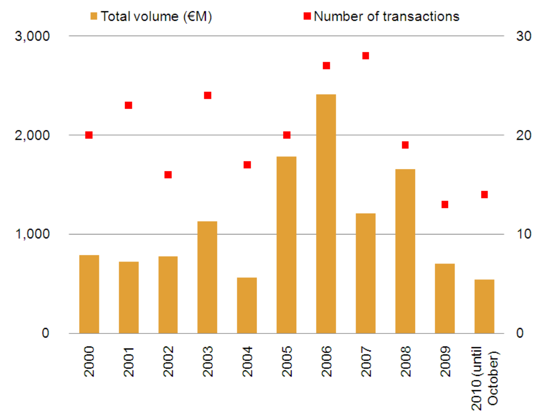
# Spain retail market

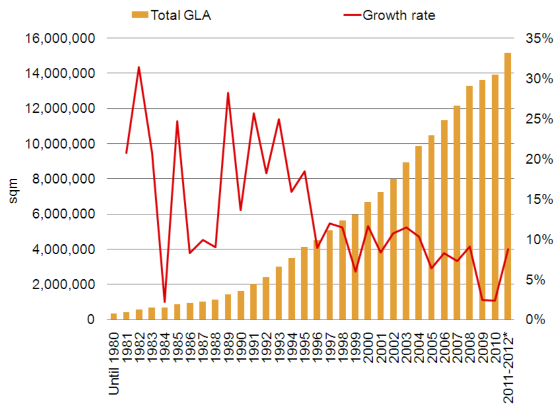
## Autumn 2010

**Investment volume and number of transactions**



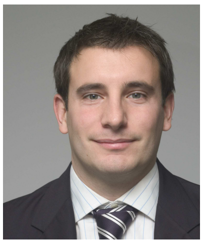

Source: Savills Research

**Total GLA and growth rate**




Source: AECC / Savills Research / *Forecast

**"Due to a fresh burst of institutional investor interest in the sector there are a number of schemes in exclusivity which should lead to a strong year end and hopefully flow over to 2011. The lack of prime schemes available has resulted in best in class secondary centre's becoming the focus of interest".**



**Danny Kinnoch - Director of international investments**

- Generally speaking, the market has hardly changed. Aggregate footfall up to and including September is stable compared to the same period in 2009. Over the past few months, various business associations and confederations have published results for 2009 and the first half of 2010 and these show a state of continuity.

- In this climate, rents have also not suffered significant alterations. There continue to be temporary rental discounts, although the amount of discount and their length have reduced. There has been a slight improvement in prime centres and consolidated centres are stable.

- Operators continue to have expansion plans, but they are extremely well thought through and selective. Various international brands have opened in Spain taking advantage of the prime retail units which are available at reasonable prices.

- Over 2010 close to 360,000 sqm of new GLA will come on to the market (including new developments and extensions), which is a 10% decrease compared to 2009 and 66% compared to 2008. Current stock is at 13.85 million sqm and the average retail density in Spain is 290 sqm per 1,000 inhabitants.

- Initial forecasts for 2011 and 2012 are that retail space will increase by close to one million more square metres, although we cannot rule out that some projects will not be delayed.

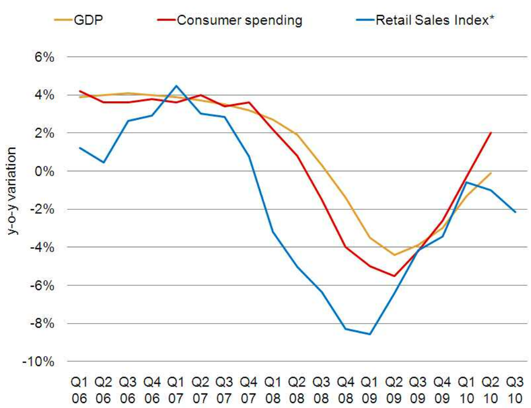
- The volume of investment up until now has reached little more than €540 million, 4% more than the aggregate figure for the first ten months of 2009. Eroski has led the way with five transactions and has comprised 55% of the total volume.

