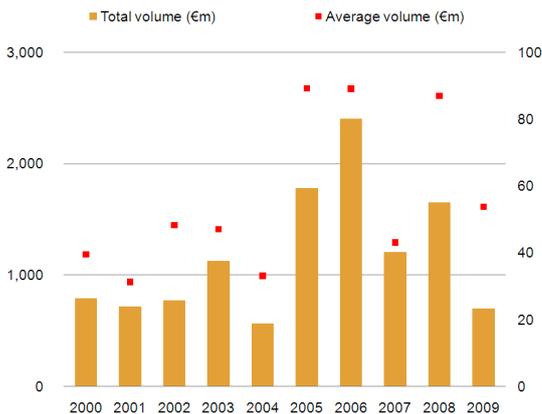


Spain retail market

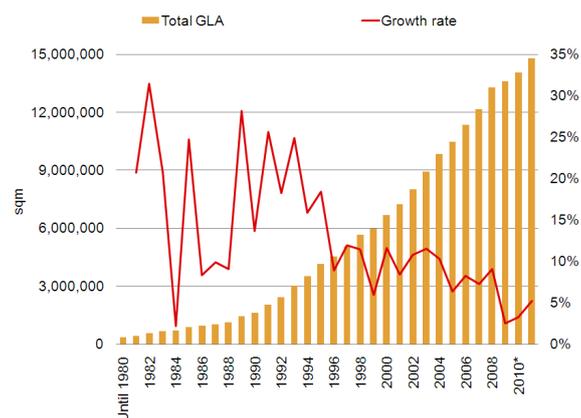
Spring 2010

Investment - total volume and average volume



Source: Savills Research

Total GLA and growth rate



Source: AECC / Savills Research / *Forecast

“Investors are still taking a cautious approach to Spain, even when they have clear investment objectives. The problem is that every investor is looking for the same product, which is very difficult to find. Therefore, there will only be a few high quality shopping centre deals closed in 2010 and yields will compress as pressure from demand and reduced supply take effect”.

Luis Espadas - Capital Markets Director



- Current economic indicators show no sign of letting up. The uncertain economic climate has taken the household saving rate up to 24.7% in Q4 2009, the highest value achieved up until now.
- The CEC (Spanish Commerce Confederation) reported a 12% drop in retail sales in 2009, reflecting a total loss in revenues of some €30 billion.
- With a backdrop of falling sales, increased household saving rates and constant offers encouraging consumers to spend, shopping centre landlords are giving temporary rent reductions.
- Operators are sticking to their expansion plans, albeit after carrying out exhaustive and rigorous viability studies, as they are looking for suitable growth levels.
- New built GLA (gross lettable area) dropped by 63.5% in 2009 compared with 2008 levels. Some 1.1 million sqm were expected by the year end, but only just under 400,000 sqm were completed. Expectations for 2010 are just over 440,000 sqm.
- The average retail density (sqm GLA per 1,000 inhabitants) in Spain is currently 287 sqm. In Madrid, Asturias and Murcia this figure is over 400 sqm. The lowest densities (<175 sqm) are in Baleares, Cataluña and Extremadura.
- The total investment volume for 2009 was around €700 million, some 58% below 2008 levels but in keeping with figures from the start of the decade.
- Shopping centre investment yields remained stable in 2009, with yields at 7.25% for prime and 8.5% for secondary product.

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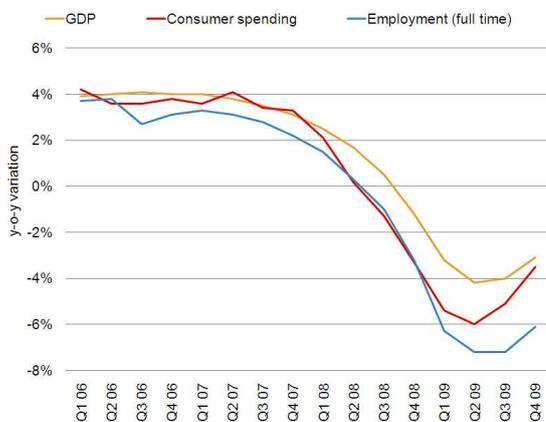
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Economy and footfall

