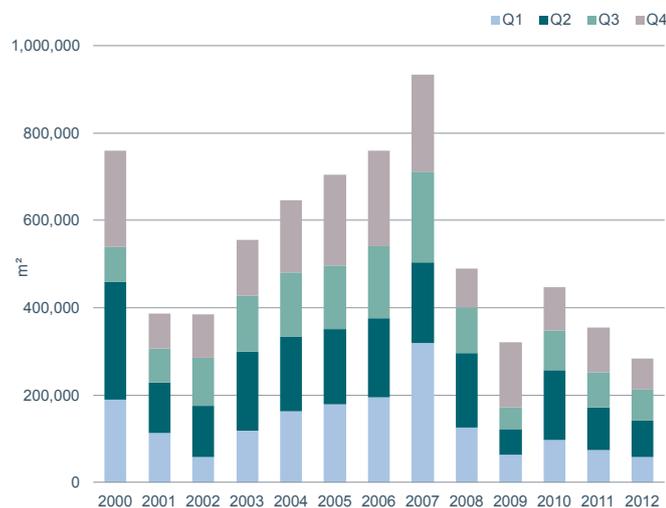


Market report Madrid offices

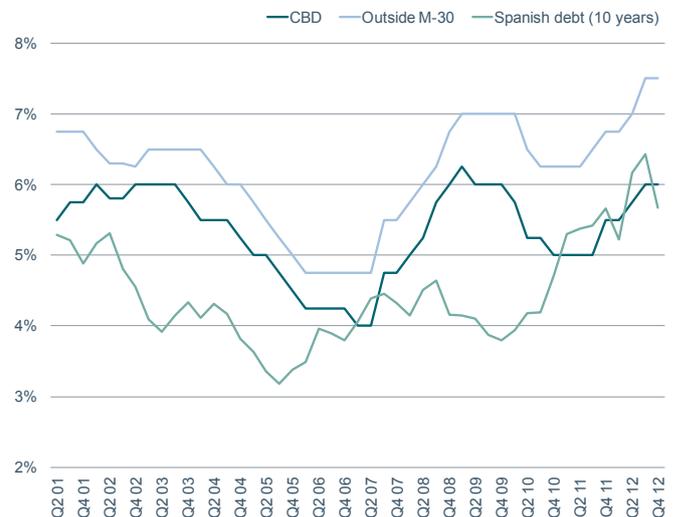
Q4 2012

GRAPH 1
Annual take-up



Source: Savills

GRAPH 2
Prime yields vs Spanish debt



Source: Savills, INE

SUMMARY

Overview

■ In 2012, the office market reflected the difficulties that the business sector was and still is going through. Gross annual take-up hit record lows. The approximately 285,000 sq m registered, were 21% below the same figure in 2011.

■ Over the final quarter of the year, the supply of available office space in Madrid continued to climb. At the end of December, over 1.6 million sq m of space was vacant. The vacancy rate remains above 12%, which is the highest since 2000.

■ High vacancy rates and weak demand are continuing to push rental prices downwards; however as business activity is closely linked to the office market, 2013 could mark an end to the recession.

■ In Q4 the theoretical closing value in the CBD stood at around €24.50 per sq m/month.

■ Excluding the Torre Picasso deal, near on €480 m was invested in the investment market. This figure exceeded all expectations; however, we should point out that income-producing transactions barely

amounted to 28% of the total. The remainder of transactions were for vacant properties - which either had plans to be refurbished or were linked to a change of use.

■ Yields for properties in the CBD remained at 6%, although on some occasions, trophy assets could yield at around 5.5%, as long as the prices per sq m are low.

Economic situation

International markets' perceptions of the Spanish economy have noticeably improved. Restructuring carried out by the Government, including the restructuring of the financial system, the creation of the so-called 'bad bank' to isolate toxic bank assets etc., as well as progress towards a more unified European banking and tax system, have reduced the country's sovereign debt pressures. The fact that the latest debt auctions issued by the Treasury were well received is a clear example of this.

Spain is working to get the economy back on track as soon possible; however short-term forecasts do not bode well. According to forecasts

from various market experts, the main economic indicators will continue in the same vein with negative growth over 2013, which will gradually start to ease in the second half of the year. The economy will start to show clearer signs of recovery in 2014.

