Reduction in availability despite weak demand

This stage of the prolonged crisis is now seeing a slower pace of dismissals and company closures. The knock-on effect of this is a reduction in second-hand real estate space released back to market. As a result, the space that is being transacted is now directly reducing availability. This is occurring even though the aggregate levels of office transactions for 2012 remain depressed, mirroring the performance of the domestic economy.

Recent refurbishments in the CBD of Madrid have paid off in investment terms and tenants have rapidly been found

• Business people remain cautious and limit the demand for offices to the greatest possible extent
• New contracts and contract renewals seek to take advantage of incentives and reduced rents
• Renewal of stock is based mainly on refurbishments, many of these within the CBD
• The highest quality offices in the best locations continue to enjoy relatively solid demand, buttressing prime rents
• The availability rate has fallen due to the dearth of new buildings delivered

Despite increased take-up, the availability of offices in Barcelona remains at high levels

• Aggregate transactions for the year are in line with the macroeconomic context and represent levels which are lower than those of 2010 and 2011
• The 55,500 m² of take-up during the third quarter was based on large-scale transactions and exceeded the figure for one year ago
• Availability remained high despite falling in the last quarter, this being due primarily to the total lack of new buildings delivered

Real estate investment volumes continue to be meagre

• Despite the downward adjustment in capital values in recent years, institutional investors are not taking positions within the Spanish market
• Returns on prime assets reflect the severe lack of transactions, going from 5.5% to 5.6% during the quarter
• The aggregate volume for 2012 remained below the levels of 2010 and 2011

Octubre 2012
BNP PARIBAS REAL ESTATE
ALL THE BUILDINGS BLOCKS

BNP Paribas Real Estate will build with you targeted and integrated real estate solutions for your every need: Valuation, Transaction, Consulting, Property Development, Investment Management, Property Management. With our international scope and on-the-ground presence, you’ll find the perfect partner that can ensure the success of your real estate project. With BNP Paribas Real Estate, all the pieces come together.

Your contact in Spain: +34 914 549 600
Zoning

The office market in Madrid

Key figures Q3 2012

<table>
<thead>
<tr>
<th></th>
<th>CBD</th>
<th>Centre</th>
<th>Decentralised</th>
<th>Outskirts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock (m²)</td>
<td>3,487,100</td>
<td>2,675,700</td>
<td>2,844,000</td>
<td>2,813,000</td>
<td>11,815,900</td>
</tr>
<tr>
<td>Vacancy (m²)</td>
<td>161,300</td>
<td>352,300</td>
<td>637,600</td>
<td>517,300</td>
<td>1,668,600</td>
</tr>
<tr>
<td>Vacancy rate (%)</td>
<td>4.6%</td>
<td>13.2%</td>
<td>22.4%</td>
<td>18.4%</td>
<td>14.1%</td>
</tr>
<tr>
<td>Take-up Q3 2012 (m²)*</td>
<td>31,300</td>
<td>7,900</td>
<td>20,100</td>
<td>9,900</td>
<td>69,200</td>
</tr>
<tr>
<td>Year to date Take-up (m²)*</td>
<td>49,200</td>
<td>45,600</td>
<td>55,900</td>
<td>39,900</td>
<td>190,600</td>
</tr>
<tr>
<td>Prime rent Q3 (€/m²/month)</td>
<td>25,5</td>
<td>24,0</td>
<td>18,0</td>
<td>13,0</td>
<td>-</td>
</tr>
<tr>
<td>Avg. rent Q3 (€/m²/month)</td>
<td>21,0</td>
<td>14,0</td>
<td>13,1</td>
<td>11,2</td>
<td>15,4</td>
</tr>
<tr>
<td>New deliveries Q3 2012 (m²)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Pipeline 2012 (m²)</td>
<td>11,300</td>
<td>0</td>
<td>59,700</td>
<td>1,200</td>
<td>72,200</td>
</tr>
<tr>
<td>Pipeline 2013 (m²)</td>
<td>4,100</td>
<td>13,200</td>
<td>34,000</td>
<td>15,900</td>
<td>67,200</td>
</tr>
</tbody>
</table>

* Figure analyzed and verified by BNP Paribas Real Estate not including lease renewals.
The high degree of uncertainty prevailing in the economy held real estate markets at minimal levels of activity. The third quarter of 2012 responded to this situation with modest figures for transactions and supply. Transactions for office space in Madrid stood at almost 70,000 m², some 11% below the level recorded one year ago. The annual aggregate reached 190,000 m², a figure which is slightly below those for the same periods in 2011 and 2010.

