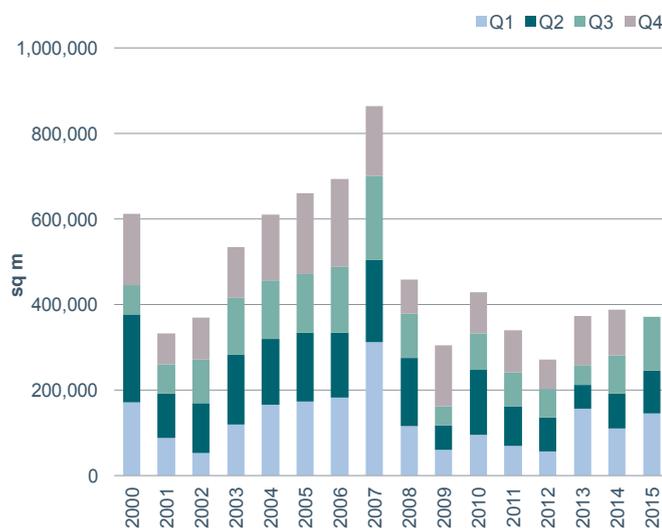


Market in Minutes Madrid Offices

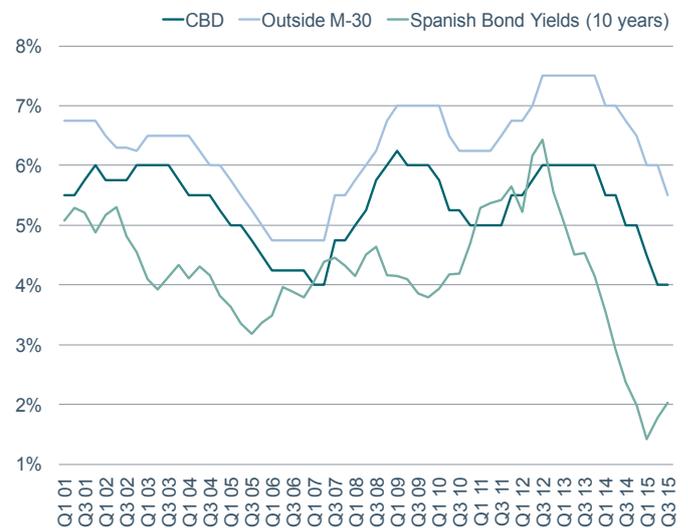
Q3 2015

GRAPH 1
Annual Take-up



Source: Savills

GRAPH 2
Prime Yields vs Spanish Bond Yields



Source: Savills, INE

SUMMARY

The occupier market will return to healthier figures

- The 390,000 sq m of take-up registered between January and September equates to 95% of the total annual take-up in 2014. It appears to be more than likely that the psychological barrier of 500,000 sq m will be broken and that the market will return to healthy levels of activity.

- The vacancy rate has continued to fall since the beginning of the year. This third consecutive drop since the start of the crisis puts the market's overall vacancy rate at 12.4%.

- The CBD reaffirms its strong position with a vacancy rate of 5%.

- There is also a genuine lack of supply of quality spaces in the best areas of the CBD, with vacancy standing at circa 2%. This is corroborated by the increase in both asking and closing rents.

- Refurbishment projects provide a significant competitive advantage compared to other supply in the area, which is demonstrated by the rents achieved for these properties.

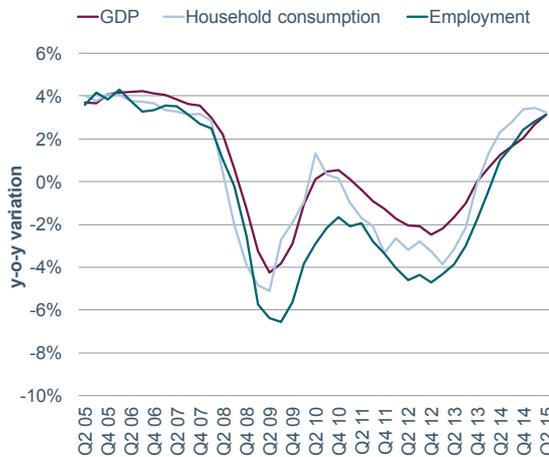
- The investment market continues to be a hive of activity. The total investment volume in commercial property up to October stands at €6.25bn which equates to 80% of the 2014 total.

