EXECUTIVE SUMMARY

Analysis of the situation of the City of Madrid

1.1. Economic environment and prospects

In a context of an improved international economic outlook, the Spanish economy underwent a correction in the pace of decline in the third quarter of 2009, with GDP falling by a quarterly rate of 0.3%, ending the trend of quarterly falls of over 1% observed since the end of 2008, and making the year-on-year rate of contraction 4%. The combination of a less marked drawdown in domestic demand and the ongoing substantial contribution of the foreign sector were the factors that limited the size of the adjustment in the quarter.

As for the outlook for Spain as a whole, after the anticipated decline in GDP of 3.6% in 2009, the year-on-year change in 2010 will be more moderate (-0.2%), mainly as a result of the positive growth in the second half of the year. Private consumption and investment will continue to fall, albeit at a slower pace, which will limit their negative contribution to domestic demand.

As for Madrid, the forecasts by the L.R. Klein-Centro Stone Institute show that the City's GDP will continue to fall in 2010, although less sharply than in the previous year, and as such the recovery will occur in 2011.

1.2. Production activities

INDUSTRY

Industrial activity in the Madrid Autonomous Region fell once again in September, October and November. There are still no evident signs of a change in the trend in this area, which has posted declines since early 2007. According to the Industrial Production Index (IPI), an annual average variation of 13.4% was recorded in November, after the falls in September and October, when rates of -12.6% and -12.9% respectively were observed. Developments in this index in Spain as a whole showed a sharper decline in the last year, with rates of around -18.0% in the period studied.

The number of workers registered in industrial activities in the City of Madrid in the fourth quarter totalled 91,309 people, a very slight increase of 0.3% compared to the third quarter. Of particular note were the increases in Social Security registration recorded in Waste collection, treatment, removal and valuation, and other much more modest increases in Vehicle manufacturing and Energy supply.

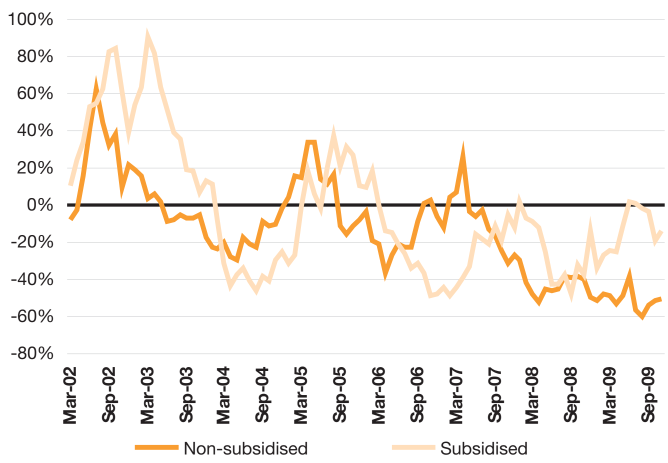
The raw data for Industrial GAV in the Madrid Autonomous Region in the third quarter showed a year-on-year change of -7.4%, a slight upturn compared to the previous quarter.

CONSTRUCTION AND THE REAL ESTATE MARKET

The number of workers registered with the Social Security system in the construction sector in the City of Madrid on 30 September 2009 was 123,215, a quarterly decline of 3%. A more marked fall was recorded in Social Security registration in Madrid as a whole, which fell by 0.43% in the same period.

Between January and November 2009, the Town Planning and Housing Government Department granted 3,473 licences for the construction of new homes in the city, less than the 5,800 in the same period of 2008. The recession in the construction sector in the City of Madrid continues to affect the construction of non-subsidised housing more than state-subsidised housing. 2009 was also not a good year for non-residential construction, and the space associated with non-residential construction licences in November 2009 fell by an average rate of 35.4%.

New housing permits subsidised and non-subsidised (Year-on-year rate)



Source: Town Planning and Housing Goverment Department Madrid City Council

SERVICES

The Financial System

The pace of growth in the volume of credit investment and client deposits continued its process of adjustment in the third quarter of 2009, a trend similar to that observed in Spain as a whole. Similarly, the number of financial institutions in the City continued to decline in the third quarter, although less sharply than in the Madrid Autonomous Region and Spain as a whole.

