

EXECUTIVE SUMMARY

1. Analysis of the situation of the City of Madrid

1.1. Economic environment and prospects

The global economic recovery continues apace, with the emerging economies (especially in Asia) leading the improvement in activity, and better than expected third quarter growth figures in the US and Japan. In the Eurozone as a whole, quarter-on-quarter (QoQ) GDP growth was 0.4%, with stagnant investment (0%) and improving private consumption (0.3% compared with 0.2% in the second quarter) being the notable features. The two largest economies (Germany and France) and the UK are characterized by healthy growth, while in the countries on the periphery, including Spain, the recovery continues to be singularly sluggish. With regard to the outlook, the weak public finances of the peripheral countries, together with possible bouts of instability in financial markets, stand out as the main risks.

Analysis of the Spanish economy, which stagnated in the third quarter, (0% quarter-on-quarter and 0.2% year-on-year) reveals a worrying picture, with a strong contraction on the quarter in private consumption (down 1.1%) and investment (down 5.2%), offset by a positive contribution from the external sector, though due not to growth in exports, but rather to a fall in imports.

With regard to the Madrid Region, the economy has followed a path of gentle recovery, with third quarter year-on-year (YoY) growth (adjusted for seasonal and calendar factors) of 1.2%, 0.3 percentage points better than the previous quarter. The services sector was the principal driver of regional growth, with a YoY rise of 2%, while gross value added (GVA) in industry and construction again slipped back (by 4% and 2.9% respectively).

Spanish macroeconomic variables (year-on-year rate)					
	3Q09	4Q09	1Q10	2Q10	3Q10
GDP	-3,9	-3,0	-1,4	0,0	0,2
Consumption	-2,3	-1,8	-0,4	1,6	1,0
Private	-4,2	-2,6	-0,3	2,2	1,4
Public	2,7	0,2	-0,5	0,1	-0,1
GFCF	-16,4	-14,0	-10,4	-6,8	-7,0
Equipment	-25,5	-16,9	-4,4	8,7	2,4
Construction	-11,7	-11,9	-11,4	-11,4	-11,6
Residential	-25,0	-24,8	-21,1	-19,3	-16,4
Other construction	0,5	-0,9	-4,1	-5,7	-8,5
Other	-18,7	-17,2	-15,4	-11,2	-3,3
Domestic demand ⁽¹⁾	-6,4	-5,2	-2,9	-0,4	-0,8
Exports	-11,0	-2,1	9,1	11,6	8,7
Imports	-17,2	-9,2	2,3	9,3	3,9
Foreign demand ⁽¹⁾	2,5	2,2	1,5	0,4	1,0

(1) Contribution to GDP growth

Source: INE (National Statistics Office)

Forecasts for the Spanish economy point to year-on-year growth remaining negative until the first quarter of 2011, so overall growth for 2010 and 2011 would be -0.6% and 0.5% respectively, with external demand as the main counterweight to the decline in gross capital formation and public consumption, and to the lethargy in private consumption. Forecasts for the City of Madrid show recovery in 2011 and 2012, with growth of 1.2% and 1.5% respectively.

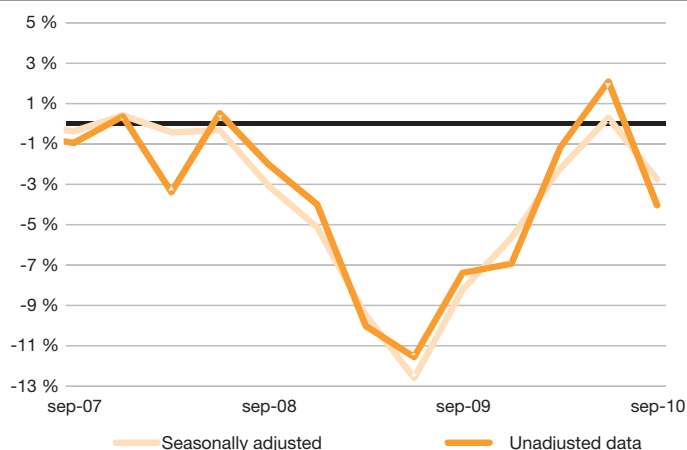
Macroeconomic variables for the City of Madrid (year-on-year rate)			
	2010	2011	2012
GDP (supply)	0,0	1,2	1,5
GAV energy	3,7	3,6	3,6
GAV industry (other)	1,8	2,7	2,2
GAV construction	-5,9	-3,7	0,7
GAV services	0,3	1,2	1,2

Source: L.R.Klein Institute-Centro Stone, June 2010

1.2. Production activities

INDUSTRY

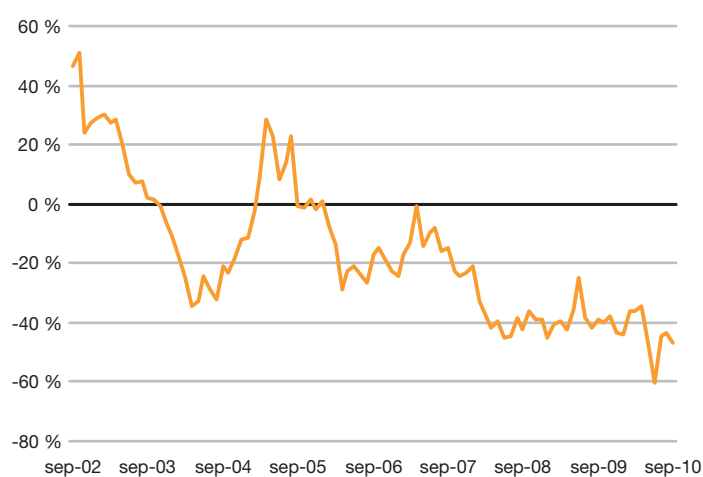
Madrid Region's Industrial Production Index (IPI) has been stable at around -6%. The fall would have been greater in the third quarter of 2010 if not for the relatively small decline in capital goods and non-durable consumer goods, of 1.9% and 4.8% respectively. Industrial GVA receded in the third quarter, with a YoY fall of 4% (2.8% on a seasonally-adjusted basis). There was also some deterioration in industrial employment, with Social Security enrolment falling by 1.1% QoQ (5.3% YoY); the only exceptions were the energy supply industry and repair and installation of capital machinery, where employment grew by 5% and 1.7% respectively.

