

Executive summary

I. Analysis of the situation of the City of Madrid

1. Economic environment

The solution to the financial crisis remains a long-term prospect and there are few signs of improvement. The rise in the price of raw materials and the high prices of basic foodstuffs do not suggest that the outlook for prices will improve in the coming months. In Spain, one of the worst GDP figures in the last six years was recorded in the first quarter. Bearing in mind the decline in the real estate market and the increasingly strict financing conditions for consumers, the downward trend in GDP will continue in the coming quarters.

Despite the intensification of the economic down turn which started in 2007, Madrid's economy continued growing at a rate of 3.0% year-on-year during the first quarter of the year, exceeding the Spanish national average by three tenths of a point. Job creation grew at a moderate rate of 0.8% and the unemployment rate increased by eight tenths of a point compared to the same period in the previous year, to 7.4%. The current situation of uncertainty in the financial markets and the performance of the Spanish economy as a whole has led forecasts for the City of Madrid for 2008 to be revised downwards. According to the L.R. Klein Institute - Stone Centre, the increase in GDP in 2007 was 4.1%, and forecasts for 2008 and 2009 place growth at 2.6% and 1.8%, respectively.

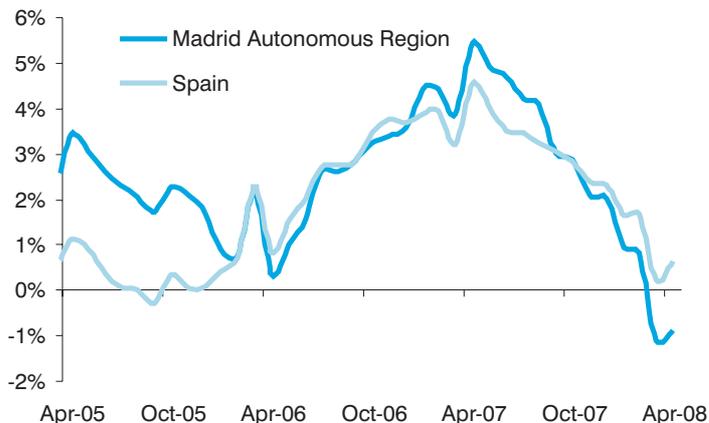
2. Production

INDUSTRY

In the Madrid Autonomous Region, the Industrial Production Index (IPI) presented an average annual growth of -0.9% in April, which is a slowdown compared to the fall recorded in March, when the rate was -1.1%. The April figures, despite showing a greater difference compared to growth in Spain as a whole, also present a break in the trend towards deceleration that began to be observed almost one year ago.

The downturn in Social Security registration in industry in the City of Madrid was more moderate in the first quarter of 2008, with a year-on-year rate of -0.6%, compared to -2.3% in the fourth quarter of 2007. As a result, the figures for registered workers in the industrial sector were 112,395, a decrease of 423 people since the previous quarter.

Industrial Production Index (average annual rate)



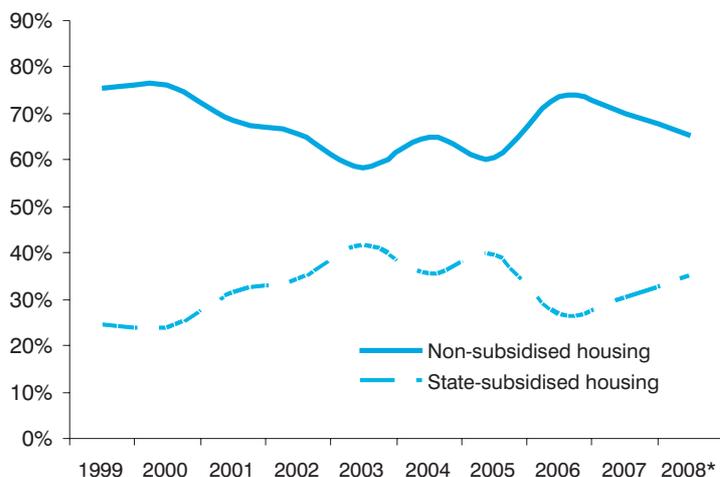
Source: NSI

CONSTRUCTION AND THE REAL ESTATE MARKET

There were 148,236 workers registered with the Social Security system in the construction sector in March 2008, a reduction of 9.1% compared to the same month in the previous year. However, this phenomenon is not exclusive to the City of Madrid and the number of registered workers in the sector has also fallen in both the Autonomous Region and in Spain.