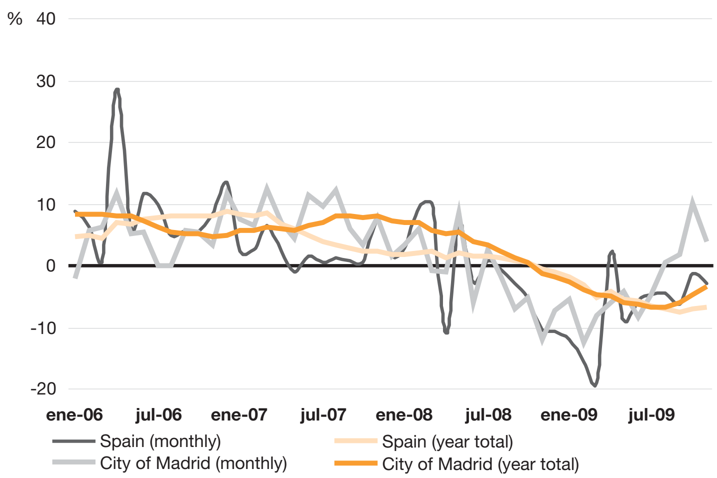
The mortgage market in the Madrid Autonomous Region has yet to recover, and so far this year has posted negative year-on-year rates in terms of both the number of mortgages and the capital involved.

Finally, 2009 ended with a strong recovery in yields on the Madrid Stock Exchange, which led the bullish trend observed in the majority of the main international markets.

Tourism

The performance of tourist demand in the City of Madrid improved substantially in the months between September and November 2009. This period saw positive figures for year-on-year growth in the number of travellers, with 6.6%, and in the number of overnight stays, with 5.4%. These figures suggest a change in the trend from the decline in the June-August quarter, when overnight stays fell by 4.5%. A particularly interesting figure was the recovery in the demand for accommodation by non-resident travellers, with an increase in the number of overnight stays of 7.9% - almost 150,000 more overnight stays in the total for these three months.

Overnight stays in hotel accomodation (year on year rate of the monthly and year figures)



Source: Hotel Occupancy Survey - NSI

Transport

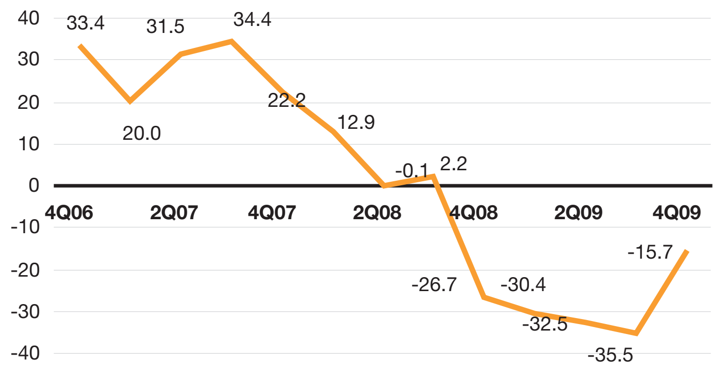
The transport sector seemed to be reaching a turning point in the last quarter of 2009, when some data pointing towards recovery were recorded. Air transport showed year-on-year rates of growth in both the number of passengers (3.7%) and the volume of goods transported through Madrid-Barajas airport (11.6%). The recovery was stronger in international traffic than in domestic flights, which still show signs of weakness. Likewise, the numbers of passengers continued to fall on the Metro (-5.2%) and the Madrid Transport Authority public transport (-2.6%) during the September-November period, although the distance covered by buses continued to increase (1.6%). However, the suburban railway network seems to be closer to recovery, with a year-on-year variation rate in November of -0.7%. In short, the combined figures for passengers transported are less negative than in previous quarters, although the number of registered workers in the sector nevertheless continued to fall sharply (-3.9% year-on-year). Meanwhile, the figures for mobility show a decline in the intensity of traffic (-2.3%) and an increase in average speed (0.5%).

1.3. Business Dynamic

The series showing the total annual number of company constitution proceedings in the City of Madrid recorded a new low, with an annual average of only 820 businesses in September. The economic recession is continuing to affect entrepreneurial perception in terms of the profitability of new businesses and financial capacity to undertake them, a factor which limits the constitution of new companies. The monthly figures, with no annual averages, show that only 840 companies were established in September, which is 34% fewer constitutions than in the same month in 2008. Meanwhile, dissolutions remain above the annual average figure of 200 dissolution proceedings.

The Business Confidence Indicator produced by Madrid City Council showed an upturn in entrepreneurial perception of the economic situation in the City of Madrid in the fourth quarter of the year, although the figures for the confidence indicator remained negative.

Business Confidence Indicator. City of Madrid



Source: Business Climate Survey - Madrid City Council Economic Office

1.4. Demand

Retail sales in the Madrid Autonomous Region recorded negative year-on-year changes between September and November, although this decline was less sharp than in previous months.

As for employment, the monthly employment rate in retail trade (which shows changes in both wage-earning and self-employed workers) in the Madrid Autonomous Region recorded falls in September, October and November, with average annual changes of -4.1% and -4.4% respectively. The figures for Spain as a whole followed a similar trend during the period, with rates of -3.8% and -4.0%.