Industrial GVA for the region of Madrid (year-on-year change rate)

Source: Madrid Statistics Office (Regional Quarterly Accounts)

CONSTRUCTION AND THE REAL ESTATE MARKET

The third quarter of 2010 ended with a further fall in Social Security enrolment in the construction sector, a QoQ decline of 1.9% (YoY 11.3%), with jobs lost in all branches of the industry, but especially in civil construction (22%), followed by specialized construction (10.3%) and building (10%). The poor employment figures contrast with licences for new buildings granted by the City Council, which in the third quarter increased by 35% QoQ (30% YoY), of which 40% were for social housing and 60% for other housing. Despite these figures, the annual average number of licences has fallen by 40%.

Residential building permits (average annual rate)

Source: Town Planning and Housing Government Department Madrid City Council

SERVICES

The Financial System

Figures for the financial system in the third quarter of 2010 indicate that the sector continues to undergo an adjustment, not just in the City of Madrid, but in the Region as a whole and countrywide. Thus, the number of financial institution branches in the City of Madrid has again declined, with a fall of 1% QoQ (2.7% YoY), bigger than the fall in the Madrid Region (2.6%) or Spain as a whole (2%). With regard to deposits, a further fall took the decline over the past four quarters to 5.6%, more than Spain as a whole (0.8%). Similarly, the number of mortgages continues to correct, with a YoY fall of 7.2% (less than the 15.4% decline in Spain as a whole), though the fall in the average amount moderated to 0.1%, compared with 13.3% the previous quarter.

With regard to the stock market, the Madrid exchange ended 2010 with a YoY rise of 16% in the volume traded, though with a loss of 18.2%, which contrasts with the better results of the principal international share indices, such as the Euro Stoxx 50 (down 4.2%), the FTSE 100 (up 10.3%) or the S&P 500 (up 12.8%).

Tourism

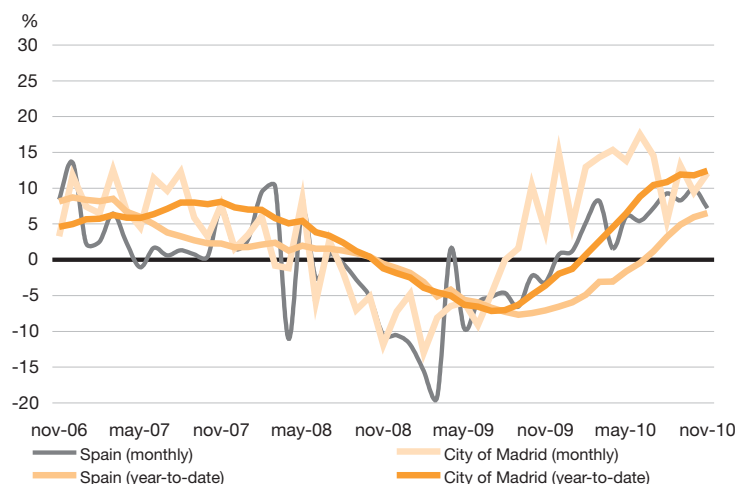
The recovery of tourism in the City of Madrid has strengthened, with YoY growth of 9.8% in the number of visitors in the September-November period, and 10% in the year to date, due mainly to foreign visitors (up 16.6%) rather than domestic tourism (3.6%). Overnights stays also increased with YoY growth of 11.4% in the September-November period, and 12.2% in the year to date compared with 2009, and an increase in hotel occupancy of 9.2%.

Main tourism indicators for the City of Madrid					
	2009	2010	Change %		
		sep	oct	nov	10*/09*
Tourists	7.166.479	713.771	791.965	647.147	9,8%
domestic	3.800.753	335.493	385.551	340.457	3,6%
foreign	3.365.723	378.278	406.414	306.690	16,6%
Overnight stays	13.653.384	1.386.808	1.546.323	1.250.352	11,4%
domestic	6.450.822	579.065	669.585	575.713	4,8%
foreign	7.202.562	807.743	876.738	674.639	17,2%
Average stay	1,91	1,94	1,95	1,93	1,5%
domestic	1,70	1,73	1,74	1,69	1,2%
foreign	2,14	2,14	2,16	2,20	0,5%
Occupancy rate	50,2	59,9	64,4	53,9	9,2%

* Accumulated September-November 2010
Source: Hotel Occupancy Survey (EOH) INE

Comparison with nationwide figures reveals a better performance in tourism overnights stays in the City of Madrid, with regard both to the year-to-November total, up 12.5%, and the monthly figure, with growth of 12.1%. Meanwhile, for Spain as a whole, growth was only 7.2% on a monthly basis and 6.5% for the year-to-date.

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



Source: Hotel Occupancy Survey (EOH) - INE

The good performance in the number of visitors and overnight stays enabled income per room to rise by 8.5% in November. However, there is as yet no definitive recovery in employment; it continues to fall, though the rate of decline has fallen to only 0.7% in November compared with the previous year.

Transport

Alongside the recovery in tourism, airport passenger numbers have also increased, rising 4.7% in September-November 2010 (latest figures available) compared with the same period of 2009, due to the growth in international passengers (7.7%), offset by zero growth in nationals. Freight traffic has also increased, at a YoY rate of 13.7%, again due to the good performance of international movements (up 16.4%), more than offsetting the 0.7% fall in national traffic.

Urban transport passenger numbers continued to fall in the August-October period, especially in the Metro (down 4.7%), and local train services (down 0.3%), which contrast with a very significant rise in bus journeys (7%).

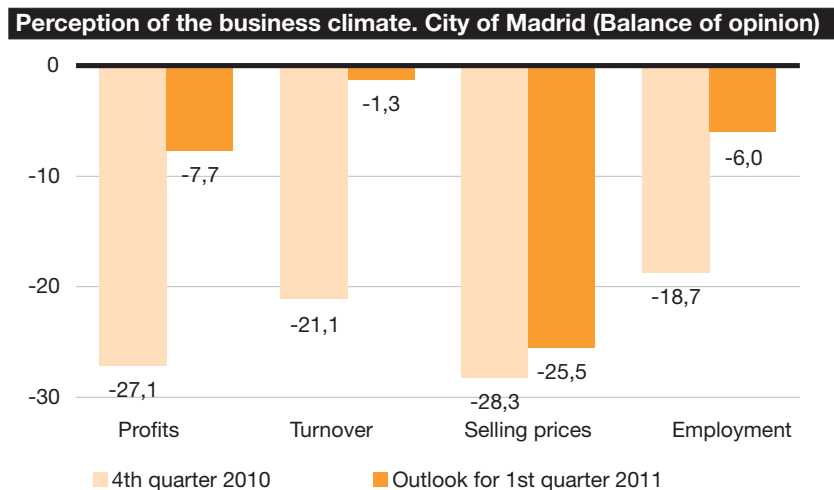
With regard to employment, Social Security enrolment in transport activities in Madrid continues to fall, by 3.7% on a YoY basis in the third quarter of the year, though with some positive signs such as the QoQ rise of 0.1%.