The number of licences granted by the Town Planning and Housing Government Department during the first five months of the year was 3,151, with January and April the months when the most activity was recorded. When a distinction is made between state-subsidised and other housing, it can be seen that state-subsidised housing is increasingly important in the City of Madrid. As a result, almost 35% of the homes begun in the last twelve months are subsidised in some way. Madrid has thus become a city in which more than a third of the homes built are subsidised, to facilitate access to home ownership.

Distribution of homes begun by type (proportion of the total)



* Figures until May

Source: Town Planning and Housing Government Department Madrid City Council

The current economic situation in the construction sector is affected to a greater extent in the residential rather than the non-residential sector, as shown by the change in the area for work construction licences, and many businesses are trying to cushion the downturn in the demand for homes with more work in the non-residential segment.

SERVICES

Financial system

The pace at which the volume of deposits by clients in the Madrid Autonomous Region is slowing down is increasingly intense. They increased by 14.4% in the first quarter of the year - a rate that is still high but much lower than that recorded a year ago (when the rate was 25.1%). Furthermore, the slowdown is much more intense in Madrid, which means that the positive differential compared to Spain as a whole is being reduced.

The restrictions on liquidity in the markets due to the financial crisis is leading to further slowdowns in credit investment in the Madrid Autonomous Region, which in the first quarter of 2008 increased by 23.2%, eight percentage points less than in the same quarter of 2007. This trend can also be seen in Spain as a whole, which has had a growth rate lower than that of the Autonomous Region since 2006.

As far as the stock market is concerned, the Madrid Stock Market has ended its worst six-month period since 1990, losing 21% of its value. Among other factors, this is due to uncertainty regarding the Spanish and international economy as a result of the consequences of the financial crisis and record high prices for raw materials.

Tourism

As the months pass, the national and international economic situation is beginning to affect tourism demand in Spain and in the City of Madrid. Indeed, despite the fact that the results obtained for the City remain above those obtained for Spain as a whole, with an 3.1% year-on-year increase in travellers staying in hotels, and an increase in overnight stays of 2.1%, the slowdown is clear after comparison with the figures for 2007, when travellers increased by 8.5% and overnight stays by 7.4%.

Main tourism indicators, City of Madrid

	2007	2008			Var. 07/06	Var. 08*/07*
		Mar	Apr	May		
Travellers	7,312,936	640,179	645,790	689,428	8.5%	3.1%
Spanish	3,917,196	340,305	340,410	347,580	5.8%	0.3%
Foreign	3,395,740	299,874	305,380	341,848	11.8%	6.4%
Overnight stays	14,199,132	1,209,495	1,257,927	1,350,694	7.4%	2.1%
Spanish	6,870,929	573,673	576,461	602,877	3.1%	-2.2%
Foreign	7,328,203	635,822	681,466	747,817	11.7%	6.1%
Average stay	1.94	1.89	1.95	1.96	-1.1%	-1.0%
Spanish	1.75	1.69	1.69	1.73	-2.5%	-2.5%
Foreign	2.16	2.12	2.23	2.19	-0.1%	-0.3%
Occupancy level per bed	54.8	56.2	60.4	61.8	4.3%	0.3%

* Accumulated figures, March 2008 - May 2008.
Source: Hotel Occupancy Survey (HOS) - NSI

The increase in the number of foreigners, although below that of 2007, is still 6.4%, with a 6.1% increase in the number of overnight stays. However, it is Spanish tourist demand that shows the greatest slowdown.

European demand continues to be the main dynamo behind the positive performance of foreign demand. However, the strong increase from Italy, of 31.7% for the total period between March and May, is in contrast to that of Germany and the United Kingdom, which show a clear decline in the number of overnight stays in the City's hotel accommodation.

Transport

The rate of growth in passenger traffic at Madrid-Barajas airport has slowed down in the last three months, with an increase of 3.5% being recorded between March and May 2008, which is much lower than that seen in the same period in the previous year (14.7%).