Spanish economic situation

The GDP in Spain recorded an annual reduction of 3.6% in 2009, with the worst year on year reduction in Q2 2009 (-4.2%). These figures improved slightly thereafter to 4.0% and 3.1% in Q3 and Q4 respectively. The quarter-on-quarter drop was just 0.1% in December. The national economy has recorded negative annual GDP growth for five consecutive quarters, and nine quarters where the figure was worse than in the previous quarter.

GDP, consumption and employment



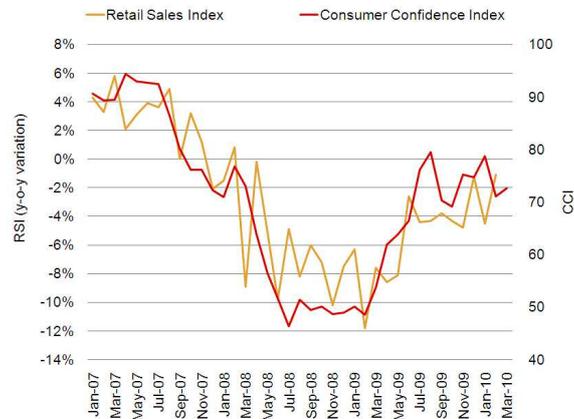
Source: INE

The deterioration of the macroeconomic indicators was due to both the demand side (household consumption, investment) and the supply side (all manufacturing sectors, without exception). However, the majority of sectors have seen smaller falls in the second half of the year.

According to Eurostat estimates, GDP in the Eurozone contracted by 4% from 2008 to 2009, whilst in the final quarter the year on year fall was 2.1% (with quarter-on-quarter growth of 0.1%). The majority of member states experienced quarterly GDP growth at the end of 2009. With regard to the European labour market, Eurostat's January figures put Spain at the bottom of all Eurozone countries (with an unemployment rate of 18.8%), and only ahead of Latvia in the 27 European countries. The Eurozone had an average unemployment rate of 9.9%, whilst the European Union had a rate of 9.5%.

According to data from the EPA and the Ministry for Labour, the number of unemployed people in Spain grew by 1,118,600 in 2009, resulting in an unemployment rate of 18.83% in Q4 2009, although the rate of job losses is slowly decreasing. In February 2010 there were 4,130,625 unemployed in Spain.

Consumers' confidence and retail sales



Source: INE, ICO

The general register of retail sales showed an annual fall of -1.1% (corrected from -1.4% to take into account seasonal fluctuations). Large retail chains and supermarkets recorded positive results – especially supermarkets, which posted a 3.7% increase. Although total floor area for small retailers fell by 2.3% from February 2009 levels, it still increased in three Autonomous Communities. Retail sales at constant prices also showed an increase in five Autonomous Communities.

The consumer confidence index grew by 1.6 points in March compared to February's figures. Improvement in public expectation as well as opinion on the actual economic situation have resulted in the index increasing by 1.9 points compared to March 2009.

Demand

Footfall

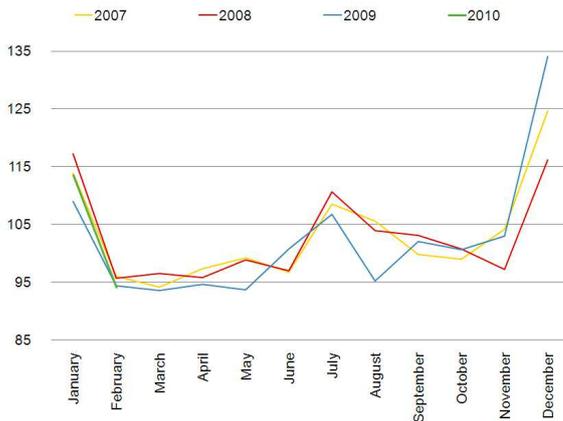
The accumulated footfall index for 2009 shows a state of relative stability when compared to 2008 figures, with a year on year change of just 0.33%. Despite this feeling of stability, various monthly measures show a very different situation from 2008. In some cases figures were significantly lower, as in May and September, with falls of 5.23% and 6.78% respectively, and in other cases easily higher than 2008 levels. Of these figures, the most significant increases occurred at the year end, with growth of 5.91% in November and 6.16% in December. It is important to bear in mind that shopping centres are not only somewhere to go shopping, but also serve as public space and meeting points, owing to the wide variety of leisure facilities they provide.