1.3. Business dynamic

Entrepreneurial growth was again positive in the third quarter of the year. In September 2010, the annual average number of new companies created was 0.4% higher than June and 7.5% up on September 2009. Company closures declined, with the September figure being 1.1% below the annual average of June 2010. The average company capital recovered slightly in the third quarter, after the poor results of the previous quarter, with growth of 20.6% QoQ and 22.6% YoY. Lastly, Social Security contributions, though still declining, appear to be stabilizing, with a YoY decline of 0.003%.

Despite the relatively good figures noted above, in the fourth quarter the City of Madrid's business confidence indicator fell by 5.3 points compared with the third quarter (when it had recovered 4.4 points), standing at -15.2, practically the same as a year before (-15.7). The loss of confidence is common to all sectors, but especially notable in industry, where the indicator plunged more than 21 points, from 7.2 positive in the previous quarter to -13.9. All variables deteriorated notably, except employment, which recovered a few points. Thus, profits fell 13.8 points to -27.1, turnover lost 7 points, declining to -21.1 and selling prices fell 12.7 to -28.3.

The outlook for entrepreneurs in 2011 remains in negative territory, due especially to the poor expectations for selling prices which, according the survey replies, will not pick up noticeably. With regard to other variables, results are expected to improve somewhat, especially in turnover. opinion



Source: Business Climate Survey produced by the Economic Observatory of the Economy and Employment Government Department Madrid City Council

1.4. Demand

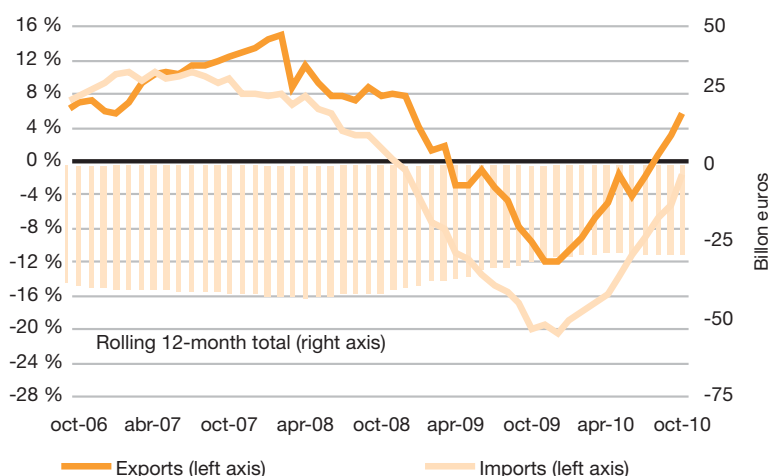
Consumption maintains the trend to recovery, with the annual average slipping 0.4% in November, compared with a fall of 1.4% for Spain as a whole. While this shows that demand in Madrid is relatively stronger, it nevertheless continues to decline, leading to a YoY fall of 1.2% in employment in retailing. The other indicator of domestic demand, vehicle registrations, ended the year with growth of 1% over 2009, thanks to the good performance in the first half of the year as a result of the 2000E Plan and of purchases brought forward to beat the rise in value added tax.

On the other hand, the consumer confidence index, at 27.9 points, reflects continuing pessimism in the final four months of the year, due to the poor outlook for employment and economic recovery.

Like the consumption figures, the fall in investment of previous months is levelling out; Madrid is performing better than Spain as a whole, with an annual average fall of 1.9% in November versus 3.7% for the whole country.

Lastly, the region's trade balance continues to improve, reducing its deficit by 6% on a YoY basis in October 2010. The good performance is due to the growth of exports, whose YoY growth for the year to October reached 5.7%, while imports continued to decline (by 1.5%) in October.

Madrid Region: External Trade (year-on-year rate)

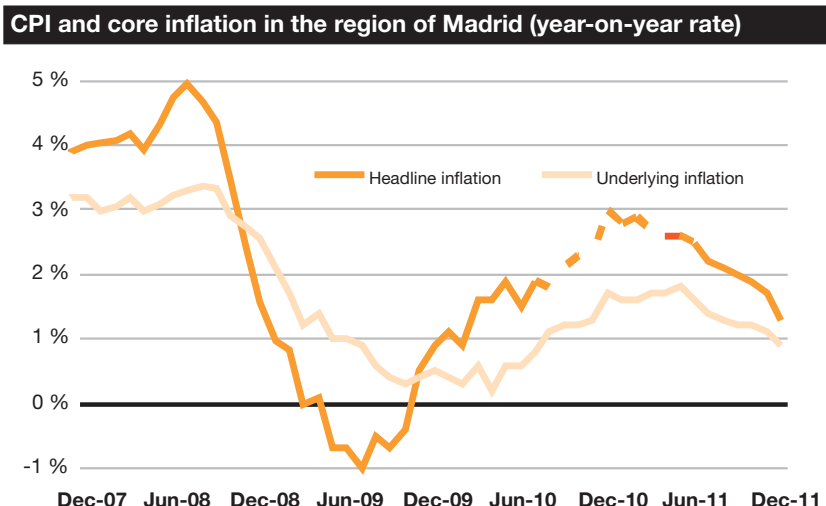


Source: INE Source: INE (National Statistics Office)

1.5. Prices and salaries

The pickup in economic activity and, to a greater extent, the rise in taxes (value added tax and tobacco) and the increase in energy prices due to higher global demand, are causing the consumer price index to rise reaching 3% in December, while the core rate (excluding energy products and fresh foodstuffs) rose to 1.7%. By product groups, energy rose by 14.9% YoY, “alcoholic beverages and tobacco” by 16.3%, “transport” 9.2%, “housing” 5% and “other goods and services” 3.3%. On the other hand, prices fell for “medicines” (1.5%), “leisure and culture” (1%) and “communications” (0.7%).

Inflation forecasts for the Madrid Region, prepared by the Flores de Lemus Institute, point to falling inflation in 2011, reaching 1.3% in December. However, given the increase in prices in December 2010, it is likely that the outturn for inflation in 2011 will be closer to 1.5%.