- The office segment represents 40% of the total and Madrid, Spain's number one market, has accounted for almost 80%.

- In contrast to the rest of the commercial property market, where international capital trumps domestic, in the office market national buyers lead the way with 60% of the investment volume and 70% of the properties sold.

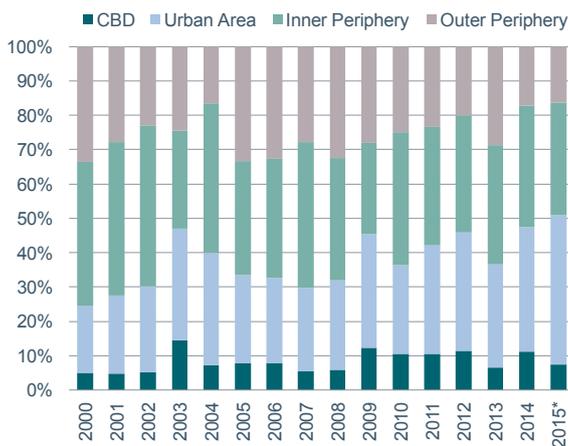
- The achievable yield in the CBD remains at 4%, but agreements continue to be closed below this, but always for very specific properties and up until now all of them have been off market.

GRAPH 3
Economic Indicators



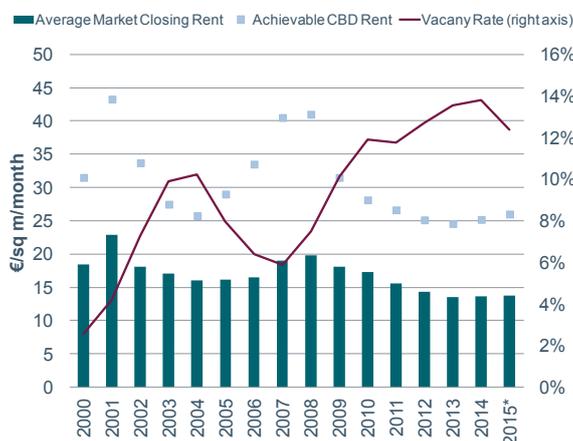
Source: INE

GRAPH 4
Number of Deals by Market Zones



Source: Savills / *until Q3

GRAPH 5
Vacancy Rate and Average Rents in the Madrid Office Market



Source: Savills / *until Q3

Economic Overview

It appears that the Spanish recession is now firmly a thing of Spain's economic past and every quarter that passes is ever more encouraging. According to the latest figures published by Eurostat, in Q2 2015 the economy registered the highest growth in eight years (3.1%), and was above the Eurozone average (1.5%).

It appears that the job market is also beginning to take off. According to the latest data from EPA, the unemployment rate in Q2 stood at 22.37% and employment grew by 2.9% y-o-y. Despite this figure still being high, it is the lowest it has been for the past four years.

Finally, forecasts by various national and international organisations suggest that the Spanish economy will continue to grow in the coming years. According to the latest forecasts published by Funcas in September 2015, more optimistic organisations expect to see a 3.3% growth in 2015 and a 3.0% growth in 2016, while the pessimists believe that the actual increase in 2015 will be closer to 2.8% and 2.6% in 2016. Despite these slight differences, all organisations foresee a slowdown in growth from 2016 onwards.

Take-up and Demand

The Madrid office occupier market is now showing solid signs of recovery. Gross take-up figures for the first three quarters have seen consecutive year-on-year increases above 20%, and have even touched on 40% in Q3.

Of particular note is the fact that the mega-deals seen in recent months have contributed to the strong pick up in take-up figures; but we must take into account that several agreements for more than 10,000 sq m were already signed back in 2013 and 2014 and the market has not kept up with the continued upward trend detected in 2015.