The volume of Social Security registered workers in the transport sector in the City of Madrid fell once again in the first quarter of the year, to 73,208 people, with a less intense decline recorded than in the previous quarter (-4.6%).

A decline in the number of passengers using public transport was recorded once again in March and April 2008. This was mainly due to a lower number of bus users (12.9% less than a year ago), as the number of metro users continues to increase (a new record of over 65,000 passengers was posted in April).

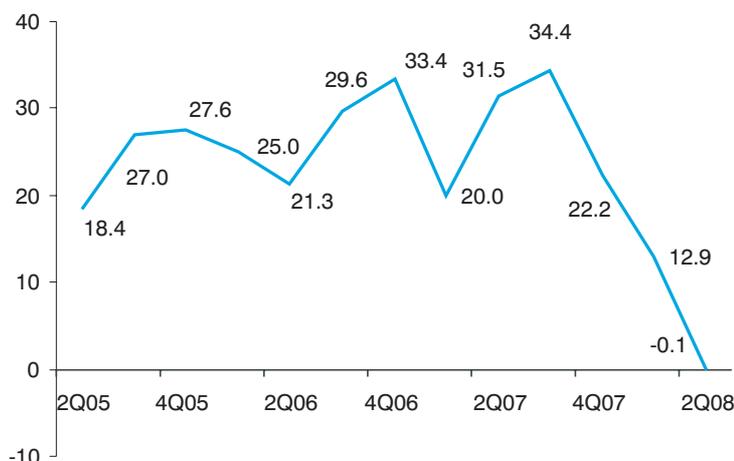
3. Business Dynamic

The slower growth in Madrid's economy, in a context of an international and Spanish economic slowdown, can also be seen in the behaviour of the business dynamic in the City of Madrid. In particular, the rate of constitution of businesses in the City has fallen drastically, to an annual average figure of around 1,300 companies established per month. This figure had not been recorded since late 2005. Although the March figure might be slightly below normal, due to the early Easter Week, there is no doubt about the significant change in the trend that has been seen since September 2007, when the record for constitution proceedings was posted, with an annual average of over 1,450 company constitutions.

The number of company dissolution proceedings continued its upward trend in early 2008. It is thus at its highest level in recent years, with an annual average of more than 300 dissolution proceedings in February and March. The average annual number of dissolution proceedings has doubled in just one year. The anticipated trend is for it to continue to increase in line with the economic recession and as the increase in prices of production inputs worsens business results.

The worsening business climate can also be seen in the Business Confidence indicator produced for the City of Madrid. The indicator is negative for the first time since it began to be produced in the fourth quarter of 2004. It has a value of -0.1, a fall of 13 points compared to the figure for the first quarter. The trend is clearly negative, which reflects a deterioration in the outlook for businesses working in the City of Madrid.

Business Confidence Indicator City of Madrid



*Source: Business Climate Survey produced by the Economy and Employment Area of Government - Madrid City Council

4. Demand

In the last three months for which figures are available, the average annual growth rate in retail sales in the Madrid Autonomous Region has revealed a downturn, to 0.3% in May.

Retail sales at constant prices (average annual rate)



Source: NSI

In the wholesale trade sector, a year-on-year increase in the number of Social Security registered workers of 0.5% was recorded during the first quarter of 2008. This is a break with the downward trend shown by this indicator in the four quarters of last year. However, the growth rate of Social Security registration in retail outlets accelerated in the first quarter, with a year-on-year increase of 2.1% compared to the previous quarter's 0.1%.

The demand for investment in the Madrid Autonomous Region, under the capital goods subheading (IPI) presented an average annual growth rate of 2.1% in April, which is a slight upturn compared to previous months. As regards the foreign sector, the commercial imbalance of the