NB: The dotted lines show forecasts
 Source: INE (National Statistics Office) and IFL

The industrial price index has also seen a rising trend, with a YoY increase of 2.2% in November, though this is below the average for Spain of 4.4%.

Housing prices fell more slowly in the third quarter, with a YoY fall of 6% in second-hand housing (very similar to the figures for the Region and Spain, 5.6% and 5.8% respectively). On the other hand, new housing prices fell faster in the City of Madrid than in the Region, with falls of 10.3% and 9.6% respectively.

Labour costs fell for the first time on a YoY basis (by 0.2%) in the third quarter of 2010, due to the decline in wages and a fall in non-salary costs (redundancy payments). Following this fall, labour costs per worker per month in Madrid stand at €2,778, €357 above the national average of €2,421.

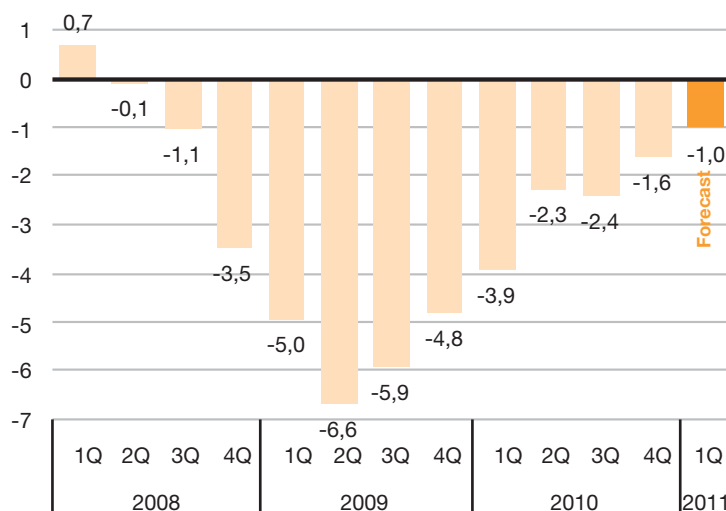
1.6. Labour market

Labour market trends continue to reflect a slowing rate of deterioration. According to data from the EPA labour force survey, there was a net creation of jobs in the third quarter of 2010, for the first time since the fourth quarter of 2007, with a YoY growth rate of 0.2%, due mainly to self-employment, which increased by 1.4%. Nevertheless, the strong increase in activity (3.3% YoY), prevented a YoY reduction in the unemployment rate, which stood at 15.6%. However, this is 0.1 percentage points lower than the previous quarter, the first fall in the rate since the third quarter of 2008.

The fall in enrolment slowed towards year end, with a YoY decline of 1.6% in the final quarter. By sector, it was construction and industry which reported the largest falls (11.3% and 5.3% respectively), followed by agriculture (4%) and services (1.5%). On the bright side, all sectors except services returned a better performance in YoY terms than in the previous quarter, showing the increasing slowdown in the rate of job losses.

Employment forecasts for the first quarter of 2011 point to a negative performance in enrolment, given the unfavourable seasonality of this part of the year. However, the fall in enrolment will be smaller than that reported in the first quarter of 2010, meaning that the YoY decline will continue to reduce to around 1%.

**Social Security enrolment forecast for the City of Madrid
(year-on-year rate)**

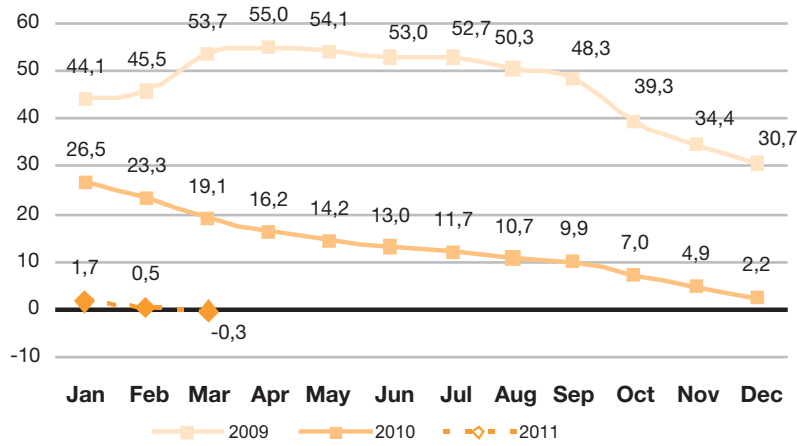


Forecast: third and fourth quarters of 2010

Source: Madrid Council Statistics Office Social Security and Afi

Forecasts for registered unemployment in the first quarter of 2011 show that the rate of increase will continue to slow, taking steps towards recovery. Thus, from a YoY increase of 7.8% in unemployment in December, the trend should give way to a fall of 0.3% in March.

Monthly forecast for registered unemployment in the City of Madrid (year-on-year rate)



Forecast: January-March 2011
 Source: Madrid Council Statistics Office SPEE (Regional Employment Service) and Afi

2. Business attraction pole

2010 RANKING OF EUROPEAN CITIES

For the fourth consecutive year, we present the ranking of the 25 European cities which are considered large metropolis, of which Madrid is one. During this period, the cities have seen changes caused by the international crisis, and this has been reflected in their positions in the five classifications included in this study: four rankings obtained from the analysis of the following dimensions: 1) Economy and Labour Market; 2) Transport and Communications; 3) Knowledge-based Society, and 4) Quality of Life, together with an overall ranking derived from a combination of these.

Economy and labour market

In the Economy and Labour Market category, Madrid keeps the second place it obtained in 2008, behind London, indicating that it is dealing with the crisis better than most large European cities.

Madrid obtained notably good results in the majority of indicators analysed, mainly in Financial Flows, Population in 2020, Office Space Value for Money, Recent Improvement, Business Centre, Worldwide Centers of Commerce Index and Activity Rate, in all of which it is among the five leading European cities. In only two indicators Ease of Doing Business and Unemployment Rate is it in the bottom positions due to the deterioration caused by the economic crisis. Madrid's improvement in Office Space Value for Money in 2010 is especially notable, having risen five places compared with the previous ranking, with a similar improvement in Activity Rate. There has also been a significant improvement in the Expansion Plans category, with a rise of six places over the past year to seventh. Lastly, Madrid has kept the place it held in the previous ranking in half the indicators, being top in every case except Ease of Doing Business.