Figures for January and February 2010 are optimistic. The figures for January were 4% higher than in 2009,

Sales turnover and rents

and February's data show stability with the year on year change remaining at -0.3%. The accumulated results for the first two months of 2010 therefore show positive growth, with an increase of 2.05% from the same period in 2009.

Footfall index



Source: Experian Footfall

Sales and turnover

Despite the above, turnover did not increase at the same pace as the footfall indices (also the case in 2008). According to the latest Retail Sales Figures Report from the Spanish Commerce Confederation (CEC), released in early February, retail turnover shrunk by 12% in 2009, reflecting a total income loss of some €30 billion.

When broken down into sectors, food was the most successful, with a reduction of between 2% to 6%. At the other end of the scale, furniture and decoration retailers saw sales fall from between 20% to 35%. As for fashion, footwear sales fell by 5% to 15%, and textiles fell by between 10% and 20%.

When split down into Autonomous Communities, the most significant falls (12% to 18%) were seen in Balears, Canarias, Castilla-La Mancha, Valencia, Madrid, Murcia, Navarra and La Rioja. Smaller falls of 5% to 10% were recorded in Andalucía, Aragón, Asturias, Cantabria, Castilla y León, Extremadura, Galicia, País Vasco and the autonomous cities of Ceuta and Melilla.

According to the National Association of Large Retail Distributors (ANGED), data from the Christmas holiday period paint a considerably better picture than last year. Sales remained stable or even improved slightly. On the other hand, employment of temporary staff was down, as a result of the decrease in economic activity.

The CEC believes that sales figures from the winter sales period helped avoid figures going into the red for most sectors, with an average sales increase of 5%. The irresistible lure of 50% discount sales, going up to 70% in some department stores and supermarkets, was a significant driver for consumers. Nonetheless, the homewares and decoration sectors still reported negative sales figures.

According to the most recent figures from INE, household savings rates in the fourth quarter of 2009 were 24.7% of total income, the maximum recorded value to this date. The global figure for the year grew by 5.9 points with respect to 2008, sitting at 18.8%, the highest point reached since the index began in 2000.

Rents

Since increasing household saving rates, decreasing disposable income and steady sales and discounts have all had an effect on retail turnover, profit margins have therefore been eaten away and the stress rate (income from sales) has increased.

To stem the fall in sales and, thus, the reduction in profit margin, shopping centre owners are giving temporary rent reductions of between 20% to 50%, which generally last for two to three months. After this period is up, the situation of each tenant is then assessed and monitored on a case-by-case basis.

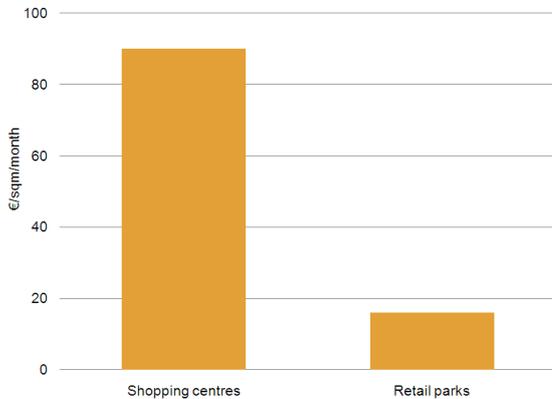
Retailers belonging to a powerful group or chain have more power in these negotiations, since they often occupy large floor areas in the same centre, or have units in several centres belonging to the same owner. In such situations, these rent reductions can become permanent.