As regards the foreign sector, further declines were recorded in imports for the last three months for which figures are available (August, September and October), continuing the trend seen in previous months. Exports also recorded further falls in this period. As a result of these developments, the accumulated trade deficit over the last 12 months in the Madrid Autonomous Region was 31,917 million euros in October, which is a year-on-year decline of 21.0%.

1.5. Prices and salaries

After six consecutive months of decline observed in the Consumer Price Index in the Madrid Autonomous Region, it returned to positive figures in November, with a year-on-year growth rate of 0.5%. The increase in the CPI was greater in the Madrid Autonomous Region than the Spanish average figure, for which inflation in November was 0.3%. According to the forecasts of the Flores de Lemus Institute for Madrid, the trend for prices will remain positive, with a projection of 2.1% year-on-year for the end of 2010.

Meanwhile, the Quarterly Labour Costs Survey showed a slight slowdown in the increase in labour costs in the Madrid Autonomous Region, which ended the third quarter of 2009 with a year-on-year increase of 3.7%, a mild reduction compared to the previous quarter.

1.6. Labour market

The decline in the labour market intensified in the third quarter of 2009, although the figures recorded for unemployment and Social Security registration could be indicative of a change in trend.

The rate of decline in the active population increased to 1.4% year-on-year, with greater impact once again among men and young people. However, the pace of decline in the rate of employment is starting to slacken among cohorts aged less than 25 years old, while it is increasing in older groups. As regards employment, job destruction became more acute, reaching a year-on-year rate of 7.3%, with a greater impact on temporary workers (-19.7%) and the self-employed (-18.8%), although workers with permanent contracts are also beginning to be affected (-0.8%), and the construction sector is the hardest hit by the destruction of employment in relative terms (-28.3% year-on-year). However, the rate of decline in Social Security registration compared to the previous year slowed in the third quarter, to -5.9%.

The unemployment figures were consistent with the figures for work and employment, showing a further increase, to 214,000 people unemployed (Active Population Survey), or 12.9% of the active population. The figures for recorded unemployment also increased, although their rate of increase slowed to 34.4% year-on-year, compared to the 55% increase in April, the month with the highest year-on-year increase. As a consequence of these new increases, the figure for unemployment exceeded 200,000 in September, and in November it was over 209,000.

2. Territorial Balance

The regeneration of the centre of the City of Madrid

Madrid City Council has been firmly committed to revitalising the City centre since 2004. Since then, various types of projects have been implemented (around 200 projects with an investment of 806 million Euros) in order to prevent the central area of Madrid being affected by processes of urban decay, such as ageing of the population and the loss of residential and economic uses.

Analysis of some socio-economic indicators shows how the centre of the City of Madrid remains a dynamic and attractive area both as a residential area and a zone for economic activity. These indicators are the birth rate, which increased between 2004 and 2008 and is around 10%, the net immigration rate which in 2007 reached 26.71% (30,193 people), and the volume of changes of address (33.1% of the total recorded in Madrid move to the centre). In the economic sphere, the figures for social security contributions and employment show that it is still an attractive area for locating businesses, especially for the retail and business services sectors: the area is home to more businesses than the rest of the City - 59,141 compared to 33,942, and jobs - 987,786 registered workers compared to 583,863. Finally, significant grants have been awarded for the restoration of buildings in the centre since 2004 (42,330) enabling improvements to buildings and landscape and thereby stimulating the revitalisation of this central area of Madrid.

3. Business attraction pole

Ranking of European cities 2009

For the third consecutive year, this section of the Barometer provides a ranking of the 25 European cities considered large metropolises, among which is Madrid. This ranking, which is based on the main international city rankings, enables an analysis of the positioning of the City of Madrid in terms of a number of relevant areas.

The sources used in the previous issue have been reviewed to include updated data and new reports with a view to improving the measurement of the indicators used as the basis for calculating the various rankings presented in this study. As in previous issues, the indicators have been ranked classified in four areas. This process provides a ranking for each one, and subsequently an aggregate ranking based on the combination of all of them.

In the “Economy and Labour market” area, Madrid is in second place for the second consecutive year behind London, which remains in first place as in all the previous issues. In the “Transport and Communications” area, Madrid remains in second place, although this time is shares this position with Berlin, and Paris remains in first place in the ranking in 2009, while London slips down a place, to fourth position.

In the “Knowledge Society” area, Madrid maintains the sixth position that it reached in 2008. There are few changes in the leading positions, which are occupied by London, Paris and Stockholm. Finally, in the “Quality of life” area, the City of Madrid rose three places, to ninth in the 2009 ranking.