¹ London Development Agency and Great London Authority (2010): London Creative Industries.

Dimension 1: Economy and labour market							
INDICATOR	Madrid	London	Amster- dam	Paris	Barcelo- na	...	Athens
Salary level	8	15	19	14	7		5
Ease of doing business	2	16	10	6	2		11
Financial flows	20	1	6	11	19		25
Business centre	3	1	6	4	17		22
Worldwide Centers of Commerce Index	5	1	3	2	11		22
Population in 2020	5	1	4	2	19		24
Avg. Annual change 2006-2020	3	2	22	1	4		7
Business localisation	7	20	4	9	14		7
Recent improvement	8	11	6	12	5		25
Expansion plans	4	3	11	5	2		25
Access to markets	7	3	8	2	9		14
Labour qualifications	7	1	4	2	12		24
Labour costs	10	1	8	2	12		25
Government climate	8	21	15	23	6		5
Office space availability	13	2	4	11	7		19
Office space value for money	8	20	13	19	6		16
Activity rate	3	4	15	6	5		22
Unemployment rate	5	12	3	17	9		22
Tasa de paro	21	16	2	17	25		17
AVERAGE	7,7	7,9	8,6	8,7	10,1	...	17,7
2010 RANKING	1	2	3	4	5		25

Source: Prepared by Afi from the main international classifications of cities

Transport and communications

With regard to transport and communications, Madrid retains second place in the ranking, which it has held since 2008, despite occupying relatively low positions in Foreign Tourists and Change in Foreign Tourists. These variables, based on 2009 data (the latest available for all cities and which had the worst figures for tourist arrivals of recent years), do not reflect the significant recovery experienced by Madrid in 2010, with YoY growth of 10% up to November in the number of tourists and 11% in tourism nights, which point to a significant improvement in Madrid's placing in the next edition of the Ranking of European Cities. This recovery is confirmed by the good performance in Total Passenger Traffic according to the figures for April 2009 - March 2010, in which Madrid repeats the fourth place it held in 2009, and rises 17 places with regard to growth in Passenger Traffic to take third position behind Athens and Milan.

With regard to transport and communications, Madrid retains second place in the ranking, which it has held since 2008, thanks to the recovery in tourism

With regard to Internal Communications, the city retains the fourth spot it held in 2009, and worsens slightly with regard to External Communications, where it slip.

Dimension 2: Transport and communications							
INDICATOR	London	Madrid	Paris	Munich	Berlin	...	Budapest
Total passenger traffic	1	4	2	7	17		23
Change in passenger traffic	5	3	12	13	6		7
Tourists in hotels	2	7	1	3	8		21
Change in tourists in hotels	9	15	24	11	4		25
External communications	1	7	2	6	9		25
Internal communications	1	4	2	4	3		23
AVERAGE	3,2	6,7	7,2	7,3	7,8	...	20,7
2010 RANKING	1	2	3	4	5		25

Source: Prepared by Afi from the main international classifications of cities

Knowledge-based Society

Madrid strengthens the 6th position it achieved in 2008, as it maintains its relative performance with regard to Knowledge Creation, with the 8th place obtained in 2008, despite worsening slightly in Quality of Telecommunications, where it slips from 8th to 9th, the place occupied by Berlin in 2009.

Dimension 3: Knowledge-based society								
INDICATOR	London	Paris	Stock-holm	Berlin	Amster-dam	Madrid	...	Warsaw
Knowledge creation and information flows	1	2	3	5	6	8		25
Telecommunications quality	1	2	4	6	7	9		22
AVERAGE	1,0	2,0	3,5	5,5	6,5	8,5	...	23,5
2010 RANKING	1	2	3	4	5	6		25

Source: Prepared by Afi from the main international classifications of cities

Quality of Life

Lastly, in the Quality of Life category, Madrid is in 9th place for the second year running. There have been no significant changes in the leading cities in this category: Copenhagen and Vienna. Madrid has the same positions in indicators of Environmental Quality: Carbon dioxide emissions (7th) and Water (6th). However, in 2010 there has been a slight deterioration in Quality of Life for company employees, as the city slips from 3rd to 5th place, falling behind Paris and Stockholm, though staying ahead of other European capitals such as London, Berlin, Rome and Copenhagen.

Dimension 4: Quality of life								
INDICATOR	Copen-hagen	Vienna	Brussels	Munich	...	Madrid	...	Warsaw
Quality of life	4	1	6	2		18		19
Employees' quality of life	6	8	12	2		5		25
Carbon dioxide	2	6	3	12		7		23
Water	5	2	4	11		6		25
AVERAGE	4,3	4,3	6,3	6,8	...	9,0	...	23,0
2010 RANKING	1	1	3	4		9		25

Source: Prepared by Afi from the main international classifications of cities

Overall position

As in previous years, the overall ranking has been calculated as a synthetic index, in which the four categories analysed above are weighted differently according to their importance for the city's attractiveness for companies and investment: Economy and Labour Market (42%), Transport and Infrastructure (28%), Knowledge-based Society (20%) and Quality of Life (10%).

Madrid has strengthened its 3rd place in the overall ranking

In 2010, the most notable feature is that Madrid has strengthened its 3rd place, despite the recessionary environment, showing that Madrid is facing up to the crisis as well as other large European cities such as London and Paris, particularly with regard to Economy and Labour Market and Transport and Communications, in which it is ahead of Paris.

2010 Ranking of European cities					
Ranking	CITY	DIMENSION			
		1	2	3	4
1	London	2	1	1	9
2	Paris	4	3	2	5
3	Madrid	2	2	6	9
4	Amsterdam	3	8	5	6
5	Berlin	7	5	4	7
6	Frankfurt	5	6	10	13
7	Stockholm	11	13	3	7
8	Barcelona	6	10	15	11
9	Brussels	9	14	13	3
10	Manchester	8	12	8	17
11	Munich	17	4	10	4
12	Milan	14	7	18	16
13	Lyons	13	15	14	15
14	Copenhagen	19	21	8	1
15	Hamburg	20	11	12	11
16	Glasgow	12	20	17	19
17	Helsinki	18	23	7	13
18	Vienna	23	16	15	1
19	Lisbon	15	18	21	22
20	Rome	24	9	20	18
21	Warsaw	10	24	25	25
22	Prague	16	22	23	21
23	Dublin	22	19	19	20
24	Athens	25	17	23	22
25	Budapest	21	25	21	24

Source: Prepared by Afi from the main international classifications of cities

With regard to the changes in cities' placings over the period 2007-2009, there is a notable stability in the positions of the three leading cities: London, Paris and Madrid. Similarly, with few exceptions, none of the cities shows a clear tendency to improvement or decline in its performance over the period; it is rather the case that placings undergo small year-on-year movements of one or two places upwards or downwards.