# Economy and footfall

## Spanish economic situation

Europe is slowly overcoming the recent crisis after some extreme fears have been dispelled (financial collapse, some of those countries which experienced more critical economic problems dragging the rest of the continent down...). With the exception of specific cases that have experienced substantial growth over the second quarter (primarily Germany), the rest of Europe is still along way off seeing the growth we have been accustomed to seeing over the years before the recent crisis (eurozone: 1.0% quarterly and 1.9% annually). We continue to be unsure of the nature of the new growth cycle, namely in terms of size, duration and, above all, the potential of economic stagnation in the medium term.

### Spain - GDP, consumption and retail sales




Source: INE / *Quarterly average of monthly y-o-y variations

In Spain such uncertainty becomes ever clearer considering that over the last few quarters (up until the second quarter of 2010) quarter-on-quarter GDP variation was close to zero (from -0.3% to 0.2% in the last four quarters). Year-on-year negative variations have gradually been improving from the worst figure of -4.4% in the second quarter of 2009 up to -0.1% in the same quarter of this year, but what is clear is that the majority of supply and demand indicators are not showing clear symptoms of revival. Household consumption has increased by 2.0% compared to the second quarter of 2009, but this has had a knock on effect on saving, which has experienced an annual decrease of 5.8%.

The VAT increase is most likely to affect Spanish households and the Consumer Confidence Indicator has recorded a fall in confidence, both in terms of the current situation and also future expectations, this has led to the CCI being two points down in October 2010, compared to the figures in the same month in 2009 and the figures were even worse than the previous month. However, despite a great deal of volatility over the past few months, the figures are higher than the lows seen in the second half of 2008 and the start of 2009, although that said, we expect there to be a (slow) recovery in Spanish consumption in the medium term.

In September, the Retail Sales Index fell year-on-year by 2.9% and sales did not increase in any autonomous community and the retail occupancy has decreased in all of them (1% in the last 12 months over the whole of Spain).

Unemployment in Spain continues to be very high (unemployment rate of 19.79% in the third quarter of 2010), with more than 4.5 million unemployed. The percentage of unemployed people compared to the active population has not dropped below 17% since the beginning of 2009 and although a gradual recovery in the labour market is expected, there is no sign of a slight improvement in the coming quarters, which will continue to weigh down consumption and thereby economic recovery.

## Demand

### Footfall

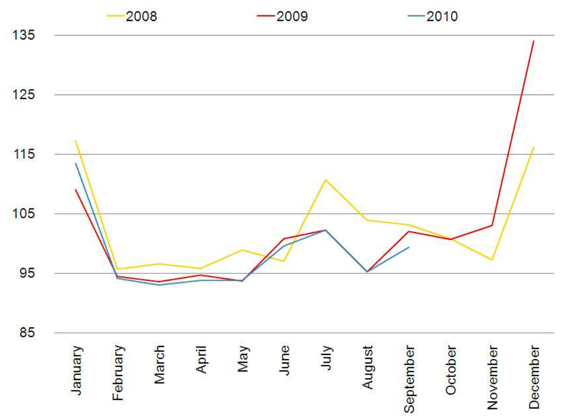
The aggregate footfall index between January and September shows a certain degree of stability when compared to those figures registered in the same period last year. The hardly noticeable negative variation of -0.1%, has been very similar for every month of the year, with the only difference being January, with a slightly higher positive variation of 4.0% and September, where year-on-year growth reached slightly more than 2.5%.

Over the past few months two events took place which had all of the retail market players on tenterhooks (owners, shopping centre managers, operators, etc.): on the one hand, the Football World Cup and on the other, the start of the increase in VAT on 1st July.

Finally, the World Cup did not wreak havoc on overall footfall data, as shopping centres and various brands had thought up various activities, offers and promotions linked to the sporting events. The “Red’s fans” usual shopping times were particularly disrupted on the days when the Spanish team took to the pitch. Experian Footfall analysed the effects of the Spanish team’s first game on shopping centre’s general routine and there was a 26% decrease in visitors between 15:00 and 18:00 compared with the quarterly average on Wednesdays, but the optimism that prevailed in the country whilst the international competition was on appeared to compensate for these occasional absences. The general euphoria was especially beneficial for the consumer technology sector due to the increase in the sale of state of the art televisions to enjoy the games from home.

# Sales and turnover

**Footfall index**




Source: Experian Footfall

The fear of price increases, combined with the two point increase in VAT, was alleviated thanks to the official start of the summer sales and there was hardly any effect on footfall in shopping centres.