Right now, this seems a long way off. According to advanced data published by INE, economic activity fell even further in the fourth quarter, registering a fall of 0.7% quarter-on-quarter and -1.8% year-on-year, which would put the annual GDP figure at -1.37%. This is a result of the further decline in domestic demand, particularly consumption, which plummeted in Q4: retail sales continued on their downward spiral in December, and sales have now been falling for 30 consecutive months, in the midst of the second recession in just three years.

In the job market, the decline in business activity was reflected in the unemployment rate. According to the latest figures from the EPA (Encuesta de Población Activa - Labour Activity Survey) the unemployment rate in Q4 was 26.02%. This amounts to almost six million unemployed people, which is a record high, and this has a fair way to go before it tops out. One of the sectors with the highest number of unemployed people in 2013 will be the banking sector. Whereas in the past the banking sector used to be one of the sectors with the most secure and stable jobs in the economy, it is now being pressed by Brussels to ease

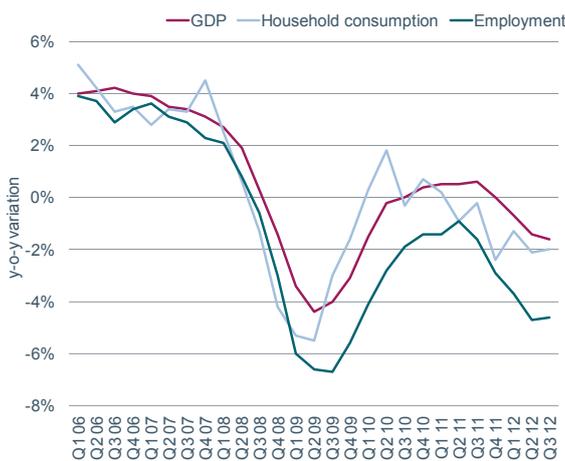
the problems in the financial system. The nationalised banking sector must reorganise its retail network, which will involve closing numerous branches, and making thousands of employees redundant.

We are in a vicious circle, as the ever more rundown job market is having a negative effect on household budgets, causing people to curb their spending. Without consumption, there is no employment, and without employment, there is no consumption.

However, in the midst of the storm, exports continue to perform well and increased in 2012. The latest figure published by INE indicates that exports grew by 11.2% in Q3 year-on-year, and forecasts provide a glimmer of hope. These days, globalisation is more of an obligation than an option.

The increase in competitiveness is one of the factors that is favouring the constant increase in exports, because as unemployment increases, there are more individuals ready to work for less. Companies now have more negotiating power and labour costs are falling, which increases competitiveness.

GRAPH 3 GDP, consumption and employment



Source: INE

GRAPH 4 Retail sales and consumer confidence



Source: INE, CIS

TABLE 1 Economic indicators

Indicator	2011	2012	2013*	2014*	2015*
GDP	0,4%	-1,4%	-1,6%	0,3%	1,4%
Household consumption	-0,8%	-1,9%	-2,4%	-0,3%	1,2%
Unemployment	21,6%	24,8%	26,3%	26,1%	24,1%
CPI	3,1%	2,5%	2,3%	1,5%	1,4%

Source: Focus Economics (January 2012) / * forecasts

Take-up and demand

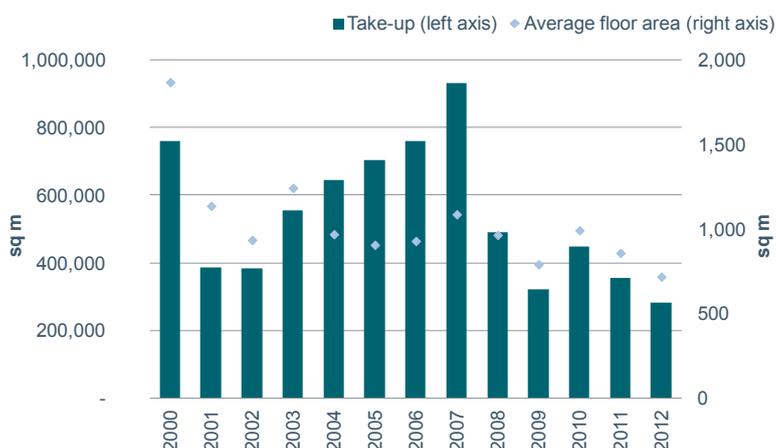
Spain's economic climate continues to affect demand for offices, and is influencing the main market indicators. Business confidence continues to fall, and according to the latest data published by the Chambers of Commerce, expectations do not bode well.

