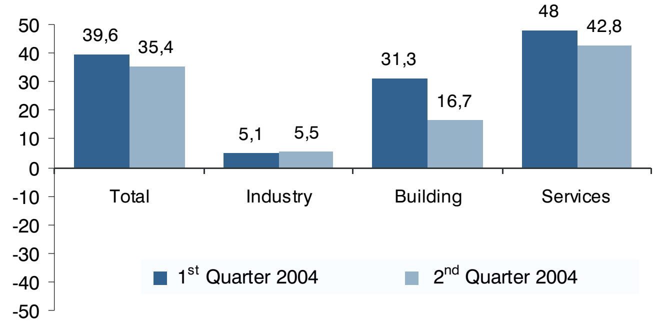
I. Madrid economic situation analysis

Entrepreneurial development

The Entrepreneurial Confidence Indicator designed after the Business Climate Survey carried out in the 500 biggest businesses in Madrid and developed for this Urban Economy Barometer shows a worsening of the business prospects in Madrid with regard to the previous quarter.

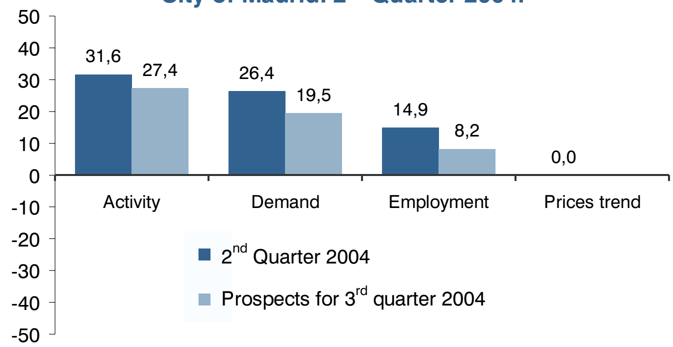
Entrepreneurial Confidence Indicator.
City of Madrid. 2nd Quarter 2004.



Source: "Área de Gobierno de Economía y Participación Ciudadana". City Council of Madrid.

The expectations of the businessmen located in Madrid towards the third quarter show a fall in the business dynamism, mainly due to a lower growth in the demand even though a sectorial differentiation is required. In the context of the backward of most business climate indicators in Europe and USA arising from the higher prices of oil and from a limited growth expectative, a backward step of only 4 points in the indicator of Madrid does not necessarily mean a shift of trend in the prospects for the third quarter of 2004.

Opinions from the business sector.
City of Madrid. 2nd Quarter 2004.

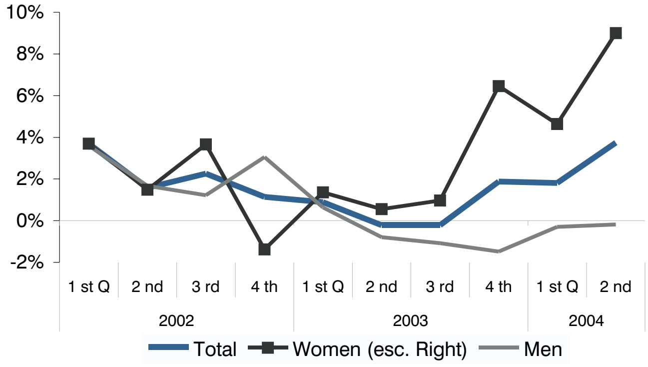


Source: "Área de Gobierno de Economía y Participación Ciudadana". City Council of Madrid

Labour market

The second quarter of 2004 shows an extremely positive record in the labour market in Madrid. The working population has widely increased thanks to the demographic development and to better prospects regarding the second half of the year, this evolution has turned into a remarkable increase of the working population particularly the female population. Thus the unemployment rates have decreased in comparison with the previous year particularly in the younger age group. There has also been an improvement in the quality of the jobs, measured by their rate of temporality which has decreased for three consecutive quarters. According to each sector industry has proved to achieve the best relative record of development.