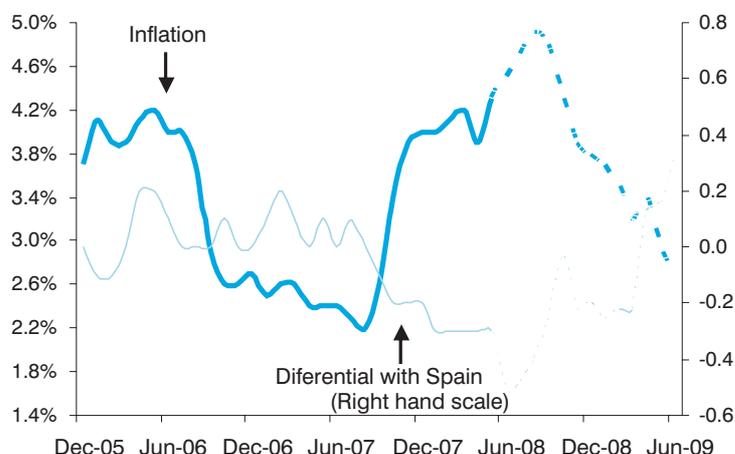
Madrid Autonomous Region continues to grow. As a result, the accumulated trade deficit for the last twelve months showed a year-on-year growth of 5.5% in March 2008, reaching a figure of 42,399 million Euros, which is a new record.

5. Prices and salaries

The widespread increase in food prices and the rise in petrol prices have led to a continuous rise in the Consumer Price Index of the Madrid Autonomous Region. The last figure available, for May, places inflation at 4.3%. However, the differential with Spain is still in the region's favour, at three tenths of a point. The forecasts produced by the Flores de Lemus Institute suggest that inflation could become stable at the end of the year, with a figure for December of 3.8%.

In industry, prices increased by 3.6%, almost two percentage points above the same period in the previous year but 4.3 points below recorded growth in Spain as a whole. As regards housing prices, restraint was more noticeable in the prices of new housing than in used homes in the City of Madrid, with growth rates of 1.6% and 2.1%, respectively. Finally, employment costs in the Madrid Autonomous Region presented a growth rate that is rapid than the Spanish national average. However, the total cost in the region exceeds the growth recorded in Spain as a whole by 472 euros.

CPI in the Autonomous Region of Madrid
(rate of year-on-year change)



N.B: The dotted lines show predictions. Differential calculated using forecasts by the Flores de Lemus Institute (region) and AFI (Spain).

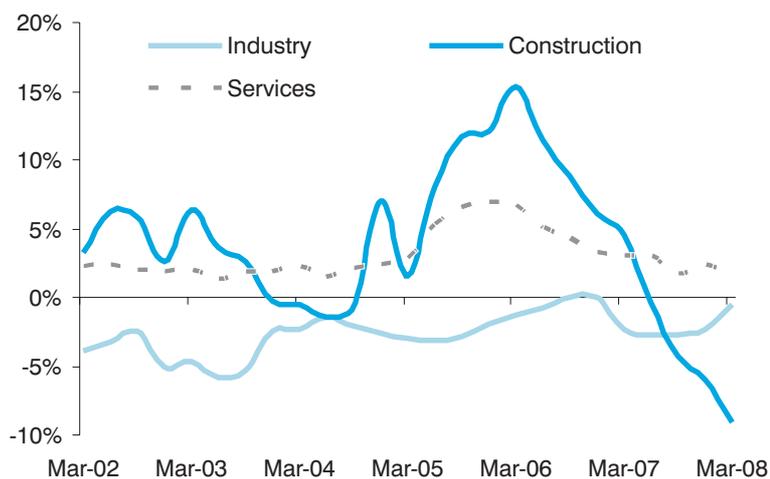
Source: NSI, AFI and FLI

6. Labour market

The figures from the Active Population Survey (hereinafter the APS) for the first quarter of 2008 suggest a difficult outlook for the labour market in the City of Madrid, not only due to the heavy increase recorded in the number of unemployed (13,800 people more than a year previously), but also mainly because the slowdown in the rate of job creation has led to negative growth rates: jobs are being lost for the first time in the last 12 years. The intensity with which the slowdown in Madrid's economy is affecting the services sector (the main generator of employment in the City, with 86% of the total) and the negative contribution of construction are the factors explaining this deterioration.

All groups have been affected to a greater or lesser extent by the current labour market cycle, especially women and young people, who in this context are recording worse figures than other groups due to the greater difficulties they have in participating in the labour market.

Workers with Social Security in the City of Madrid by sector (year-on-year change)



Source: Statistics Office, Madrid City Council General Treasury of the Social Security

II. Territorial balance in the City of Madrid

Geography of Trade in the City of Madrid

In the economy of the City of Madrid, trade is the second most important branch of the tertiary sector, employing almost 300,000 people, which accounts for 18% of those registered with the Social Security General Regime in the services sector. It is an activity that is undergoing renewal, with significant differences between the districts in the City of Madrid.