In terms of number of deals, positive growth was already seen back in late 2013, which favoured a decrease in the average size of space taken, primarily linked to space optimisation rather than any form of decrease in the workforce.

Gross take-up for Q3 is close to 130,000 sq m; however, we would note that the WPP deal accounts for circa 30%. Total take-up between January and September has reached 385,000 sq m, which equates to 95% of the total annual figure in 2014. It therefore appears to be likely that we will now return to seeing healthier levels of take-up in 2015, in the region of 500,000 sq m.

In terms of the number of deals, the total number of agreements signed since the beginning of this year slightly exceeds the number of transactions in 2014.

Professional Services and City Centre - Key Factors for the Occupier Market

Demand is still clearly led by service providers, which account for 50% of take-up and 36% of lettings.

These companies generally look for central locations, but they are not the only ones; in fact, 60% of all lettings were signed within the M-30 ring road.

Two elements that continue to draw occupiers' interest are the marked difference in rents compared to the previous top of the market, and the possibility of occupying high quality refurbished or upgraded space.

Current Supply

Vacancy rates continue to fall, and September will be the third consecutive decline since the beginning of the crisis. The overall market vacancy rate stands at 12.4%, while the Castellana CBD area continues to demonstrate its strong position with a vacancy rate of circa 5%.

New Space

New office space that has come on to the market includes two refurbishment projects: Altadis's former headquarters, in the heart of the Chamberí neighbourhood, which will soon become Havas Media's headquarters, and the building that Cepsa vacated in 2014 in Campo de las Naciones.

Refurbishment projects are becoming ever more common in

the market, with 64% of new space in the pipeline up until 2017 being refurbishment projects - one third of this space already has a pre-let agreement in place.

Rents

The upturn in demand and the drop in available space are putting upward pressure on rents in the best buildings in the best locations, but this will soon ripple out to nearby submarkets. The areas furthest from the city centre will still have to wait several quarters before they get to capitalise on this effect.

The average market rent now stands at over €14 per sq m/month, which is a 2% y-o-y increase, while the achievable rent in the CBD has risen by close to 3% to €26 per sq m/month, this is despite the fact that the number of lettings with high rents has increased, although all of the lease agreements signed were for small or medium sized spaces. The average weighted rent of these lettings is now touching on €28 per sq m/month.

Investment Market

The national market registered €2.5bn of investment up to October, which equates to almost 90% of the 2014 annual total. With €1.9bn, Madrid accounts for 80% of total investment in Spain and has already surpassed last year's figures by 15%.

To avoid confusion, all corporate deals – such as the acquisitions of Realia and Testa, the first by the Mexican magnate Carlos Slim and the second by Merlin – have been excluded from this figure.

The most sought-after properties continue to be those located in the CBD, where rental growth has already begun to be noted, but where the lack of available product – at least in competitive sales bidding processes – has now diverted investors' attention to the remainder of the inner city areas and to business centres with proven track records.

Forecast rental increases in these areas and the upturn in the occupier market are encouraging investor demand, which is now not only focused on income-producing properties, but also value-add properties, via full refurbishments or technical improvements and the optimisation of management and resources that will provide competitive advantages compared to the remainder of supply in the area. Hence, now more than ever, location continues to be one of the key factors when taking that all-important final decision

Cross-border Investment

International investors are extremely active in the market, although the lion's share of investment continues

to be carried out by national investors, which represent 64% of total investment, in line with activity in the national office market (62%).

Domestic Investors lead the way

The breakdown of investment volume by domestic company profile is relatively balanced, leading the way are the SOCIMIs (Spanish equivalent of REITs) that accounted for a third of investment, followed by other funds, including insurance companies, and real estate companies, both with close to 25%. The remaining 17% relates to private wealth, with Pontegadea well in the lead with its purchase of the Prisa headquarters.

Axia Real Estate Socimi is the most active player in the market, both in terms of investment volume, as well as by number of properties purchased.

