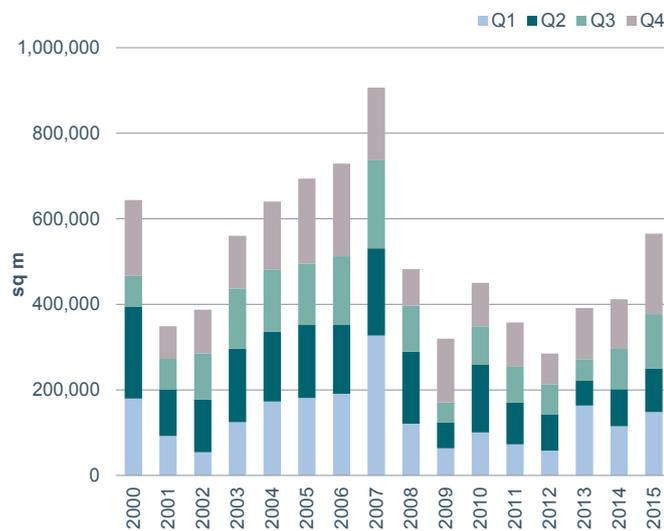


Market in Minutes Madrid Offices

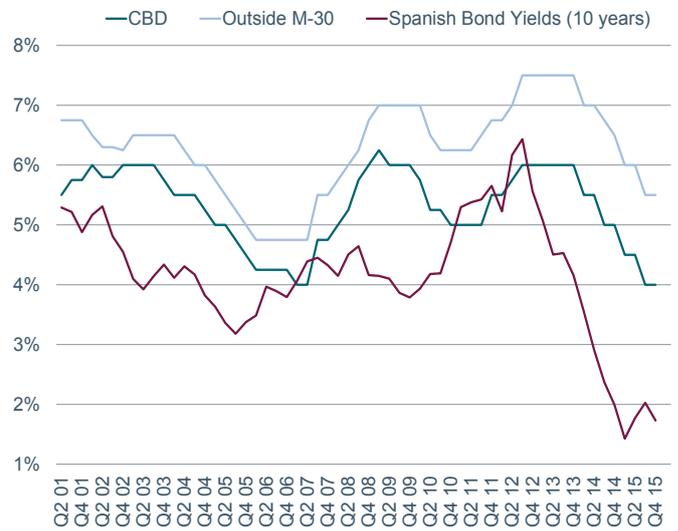
Q4 2015

GRAPH 1
Annual Take-up



Source: Savills

GRAPH 2
Prime Yields vs Spanish Bond Yields



Source: Savills, INE

SUMMARY

The occupier market has pushed past the psychological barrier of 500,000 sqm.

■ Madrid's office occupier market closed out the year well over the psychological take-up level of 500,000 sq m, thereby bringing the market back to healthier figures.

■ As was the case in previous quarters, various mega-deals (>10,000 sq m), significantly inflated annual take-up, even if these are disregarded from the analysis, one can still see a y-o-y increase.

■ Good take-up figures and the lack of new developments on the market have meant that the vacancy rate has continued to fall. Madrid registered its fourth consecutive decrease and at the

close of 2015 the vacancy rate stood at 12%.

■ Castellana CBD area has demonstrated its strength with a vacancy rate of 5%. Other strongly consolidated micro markets, both inside and outside of the M-30 ring road, have registered even lower rates.

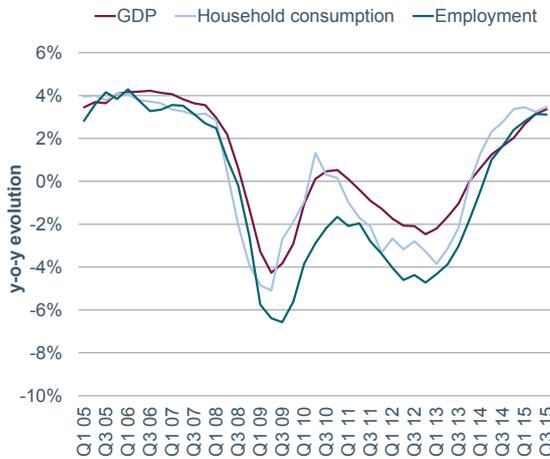
■ Subject to supply and demand, rental prices continue to grow both in the prime area and the CBD and the immediate surrounding areas, while out-of-town areas continue to register a moderate decline, but are clearly trending towards stabilising.