Furthermore, shopping centres offered special prices, half season promotions, offers, etc. up to a month before with the aim of bringing forward any discounts to ensure a successful summer season of sales. Local retail is experiencing a more complicated scenario, if we take into consideration that there has been a continual war on prices which has forced retailers' margins to as low as they can go, which makes it difficult to further lower their prices and even less so outside of official sales periods.

### Sales and turnover

Generally speaking, the enthusiasm generated by the good football results was not reflected in the turnover and sales results.

The increase in VAT has started a fierce war on prices between traders. However, in a scenario where consumer confidence is not at its best and with disposable income at record lows, price has become the main issue.

The majority of the large food distribution companies indicated that they would try to assume the increase in VAT as long as they were able to obtain cost savings with their suppliers. The main fashion brands (Inditex, H&M, Grupo Cortefiel and C&A) announced that they would not pass on the cost of the increase in VAT to their articles. The large fashion brands are more capable of adjusting prices, because in the majority of cases, they have the advantage of directly controlling the manufacturing process.

The Spanish Retail Confederation (Confederación Española de Comercio - CEC) announced a campaign of seasonal price reductions and very aggressive discounts, which ranged between 30% and 70%, with the aim of counteracting the effect of the increase in VAT. Therefore the increase in tax does not entail an increase in the seller's takings, but rather has an effect on the sales volumes.

However, against all odds, the first results on the sales period previously commented on by the CEC did not meet expectations. Although the campaign attracted large crowds, the sales figures provided by retailers were in line with those recorded in the previous year.

In September, the Business Association for Clothes Sales (Asociación Empresarial de Comercio Textil - ACOTEX) published the results for the sector over 2009. Total turnover reached €18,300 million, which was a fall of 7.8% compared to the previous year, going back to sales levels seen in 1998. Analysis of turnover in shopping centres gave some encouraging figures. The nearly €7,000 million registered in this retail format, represent 37.7% of the total, this percentage figure has continued to grow since 2004. Catalonia, Madrid and Andalusia led the distribution of turnover by autonomous communities, given that they generated 17.27%, 16.65% and 16.24% of the total business volume respectively. At the back end of the line is La Rioja and the autonomous cities of Ceuta and Melilla, with 0.68% and 0.29% of the national total.

ACOTEX also indicated that the figures in Madrid for the first half of 2010 remained at similar levels seen in 2009, which can only be seen as a positive factor, as this means that the previous fall in sales has slowed, even though data is lower than the figures seen in 2006 and 2007.

With the goal of celebrating Fashion week, at the end of September the consultancy Kantar Worldpanel published a study which concluded that women's fashion stores increased visits by 10% in the Spring-Summer season. Although not all visits were necessarily converted in to sales, these figures demonstrate that Spain has not stopped shopping. The study also pointed out that over the last season, the clothes buyer has been less sensitive to the cost of clothes, although they are trying to make the most out of their money, seeing as purchases in stores with special offers grew by 20%.

In this sense we would highlight Mango's decision to do away with its "Think up" line (results for low cost clothes have not met up to expectations), after confirming that its customers prefer to buy one particular item which is more expensive, even though it is more of a financial challenge to do so.

# Sales turnover and rents

However, other operators continue to launch low-cost lines in order to capture buyer's attention, offering similar products to the well known chains at lower costs. This is the case with Grupo Comfidil, whose parent company is Friday's Project, which has launched the brand Shana to compete with the giant Primark.

In the electronics and household appliances sector, Media Markt and Saturn have announced their own brands which will be launched in the upcoming christmas campaign in Germany, Holland, Italy and Austria. Expansion in to other countries that they have a presence in will be carried out gradually and it is expected that it will be rolled out in Spain in 2012.

Another example comes from Carrefour, which has reinforced its own brand in its hypermarkets and supermarkets with the launch of the Carrefour Discount line, whose prices are on average around 10% below the other own brands in the group. In addition, Eroski has launched a new brand, "Eroski basic", which includes products of major daily consumption at very competitive prices.

