OFFICE SNAPSHOT SPAIN — Quarter 4 2006

Summary

- **The Spanish office market performed well over Q3.** Active demand remains strong and with occupier activity healthy, rents were pushed up marginally in Madrid, whilst holding firm across the rest of Spain. The investment market is seeing good levels of activity as stock remains scarce and bidding fierce.
- **Demand continues to translate into actual deals on the ground.** Take-up levels in Barcelona were up 32% on Q2, recording almost 110,000 sq.m in Q3. Madrid saw 168,000 sq.m of space taken off the market and whilst slightly down on Q2 levels, still healthy. With limited new space expected by year end and demand remaining strong, pre-let agreements remain an important way of securing space with approximately 45% of the total amount of space under construction already secured before completion.
- **Whilst development pipelines are healthy in both Madrid and Barcelona the majority of space is not due for completion until 2007/ 2008**. This is limiting any dramatic rises in vacancy rates, which are expected to stay below 6.0% in both locations. The majority of new space, when delivered will be in the more peripheral areas of both Madrid and Barcelona as large sites in the city centres are difficult to obtain.
- **Prime yields held firm across Spain, apart from a 25 bp fall in Madrid to a historic low of 3.75%**. The investment market remains active and competition for limited quality product fierce with further downward movement expected in the key locations by the end of the year. The second tier cities will become increasingly attractive to investors looking for higher yielding opportunities.
- **The more peripheral areas will become increasingly attractive as new space is delivered offering larger floor plates** now required by occupiers. Whilst there may be a move out of the CBD vacancy is unlikely to rise sharply as the space is redeveloped. The investment market will remain the main driver of growth although the occupier should continue to pick up with some uplift in prime rents possible by year –end.

Prime Office Rents as at Sept 2006

Location	Rent			Growth % (pa compound)		
	Euro /sq.m/mth	Euro /sq.m/yr	US$ /sq.ft/yr	5 years	1 year	Short Term Trend
Madrid -						
Centre	31.00	372	43.79	-5.4	8.8	Up
Out of Town	22.00	264	31.08	-3.6	10.0	Up
Barcelona -						
Centre	24.75	297	34.96	-1.8	1.0	Stable/Up
Out of Town	16.50	198	23.31	1.9	6.5	Stable/Up

Prime Office Yields as at Sept 2006

Location	Yield %			10 year record		
	Current	Last quarter	Last year	High	Low	Short Term Trend
Madrid -						
Centre	3.75	4.00	4.50	7.00	3.75	Stable
Out of Town	5.00	5.00	5.50	7.50	5.00	Stable
Barcelona -						
Centre	4.25	4.25	5.00	7.50	4.25	Stable
Out of Town	5.50	5.50	6.00	9.50	5.50	Stable

Key Leasing Transactions

- Aon Gil y Carvajal leased 13,000 sq.m from Particular in Madrid's City Centre at Rosario Pino, 14-16.
- Lafarge leased 4,000 sq.m from Particular in Madrid's City Centre at Orense, 70 for Euro 23/sq.m/month.
- Infocaja leased 3,100 sq.m at Cetil Building – Avenida de Burgos, 114 for Euro 13/sq.m/month in the M-30 submarket of Madrid.

Key Investment Transactions

- Inverseguros purchased 18,000 sq.m from Grosvenor at Omega Business Park (Phase I) for Euro 64 million and a yield of circa 6.0%.
- Inmolevante purchased 5,600 sq.m from Aon Gil y Carvajal at Mejía Lequerica, 8 in Madrid's City Centre submarket for Euro 39 million.

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