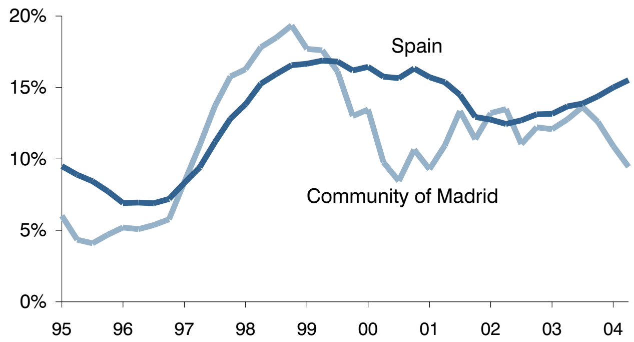
Employment evolution in Madrid (Year-to-year variation rate)



Financial system

The most relevant changes happened in Madrid in the last few months are related to two different phenomena. The first of these events affects the commercial expansion of banking branches due to the demographic and urban development. This expansion has not yet ended. The second relevant event is related to the banks' more rationalized situation according to the slow down of the credit and the acceleration in the deposit collecting. The restraint seen in the economic development, perceived also in the whole of the country development, may consolidate this process in the next few months.

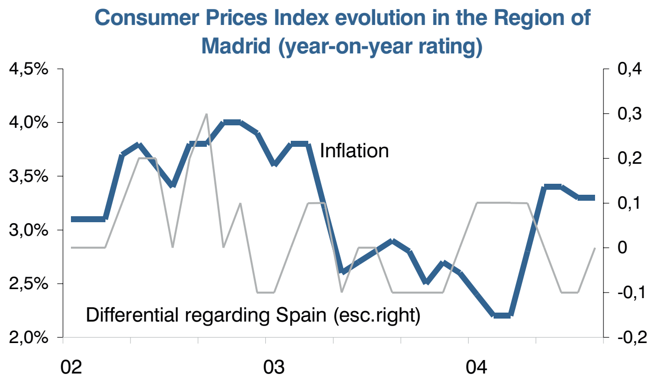
Year-on-year growth of credits granted to OSR



Source: Banco de España

Consumption and prices

The evolution of international markets has significantly determined the behaviour of the inflation in the last few months. The higher prices of oil has triggered a significant upturn in the consumer prices growth which has been reinforced by the increase of food prices. The most positive analysis proves that Madrid's economy has shown a moderate increase of the labour costs and a positive evolution in the most stable goods and services prices with regard to the whole national average. The higher inflation level has partially lowered the consumption development although a more positive evolution of Madrid's labour market has sustained outstanding development rates.



Source: INE

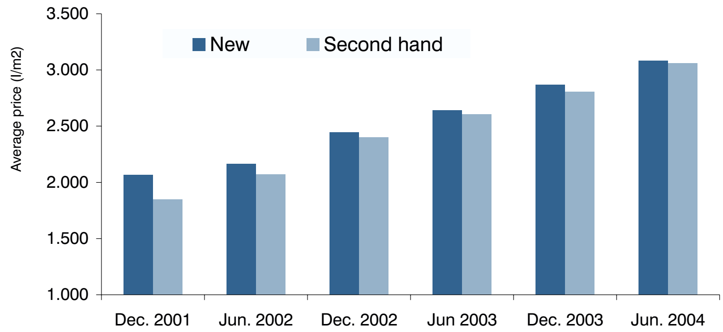
Building and estate agent's market

The residential activity decreased in the first months of 2004. The decrease in the number of houses to be built has been more relevant in the subsidized housing sector. The working activity in buildings and other urban plans has been the only increase seen in this sector. It is expected that this trend is reinforced in the next quarters thanks to the development of the Plan for the Revitalization of the Town Centre besides the measures approved to slow down the delay in the completion of the PAU's works. Thus 20.5% of the houses to be built in the first eight months of 2004 are located in the district of Fuencarral.