The XII Spanish Shopping Centre Congress also conveyed a certain degree of calm. Over the first six months of the year there was a recovery in sales, with growth of between 5% and 6%. This recovery is in contrast to the 6% fall in prices registered in 2009, which is similar to the average retail trading. The President of the Spanish Shopping Centre Association (Asociación Española de Centros Comerciales - AECC), Javier García Renedo, detailed that, "despite the crisis, consumption has continued, although it has fallen" and that above all, "people continue to spend, but less".

**Rents**

Generally speaking, things have hardly changed. Footfall, turnover and vacancy rates, etc., are at similar levels to those seen last year and the same can be said in terms of rents.

Temporary rental discounts are still around. Review periods have now fallen to six months, although they are generally revised and carried over for another term. Rents have fallen by between 10% and 30%. These discounts are requested more by local operators, although large chains and anchor tenants are also benefitting from these reductions. In these cases temporary rental discounts are becoming standard procedure.

A slight improvement in rents has been seen in prime shopping centres and stability in the consolidated centres. The scenario in secondary centres is very different. There are still high vacancy rates and the imbalance between supply and demand will negatively affect rents.

In terms of retail parks, prime rents remain at around €16/sqm/month. Consolidated parks are at €11/sqm/month and secondary centres between €9/sqm/month and €11/sqm/month.

**Expansion plans**

Operators continue to have expansion plans, although they are more thought through and selective. The chance of relocating to prime or consolidated locations at reasonable prices has allowed new brands to move in to trading centres.

New developments are coming on the market with vacant retail units, but the situation is not as grave as was the case with various openings in 2009, which had extremely high levels of vacancy.

The improvement in the marketing process is clearly seen in the Parque Luz Shopping Centre and in the extension of the La Maquinista. Top-end brands have confided in these developments as an ideal location to increase or begin their presence in the Spanish market.

The Swedish decoration firm has attracted not only similar firms in the household sector under it's well known umbrella, such as Bricor, Worten, Darty, Urende, Conforama, but also brands from very different sectors, such as Decathlon, Cóctel, Merkal Feu Vert or Juguetilandia.

Confidence in prime centres has become more evident due to the rapid take-up of the new retail units in La Maquinista. Leroy Merlin will take the largest of them, with 7,600 sqm, but Guess Jeans, Hollister, Forever 21, Desigual and Fnac (among others) will also form part of the centre's list of tenants.

Neinver's Factory Outlet project in A Coruña will finally come on to the market in 2011. Despite various brands delaying the project, the majority of which were both national and international fashion and accessory brands, agreements have now been made with the owner to occupy the retail units in the complex.

New operators have come on to the market. Apple has made its grand entrance in the La Maquinista in Barcelona and in Xanadú in Madrid. Hollister, which is part of the Abercrombie group, has also opened in the same centres in Barcelona and Madrid and will also have a store in the Arena Multiespacio shopping centre in Valencia. Butlers has arrived in Spain with the aim of becoming the urban alternative to IKEA. At the moment they have opened a store in Xanadú and a high-street retail unit in the Salamanca district in Madrid. Forever 21 is preparing its arrival for 2011 in a retail unit in the

# Expansion plans and developments in 2010

La Maquinista extension.

The Portuguese group Sonae have an ambitious expansion plan. They expect to close the year with 45 new stores for its brands Zippy, Worten and SportZone.

Primark has not felt the crisis at all. Spain has become the main market outside of the British Isles and the brand has opened three new stores in shopping centres in Cornellá (Barcelona), Elche (Alicante) and Castellón.

Over the last quarter of the year H&M will increase the supply of fashion in Zielo (Pozuelo de Alarcón, Madrid) and in Miramar (Málaga).

Equally, Toys R Us have opened various stores in shopping centres, the latest of which was in Santander, but they are also expecting to roll out a new format called 'Toys R Us Express' in shopping centres over the Christmas and Reyes period. The first will be in Jerez de la Frontera. The company has already successfully used the Pop-up Store concept in the United States and other European countries.

Leroy Merlin is clearly opting for growth. Over the next two years it expects to open twelve more centres (two or three in 2011 and eight or nine in 2012). After the opening of the new store in La Maquinista, the DIY company confirmed that it was especially interested in expanding in Catalonia, where it has requested various licences.

Brico King is opting to expand via franchises and expects to open between three and five stores per year in this format. Also, in 2011 it expects to open its own stores in Mejorada del Campo (Madrid) and Peñíscola (Castellón), and in 2012 in Oleiros (A Coruña).