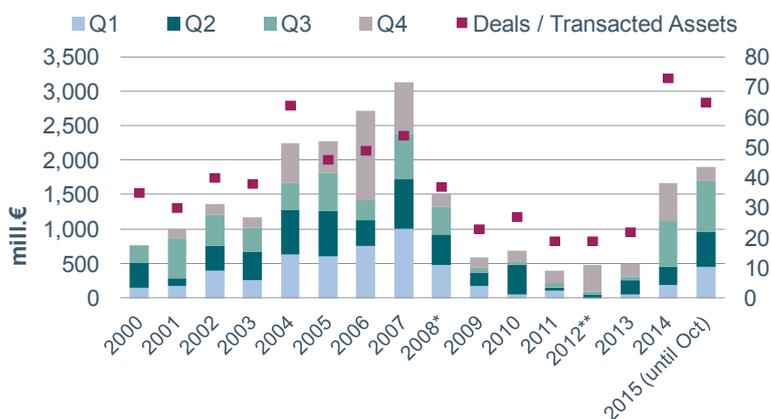
IBA Capital Partners is in second place by volume, thanks to its significant purchase of the Vodafone headquarters beside the A-2 highway. In terms of number of properties, Meridia is in second place, adding ten properties to its portfolio via the acquisition of another GE Capital portfolio and a Naropa portfolio.

Yields

The achievable yield level remains at 4% for the CBD, although there continue to be some deals signed below this figure, however they are always related to very specific properties and up until now all of them have been off market.

Although supply has increased considerably, it remains insufficient to meet investors' voracious appetites, who do not want to pass up on the opportunity to take up positions in a market with excellent prospects, and this has continued to put further downward pressure on yields. Prime yields are at an all-time record low and although there is room for slightly more compression, the increase in rents is expected to have an impact on prices per sq m. In secondary and decentralised areas there is still room for yields to adjust. ■

GRAPH 6 Investment Volume by Quarter



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

TABLE 1
Main Deals - Occupier Market Q3 2015

Tenant	Area	Floor Area (sq m)	Activity Sector
WPP	Urban Area	36,000	Communication Ag.
Vestas	Northern	3,600	Wind Energy
Confidencial	A-6	3,200	IT
NCR (*)	Northern	3,150	IT
Gómez Zamora	A-1	2,750	Distribution
Broseta	Urban Area	2,200	Law Firm

Source: Savills / *advised by Savills

TABLE 2
Main Deals - Investment Market Q3 2015

Asset	Area	Purchaser	Vendor
Ríos Rosas, 26	Urban Area	M&G	ING
Fuente de la Mora, 1	Northern	Axa Reim	ADIA
Confidencial	A-6	Confidencial	Confidencial
P. Santa Bárbara (*)	CBD	Confidencial	Confidencial
Tres edificios	A-1 & Eastern	Axia	Grupo GCL
P.E. Avalon (4 ed.)	Eastern	GreenOak	Altamira

Source: Savills / *advised by Savills

OUTLOOK

2016

■ The positive performance of various Madrid economic indicators, such as the increase in business confidence, growth in the Central Directory of Companies (DIRCE: Directorio Central de Empresas) and job creation, are paving the way for a recovery in the occupier market.

■ In 2015, take-up will exceed 500,000 sq m, allowing the market to return to its historic average level and therefore healthier figures for a market the size of Madrid.

■ The upturn in occupier activity will have a direct knock-on effect on supply, which will continue to fall as it has done since the beginning of the year.

■ The number of refurbished properties coming back on to the market will compensate for the lack of new speculative developments.

■ Refurbishment projects will continue to offer opportunities for occupiers searching for quality office spaces and for owners, as this option will allow them to reposition the properties versus the competition. Rental prices in these properties are generally higher than the average in the area, but are still well off the previous top of the market.

■ Rental increases will begin to ripple out to the other sub-markets within the inner city area.

■ Despite yields hardening, prices per sq m that are still attractive and the good rental upside potential will continue to keep investors interested in the investment market.

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