The rationalisation of real estate expenditure remains the driver for transaction activity and companies continue to seek:

- The adjustment of space to match reduced staffing levels
- More affordable effective rents
- Higher specifications for buildings

These goals have also driven renegotiations, in which landowners offer incentive schemes to tenants in order to avoid the vacancy of the property.

Some deals have, however, run counter to the downward trend. This is the case for transactions such as those of the law firms Perez-Lorca and Linklaters, who acquired 6500 m² and 3500 m² respectively, both in buildings within the Central Business District (CBD). Companies have taken advantage of quality offices in refurbished buildings which are currently available on the thoroughfare of Castellana-Recoletos and the nearby stretch of the street Calle Alcalá.

In response to this demand, the CBD achieved a 45% share of take-up (27% of transactions), far above the average of 17% for the last five years and representing an all-time high. The Decentralised zone also attracted a significant proportion of take-up (29%), primarily covering deals in semi-industrial areas.

Deals recorded during the third quarter amounted to 77, exceeding the transactions for the same period one year ago by a figure of 5. With regard to the long run, it is important to mention that, until 2008, more than 100 deals were closed in each quarter and, since the beginning of the recession, the average has stood at 92. During the third quarter of 2012 the greatest share in terms of deals, at 30%, went to the Decentralised zone with the sub-zones of Emilio Vargas/Avenida de América, Avenida de Burgos, Campo de las Naciones and the area of Julián Camarillo.

The average size of deal amounted to 700 m², in line with current market trends. As a benchmark, the average per deal for the period 2004-2008 was 1156 m².

Legal-consultancy firms provide the most noteworthy share of demand, followed by service companies. Information Technology companies also represented a significant share of demand (17%), going from less than 5% of deals prior to 2007 to an average of 18% in recent years.

No surprises await with the outlook for the volume of transactions and gross take up at the close of year, transactions over the fourth quarter of 2012 will amount to around 70,000 - 80,000 m².
Following three consecutive quarters showing increases, the availability rate for offices fell slightly to 14.1%. The main reasons for the reduction are:

- Developer activity barely ticking over
- Reduced second-hand space coming back to market

The take-up of entire buildings within the CBD contributed to a reduction in availability in the area of almost half a percentage point, leading to an availability rate of 4.6%. The only zone which saw an increase in the availability rate was the Outskirts, in which only second-hand properties were added to supply (around 8000 m²).

The comprehensive refurbishment of buildings is notable in developer activity, and which represents almost two-thirds of new building projects. In other words, refurbishments represented 63,000 m² whereas projects under development amounted to 110,000 m².

No deliveries of new buildings were detected during the quarter although, at the time of writing of this report (October 2012), 50,700 m² corresponding entirely to one single project have been incorporated into the stock of the Decentralised zone.

Likewise, and in response to high levels of vacancy and a negative outlook in terms of employment and production for the remainder of 2012 and all of 2013, no commencements of office building projects were recorded.

The scarcity of developer activity may have a negative impact on stock in the medium term. This is due to the fact that the demand is occupying higher quality buildings and is filtering out those which are less easily marketable. Consequently, what remains on offer tends to represent the lower quality share of the stock.

Despite the overall reduction in availability, it is not possible to state that market performance has improved. This may be appreciated by looking at the number of years necessary for the take-up of available supply. Within all zones and the city as a whole, except for the CBD, a greater number of years is necessary to absorb supply than in 2010 and 2011. This is due to the reduced pace of transaction activity over the last 12 months. At the current pace of transaction activity, almost six years would be required for the take-up of available stock. The figure for 2011 was 5 years.

The outlook for the close of year points to the maintenance of availability as a result of the meagre number of deliveries anticipated and forecast take-up below 80,000 m². As a result, 2013 will open with a challenging availability rate of around 14%.
An average rent of €15.40/m²/month was recorded for transactions during the third quarter. This represents an increase in both quarterly (16%) and annual terms (7%). This is not, however, to be interpreted as the result of positive demand pressure or the scarcity of product, but rather as due to the closure of specific transactions relating to extensive space within the CBD.

Prime rents remained stable at €25.50/m²/month for the best offices located on the thoroughfare of Castellana-Recoletos. Maximum rents for other representative zones such as the Cuatro Torres Business Area remained at around €24/m²/month. In all cases the negotiating capacity of the respective parties may affect the definitive rents. Negotiating margins are narrower in the CBD and increase for other areas in line with their proximity to the outskirts.