The office market is reflecting the difficulties in the business sector, with 2012 ending with all-time take-up lows. Annual take-up was in the region of 285,000 sq m, which is a 20% year-on-year decline, and 12% below 2009's figure, which up until now was the lowest registered since 2000.

Contrary to what has become customary, Q4 figures did not boost the annual figures. Achieving record lows for both fourth quarters and second halves.

On top of this, the average amount of space taken continues to fall. However, this is not because the companies that have decided to move offices have drastically reduced the space required to carry out their business activities, because most companies that have decided to relocate have done so in order to make the most of the considerable declines in rental prices, but rather due to the marked absence of companies that are clearly expanding and growing.

GRAPH 5
Historic trend



Source: Savills

Companies on the rise

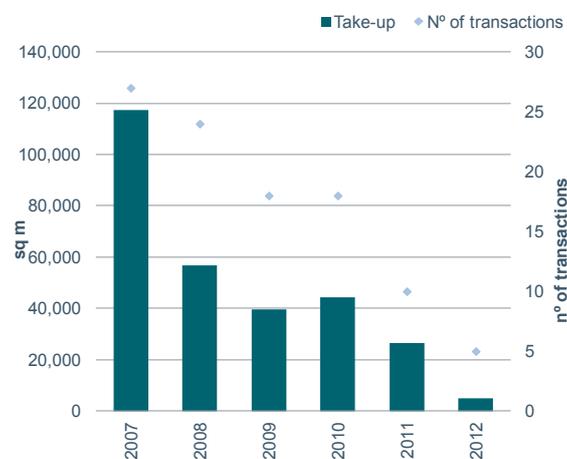
In this respect, we should highlight that companies with business interests abroad are an exception to this rule. Two clear examples of this are Indra and Técnicas Reunidas. The two Spanish firms have significant presences in international markets in their respective sectors and both took part in five lettings that made up 12.5% of all take-up, all of which were for space over 4,500 sq m.

The expansion plans of 2012 were only a continuation of what was seen the year before, given that over 2011 both companies took part in some of the year's largest lettings deals.

Public sector

After a year without any of the three government bodies making an appearance in the Madrid office market, the central government came back onto the scene via two institutions. The recently established Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (SAREB), aka the bad bank, will have its headquarters in AZCA, where it let around 2,300 sq m. The other institution, the Advisory Council of Privatisation (Consejo Consultivo de Privatizaciones), which is one of the State Association of Industrial Participations' (SEPI - Sociedad Estatal de Participaciones Industriales) advisory councils, will be opening a new office on the first stretch of Avenida de Burgos.

GRAPH 6
Public sector demand



Source: Savills

City centre vs periphery

There has been more of a fall in demand in the areas furthest from the city centre. Over the past three years, the periphery areas furthest from the city have only comprised 2% of market take-up. Rental prices for offices in some complexes have reached the same levels as industrial properties, but this is not a determining factor in order to capture the interest of companies looking for space, as they value other aspects such as location or ease of access via public transport.

However, over the same period, gross take-up in the urban area and the CBD has gradually increased its weighting with regard to the overall market. Nowadays the city centre has a significant amount of supply, some of the spaces have recently been refurbished or modernised in order to come in line with current occupier requirements and rents are close to 50% below the top of the market, which in many cases allows occupiers to considerably improve their location at attractive rents.

Own-occupier sales

The sales market for owner-occupiers is at a virtual standstill. They comprised barely 2% of the deals signed across the whole market, and little more than 4% of space taken.

Current availability

Over the last few months of the year, the supply of office space in Madrid continued to rise. In December 2012, there was over 1.6 million sq m of vacant space. The vacancy rate therefore continues to remain above 12%, which is a new all-time high.