The general trend in the market is for rents to keep falling, although factors such as the type of shopping centre, location, level of consolidation and vacancy rates etc. will have an effect on the extent of the decrease, with rents even levelling off for prime centres. Furthermore, in some centres there have been rental increases following refurbishment and re-marketing.

Thus the average rent for the best units in the best centres remains at around €90/sqm/month, reflecting a zero increase from this time last year.

Expansion plans

Prime rents in Spain



Source: Savills Research

Expansion plans

Despite the poor turnover and sales data, damaged consumer confidence and other negative factors brought about by the economic situation, operators are still sticking to their expansion plans. However, they now feel obliged to consider them in more detail to ensure the right level of expansion at the right time.

Many operators have decided to put a halt to expanding their network within Spain, and are instead seeking opportunities abroad. For example, Cortefiel has recently expressed its interest in finding local partners in Russia, Italy, Turkey, the Middle East and Central America.

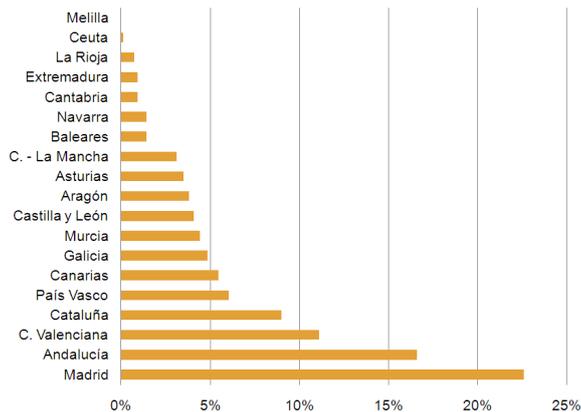
Mango will keep to its 2010 strategy of international growth. It currently has operations in 100 countries with a total of around 1,400 units, and intends to add a further 185 units worldwide. Last year it made a clear bet on the Asian market, opening units in China, Japan, Korea, Singapore and the Philippines.

Some companies have chosen to adapt their expansion plans, choosing not to open units in consolidated shopping centres and to go back to opening shops in city centres, taking advantage of the slump in retail areas in the main cities in Spain. Dutch retailer C&A and Irish retailer Primark could already be searching for new locations, with the aim of increasing their presence and profile, to put them in a position to compete with higher-priced chains such as Zara and H&M.

According to the latest data released by Primark, the best sales figures for their first financial quarter (13 September to 2 January) were recorded in Spain and the United Kingdom – with sales in Spain up 10% from last year. The company aims to add a further four units to the 14 it currently operates in Spain. The first of

these will be in the new Splau shopping centre in Cornellà del Vallès in May, with another unit due to open before summer in L'Aljub shopping centre in Elche.

National GLA per Autonomous Community



Source: Savills Research

Other operators have decided to add “low cost” lines to their portfolio, and several have already done this in the past year. Estímulos, by Imaginarium, now has 18 units; 20% of these are in shopping centres. The company is currently getting ready for a number of new openings in Spain, with others also planned in Portugal, Italy, Greece, Israel, Romania, Mexico and Germany.

The expansion strategy for Decathlon involves the launch of a new store format, which involves smaller stores located in shopping centres. “Decat”, Decathlon’s little brother, will open the doors to its first unit this spring in the Vallsur shopping centre in Valladolid.

Prenatal has begun a massive restructuring programme for its retail network in Spain. One of the key drivers behind the change is the arrival of a number of new competitors in the children’s clothing sector. The Italian group will opt for larger units. As part of this new strategy, the group aims to open stores of around 1,300 sqm in out-of-town shopping centres near big cities, and will close its small stores in town centres.