The Centre and Salamanca have the highest levels of activity with the retail subsector. In specific terms, the Centre has 5,415 economic activity units, while the district of Salamanca has 4,347 units.

The traditional trade in the historic districts of Centre, Arganzuela, Salamanca, Carabanchel and Chamartín based on small premises and a small labour force is changing, and being replaced by larger premises with more employees, which are often organised under a franchise system. Of these, the ratio of occupied/operating units has undergone an average increase of 4.7% between 2004 and 2006, especially in Chamartín, with an increase in the ratio of 32%. At the same time, the new residential areas (Villa de Vallecas, Fuencarral-El Pardo, San Blas and Barajas) have a commercial model that is organised around large shopping centres, which offers a wide range of consumption and leisure products. Modern trade in Madrid is represented by young, highly specialised businesses. The districts in the Central Area have a greater predominance of trade specialising in non-food articles, especially in Salamanca (with 70% of its operating units), while in the outlying districts, food trade predominates (Latina, Moratalaz, Usera and Villaverde, with percentages of around 40.0%).

III. Madrid as a business attraction pole

Innovation, the key factor for the City of Madrid's economy

The City of Madrid has a solid structure of scientific and technological innovation consisting firstly of 6 public and 7 private universities, which had 276,639 students in the 2007/2008 academic year. As regards Public Research Bodies, all the centres attached to the Ministry of Science and Innovation, which carry out most public research, development and innovation work, are located in Madrid.

In this field, Madrid also benefits from the activities of the Public Administration (the Ingenuity Plan 2010 and the National R+D Plan 2008-2011), the Madrid Autonomous Region (the Technological Innovation Plan 2008-2011, and the most recent Scientific and Technological Research Regional Plan (PRICIT IV) 2005-2008), and the City Council, which has promoted the Madrid Technology project with the aim of encouraging innovation and the implementation of the Information Society in the City. More than 1,100,000 citizens have come to the classrooms of Madrid Technology to receive training or connect to the Internet and more than 54,800 businesses and professionals have received technological advice.

Innovative business activity is identified mainly in a series of clusters, such as biotechnology, in which 83% of private R+D in the sector in Spain is located in Madrid. Madrid businesses also have a relative advantage in terms of use of ICTs, Internet, e-commerce and the general importance of the ICTs.

In international terms, the synthetic European Regional Innovation indicator for 12 leading regions in the N-economy (IIRE12) places Madrid approximately halfway down its ranking, above Amsterdam, Brussels, Milan and Barcelona, and very close to the average achieved by Copenhagen.

IV. Monograph

Trade as a motor for the renewal of the Centre of Madrid

The Centre of Madrid has a very competitive commercial sector, which combines different commercial formats, and leads the Spanish market in terms of investment, growth and employment.

In terms of the number of commercial premises, the Centre heads the ranking of districts, and is even in a higher position than Salamanca. The large number of commercial premises reflects the predominance of small traders at street level. Commercial renewal is presenting very positive economic figures. The volume of commercial employment increased by 20% between 2004 and 2008, compared to 5% in the City as a whole. Fashion shops act as dynamos for commercial renewal in the Centre. As well as Sol and Gran Vía, calle Fuencarral and Chueca are today among the most highly rated shopping areas in the City, and everything suggests that this process is expanding to new areas, taking root in the areas of Malasaña and the Ballesta Triangle.

It is a model for urban regeneration that has also been used in other cities, such as London, Paris and New York, where areas such as Soho, the Latin Quarter and Tribeca, respectively, have been successfully reinvented. This transformation is no coincidence, but is instead the result of actions taken by both private initiatives and the public authorities. The Council is encouraging this socio-economic dynamism in the Centre of the City, with complementary projects, such as those aimed at increasing public spaces by pedestrianisation and "coexistence traffic" (shared vehicle/pedestrian access), and the renewal of the urban landscape.

This is a complex process, in which it is necessary to include the interests of many parties involved. New areas for commercial renewal also continue to emerge, and there is often a reformulation of functions and content in those that are consolidated.