The CBD is a long way off this figure, however it has increased by barely six tenths of a per cent (quarter-on-quarter), putting the vacancy rate for the area at 4.1%.

Significant new incorporations

Between October and December, around 90,000 sq m came onto the office market, 37% of which was owner-occupied or pre-let.

In terms of volume, the business complex built on the old Casvega bottling plant clearly stands out from the rest. After several delays, the 50,000 sq m (spread over 5 buildings) in the Avenida de América 115 Business Park are now available. There had been talk in the market about advanced negotiations with several large and medium-sized companies since the beginning of last year, and it was recently announced that Vodafone had signed an agreement to take the entire complex.

We should also highlight FCC's new head offices in the Las Tablas area, and the effect this will have on the

overall market. Just as was the case when other large companies relocated to their new head offices (e.g. Banco Santander, Telefónica, Dragados and, more recently, Repsol) several office buildings will be freed up, which in the medium term - as they will probably require refurbishing and new fit-outs - will mean that the vacancy rate will increase.

The CNMV (Comisión Nacional del Mercado de Valores - National Stock Market Commission) has amalgamated its three offices into one head office in order to increase efficiency and cut back on space. The Edison building, which was bought by the public sector entity at the beginning of 2011, brings all of the institution's services under one roof.

Future supply

Delays in construction works remain the order of the day. It seems that Torre Titania, the building that was constructed on the plot that the Torre Windsor used to occupy in AZCA, will be delivered at some point in 2013. The second phase of the Castellana 200 business park will also be delivered later than expected, although in this particular case, it will only be a few months late. Given that the initial plans have been delayed by over two years, everything suggests that BBVA will start moving in to its new headquarters in the northern area of the capital (very close to the Telefónica District), in 2013.

However, the majority of new supply in the pipeline will be for buildings that have been refurbished and put back onto the market again after the previous occupiers vacated the properties.

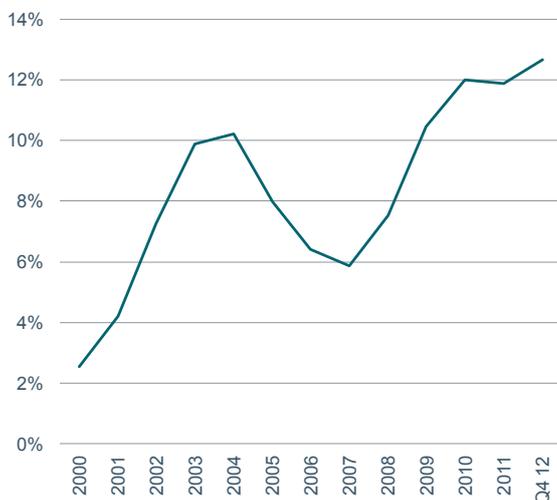
The largest project in terms of volume will be Telefónica's old R&D building, which is located on the first stretch of the A-2. The building is being fully refurbished in line with USGBC (US Green Building Council) criteria, with the goal of obtaining LEED Platinum certification.

It is not the only refurbishment project that is looking to achieve LEED certification. Paseo de la Castellana 43, one of PwC's old head offices that will soon be Abengoa's headquarters in the capital, was registered in summer 2012 with the goal to get the LEED certification.

Sustainability

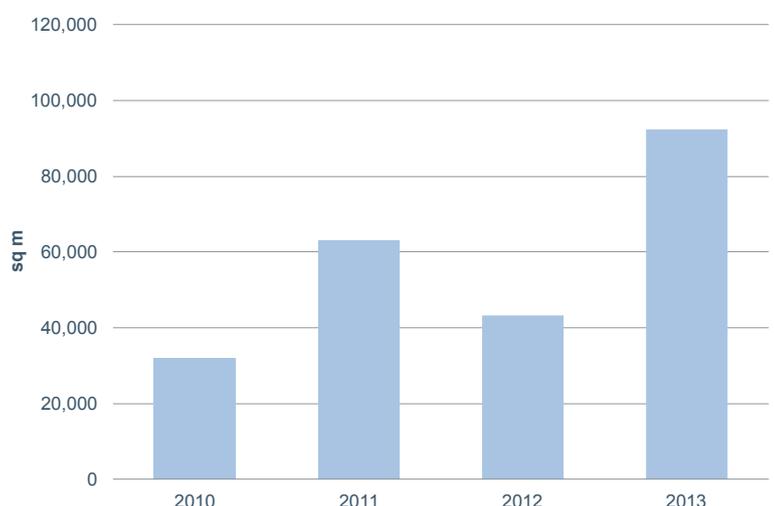
Environmental awareness is becoming more and more important in the capital's office market, and both owners and occupiers are aware of the benefits and competitive advantages of office space that complies with sustainability policies and requirements. Currently, certified or registered office buildings only make up 3% of overall stock, however registered or certified space increased by 30% year-on-year in 2012.