Market growth has also been bolstered by the arrival of new operators into the national retail sector. The Australian multinational Howards Storage World, a specialist in home storage, has an ambitious expansion plan for Spain that includes over 70 units over the next few years. Currently it has stores in Boulevard, Galaria and Equinoccio shopping centres in Vitoria, Pamplona and Madrid respectively.

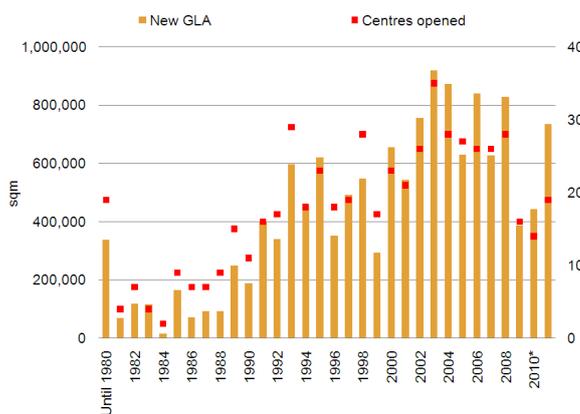
Developments 2009

Portuguese retailer Sonae's three separate brands (Worten, Sport Zone and Zippy Kidstore) also have ambitious expansion plans.

Worten first opened in Spain last April, and by December had opened a total of 13 shops; the latest addition was in El Golf retail park in Talavera de la Reina. This year it aims to open two more shops, the first being in Isla de Corfu shopping centre in Alicante (1,870 sqm).

Sport Zone first moved to Spain exactly a year before its parent company Worten. The Isla Azul shopping centre, in the Madrid suburb of Carabanchel, was the first store opened. Since then, a further 13 stores have been opened, turning it into a key sports retailer both for its competitive prices as well as its involvement in sport through sponsoring athletes, clubs and competitions linked to charity. Like Worten, Sport Zone's next store will also be opening in the retail area of Isla de Corfu (2,450 sqm).

New GLA and openings



Source: AECC / Savills Research / *Forecast

After one year of operating in Spain, Zippy Kidstore had opened ten stores by December. The positive results seen by Sport Zone in Isla Azul shopping centre prompted Sonae to take another bet on the same location. The last part of the year was a particularly busy time for store openings. In December, a total of three Zippy stores were opened: two in Madrid – one in La Gran Manzana shopping centre in Alcobendas, one in Zielo in Pozuelo de Alarcón – and one in Almería, in Puerta de Europa de Algeciras.

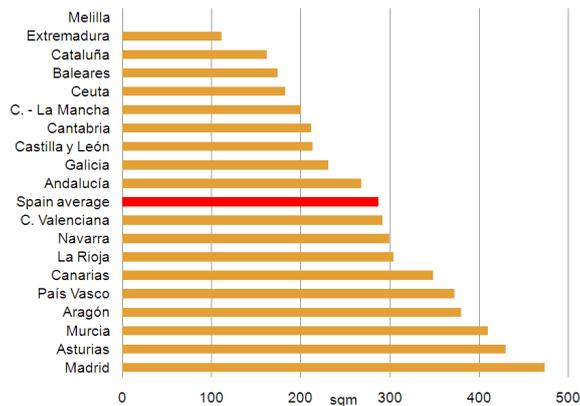
One of Zippy's key competitors in the children's clothing sector, Kiabi, will continue its 2009 expansion plans, when it opened 12 new stores. So far it has grown its portfolio by opening a number of units in Spain: in Parla Natura (1,500 sqm), Isla de Corfu (1,500 sqm), and Boulevard (1,800 sqm).

Supply

Developments in 2009

The largest ever amount of new-build retail space was constructed in 2008, with around 1.1 million sqm GLA being built. Back then, forecasts for 2009 were even higher than this record level, but the adverse macro- and microeconomic conditions gradually impacted the delivery schedule, slowing down some schemes and bringing others to a complete halt. Eventually, only 400,000 sqm were constructed – 63.5% less than the predicted new build GLA. Madrid accounted for 30% of the total, followed by Andalucía with 18% and Galicia with 18%.