The non-residential activity is stronger than the residential one boosted by a major development in the office market. In the first eight months of 2004 the area able to be built in is higher than half the area that was authorized to be built in the six previous years. Besides this intense activity a change in the types of office can be seen - the area intended for office location shifts from exclusive-use- buildings to common premises.

The difference between the price of new houses and second hand houses is no longer relevant. The district of Salamanca remains the most expensive one showing average prices above 4.600 €/m2 followed by the districts of Centro, Chamartín and Chamberí. Even though the increase of prices in the first half of the year has been widespread, the outskirts areas have shown the highest rise in the housing prices. Districts such as Carabanchel, Vicálvaro y Latina have shown year-on-year growth rates above 25%.

Average price of m² in the city of Madrid

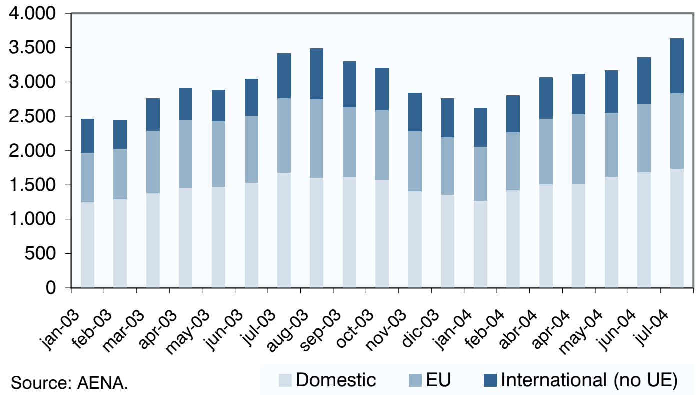


Source: Sociedad de Tasación y TINSA

Transport

The consolidation of the recovery of employment in the several transport activities is the most significant feature in this sector. Regarding the aircraft sector the airport of Madrid-Barajas showed a new operational record in the beginning of the summer holidays contributing to the closing of the first quarter with a traffic year-to-year increase of 9.8% in terms of number of passengers and 11.8% in terms of goods. Within this period domestic flights meant 50.1% of the whole while passenger traffic to/from the EU and international traffic recorded 30.5% and 19.4% respectively.

Monthly traffic of passengers in Madrid-Barajas Airport (thousands)

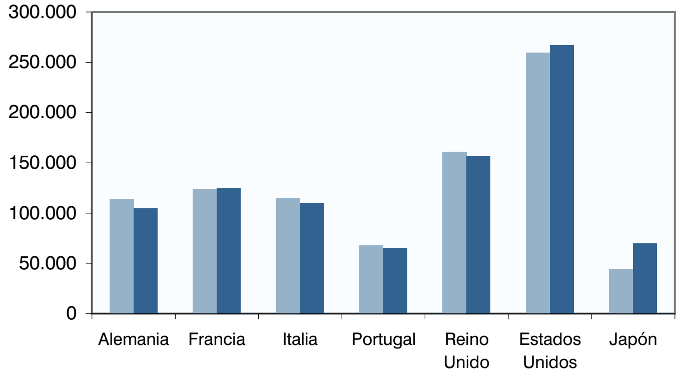


Source: AENA.

Tourism

The foreign tourist demand has been very different to the evolution in the whole of the country showing an increasing diversity and a relative dynamism in Madrid during the second quarter albeit a significant moderation regarding the intensity seen in the beginning of the year. The statistics information available proves that Madrid has not suffered the negative influence of the terrible 11-M events. The strength of the domestic tourism has allowed a further consolidation of the good results achieved from January to March reversing the negative course of the last three years.

Number of overnight stays per nationality in the Community of Madrid



Source: Encuesta de Ocupación Hotelera (EOH), INE.

Between April and June over 1,358,000 tourists stayed in Madrid meaning an increase of 9.2% regarding the same period in 2003 at the same time than achieving an historical maximum in that period of the year.

