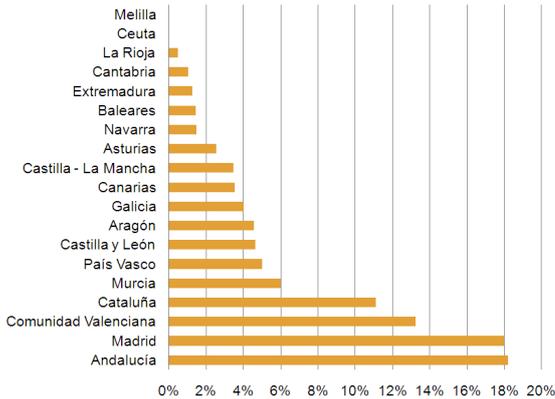


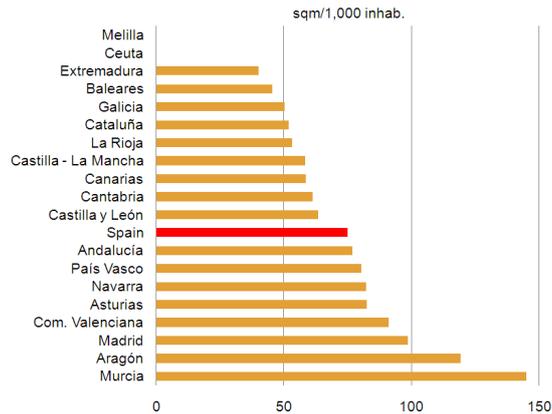
# Spain retail warehouse market

Spring 2010

GLA per autonomous community - RW



Commercial density per community - RW



Source: Savills Research

Source: Savills Research

**“Retail Parks stir up strong interest amongst international investors. They seek well anchored parks in the principal Spanish cities at market rental levels with good lease lengths and minimal vacancy. What many investors are not aware of is how scarce this product is and of the lack of projects under construction”.**



Luis Espadas - Retail Investment Director

- The economic problems continue in Spain. It seems that recovery is close but until consumers regain confidence in the market and recover their buying habits, we will continue to see retailers putting their expansion plans on hold.
- The crisis has had a major impact on the household/white goods market; an important sector particularly in retail parks. In contrast, “low cost” fashion operators and the food industry have coped well in the downturn.
- 2009 ended with prime rents at €16/sqm/month, 27% below the market peak, which reached €22/sqm/month in 2007.
- There is some 3.5 million sqm of GLA in the retail warehouse market, density per 1,000 people is 73 sqm.
- According to initial estimates, between 2010 and 2011 approximately 355,000 sqm will be added to retail park stock. Changes in the economic climate will cause this figure to be amended over time.
- There are few specialist developers in this market due to planning constraints. These products require large plots of land where more dense development may be preferred.
- Over the last decade there was almost €1 billion of retail park transactions, 8% of the total retail market. It is a market with great potential but with limited activity due to the shortage of good quality product.
- The year ended with prime net yields between 7% and 7.25%, which could decrease given the shortage of product and increasing investor interest.

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# Economy and background

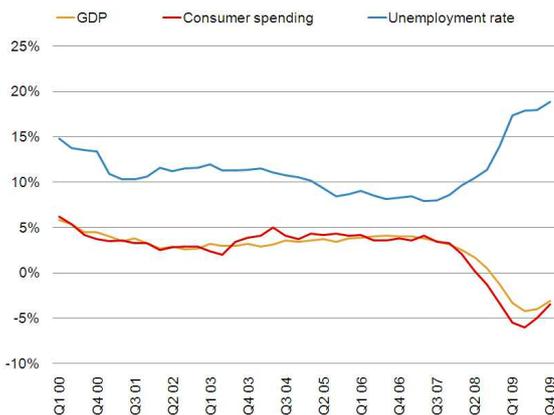
## The Spanish economy

The Spanish economy continues on its path of negativity, although green shoots of recovery are expected over the course of the year.

According to recent data published by the INE, GDP ended the fourth quarter with an annual change of -3.1%. Among other factors, the slight improvement in comparison to previous figures was due to the less negative behavior of household consumption, which improved by 1.5 points the -5% for the third quarter.