Commercial density per Autonomous Community



Source: AECC / INE / Savills Research

Retail parks played a key role as an asset class. Seven out of sixteen new retail complexes were retail parks, comprising 40% of all new build floor area. Five of these were classed as small centres (i.e. up to 19,999 sqm) and accounted for 21% of the GLA.

But those centres that opened in 2009 felt the crisis from the moment they started trading; average occupancy rates were just 40%. For Puerta Europa in Algeciras, out of a total 30,000 sqm it started trading last November with just two tenants – Mercadona and Primark. Another example is Aragonia in Zaragoza, also with 30,000 sqm GLA. It opened its doors last summer with just 17 out of a total 100 units occupied.

Retail stock and commercial density

The total retail stock at the end of the year was 13.61 million sqm. The Autonomous Communities with the largest amount of retail space are Madrid, Andalucía and the Comunidad Valenciana; these three make up 50% of the total national retail GLA.

Existing and future stock and investment market

The average retail density in Spain (sqm retail space per 1,000 inhabitants) is currently 287 sqm. Madrid heads up the ranking with 473 sqm, with two other Autonomous Communities breaking the 400 sqm mark: Asturias (429 sqm) and Murcia (410 sqm).

Another six regions are above the national average (Aragón, País Vasco, Canarias, La Rioja, Navarra and Comunidad Valenciana). The regions with the lowest densities are Extremadura, Cataluña and Baleares, though the last two are restricted by local government legislation.

New developments in 2010

Initial estimates indicate that some 440,000 sqm of new retail floor space will be constructed in 2010. These figures seem fairly realistic, though the rate of the country's economic recovery could have an impact on delivery timescales.

Main projects - 2010

Centre	Location	GLA (sqm)	Type	Developer
Jerez XXI	Jerez de la Frontera	140,000	RP	IICG
Splau	Cornellà de Llobregat	54,500	L	Acciona
Aranjuez Plaza	Aranjuez	54,400	L	Superco
El Mirador de Jinámar	Jinámar	40,000	L	Eroski/Home
Arena Multiespacio	Valencia	32,000	ME	Gesfesa
Ciudad de Amposta	Amposta	25,900	RP	Futuro Ciudad Amposta

Source: AECC / RP: Retail park; L: Large; ME: Medium sized

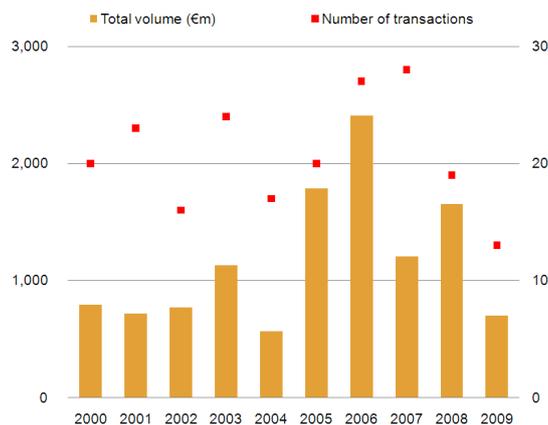
Andalucía will absorb 38% of the total new build floor space, mainly because it has the biggest scheme this year (which is the biggest scheme built in the last few years): Jerez XXI park, which will comprise 140,000 sqm and is to be developed by Inter Ikea Centre Group. As a result of the draw created by IKEA, most of the GLA will be occupied by homewares retailers such as Merkamueble, Conforama, Saturn and Boulanger. Retailers from other sectors include Decathlon, Alcampo and Toys R'Us. This will be the third store to be opened in Andalusia by the Swedish multinational and will comprise 33,000 sqm. It is due to open its doors on 20 April. The remaining retailers will open throughout the course of the year.

Investment market

The total sum invested during 2009 in the Spanish retail market was around € 700 million, a figure similar to data for the start of the decade, in 2000, 2001 and 2002.