Discounting the effect of inflation, the index of real rents also reveals an increase of 5% over the last year. Nonetheless, the level indicates that current real rents amount to 84% of those seen in 2005.

In addition to rent reductions, incentives continue to prove significant with regard to gross transaction activity and renegotiations. Greater pressure is seen on the demand side for the incorporation of grace periods. Landlords are also agreeing to bear staggered rents and fitting-out costs.

The close of year will see a discounted final balance for both headline and effective rents. The strength of consumer spending and employment do not lead us to expect any recovery. Incentive frameworks will remain in place until such time as there is a clear recovery in demand, a scenario which is not foreseeable until beyond 2013.
Zoning

The office market in Barcelona

Key figures Q3 2012

<table>
<thead>
<tr>
<th></th>
<th>CBD</th>
<th>Centre</th>
<th>Decentralised</th>
<th>Outskirts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock (m²)</td>
<td>872,100</td>
<td>2,480,800</td>
<td>1,153,900</td>
<td>1,092,800</td>
<td>5,599,600</td>
</tr>
<tr>
<td>Vacancy (m²)</td>
<td>70,900</td>
<td>265,000</td>
<td>281,600</td>
<td>282,700</td>
<td>900,200</td>
</tr>
<tr>
<td>Vacancy rate (%)</td>
<td>8,1%</td>
<td>10,7%</td>
<td>24,4%</td>
<td>25,9%</td>
<td>16,1%</td>
</tr>
<tr>
<td>Take-up Q3 2012 (m²)*</td>
<td>3,200</td>
<td>38,000</td>
<td>7,400</td>
<td>6,900</td>
<td>55,500</td>
</tr>
<tr>
<td>Year to date Take-up (m²)*</td>
<td>15,200</td>
<td>55,700</td>
<td>35,400</td>
<td>23,500</td>
<td>129,800</td>
</tr>
<tr>
<td>Prime rent Q3 (€/m²/month)</td>
<td>18,0</td>
<td>18,0</td>
<td>17,0</td>
<td>14,0</td>
<td>-</td>
</tr>
<tr>
<td>Avg. rent Q3 (€/m²/month)</td>
<td>16,1</td>
<td>12,2</td>
<td>11,6</td>
<td>8,8</td>
<td>11,8</td>
</tr>
<tr>
<td>New deliveries Q3 2012 (m²)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Pipeline 2012 (m²)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Pipeline 2013 (m²)</td>
<td>0</td>
<td>0</td>
<td>44,500</td>
<td>0</td>
<td>44,500</td>
</tr>
</tbody>
</table>

* Figure analyzed and verified by BNP Paribas Real Estate not including lease renewals.
During the third quarter of 2012, 55,500 m² were transacted, aided by two large deals amounting to 22,500 m². This resulted in growth in both annual (+12%) and quarterly terms (57%). The aggregate for the year reached 133,500 m², below the figure attained during the first three months of 2011 (152,000 m²) and 2010 (167,000 m²). The lengthening of the recession in Spain and Catalonia continues to explain the weak levels of transaction activity. Within this context it is possible that the average for the last four years will not be reached by the close of 2012.

However, some large-scale deals should be highlighted, such as the new head office of Endesa (17,000 m²), the new offices of the ‘Instituto Catalán del Suelo - Incasol’ (5545 m²) and the financial broker GVC Gaesco (3800 m²).

The dominant zone in terms of transaction activity has been the Centre, attracting 68% of take-up and 38% of all deals. The explanation for this exaggerated share of take-up lies in the fact that the aforementioned deals took place here.

The Decentralised zone placed second, recording 26% of deals and 13% of space transacted. Within this zone companies primarily sought offices in district 22@. The average size of deals in the decentralised zones amounted to 550 m².

In total, 52 transactions were recorded, below the average of 57 registered over the last five years. Correcting for atypical data, the average floor space transacted was 645 m², below the quarterly averages of around 800 m² seen since 2008.

The service, industrial and IT sectors were the most significant in terms of demand, representing two out of every three deals. The transaction undertaken by Incasol was the only deal representing the public sector which, due to austerity measures, remains absent from the acquisition of space.

The forecast for the Barcelona office market in 2013 points towards continued modest levels of activity. Some deals currently underway and relating to head offices could increase gross take-up, although these would not point towards a change in course for market performance.
High levels of supply exist in all zones in Barcelona, particularly within the decentralised districts and outskirts. Increases in availability did however come to a halt during the last quarter and the availability rate has remained stable (16.1%). This stability has come about through a standstill in developer activity, now running to four consecutive quarters with no significant deliveries of new buildings.