According to the origin of the visitor we can observe a stagnation and even a drop in the number of overnight stays from the most important European sending countries with regard to 2003 (French, German, British, Portuguese and Italian) whereas the positive outcome of other European markets and of the remaining international tourism has allowed a compensation of these results. The tourism from United States, which is the main tourism sending country occupying hotels in Madrid generated an increase of 2.8% in the number of stays in the second quarter and other less significant markets such as Mexico and Japan showed solid growths of 27.1% and 57.5% respectively.

II. Sustainability

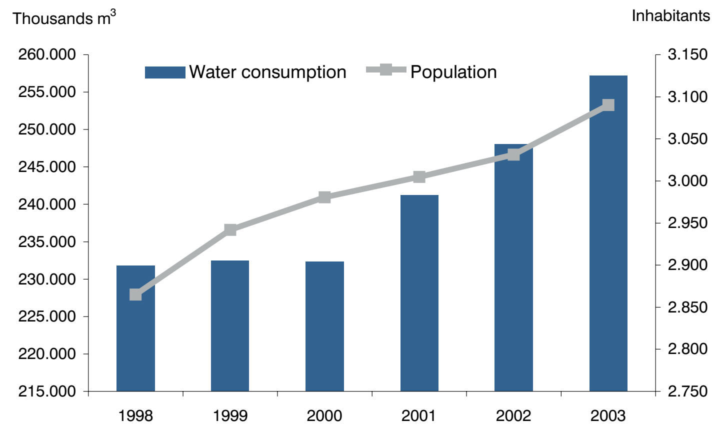
Water consumption in Madrid

A rational exploitation of water resources is one of the main keys in the sustainability of a Mediterranean city as Madrid as water is a limited natural resource worsened by serious spatial and temporal imbalances.

Speaking in absolute terms, Madrid has increased its water consumption in more than 5 Hm3 in the last 3 years mainly as a result of an increase in the home consumption which has raised from 63% to 68% of the whole, while industrial usage shows a slight decreasing trend.

Water consumption in Madrid averaged 222 litres/day in 2003 showing a slight drop in the last three years as an increase of 220,000 inhabitants (7.6%) has only translated into a small increase of 5.1% in the turnover of water consumption.

Evolution of water consumption and population in the City of Madrid



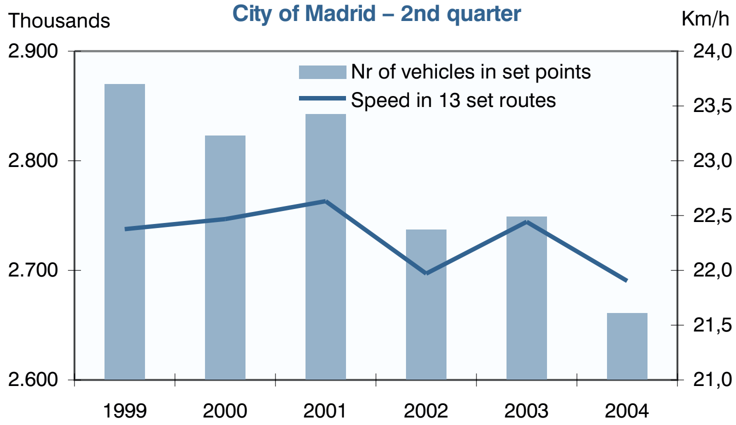
Source: Canal de Isabel II

Mobility

In terms of mobility the balance in the second quarter shows a clear dichotomy between an steady pace in the growth of registration of private cars number plates – the capital of Madrid stands 3 points above the regional level – and the increasing usage of public transport which in the first quarter showed a year-to-year increase of 3.3%.

As for road traffic the average speed of urban traffic is still reducing particularly in the belt highway despite a strong decrease in the average number of daily vehicles in the second quarter with regard to 2003 (a 3.2% increase translated into 2,660,893 vehicles).