■ The annual investment volume, just over €2,700 million, is close to the all-time record. For the second year in a row, a record number of properties were transacted in 2015.

■ Torre Espacio accounted for 20% of the total, but even excluding this transaction from the analysis; the market continues to show positive signs of recovery and growth.

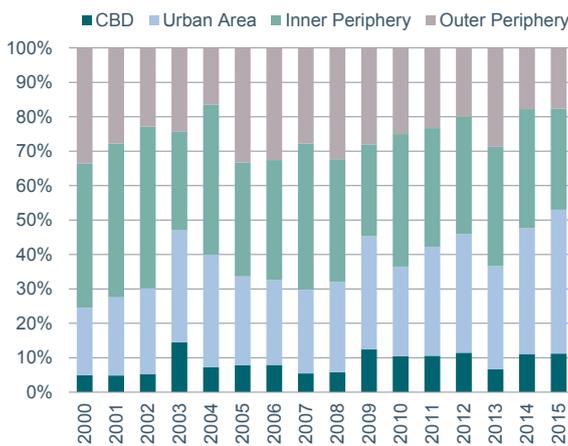
■ Even though top quality properties located in prime locations continue to be sold below market value, the achievable prime yield in the CBD remains at 4%.

GRAPH 3
Economic Indicators



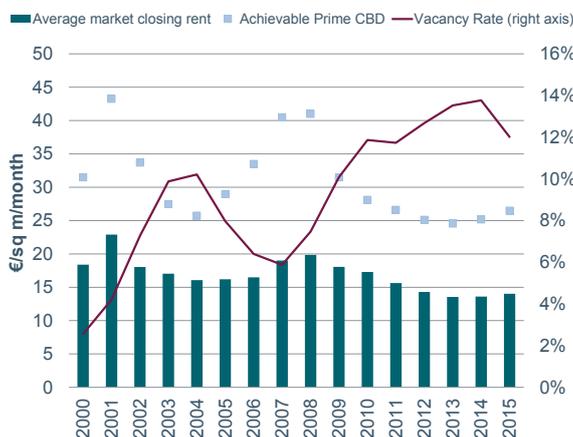
Source: INE

GRAPH 4
Number of Deals by Market Zones



Source: Savills

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



Source: Savills

Economic Outlook

Second year of growth for the Spanish economy. According to the latest figures published by Eurostat, Q3 2015 saw GDP growth of 3.4%, the largest increase since 2007, compared to a Eurozone average of 1.6%.

The job market continues to recover and in Q3 2015, the unemployment rate fell for the eighth consecutive quarter. Despite this, unemployment remains high at 21.18% according to the EPA; hence there is some way to go until the market fully recovers.

In addition, this growth scenario goes hand in hand with a drop in prices. A drop in the price of oil, which is imported by Spain, has been the main reason for this decline, which has then led to a fall in manufacturing costs and an increase in spending power, which has subsequently helped boost private consumption.

The overall economic trend is improving, and economic forecasts remain positive following each review. An example of this is the GDP forecasts made by the European Commission in autumn, which showed an improvement on those reported in spring. 3.1% for 2015 and 2.7% for 2016 in autumn and 2.8% for 2015 and 2.6% for 2016 in spring.

Take-up and Demand

Madrid's office occupier market closed the year well over the psychological take-up level of 500,000 sq m, thereby returning the market to healthier figures. The take-up volume of circa 202,000 sq m in Q4 2015 was a major boost to the annual figure, accounting for a third of the total, pushing it up to a little over 578,000 sq m. There was a 41% y-o-y variation in total take-up, while the difference between fourth quarters stood at 77%.