GRAPH 7
Vacancy rate



Source: Savills

GRAPH 8
Pipeline: refurbishment projects



Source: Savills

Rents adjust even further

Hardly anything has changed in terms of rental prices. High occupancy rates and weak demand are continuing to push rental prices downwards. The economic forecasts of different official and private organisations are not very encouraging, and will continue to have a negative effect on the office market. We are all hoping for some clear signs of recovery to help the economy get back on track, however forecasts for 2013 do not bode well: growth in business activity will remain below zero, although the declines may gradually ease from the first quarter onwards. The unemployment rate will continue to rise, and will exceed 26%. In view of this, solid growth in the business sector will be difficult to achieve.

The average rental price signed for commercial properties (exclusive and high-tech) throughout 2012 was just over €14 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.

The lowest rent in Q4 was once again €6 per sq m/month. What a few years ago would have been extremely rare, now repeats itself quarter after quarter. Since 2009, the number of deals signed at below double digit rents has increased dramatically from 4% to 13% by the end of 2012.

"Market recovery will depend on an upswing in the economy, growth in the business sector and an increase in employment. 2013 could mark an end to the recession" Gema de la Fuente, Savills Research

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

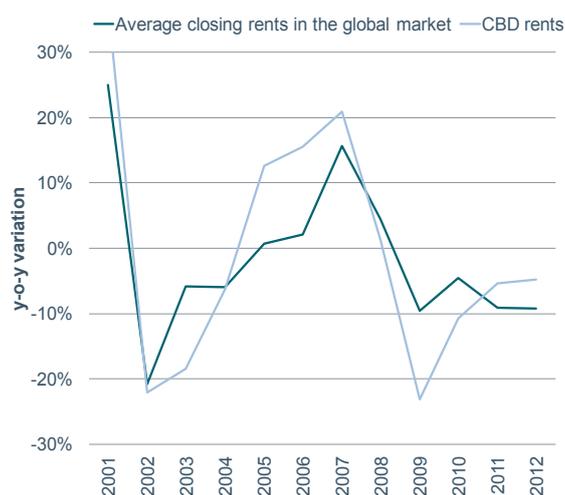
Prime rents

The CBD has not managed to escape the clutches of the downward spiral. The year-on-year change in the average signing rent was 14%. The maximum rental price for Q4 was below €24 per sq m/month, which is 16% less than the maximum rental price registered one year ago, and the theoretical closing rent was at €24.50 per sq m/month, which is a year-on-year change of -6% and -42% compared to the previous top of the market.

The declines have also affected asking prices, because some potential occupiers are using office rents as a means of filtering through the different offices to relocate their headquarters to. Owners are aware that it is important for an occupier to consider their office; however, following

negotiations, where tenants still have the upper hand, net effective rents are much lower than the initial asking rent, thanks to rent-free periods, help with fit-out costs, etc. In the CBD, average asking prices fell by 7% with regards to Q3 level.