With regard to those cities which have improved, the most significant example is Lyons which, apart from a small decline in 2009, has shown a clear tendency to improve, rising from 21st place in 2007 to its current 13th spot, and Rome, which has climbed four places (from 24th in 2007 to 20th in 2010). With regard to the worst performers, Dublin has fallen thirteen places from the 10th spot reached in 2008, and Athens has declined by five since 2007. In both cases, there is a deterioration across the board, but especially in Economy and Labour Market due to the severity of the economic crisis in Ireland and Greece.

2010 Ranking of European cities

	2010		2009		2008		2007
London	1	=	1	=	1	=	1
Paris	2	=	2	=	2	=	2
Madrid	3	=	3	=	3	=	3
Amsterdam	4	=	4		5		4
Berlin	5	=	5		4		7
Frankfurt	6		8		6		5
Stockholm	7		11		12		10
Barcelona	8		7	=	7		8
Brussels	9		6		9	=	9
Manchester	10	=	10		11	=	11
Munich	11		8	=	8		6
Milan	12		15		13	=	13
Lyons	13		16		15		21
Copenhagen	14		12		14		15
Hamburg	15		17		21		12
Glasgow	16		14		20		18
Vienna	17		13		16		14
Helsinki	18		19		18		20
Lisbon	19		20		22		17
Rome	20		21		25		24
Warsaw	21		17	=	17		23
Prague	22		23		19		22
Dublin	23		22		10		16
Athens	24		25		24		19
Budapest	25		24		23		25

Source: Prepared by Afi from the main international classifications of cities

3. Monographic report

THE FASHION INDUSTRY IN MADRID: SIZE, CHARACTERISTICS AND COMERCIAL STRUCTURE

Fashion is not an industry in the traditional sense of the word; rather it includes activities throughout the value chain, from design to retail sales, by way of manufacturing, dressmaking and wholesaling, both of textiles and of furs, footwear and accessories.¹ In large cities like Madrid, the retail sector is most prominent, with new commercial management formulas characterised by public-private collaboration. On the other hand, its importance for the urban economy is not only due to its role in directly generating economic activity and employment, but also as an attraction for tourism and a factor contributing to the City's international standing.

Size of the fashion industry in Madrid

The fashion industry has a growing weight in the City's economy, especially the retail trade

The Madrid fashion industry accounts for 1.9% of total turnover, 1.6% of Gross Value Added (GVA), 2.0% of employment and 5.0% of retail establishments in the City, with significant growth rates, above the average for the Madrid economy as a whole over the 2004-2008 period: 42.6% in turnover, 39.6% in GVA and 4.3% in outlets premises, with employment growth similar to the economy overall (14.5%).

By type of activity, the figures indicate that growth in the textile industry and clothing manufacture is less dynamic, reflecting the growing weight of the tertiary sector in the City's economy, especially in the textile sector. The opposite occurs with trading activities, especially retail, which is the sector's driving force, with growing levels of specialisation in Madrid. Thus, with regard to turnover, fashion retailers have been increasing their share of the City's total, up from 11.7% in 2004 to 15.4% in 2008, due to accumulated growth of 62.1% over the period, three times that of retail activity as a whole.

In terms of GVA, retailing experienced accumulated growth of 60.0%, increasing from 13.1% of total retailing GVA in 2004 to 17.2% in 2008. With regard to job creation, Madrid also showed a growing specialisation in the retail fashion trade, which increased its share of total retail employment by 3.9 percentage points, from 13.0% to 16.9%, on the basis of accumulated growth of 27.6%. Lastly, the trend in outlets also reflected the growing weight of the fashion business which, with accumulated growth of 5.9%, increased its share from 15.8% of establishments in 2004 to 16.9% in 2008.

¹ The analysis includes activities grouped under the following CNAE 93 codes: Preparation and spinning of textile fibres (171), Manufacture of textile cloth (172), Finishing of textiles (173), Manufacture of knitted cloth (176), Manufacture of articles in knitted cloth (177), Dressmaking, tailoring and fur manufacture (18), Preparation, tanning and finishing of leather (191), Manufacture of leather, travel and saddlery goods (192), Manufacture of footwear (193), Textile, clothing, footwear and leather articles merchants (5116), Wholesale trade in clothing and footwear (5142), Retail trade in clothing (5242 and Retail trade in footwear and leather articles (5243).

Fashion sector turnover in the city of Madrid (€ millions)

	2004	2008
Textile, fur, footwear, tailoring and dressmaking industries	1.128,3	1.273,8
Wholesale commerce	874,8	1.109,2
Retail commerce	2.428,5	3.937,8
Total	4.432	6.321
Percentage of city of Madrid total	1,7%	1,9%

Source: Cuentas Patrimoniales y Sectoriales. Instituto de Estadística de la Comunidad de Madrid

One noteworthy aspect is the growing productivity of the City's fashion trade, defined as the GVA per employee. In 2008, this stood at €40,708/employee, with growth of 25.4% over the 2004-2008 period, higher than productivity growth of the retail sector as a whole (23.6%) and of the Madrid economy overall (17.7%). On the other hand, according to 2009 data from the Business Association for the Textile and Complements Trade (ACOTEX for its Spanish initials), turnover per employee in the Madrid region was 5.6% above the national average, confirming that productivity is also high in relative terms.²

The retail trade in Madrid enjoys a high and rising productivity, with a growth rate of 25.4% over the 2004-2008 period

Commercial structure

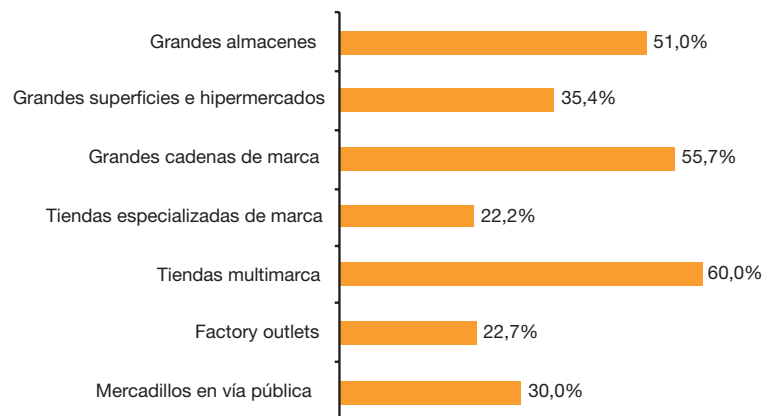
With regard to the type of establishment, in Madrid, as in other European cities, we find different types of establishments coexisting: large branded chains and department stores which set the pace for retail zones; multi-brand shops and specialized single-brand shops which are mainly located in key City centre shopping areas and one of whose attractions is their premium ranges; large out-of-town stores with standardized ranges not focussed on new trends; and finally factory outlets and street markets.