There were 13 investment transactions, five of which were for "traditional" shopping centres, and comprised 85% of the total. Savills acted as advisor for the purchasers in two of the deals (Ribera del Xúquer and Nervión Plaza), which make up 30% of the total volume relating to shopping centres. The remaining transactions relate to various individual retail units, one retail warehouse, two retail buildings and the first phase of the disposal of Eroski's supermarket portfolio.

Retail investment



Source: Savills Research

The largest deal was the sale of the Plenilunio shopping centre, which was sold by Banif for €235 million to the British fund Orion Columbia. In second place was the Príncipe Pío shopping centre in the synonymous Renfe commuter train/Metro station. In this deal, Colonial was paid €126.5 million by Corio, a company specialising in investment in retail assets. Third place on the podium goes to Centro Nervión Plaza in Seville, acquired by Henderson from Realia for a sum of €94 million.

The average transaction size per deal last year was €54 million, considerably lower than the €87 million average for 2008, but still in line with the average for the decade of €58.5 million.

Investors and buyers

Non-domestic players are dominating the arena. Only 7% of the total investment volume was for acquisitions by domestic investors. British investors accounted for

Investors, yields and forecast

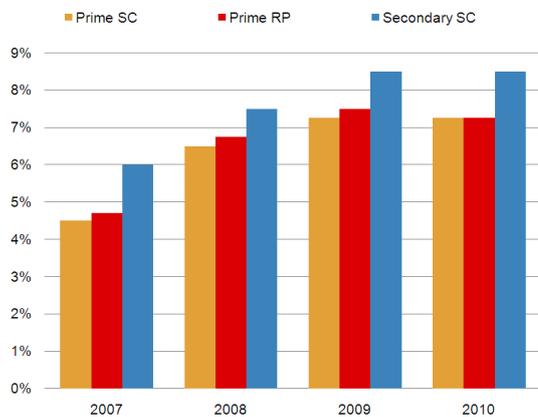
nearly 50%, since Orion Columbia and Henderson were involved in the two largest transactions of the year. Holland was represented by Corio and ING Real Estate, making up 31% of the total retail investment volume in Spain.

Non-domestic funds are focussing on “traditional” retail product, i.e. shopping centres and portfolios of shops. The average investment volume for international players is around €105 million.

Domestic investors have neither the capacity nor the experience to acquire such products (they are mostly private investors) and so focus instead on high street retail units, retail buildings or units in retail parks. The average deal size for Spanish investors is just under €9.8 million.

From the seller’s side, Spanish companies accounted for 84% of total investment sales. The type of company choosing to sell has been very varied: mutual companies and insurers, investment funds, real estate companies, developers and private investors. In terms of investment volume, the funds and real estate companies each account for around 40% of the market.

Yields



Source: Savills Research

Yields

Yields for shopping centres remained stable in 2009, both for prime and secondary assets, and at the end of 2009 were at 7.25% for prime and 8.50% for secondary centres.

As for retail parks, yields showed similar stability, although prime yields compressed slightly to 7.25%, with yields for secondary locations still at 8.50%.

Outlook

Throughout 2010, the key macroeconomic indicators will gradually continue to improve, despite the current economic downturn.

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

	2009	2010	2011
GDP	-3.6%	-0.4%	1.2%
Consumer spending	-5.0%	-0.8%	0.9%
CPI	-0.3%	1.4%	1.8%

Source: Consensus Forecast (February 2010)

Economists are slowly starting to improve their estimates for GDP, household consumption, investment and manufacturing for 2010 and 2011. Nonetheless, these measures will still have negative year on year growth this year, with data only turning positive next year.