Ranking of European cities 2009

RANKING 2009		RANKING 2008	CITY	RANKING 2009		RANKING 2008	CITY
1	=	1	London	14		20	Glasgow
2	=	2	Paris	15		13	Milan
3	**=**	**3**	**Madrid**	16		15	Lyon
4		5	Amsterdam	17		21	Hamburg
5		4	Berlin	17	=	17	Warsaw
6		9	Brussels	19		18	Helsinki
7	=	7	Barcelona	20		22	Lisbon
8		6	Frankfurt	21		25	Rome
8		8	Munich	22		10	Dublin
10		11	Manchester	23		19	Prague
11		12	Stockholm	24		23	Budapest
12		14	Copenhaguen	25		24	Athens
13		16	Viena				

Source: Afi from the main available sources on cities

As a result, for the third consecutive year, we present the ranking of European cities based on a combined index which weights the four separate areas analysed in order to best reflect a city's score. In the 2009 ranking, London, Paris and Madrid remain in the top three positions in the European ranking, as they did in 2008 and 2007. Amsterdam moves up one place to fourth, the same position as it held in 2007, and has ousted Berlin, which is now in fifth place. Brussels is also in the higher reaches of the ranking - in sixth position - an achievement to which its "economy and labour market" and "knowledge society" scores have made a particular contribution (it has risen 5 places in both).

4. Monographic report

The extension of the Castellana: a new economic focal point in the north of the City

The major financial capitals of Europe (London, Paris, Frankfurt and Amsterdam, among others) have business districts containing mainly financial and advanced services activities. As a result, they have succeeded in increasing their international importance by promoting a concentration of advanced tertiary activities. In the extension of the Paseo de la Castellana, Madrid has a great opportunity to renew its urban structure and to take up a position at the forefront of European financial centres, with an innovative project that benefits the City of Madrid in overall terms.

From the point of view of urban development, the new thoroughfare will contribute to the urban fabric and the new infrastructures in Madrid's future financial centre becoming more compact, leading to significant savings on time and money in terms of mobility. It is estimated that citizens will save nine million hours annually in their journeys, and 107 million euros annually thanks to the new development. Furthermore, the project is a significant boost to the supply of tertiary space in the City of Madrid, but will nonetheless prevent the single-function land use found in other similar areas in Europe and North America. This is due to the high availability of space in the extension of the Castellana (which is double that in the La Défense district in Paris, for example).

The extension of the Castellana in the context of European CBDs

Business district	Space (m^2)	Workers	Inhabitants
Amsterdam Zuidas	4,000,000	80,000	25,000
Extension of the Castellana	**3,120,658**	**88,000**	**50,000**
City of London	2,900,000	340,000	8,000
París-La Défense	1,300,000	150,000	20,000
Canary Wharf	400,000	90,000	7,000*

N.B: * Living and working in the district.
Source: Madrid City Council, La Défense, Greater London Authority, Zuidas Amsterdam

This will facilitate the inclusion of other land uses, and a commitment to greater functional diversification. The project will be a more complex and diverse space, which intersperses office areas with residential and commercial spaces.

In order to be able to compete with the main consolidated European business centres, the financial district in northern Madrid must be different, offering its own model and more appeal in economic and technical terms. To that end, it is necessary to exploit the advantages that set the future Northern extension of the Castellana apart from its European counterparts, including aspects such as the links between Spanish multinationals based in Madrid and Latin America, the proximity of operational premises such as the IFEMA Madrid Trade Fair area, Madrid-Barajas international airport, and those that are in the planning stage, such as the future International Conventions Centre of the City of Madrid, Telefónica's District C and the future headquarters of the BBVA. Other aspects worthy of note are the availability of human capital with a high level of training and increasing specialisation in high added value activities.

Because of its scope in terms of civil work, urban transformation and the potential benefits for productive specialisation in the City, the Castellana extension project will have significant economic effects, both while the work is being carried out and subsequently, once the areas are occupied. First, the activities for the transformation of the area will support the construction sector, which has been seriously affected by the current economic situation. It is also important to give Madrid a space that meets the most demanding conditions for hosting business activities with high added value, which will have a positive effect on the City's productive specialisation, increasing its productivity and the generation of skilled employment in the long term.

In this respect, estimates suggest that when the new urban sector is operational from 2022 onwards, the total number of people working there could be 88,000 workers. The employment generated in these areas has been estimated considering the square metres per job in each of these activities. The business services and financial brokerage sector will generate around 81,200 jobs, and will be the main beneficiary of the project. Hostelry will account for a total of 6,225 workers, and the rest will be in retail.