As the previous three quarters have shown, the combination of a number of mega-deals ($\geq 10,000$ sq m) accounted for a significant amount of take-up (almost 24%) in 2015. However, even if these deals are not taken into consideration, we would also note that there has

still been an increase compared to 2014.

The average space taken remains stable at around 900 sq m, due to the fact that the number of deals signed has seen more moderate growth, slightly below the all-time high of 1,000 sq m.

New ways of working and new technologies are favouring space optimisation and this is allowing the occupiers to make a direct saving. On the other hand, the creation of a workplace that promotes communication and task management and the design of an attractive work environment are key factors to consider to improve productivity and work efficiency.

Professional services and city centre – key factors for the occupier market

Demand is still clearly headed up by service providers, accounting for almost 50% of take-up and 40% of number of deals. These types of companies generally look for properties located in city centre locations, though they are not the only ones, as 60% of all deals were closed within the M-30 ring road.

City centre vs Periphery

In terms of take-up distribution, the central core comprised 59%, while the three main market transactions made up 24%: KPMG, WPP and E&Y accounted for a total of 75,000 sq m.

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

Current Availability

Vacancy rates continue to trend downwards, declining for the fourth consecutive year since the start of the crisis. The overall market vacancy rate stands at 12%, while the Castellana CBD area demonstrates its strength with a vacancy rate of around 5%.

New Office Space

In terms of new space on the market, the halt in developer activity

put the brakes on almost all new space to let. In 2015, the new BBVA headquarters accounted for 90% of all new-build space (in the northern area) and no new-build projects are expected to be delivered until Banco Popular's new headquarters is delivered, which is located on the first stretch of the A-2 (to the east of the city).

All office space in the pipeline for 2016 will be renovation or refurbishment projects, of which 21% is already pre-let.

Rents

Subject to the laws of supply and demand, rental prices continue to grow both in prime areas and the CBD, though out-of town areas continue to register one-digit figures. Despite this, there continue to be ever fewer number of deals completed for below €10 per sq m/month.

However, the decline in incentives and temporary rental discounts can be seen in an increase in net rents.

The average market rent in 2015 now exceeds €14 sq m/month, which is a 3% y-o-y increase, while the achievable prime rent in the CBD closed out the year at €26.50 per sq m/month, a 4% y-o-y increase.

It is important to note that more deals are being signed at over the achievable rental figure. In 2015 there were a total of 18, while in

2012 there were only 3. The highest rents in the market were located in the best properties in the prime area of Castellana and its immediate surrounding area.

Investment Market

2015 came close to reaching the all-time record for the capital, with more than €2,700 million, that represents an increase of almost 70%.

It should be noted that corporate deals – such as the acquisitions of Realia and Testa, the first by Carlos Slim and the second by Merlin – have been excluded from this figure.

Torre Espacio was the largest office market deal of the year, both at national and local level and represented 20% of its investment volume. This was very much the reason for the extraordinary growth and the enormous rise in end-of-year figures, although even if we disregard the €558 million paid by Grupo Emperador from the total, one can still see that the market posted 50% growth compared to 2014.

Properties transacted

More product coming onto the market and an upturn in demand helped to bump up the number of properties transacted, registering an all-time high for the second consecutive year.

Portfolios vs single assets

The upward trend in prices has

tempered the strong portfolio sales activity seen last year, which accounted for around a third of total volume. In 2015, portfolio sales accounted for 23% (disregarding Torre Espacio) and individual properties that formed part of a property portfolio were being resold in a matter of a few months, making a profit on the initial purchase price.

Location, key

Rents have increased in all of the best prime properties, hence quality product in the CBD is still the most sought after by potential market investors. The lack of supply and the imminent recovery of rents in other areas of the market has focused the search to prime properties in secondary areas or product that can be repositioned and that offers competitive advantages in the direct catchment area (via refurbishment or optimisation and improvements in management and resources).