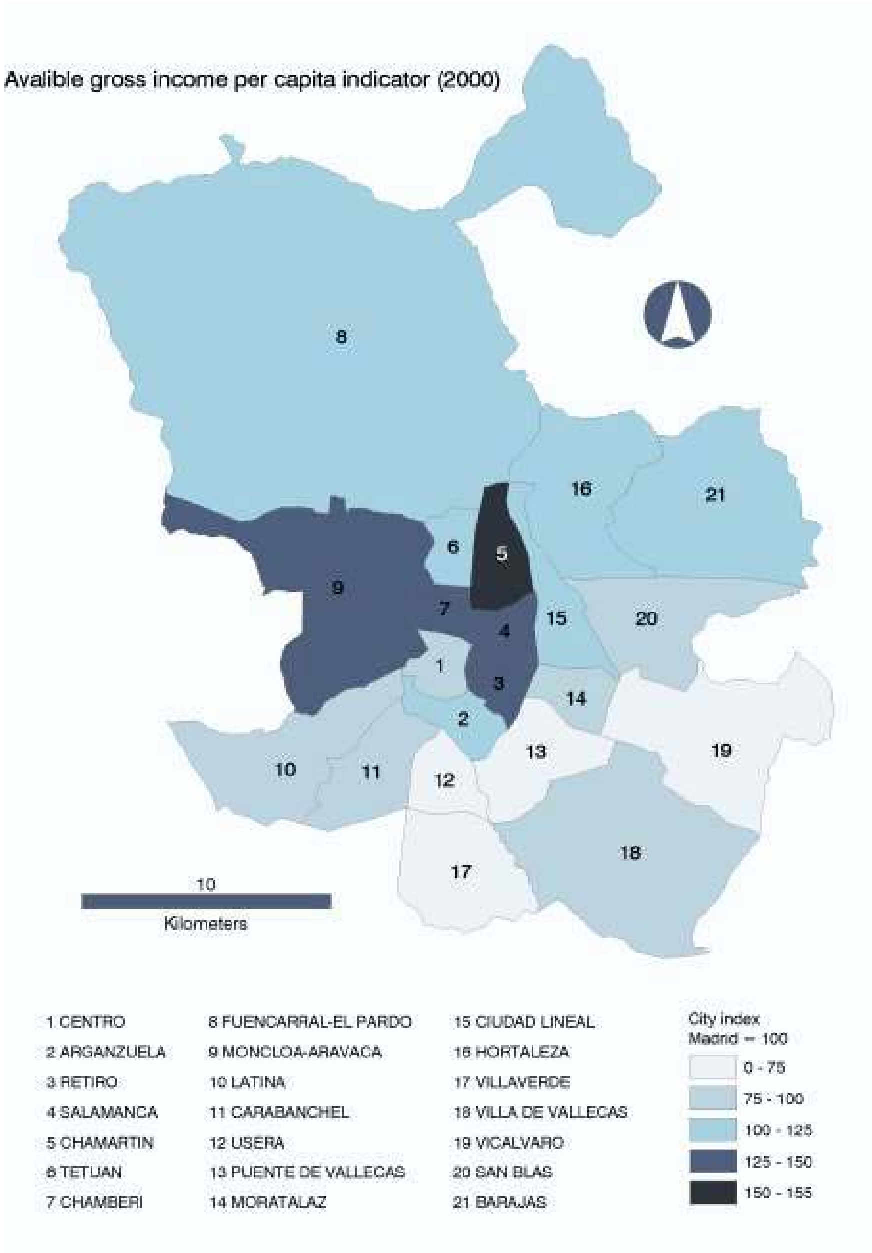
Daily intensity and average speed of urban traffic in the City of Madrid – 2nd quarter



Source: Ayuntamiento de Madrid. Concejalía de Servicios de Movilidad Urbana.

III. Regional balance in Madrid: income per capita distribution

Great cities' role of channelling and redistribution of all types of tangible and intangible flows increases the risk of territorial imbalances both inside the city as in the surrounding area under its control. Income rates confirm that Madrid is a prosperous and rich geographic area and this situation is growing more solid year after year.



