

Summary Statistics	Q2 13	Change*		12 Month Outlook
		Q-o-Q	Y-o-Y	
Take-up (000s sqm)	44	-68.5 %	-28.5 %	↑
Vacancy Rate (%)	11.8	30 bps	60 bps	→
Prime Rent (psm)	€291	0 %	-2 %	→

	Q2 13	Change*		12 Month Outlook
		Q-o-Q	Y-o-Y	
Capital Value (psm)	€4694	4.8 %	-1.2 %	↑
Prime Yield %	6.20	-30 bps	-5 bps	↓

* % Change for Prime Rents and Capital Values calculated using local currency

Market Overview

After a strong first quarter, demand for office space dropped in Q2. Nevertheless, the outlook for the remainder of 2013 still envisages an improvement in leasing volumes compared to last 2012. The CBD area has suffered the most, with take-up of less than 10,000 sq m in recorded in Q2, compared to nearly 32,000 sq m in Q1. The average deal size declined significantly q-o-q due to the absence of deals over 2,000 sq m in Q2. The vacancy rate increased by 30 bps q-o-q to reach 11.8%, following the first decline since Q2 2007 in Q1 2013. Office vacancy is however expected to increase, despite a tight development pipeline and office conversions, as corporate occupiers consolidate and space is freed up by public administration. On the supply side, there is limited development activity with less than 30,000 sq m due to come to the market in 2014. Given the foreseeable lack of newly developed space, some developers have brought construction forward order to benefit from improving demand. Hence, there are now just under 15,000 sq m of new space in the pipeline. The considerable lack of prime quality products in the CBD has kept prime headline rents at € 291 / sq m pa for the fourth consecutive quarter. However, prime rents are expected to see a slight decline over 2013 as a result of the challenging economic conditions. Incentives are being offered in the form of rent-free periods or contributions towards relocation or refurbishment. In the investment market, over €100 million have been invested in a total of three office transactions, which somewhat improved investor confidence. The main players continue to be opportunistic investors, private investors and family offices - all of whom have shown interest in quality product expected to become available at attractive prices – in particular assets being sold by the Spanish bad bank SAREB. There remains however a mismatch between vendors and buyers pricing expectations. The public administration continues with its approach of facilitating asset disposal through public auctions, with some isolated sales during the quarter. Overall, it is expected that there will be some office portfolios being offered in the market, increasing supply of investment options. Prime yields decompressed by 30 basis points to reach 6.20% in Q2 2013. Prime yields might compress further given increasing investor demand for quality assets.