GRAPH 9 Average closing rents vs CBD rents



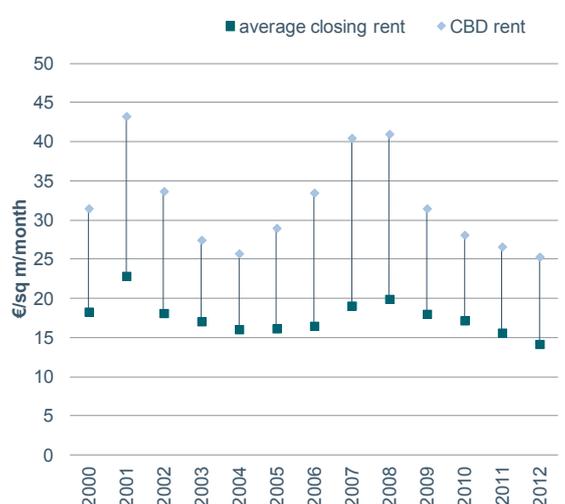
Source: Savills

TABLE 2 Main transactions - Occupiers market - Q4 2012

User	Zone	Area (sq m)	Activity
Técnicas Reunidas	North	15,000	Engineering
TAI Escuela de Teatro	Urban area	5,600	Culture
Ecoembes *	Urban area	2,500	Recycling
SAREB	Urban area	2,300	Public administration
Confidential	CBD	2,200	Capital markets

Source: Savills / * advised by Savills

GRAPH 10 Average closing rents vs CBD rents



source: Savills

Investment market

Contrary to all the forecasts, investment in the office market in 2012 exceeded all expectations. Investment in the office market amounted to around €480 m, which was a 30% increase compared to the same figure registered in 2011. As we indicated in our previous quarterly reports, we must point out that the first deal of the year (the €400 m that Pontegadea paid for Torre Picasso), which made up 46% of the annual investment volume, has been excluded from this figure.

The market remained almost at a standstill until after the summer. The uncertainty in the economic climate and doubts as to whether the country would either require a bailout from Europe or leave the Euro altogether, fuelled further uncertainty amongst international investors with regard to Spain, which was also suffering from its ever increasing risk premium.

Another factor which had a negative impact on ailing demand was the lack of financing, which has had a serious effect on the initial stages of negotiations.

It appears that the actions undertaken by the central government, such as the restructuring of the financial system and the creation of the so-called 'bad bank' are restoring foreign investors' confidence in Spain.

This may have supported the upswing in investor activity in Q4, which accounted for almost 80% of the total investment volume figure for 2012, which was mainly due to the sale of the Canalejas Complex. After several failed attempts since the mid-2000s, Banco Santander finally managed to sell its historical headquarters for €215 m. The buyer, Grupo Villar Mir, has an ambitious refurbishment plan in mind and plans to change the use to a mixed use development, comprising a hotel, luxury residential properties and a retail area, all in the heart of the city centre, a stone's throw away from "kilometre zero" in Puerta del Sol.

Type of transactions

However, despite the fact that the annual figure could suggest a slight tinge of optimism, we should point out that income-producing transactions barely amounted to 28% of the total. The remaining 72% of deals were spread between vacant properties (13%), refurbishment projects (9%) or properties linked to a change of use (49%).

In this respect, we should also highlight that some of the purchases that were initially for vacant properties may relate to a change of use; however, after speaking with the new owners, to date, they still have

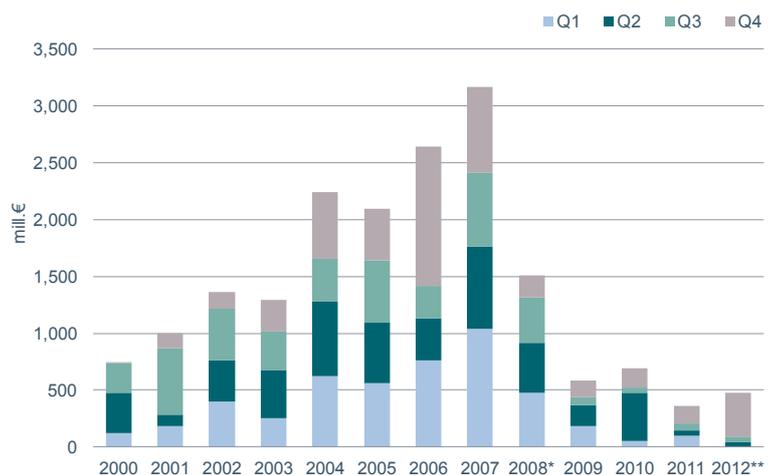
not fully decided what to do with the property in the foreseeable future.