The city of Madrid displays striking contrasts. The better-off social strata enjoy an area of prosperity located in the business district of Castellana and the more traditional districts of Ensanche (Retiro, Salamanca, Chamartín and Chamberí districts). We should add here some residential areas situated in the outskirts on the west and the north of the city. On the other hand we find some humble neighbourhoods in the districts of Tetuan and Centre as well as a semicircular area in the south of the city from La Latina district in the west to San Blas in the East. In this area we find some neighbourhoods – Usera, Puente de Vallecas and Vicálcaro- which stand out for their rather negative income rates and where poverty and social exclusion seem to be entrenched in this southern outskirts of the city.

According to this there is a long-lasting belief in a socio-spatial mechanism which tends to spatially segregate the better-off strata in the greater cities. This feedback process links educational level, wage level and the ability to choose the place of living. Even though a similar process can be generally observed in Madrid we should not forget the outstanding efforts developed by the city council in order to relieve the situation of the social strata with lower incomes.

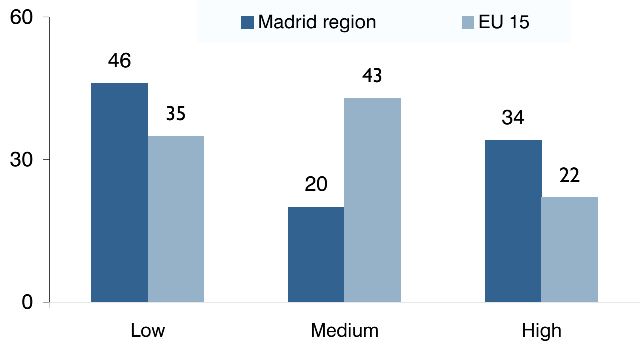
IV. Madrid as focus of business attraction: human resources

The educational level of the population means a key indicator of social cohesion, development and standard of living in any city. A solid correlation between the income per capita rate and human resources assumes that an accumulation of knowledge in its population is one of the main competitive values in a particular area.

The population of Madrid enjoys one of the highest educational levels in all major European cities.

One of the most distinctive features of Madrid's society is the high educational level of its working population as 25% of the working age population has a higher education level granting Madrid some comparative advantage regarding other European cities and regions. This advantage will continue in the near future as Madrid enjoys one of the widest and most diversified group of universities in the European and Spanish university sphere.

Educational level in 25 to 64 yrs population (% of total), 2002



Fuente: EU

The group of universities in Madrid is the widest and most diverse in all the Spanish university structure with 16% of the whole of the university enrolment , 26% adding the UNED students. In 2002 there are thirteen universities in the Community of Madrid, eight of them having their own campus or administrative centres in the city of Madrid. The Community of Madrid owns the higher school life expectancy in all the autonomous regions with a schooling population specialized in higher education, particularly in long duration technical careers related to experimental, health and social sciences.

The specialization in engineering careers plays a definite role for the level of competitiveness in Madrid laying the foundations for a better implementation of new technologies and innovations as well as facilitating the location of medium and high technology companies in the city.

European Ranking	City	% of working population With higher and further education (1)	
		1996	2001
1	Bristol	28,4%	31,9%
2	Stockholm	25,8%	22,0%
3	Sheffield	23,2%	22,1%
4	Frankfurt	22,8%	
5	Manchester	21,3%	24,4%
6	Leeds	21,2%	23,9%
7	Gothenburg	21,1%	
8	Brussels	20,6%	
9	**Madrid**	**18,1%**	**19,7%**
10	Helsinki	17,9%	20,0%
11	Edinburgh	17,1%	
12	Birmingham	16,3%	16,7%
13	Lyon	16,1%	
14	Barcelona	15,8%	
15	Munich	15,6%	18,5%

Source: Urban Audit, 1996 - Niveles ISCED 5,6,7
Note: Paris y Londres, n.d. Lyon: 1991

V. Monographic report: Madrid, a city for investment, analysis about the economic partners opinions about investment attractiveness in Madrid

Within the framework of the Plan for the Internationalization of the City of Madrid, KMPG has carried out – for the Government Department for Economy and Citizen Participation – a survey asking domestic and foreign economic partners in order to identify the main lures Madrid has to attract foreign investment. This survey yields some interesting conclusions useful to improve Madrid's strategic position as investment aim:

Domestic economic partners

- **Infrastructure, geo-strategic situation and quality of life** are in this respect and according to the national experts consulted the three strongest points Madrid can offer as investment centre.