Figure 1: Take-up

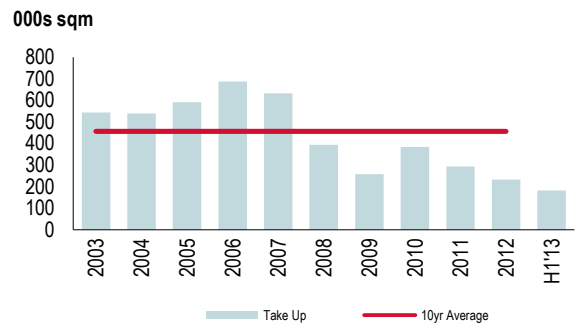


Figure 2: Supply and Vacancy Rates

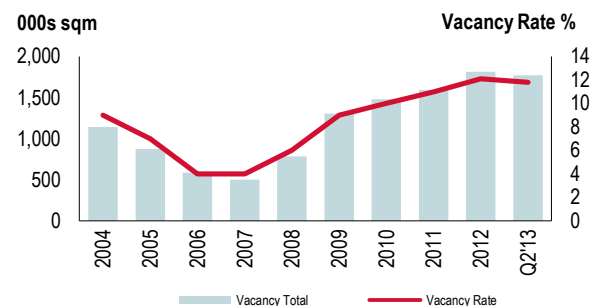


Figure 3: Prime Rents and Rental Growth

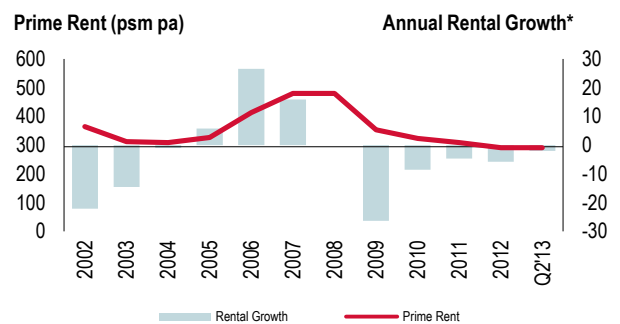
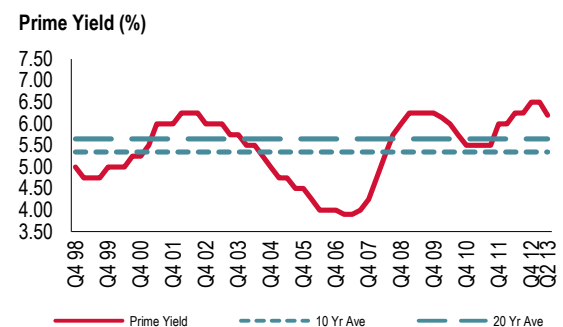


Figure 4: Prime Yields

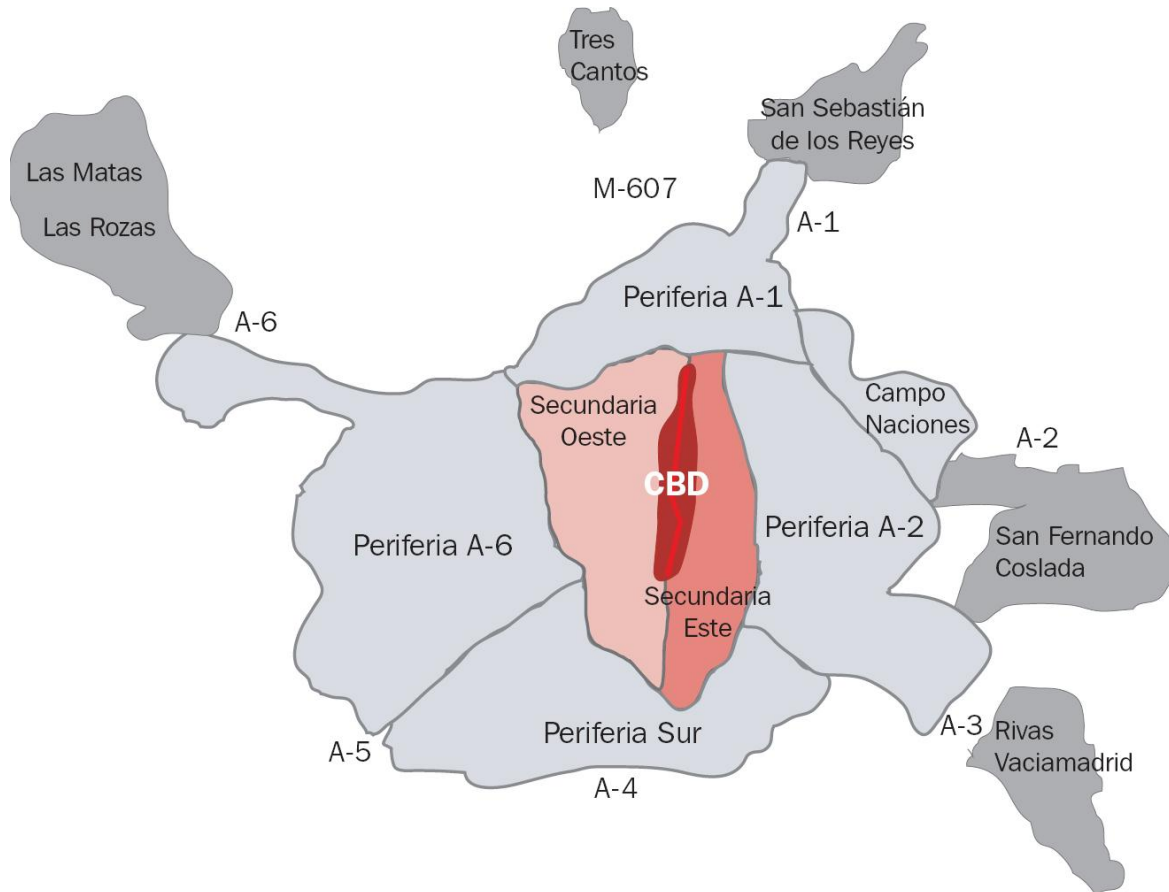


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Madrid Office Market Profile – Q2 2013

Pulse reports from Jones Lang LaSalle are frequent updates on real estate market dynamics.

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