From the point of view of geographical distribution, fashion outlets can be found in all the City's districts, though in the Salamanca and Centre districts we find both the greatest concentration (30% of the City's total), and more specialisation, with 28.9% and 25.3% respectively of retail establishments in the fashion business. This high concentration reflects the shopping habits of *madrileños* and visitors to the City. Thus, 60% of the City's inhabitants purchase clothes and accessories in businesses located inside the Calle 30 ring road, notably the shopping centres of the Sol-Arenal-Gran Vía area, in which 34% of those surveyed do their shopping, and the Salamanca district (22%).

Fashion retailing is present in all the City's districts and is the driving force in the City's malls and shopping areas

² ACOTEX (2010): "El comercio textil en cifras: cifras y datos correspondientes al ejercicio 2009".

Households by shopping area



Source: ECCM 1st 4 months of 2010. Department of Economy, employment and Citizen Participation. Madrid City Council

Variety, avant-garde and luxury are what define the areas of Sol-Arenal-Gran Vía, Fuencarral-Chueca-Malasaña and Salamanca district, providing a rich and varied choice

Notwithstanding the important role of the shopping areas and malls on the outskirts of the City, it is the City centre streets and shopping areas, especially those of Sol-Arenal-Gran Vía, Fuencarral-Chueca-Malasaña and the Salamanca district, which are emblematic and set the standard in the City of Madrid, both for the inhabitants and for Spanish and foreign visitors, representing a tourist attraction and a differentiating factor for the City. Each of these shopping areas has its own character, together providing a rich and varied experience.

Sol-Arenal-Gran Vía. This is the City's main shopping zone and a must for Spanish and foreign tourists. In this area, they will find department stores such as El Corte Inglés, together with major branded chains such as Zara, Cortefiel, Mango and H&M, to name but a few, representing 35% of all the zone's establishments (though a much larger percentage of the retail surface area); they are a key focus for demand, and coexist with specialized branded shops (40.9% of the total) and to a lesser extent with multi-brand shops (25%).

Fuencarral-Chueca-Malasaña provide an example of socioeconomic recovery which is extending into neighbouring areas such as the Ballesta Triangle

Fuencarral-Chueca-Malasaña. This is the zone of the avant-garde and new fashion trends in Madrid, and is an example of socioeconomic recovery in a previously depressed area, having been turned into a kind of Soho or Village, in the manner of the world's most cosmopolitan cities. Urban renewal and the spatial rent have attracted the major Spanish and international names to the area (where they represent 2% of establishments), coexisting with more 'alternative' shops, both with their own brand (28.4%) or multi-brand (67.5%), which attract a more specialized clientele and help to maintain the area's authentic character. The commercial rebirth of Chueca has affected neighbouring areas such as Malasaña, and recently that known as the Ballesta Triangle (or triBall), which is undergoing another very interesting process of urban renewal and innovative commercial management.

Salamanca district. As with the Sol-Arenal-Gran Vía area, the Salamanca district is home to all the large branded chains and department stores (which represent 10.1% of establishments), mainly in Goya street. Together with these are found the shops of the main Spanish and international designers in the so-called “Golden Mile” where the most notable streets are Ortega y Gasset, Serrano and Jorge Juan. Top-quality multi-brand outlets complete the range of shops in the City's most exclusive fashion zone.

Fashion retailing in Madrid is characterised by the combination of new and well-established shops, a sign that the City's main shopping areas are both dynamic and, at the same time, strong and stable. Around 50% of shops were opened between the year 2000 and 2008, the last year for which statistics are available. In the Fuencarral-Chueca-Malasaña area, businesses are relatively new, with 57% having opened after 2000, reflecting the revival of the area in the late 1990s. The Sol-Arenal-Gran Vía area is one of the most established, with 26% of shops having been there for more than 18 years.

Madrid is endowed with a rejuvenated retail industry, in which over 50% of establishments were opened in the last decade

Lastly, Madrid's role as a fashion distribution market, and the vitality of some of its shopping areas, are reflected in the fact that some of its shopping streets, such as Preciados and Serrano, are among the most expensive in Spain (Preciados is second after Puerta d'Angel in Barcelona) and among the 30 most expensive in Europe. However, a certain price differential persists, representing a competitive advantage for Madrid and helping to attract the big international names.³

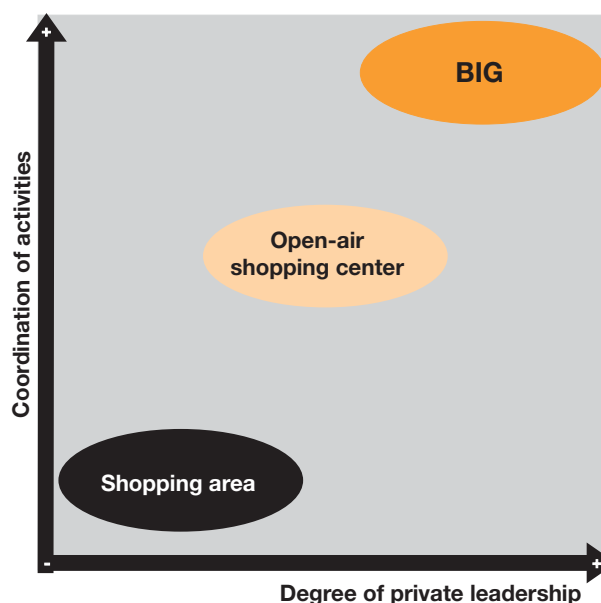
Retail town planning models and management formulae

Faced with the development model originating in the 1980s, in which out-of-town shopping malls threatened the survival of traditional city centre shopping, a similar response arose in most European countries and municipal authorities, developing policies to promote city centre retailing using new retail management formulae based on public-private partnership. The aim is to assist the rebirth of traditional shopping areas in the form of open-air shopping centres which, with integrated professional management, replicate the advantages of out-of-town shopping malls in terms of coordinated promotion and marketing policies (a common corporate image and promotional activities, coordination of opening hours, means of payment, signage, parking, etc.), with the active participation of the shop owners themselves.