Cross-border investment

Excluding Torre Espacio purchased by the Filipino magnate Andrew L.Tan, which significantly skews the figure due to its high investment volume, international investors accounted for circa 40% of Madrid's office market activity.

SOCIMs accounted for a third of total investment volume, although a large number of their shareholders are international companies, who found the SOCIMs an easier and less risky way of investing in the Spanish real estate market.

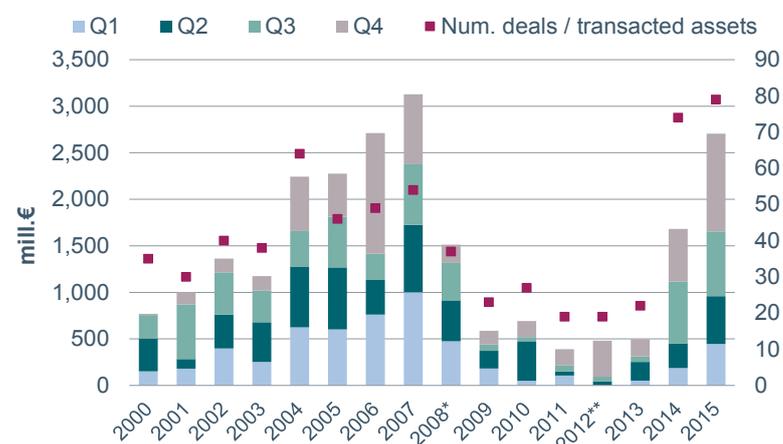
Yields

The achievable prime yield in the CBD remains at 4%. Although there continue to be some deals signed below this figure, they are always for very specific properties in the best locations and until now have all been off-market.

Investors who acquired properties in the CBD based on rental growth forecasts have now seen this come to fruition.

GRAPH 6

Investment Volume by Quarter



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

TABLE 1
Main Deals - Occupiers Market Q4 2015

Tenant	Area	Surface (sq m)	Activity Sector
E&Y	Urban Area	20,000	Professional Services
Roche Farma	Campo de las Naciones	11,500	Pharmacy Industry
Ilunion	East Area	11,400	Professional Services
Idental	A-3	10,000	Sanitary
Orange	A-6	9,000	IT
Tribunal de Cuentas (*)	Urban Area	7,800	Public Administration

Source: Savills / *deal advised by Savills

TABLE 2
Main Deals - Investment Market Q4 2015

Asset	Area	Purchaser	Vendor
Torre Espacio	Urban Area	Grupo Emperador	Inmobiliaria Espacio
Vodafone HQ	A-2	IBA CP	London Regional
Santa Engracia, 120	Urban Area	Inmobiliaria Colonial	Torimbía
Amura Building	A-1	AEW	Union Investment
Don Ramón de la Cruz, 82	Urban Area	Axiare	Telefónica
Hernández de Tejada, 1	East Area	HNA	Cemex

Source: Savills

OUTLOOK

2016

■ The growth forecasts for the main economic indicators should be reflected in the office market. According to the INE (Spanish Statistical Office), Madrid is one of ten provinces to have registered growth in the business sector, almost 3%. The economic recovery, coupled with a greater number of companies taking on staff is sure to translate into a greater need for office space.

■ The lack of new developments in the pipeline for the next few months will keep the office stock figure stable until the new Banco Popular headquarters is delivered. Hence, the vacancy rate will continue to fall.

■ The big news is that some developers are now considering starting speculative developments.

■ The increase in rents will begin to ripple out to high quality properties in secondary areas within the central core, as well as towards out-of-town business hubs with 3-5% vacancy rates.

■ The signs of recovery in the occupier market and confidence that rental growth will soon push out to other areas will continue to attract investor interest.

■ The favourable performance of real estate fundamentals within the M-30 ring road is meeting investors' plans, which will mean they will focus even more on the city's central core. The lack of product in this area will push capital values up.

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