National vs international

Torre Picasso and the Canalejas complex were the largest deals to be signed over the past two years. Both properties were acquired by Spanish companies, but average transactions in the market still only amount to lot sizes of around €20 m. This is in line with the investment capacity of private national investors, who are continuing to lead investor activity, particularly with regard to income-producing properties.

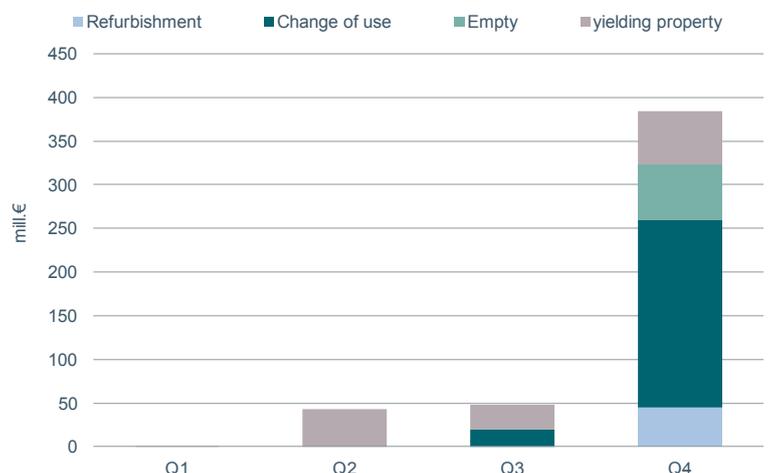
The fact that these investors have equity and do not need a great deal

GRAPH 11 Madrid office market investment volume



Source: Savills / *excluding Financiera Santander / ** excluding Torre Picasso

GRAPH 12 Investment volume by type of deal - 2012*



Source: Savills / * excluding Torre Picasso

"There are still differences between vendors' price expectations and buyers' perceptions of value, which is a further obstacle to market recovery" Luis Espadas,

Capital Markets

of finance, as well as the fact that they have experience and extensive knowledge of the market, enables them to be the first in line when it comes to identifying opportunities and reaching agreements, only of course when they have identified a property that meets their requirements and when the price is right.

International funds were less prominent in the market, investing a meagre €145 m, which accounted for just 30% of the total. Despite this, we should highlight two key points.

Opportunistic purchases

It is undeniable that opportunistic funds have successfully completed several deals. They have been closely monitoring the economic climate and the market for some time, waiting in the sidelines for any opportunity to arise that may match their requirements in terms of the type of property and investment volume.

Vendors reducing the prices of their properties for sale has been key to

closing deals, as for these types of funds, low prices are more important than the property's state of repair.

This is how Hypothekbank managed to sell Proyecto Copérnico, which was part of a disinvestment process for properties that the German bank had started with a portfolio of properties owned by the property firm Monteverde. Anchorage and Värde bought the properties in Madrid for an estimated €45 m, whilst a private investor, linked to the Tous family, purchased two buildings in Barcelona for close to €55 m.

All of the properties in Madrid are located within the city, and after having remained vacant for several years, they are in need of being fully refurbished, and in some cases, may require a change of use.

Autonomy Capital, another newcomer into the market, has established its foothold in the Spanish market by purchasing two vacant properties in the Omega Business Park, in the

Arroyo de la Vega area.

The price per sq m for all properties purchased by opportunistic investors remained below €1,500/sq m.

Latin american capital

The other change in the market is that investors from various Latin American countries have also got Spain in their sights. The capital invested in the office market so far came from Chile and amounted to little more than €20 m, only 5% of the overall figure, but slightly more than 15% of foreign investment.