Open-air shopping centres and public-private partnership are the vectors of change in the formulae of retail revival

There is ample international experience in the new models of commercial management based on public-private partnership. These include Town Centre Management (TCM) in Britain, *Management de Centre-Ville* in France and Belgium, and Business Improvement Districts (BID) in Canada, the US and the UK. Town Centre Management arose in England and Wales in the 1990s. The main drawback of this type of management model resides in the fact that the private contributions are voluntary, giving rise to cases of free-

³ Cushman&Wakefield: “Main Streets Across the World 2010”.



riding which lead to a lack of funding and of private involvement. These free-riding problems are behind the adoption of BIDs in the UK from 2005 after the modification of the Local Government Act. BIDs first appeared in Canada with the experience in Toronto in 1970, and have since extended to the rest of Canada, the US, UK, Australia, New Zealand, etc., with more than a thousand BIDs in North America alone and over 140 in the UK.⁴

The main difference between BIDs and TCMs is that the establishment of a BID is subject to a binding vote by the shopkeepers or the property owners (depending on the BID in question) which, if approved by a majority, obliges all the shopkeepers (in the case of UK BIDs) or owners (in the case of US BIDs) to pay an additional contribution. The proceeds of this contribution are administered by the BID and used to fund activities and services decided by the BID and complementary to those provided by the local or regional authority in the shopping area. The BID leadership is purely private and the entity is usually constituted as a private company, though in most cases the local authority is represented on the management body and provides additional funding. Hence the BIDs represent a further step in the private sector's commitment and formal participation in the management of city shopping areas, with this being in many cases a natural evolution from the TCMs already in existence.

Fashion retailing's contribution to Madrid's international positioning

As noted above, the fashion industry's contribution to the City of Madrid's economy is not restricted to the generation of economic activity and direct employment, but also includes a contribution to its international recognition and the renown of the "Madrid" brand. According to a study carried out by the US Global Language Monitor

⁴ Association of Town Center Management: "Business Improvement Districts. A good Practice Guide" www.atcm.org; and National BIDs Advisory Service www.ukbids.org.

group, based on the monitoring of its occurrence in the media and internet, Madrid is in tenth place globally and the fifth in Europe among the leading cities in the world of fashion, having risen eleven places compared with the 2009 ranking.

Global capital of fashion		
	2010	2009
	Position	Position
New York	1	2
Hong Kong	2	7
London	3	5
Paris	4	3
Los Ángeles	5	6
Milan	6	1
Sidney	7	9
Miami	8	13
Barcelona	9	14
Madrid	10	21

Source: Global Language Monitor. Top Global Fashion Capitals 2010

There can be no doubt that the organisation of major events, together with an active communication policy, have been the key marketing tools in achieving this good positioning for Madrid. The Cibeles Madrid Fashion Week, the fifth most important fashion show internationally⁵, or the staging of trade fairs such as the International Fashion Show (SIMM), which is among the ten leading European fashion fairs by number of visitors, contribute to Madrid's international positioning.

Another interesting aspect is fashion's role as a tourist attraction, and that of tourism as a source of demand for fashion. In this sense, Madrid has become one of the leading "city break" destinations, both nationally and internationally. According to a survey carried out by Trip Advisor, one out of three Spaniards travels exclusively for the purpose of shopping tourism, and Madrid, with the sole exception of London, is Spaniards' favourite city for this purpose. On the other hand, according to an ACOTEX study, 47% of purchases by non-EU tourists correspond to fashion, with an average of €440; on this basis, annual spending can be estimated at €193 million, not counting purchases by EU and Spanish tourists for whom, as shown by the Trip Advisor survey, Madrid is one of the favourite shopping destinations.

Madrid City Council's support and promotion policies

Since 2003, the City Council has developed a policy to support local shops, which has been implemented in a series of projects with six priority objectives:

- To strengthen Madrid's position as a shopping destination.
- To boost neighbourhood shopping areas through Commercial Stimulus Plans, of which nine have been implemented since 2005.

⁵ Madrid Emprende (2008): **Moda, confección y diseño en la Ciudad de Madrid**

- To encourage retail associations.
- To upgrade the network of municipal markets.
- To promote the integration of Information and Communication Technologies in the Business Sector through programs and actions in the classrooms of Madrid Tecnología.
- To provide specific training in the retail sector through programs of the City Council's Employment Agency and the School of Innovation in Commerce, located in *Madrid Emprende's* Business Incubator in Carabanchel.

On the other hand, Madrid City Council is opting to improve the urban environment through three lines of action: pedestrianising streets, widening pavements, and the introduction of 'coexistence streets' (in which pedestrians have priority over vehicles), with a total investment of €192m benefiting 32 commercial areas, of which 22% is financed by municipal funds. Examples are the pedestrianisation of Fuencarral, Plaza de Callao and Calle Arenal and the renovation of Serrano. The increase of between 40-50% in the number of pedestrians on the street after the pedestrianisation of Fuencarral, and therefore the increased number of potential buyers is indicative of the positive impact of these initiatives for retail. Equally important are improvements in security by strengthening the police presence, establishing mobile citizen service offices in several languages, the introduction of video surveillance in areas such as the Ballesta Triangle and two municipal police stations in Montera street and Soledad Acosta square.

The positioning of Madrid in the national and international tourism market as an excellent destination for shopping represents a great opportunity for all companies in the retail sector. The objective of many of the initiatives undertaken by the City Council is to ensure that all those who visit the city are aware of Madrid's varied shopping experience and where to find it. Such initiatives include promotional campaigns, loyalty programs, tourist brochures, and the inclusion of historic shops in guided tour itineraries, among others.

Lastly, fashion provides a way of promoting Madrid's image abroad, allowing the city to project a positive image internationally, stimulating economic activity and tourism. Hence, Madrid City Council has also been developing a program to support the fashion industry in Madrid through, for example, sponsorship of Madrid designers' activities at New York Fashion Week, collaboration in events such as "Fashion's Night Out - La Noche de la Moda", held simultaneously in major world centres of retail and fashion, such as New York, Paris and London. From 2011, it will strengthen this support by supporting fashion designers' projects promoting the city's links with the sector.