National clothing operators are continuing to keep their expansion plans active, but their efforts are aimed at outside of Spain. Mango announced in September that it would open 365 new points of sale. Its main goal is to grow in the Chinese market.

## Supply

### 2010 developments

Total new gross lettable area (GLA) expected for 2010 is 360,000 sqm, of which 10% corresponds to extensions of existing centres. Up until now close to 250,000 sqm has been opened, which is 68% of the total.

As seen last year, the timetables of when projects will be completed have been changing as each month has gone by and the volume of new space has been progressively reduced since the very low forecast of 440,000 sqm predicted in our last report (spring 2010).

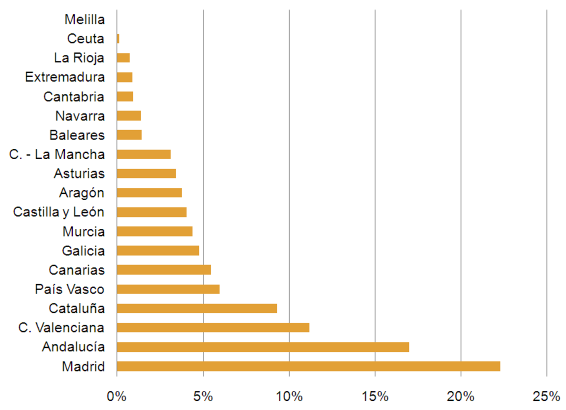
This is a 10% reduction compared to the GLA figure in 2009 and a difference of 66% compared to 2008.

Among the projects which are already operating we would highlight the first phase of Parque Comercial Luz Shopping. The development stands out not only due to its size (comprising 35% of new space), but also because it is the first retail development of the Inter IKEA Centre Group in Spain. The complex is made up of an IKEA store and a retail park with 21 operators which up to today, is the largest supply of retail warehouses developed by one developer.

In terms of autonomous community, Catalonia stands out as being the region where the most new GLA will be seen over 2010. This is comprised of slightly more than 95,000 m² divided over two new developments and the extension of the La Maquinista shopping centre, which accounts for 15,000 m² more.

In terms of new space by retail product, retail parks make up almost half of the total in the pipeline, although we should point out that 71% corresponds to the aforementioned IKEA development.

**GLA per Autonomous Community**




Source: Savills Research

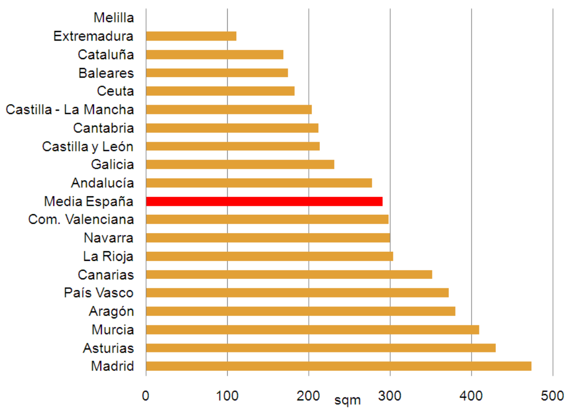
### Stock and commercial density

The current retail market stock stands at 13.85 million square metres of gross lettable area (GLA). There are no new significant changes in terms of the geographical distribution of space. The community of Madrid, Andalusia and the community of Valencia continued to lead the regions with the highest volume of retail space, with these three making up a little over 50% of the total.

# Stock, commercial density, projects and investment market

Average retail density in Spain has increased to 290 sqm per 1,000 inhabitants. Yet again Madrid leads the ranking of communities with the highest retail density at 473 sqm, followed by Asturias and Murcia, with 429 sqm and 410 sqm, respectively. At the bottom of the pile is, Extremadura, Catalonia and the Balearic Islands with 111 sqm, 169 sqm and 174 sqm. Catalonia has registered the highest increase in retail density, with an increase of 4.52%. Little by little the Bolkestein directive is gaining prevalance and sheds some ray of hope in terms of dealing with institutional hindrance.

**Commercial density per Autonomous Community**




Source: Savills Research

### Future developments

Between 2011 and 2012 one million square metres are expected to come on to the market. The performance of the retail sector, access to finance, marketing rates and the state of the economy will determine whether these projects will be developed.