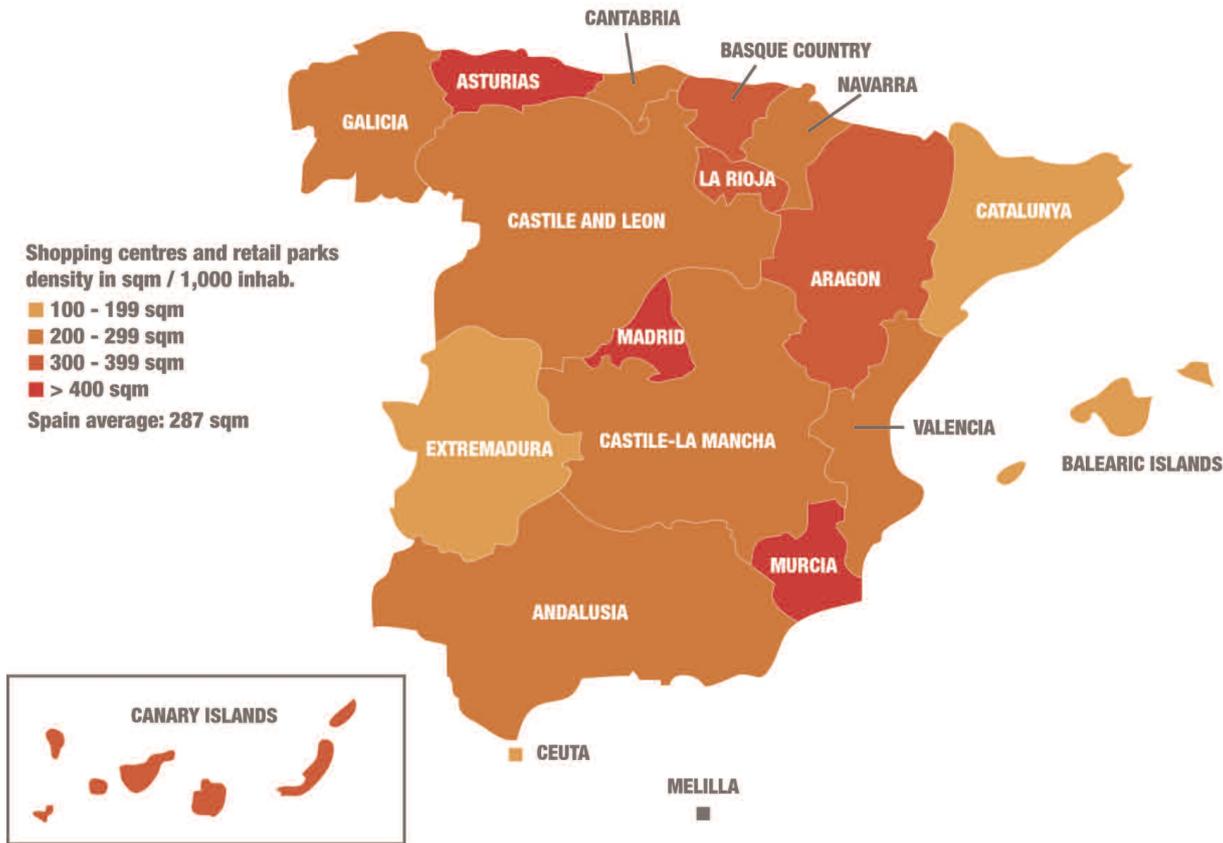
Market forecast

Household consumption levels remain low. Sales of secondary shopping centres continue to increase and so temporary rent reductions could therefore become permanent. In many cases this means rent reductions of 25% to 30% compared to rents at the end of 2008. Rents seem more stable for prime shopping centres, and are even starting to increase in some rent reviews. In any case, prime rental levels will not change from €90/sqm/month in the short term.

It seems that investors are turning their sights back to Spain, albeit with a certain degree of caution. The pressure created by excess liquidity in some funds, combined with the opportunity of acquiring attractive centres that would normally be impossible to acquire (for example Nervión Plaza), will keep the investment market alive. We predict very few transactions, with large investment sums, involving only high quality centres. We also expect yields to compress as a result of increased demand and limited supply. This could result in net yields of 6.50% for shopping centres and 6.75% to 7.0% for good quality retail parks. The total investment volume for 2010 could be in the region of €500-700 million with a total of 15 to 20 transactions.

Spain retail market

Retail density map



Source: AECC/INE/Savills Research

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