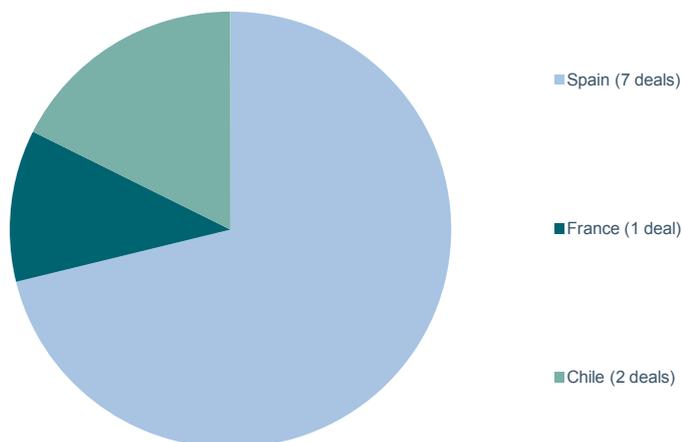
Yields

Generally speaking, yields in different areas of the Madrid office market remained stable compared to the previous quarter. The CBD continued to be at 6% and could even achieve yields of around 5.5% for specific trophy assets, as long as the price per sq m is attractive. There is demand out there looking to buy quality properties that are in an excellent location and have a good tenant, market rents and long term contracts in the region of €30 m, but the difference between buyer and seller value expectations is still considerable and this is one of the main reasons for a lack of product on the market.

This is not just the case for the CBD, as not all sellers are willing to make losses by selling properties that were mostly acquired at the top of the market. Only those with an urgent need for liquidity will sell their properties cheap and they will start with their less strategic properties. Several opportunistic funds have entered the market this way, with very low prices per sq m. Up until now they have only signed deals for vacant properties, but their minimum yield requirement would be in the double digits. ■

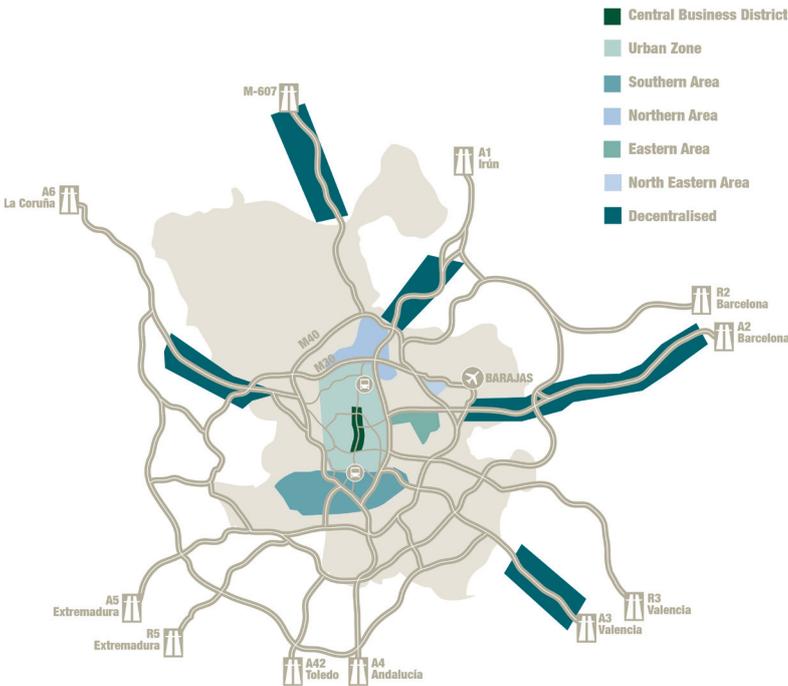
GRAPH 13

Purchaser's nationality in income-producing investment deals - 2012*



Source: Savills / * excluding Torre Picasso

MAP 1
Madrid Office Market



OUTLOOK

2013

■ The signing of several large deals will increase take-up figures for the first quarter of the year. These deals will mainly be as a result of companies moving premises or combining their offices into one head office, and this will increase the amount of office space on the market.

■ Hardly any speculative developments are expected to come onto the market over the next two years, which will help compensate for the current level of oversupply in the market. New supply coming on to the market will come from refurbishment projects, which will not increase the level of stock.

■ The balance between supply and demand and an upswing in the economy will cause rents to start to climb. According to several economic institutions, Spain will begin to grow again in 2014, and both office market and business activity will continue to lag behind.

■ The lack of sellable properties in the market is one of the reasons for the lack of investor activity. Some international funds have lifted their veto on Spain and are currently looking to buy, although their purchasing profile is still a far cry from what the market is offering. It appears that the market will hit rock bottom in 2013, and may start to recover from 2014 onwards.

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 Agencycs
+34 91 310 10 16
azavala@savills.es



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

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