Retail parks strengthened their position with 17 new complexes, which add 410,000 sqm to the current 1.41 million square metres in this sub-market. Bogaris is one of the most active developers, with eight projects which will contribute more than 200,000 sqm of space to the market.

By autonomous community, Andalusia and Castilla y León have claimed a little more than 40% of the total. Both regions have a lower retail density than the national average, despite Andalusia holding the second position in total distribution of GLA.

Marineda City, Invest Cos's ambicious project in A Coruña, which is expected to be delivered in 2011, stands out from the rest of the developments, due to the volume of new GLA in the market. The 95,000 sqm of retail GLA will be accompanied by a 30,000 sqm IKEA and a 45,000 sqm Corte Inglés. The complex will also incorporate 15,000 sqm of offices and a 6,000 sqm hotel.

## Investment market

Little by little the retail investment market is showing signs of revival. Between January and October 2010 14 transactions have been signed, which is 40% more than the number of transactions signed in the same period the year before and 8% more than the total for the whole of 2009. In terms of investment volume, up until now the figure has reached close to €540 million, which is 4% more than was registered over the first ten months of the previous year.

Studying the type of property sold shows a very different scenario to the norm. If the norm is that shopping centres make up the highest volume of investment, on this ocassion supermarket and hypermarket transactions have taken the lead. More than 42.0% of the total corresponds to packages of properties which Eroski has sold. W. P. Carey opened the year by signing a second package of properties (it bought the first one at the end of 2009). In the second quarter EPISO (European Property Investors Special Opportunities), which is a fund managed by AEW and Tristan Capital Partners, bought the second portfolio of the year, which was the largest transaction (€150 million). Finally, in the summer Rockspring bought a third package of supermarkets, all of which are located in regions where Eroski leads the food distribution market. Savills advised the buyer on this transaction.

Investment in shopping centres reached 37.50% of the total transaction volume; all of the transactions took place in the first half of the year.

Corio purchased Espacio Torrelodones from Multi Development as part of a portfolio of four shopping centres in Germany, Portugal and Spain for €662 million (€65 million correspond to the property in Madrid) and five developments, all of which are in Germany, for €660 million.

The British company Alpha Tiger, which is specialised in the Indian market, has closed its first transaction in Europe. It is the first opportunistic style transaction in Spain. Grupo Avantis sold the H2Ocio shopping centre to pay debts accumulated from other real estate projects; the most significant of which was the El Reino de Don Quijote complex, whose inauguration was planned for this year, but is all but stopped.

The purchase of Bilbondo by ING's Iberian Value Added Fund (IVAF) from Eroski has a significant added value, as the acquisition of the centre includes the purchase of the extension.

# Investors, yields and forecast

The third strongest product has been the high-street, with 12%: retail units on main or parallel streets, occupied by solvent tenants and long contracts. The remaining 8% is split between retail warehouses and a small retail park.

### Who is buying and who is selling?

The presence of Eroski on multiple occassions makes Spanish companies the leading property sellers. But even if we were to exclude them from this study national sellers would out number international sellers. In terms of the type of seller, “food” is the leader, thanks again to the food distribution company. Not taking Eroski in to consideration, the first position by investment value would go to development companies.

The most active buyers have been international. United States, Holland and the United Kingdom make up almost 89% of the total amount invested. In terms of the type of buyer, real estate funds monopolise 84% of the market, followed by private investors, which make up 11% of the total.

Information on the type of property and nationality and type of investor, clearly show that private national investors are opting for the high-street and retail warehouses, with an average investment volume of around €10 million. International funds play in a higher league, dealing with properties which require a considerably greater amount of capital input. The average investment volume is between €50 and €55 million but, as we previously mentioned, the maximum reached in 2010 is €150 million. The type of product is primarily centred on shopping centres and Eroski portfolios. Redevco bought a retail unit in Goya which is let to Zara. This is not a surprise, as the Dutch fund is a specialist in this type of property in various European countries, and many of them are occupied by various clothing chains.

### Yields

The market is seeing yields clearly trending downwards, primarily driven by an increase in interest from buyers and the lack of product for sale.