The Centre and Decentralised zones were the only ones to see an increase in supply, though with changes amounting to less than one percentage point. It is important to point out the incorporation of 8500 m² of available space in the Centre, that were conveniently neutralised by the gross take-up for this zone. The availability rate in the Decentralised zone increased by half a percentage point due to offices becoming vacant, mainly within the area of Poblenou-Diagonal Mar.

The highest vacancy rate corresponded to the Outskirts which, despite falling during Q3 (-0.9 points), amounted to 25.9%. This was followed by the Decentralised zone, at 24.4%, far above the rates for the Centre (10.7%) and CBD (8.1%).

No significant deliveries of new buildings were recorded and, as a result, the stock remained constant at 5,600,000 m². Office projects are either non-existent or at a standstill and no commencement of construction was detected between June and September. This is a reflection of developer’s expectations of weak demand for 2014 and 2015 and has two immediate consequences:

- Increase in the proportion of lower quality or obsolete products on the market
- Scarcity of modern office buildings of an international standard within a two year timespan

At the time of writing of this report, two projects are underway for delivery during the first half of 2013, in the Zona Franca and 22@ (23,500 m² and 21,500 m² respectively). These will help to offset the effect of obsolescence on the stock of offices.

The year will close with stable availability rates and with slightly negative net take-up during the last quarter. As a result, the availability rate will close at around 16.3%.
The average rent in Barcelona was €11.80/m²/month. In comparison with the third quarter of 2011, a fall of 13.7% is noted. This reflects the worsened state of the economy and the deterioration in confidence on the part of business people. This period represents the fourth consecutive quarter of year-on-year falls.

Prime rents (£18/m²/month) have remained stable in comparison with the previous quarter, due to the fact that better quality offices are enjoying more vigorous demand. Nevertheless, in comparison with the figure for one year ago this represents a discount of 4%. The aggregate discount in prime rents compared with the maximum in 2007 amounts to 35%.

Prime rent evolution

The average rent in the CBD was €16.10/m²/month. This is above that for the remaining zones, indicating the standing and good location of the buildings on the Gracia-Diagonal thoroughfare and prices that remain more resistant to the onslaught of the crisis. The average rents for this zone are 3.3% above those recorded one year ago, representing the only area capable, though only slightly, of rallying year-on-year.

In comparison with the third quarter of 2011, the offices on the Outskirts have seen the greatest change, amounting to a fall of -26%. The €8.80/m²/month average rent indicates the effort of landlords to adjust their cash flows and offset the greater availability in the zone (26%). The Centre and Decentralised zones also showed annual falls in average rent of 11.2% and 15.5% respectively.

Market conditions have also exerted downward pressure on effective rents over the year to date. In other words, non-nominal discounts have widened. Incentives such as free rent periods in excess of one month per year of binding compliance (which has been common market practice up to now) and greater periods of staggered rents are seen within the market.

In constant terms and discounting the effect of inflation, the average rent in Barcelona shows a lower degree of variation than the nominal rent. This means that inflation is attenuating discounts. As an example, during the third quarter the annual change in nominal rent was -13.7%, whereas the inflation-adjusted rent fell by some 16%.

Upward pressures on rents have not been observed at either local or regional level. It is possible that discounts on the rental of offices in Barcelona will continue to be observed during the coming two or three quarters. Incentives to transaction activity, such as free rent periods, will still play a part in negotiations.
Investment

Commercial real estate investment figures continue to reflect investor attitudes founded on the highest degree of caution and the wait for signs of improvement. The appearance of these signs continues to be delayed by the lengthening of the crisis in Spain and the weakness of growth in Europe. This context leaves room for mainly small and medium-sized deals, involving primarily local investors. The most sought-after assets by private fortunes and institutional funds are those which are most liquid, with solvent tenants and long-term contracts. Banks and savings banks foreclosures and so-called “distressed assets” are the focus for value-added and opportunistic funds.

During the first nine months of 2012, commercial real estate investment in Spain amounted to €510 million, one third of the aggregate amount for the same period in 2011. Reductions were witnessed in all segments, with offices seeing the lowest (40%) and retail the greatest (-81%) falls.