Main attractive resources of the City of Madrid (national experts)

	% affirmative answers
Infrastructure	60,87%
Geo-strategic situation and search for new markets	52,17%
Quality of life	34,78%
Skilled workers	30,43%
Open-minded society	26,09%
Centrality	21,74%
Stability	21,74%
Profits and good financial prospects	13,04%
Image	8,70%

Source: Plan de Internacionalización from the Town Council of Madrid

- The negative aspects are **an inadequate development of Madrid's "quality brand" or Madrid's image abroad as well as a poor participation in international meetings.**

Poor aspects of the City of Madrid (national experts)

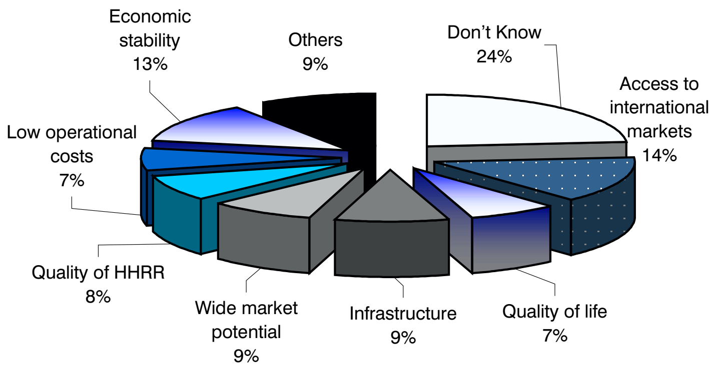
	% affirmative answers
Image	47,83%
Administrative policies	43,48%
Shortage of industrial surface	39,13%
Urban congestion	26,09%
Infrastructure	26,09%
Language	17,39%
Security	17,39%
Price of housing	8,70%

Source: Plan de Internacionalización from the Town Council of Madrid

Foreign economic partners

Most of the partners consulted emphasize the importance of Madrid as a point of entry to international markets due to its unique characteristics as a bridge towards Latin-American and north-African markets. In second place the partners mention the economic and financial stability, the quality of the infrastructure, the size of the market and the quality of life.

Strongest points about Madrid

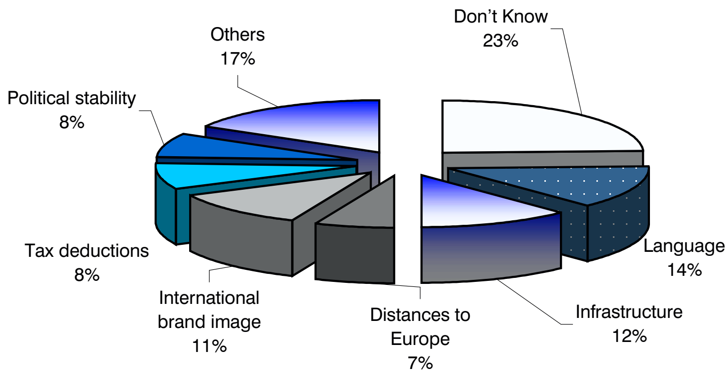


Source: Plan de Internacionalización from the Town Council of Madrid

Madrid's role as core city in the national context is deeply appreciated in Europe while its geo-strategic situation gains more relevance for North Americans and for the partners consulted in Asia-Pacific.

Regarding its shortcomings the partners list firstly a **poor command of a second language**, particularly English, followed by the **infrastructure of external connections**. The lack of a international brand image or "brand of quality" of Madrid is one of the most repeated answers regarding the shortcomings of the city.

Poor aspects of the City of Madrid



Source: Plan de Internacionalización from the Town Council of Madrid