In prime shopping centres gross initial yields are at between 6.75% and 7.00%. In consolidated centres, yields are at between 7.00% - 7.50%. Prime retail parks are at a similar level, between 7.00% and 7.25%, whilst consolidated parks are at between 7.50% and 8.00%.

## Forecast

### Economic forecasts

Estimations on how the Spanish economy will fair in the future, primarily point to gradual growth, which will not begin to be significant until the end of 2011 or 2012 and which will lead to a new growth cycle. However, GDP growth or consumption will not reach 2.0% until 2014 or 2015, whilst CPI will remain stable at relatively low levels (around 1.5%). Apart from the long term forecasts, allowing for a wide margin of error, there is a consensus on the fact that the Spanish economy will grow slowly in the short to medium term.

**Spain - Economic forecast (y-o-y change)**

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| GDP | -0.4% | 0.4% | 1.3% |
| Consumer spending | 0.7% | 0.4% | 1.1% |
| CPI | 1.6% | 1.4% | 1.3% |

Source: Focus Economics (October 2010)

### Market outlook

Investors continue to be interested in prime properties, although right now nothing is officially for sale.

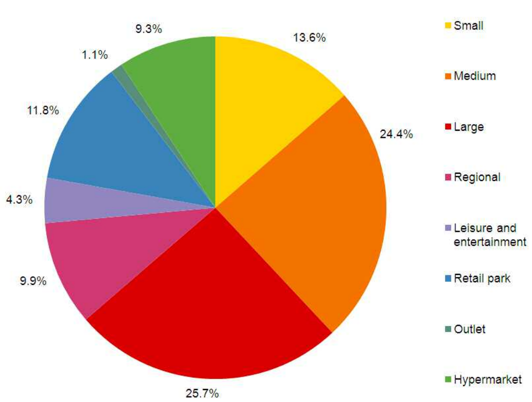
We currently know of various transactions which are in very advanced stages of negotiation. All of them are in consolidated shopping centres or retail parks. This type of product is especially attractive thanks to the ease of management and the good results that operators are having which generally occupy these units.

Therefore, our forecast for the annual investment volume in 2010 is at €750 million.

Secondary centres are in a more complex situation. The lack of investors interested in these properties has meant that no transactions have taken place. This type of property is the perfect type of property that opportunistic investors are looking for but, at the moment, the huge difference between the prices they are willing to pay and seller’s expectations make it difficult to establish a range of market yields.

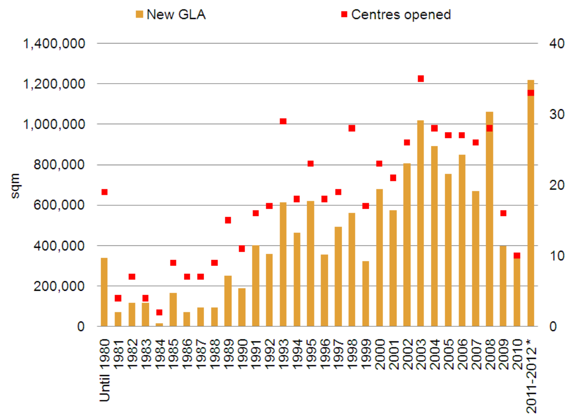
# Spain retail market

## Total GLA in Spain per type of centre




Source: AECC / Savills Research

## New GLA and openings




Source: AECC / Savills Research / *Forecast

## Main projects - 2011-2012

| Year | Centre | Location | GLA (sqm) | Type | Developer |
|---|---|---|---|---|---|
| 2011 | Arenas Plaza | Barcelona | 29,000 | Medium sized | Metrovacesa |
| 2011 | Puerto Venecia | Zaragoza | 123,000 | Very large | Eurofund Investment |
| 2011 | Marineda City | A Coruña | 170,000 | Very large | Invest Cos |
| 2012 | Arroyo de la Encomienda | Valladolid | 100,000 | Very large | IICG |

Source: AECC / Savills Research

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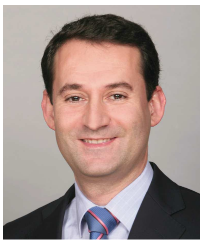

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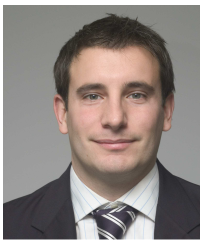

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