Offices continue to enjoy the greatest share of total volume, representing almost €200 million in 2012 (Q1 to Q3). This is followed by hotels (€150 million) and retail (€103 million). In contrast to 2010 and 2011, no transactions relating to shopping centres, the sale of bank office portfolios or divestments of supermarkets or hypermarkets have been detected. Small-scale transactions for high street premises currently set the pace for retail investment.

Real estate investment performance has been affected during the third quarter. Following numerous stable quarters, the return on prime offices in Madrid has gone from 5.5% to 5.6%. This pays testimony to the pressure from the cost of sovereign debt and the negative trend in sale prices. Prime office returns for Barcelona have similarly reached 5.8%.

The outlook for the coming quarters in terms of investment volume in Spain points towards maintenance of the status quo. Investors will continue to focus on core European markets whilst the macroeconomic indicators and business sentiment in Spain remain in decline. 2012 will almost certainly close as one of the years showing the lowest level of investor activity, even below that of 2009. The signs which investors are waiting for to take positions will begin to emerge towards the end of 2013; by this time structural measures, fiscal equilibrium and the liquidity of the banking sector will have been consolidated.
Glossary

BNP Paribas Real Estate Research aims, to the extent possible, to produce comparable and homogeneous indicators. We try to contribute to market transparency by entering the definitions of concepts and indicators used in our reports, so that readers can clearly understand each one of them.

Calculation of surface area: Data on take-up, vacancies, stock and future supply (pipeline), are expressed in gross area in square meters. For internationally comparable figures, BNP Paribas Real Estate multiplies Spanish figures by 0.82.

CBD: This is the most active businesses area for the tertiary sector in the city. For this reason it is considered as the most interesting real estate.

Take-up: This represents the total surface area rented, pre-let, sold or pre-sold during the analysis period.
- It does not include surface are available for rent.
- An area is considered ‘taken-up’ when the contract is signed or a binding agreement has been reached.
- A pre-let is considered as take-up executed off-plan or during the construction period.
- Deals are the number of transactions where the contract was signed in the period of analysis.
- Take-up figures are subject to change.

The breakdown of take-up by sector is compatible with European NACE activity codes.

Supply: Total office space, which at the date of preparation of the report are:
- Physically unoccupied.
- Ready for immediate occupancy.
- Actively marketed.
Includes sub-let area and is mentioned separately when possible.
- Vacancy rate: Total area available divided by stock at the date of preparation of the report.

New deliveries: Amount of office space having reached technical completion in the period of analysis. They can be pre-let or available for occupancy.

Pipeline: Surface area of properties for which works have started on a new development or significant reforms at the date of preparation of the report. Includes projects for occupancy by the owner (turnkey). Excluding land adaptation works.

Stock: Total amount of surface area for office use, whether occupied or available, at the close of the report.

Average rent: The average rent charged during the last quarter, weighted by the surface area of each rental contract during period, either new or used.

Gross Yield: Annual gross income (before property costs and expenses) on the purchase price, excluding transfer costs.

Net Yield: Net income on the purchase price plus all costs of purchase.

Prime Rent/Yield: Represents the highest rent/yield on the the dates of the report, in one unit:
- Standard size proportional to demand in each location.
- High quality and specifications.
- In the best office locations in the market.

The transactions executed during the period are used to determine the prime rent and yield. In the absence prime transactions during the period of analysis, a hypothetical rent/yield is based on expert opinion and market conditions.

Investment volume: The sum of the selling prices of all non-residential real estate assets in which BNP Paribas Real Estate has identified a change of ownership. Includes office buildings, Retail, Industrial and logistics, and hotels. The levels reported in the reports are not final and are subject to change.

Types of investors:
- Insurance
- Public Sector
- Property Companies
- Shareholders
- Private Investors and Family Office
- Corporations
- Consortia
- Others

Opportunistic investment vehicles: Investors seeking a yield of over 17% with leverage levels of over 60% of the gross value of the asset.

Value-added Investment Vehicles: Investors seeking a yield of between 11.5% and 17% with leverage levels of between 30% and 70% of the gross value of the asset.

BNP Paribas Real Estate 2012 Liability Clause

BNP Paribas Real Estate assumes no liability whatsoever for any data contained in this report which, despite our best efforts, results invalid or incomplete. This report is a compilation of BNP Paribas Real Estate and the information contained is geared exclusively to our customers. The report and the information contained herein may not be copied or reproduced without the prior written permission of BNP Paribas Real Estate. If you are no longer interested in receiving this information or would like to change the conditions for receipt, please contact us by sending an email to: atencion.clientes@bnpparibas.com.