Inflation in December was positive, 0.8%, and January's figure rose 20 basis points, up to 1.0%, driven mainly by the transport sector that has caused the increase in fuel prices.

## GDP, consumption and unemployment



Source: INE

The unemployment rate keeps growing, although at a slower pace. But we must point out that although the unemployment rate is increasing, people in employment have substantially rebuilt their purchasing power due to lower prices, and on the other hand, little by little the "consumer confidence indicator" developed by the ICO shows signs of optimism and in January was at near historical five year levels.

We will have to pay attention to the evolution of the levels of consumption and consumer confidence in the second half of the year, following the rise in VAT rates.

## Evolution of the retail warehouse market

The retail market in Spain began with the construction of hypermarkets with small retail galleries in the 1970's. After several years in which the large distribution chains of the time (Pryca, Continente, Alcampo, etc.) undertook aggressive expansion policies, the Anglo-Saxon model of shopping centre

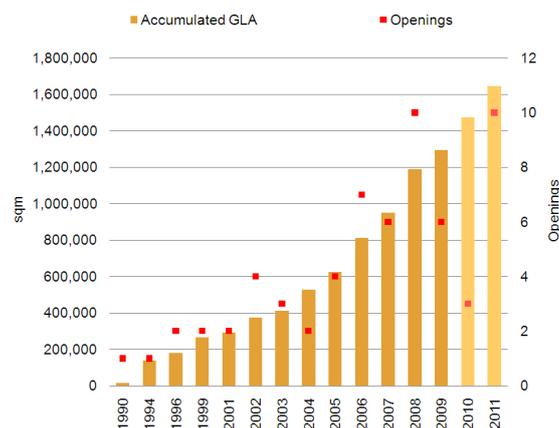
entered the picture which was a response, not only to the commercial needs of urban populations, but at the same time serving as public areas and meeting points as well as providing leisure and entertainment space.

As the new commercial concepts were being absorbed by the countries' socioeconomic structure, larger space retailers of varying sectors began to set up shop in areas surrounding these hypermarkets in buildings similar to warehouse space. Decathlon, Toys' R Us, Leroy Merlin or Norauto, to name a few, were the pioneers.

It was not until 1990 when the first retail park appeared, defined as a retail complex developed by a single developer, with a design and construction synonymous of the fact that one company developed the whole scheme: Sedavi, in Valencia, with a GLA of 15,000 sqm and 11 retail units. For a decade, the construction of retail parks did not show any continuous annual increase.

In 1994 Parque Oeste Alcorcón (Madrid) was inaugurated, Aljarafe Park (Sevilla) in 1996 and in 1999 Megapark in San Sebastián de los Reyes (Madrid). Since 2001 several openings took place each year, peaking in 2008, both in number of openings, with ten new parks and in volume of new GLA, with some 240,000 sqm.

## Stock and openings - Retail parks



Source: AECC / Savills Research

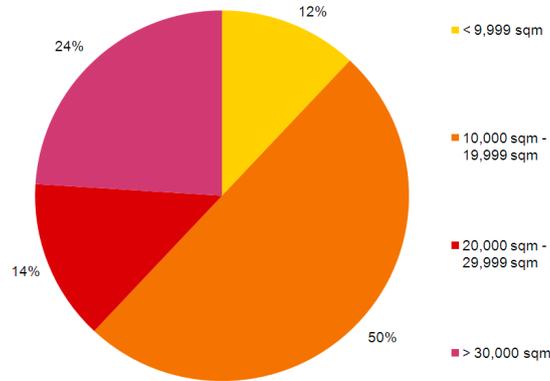
## Retail park stock

At the end of 2009 the stock of retail parks stood at 1.29 million square metres (in this total the GLA of freestanding retail units has been excluded), 9.5% of the total retail market.

# Stock

Considering the size of the retail parks, half of the retail parks (twenty-five), are medium-sized with space of 10,000 sqm to 19,999 sqm. Almost a quarter (twelve) correspond to large developments (over 30,000 sqm) among which stands Megapark Barakaldo, with almost 100,000 sqm and Parque Alcorcón with 125,000 sqm. Seven large parks (between 20,000 sqm and 29,999 sqm) represent 14% of the total and the remaining 12% comprises six small parks of less than 9,999 sqm.

## Retail Parks by size

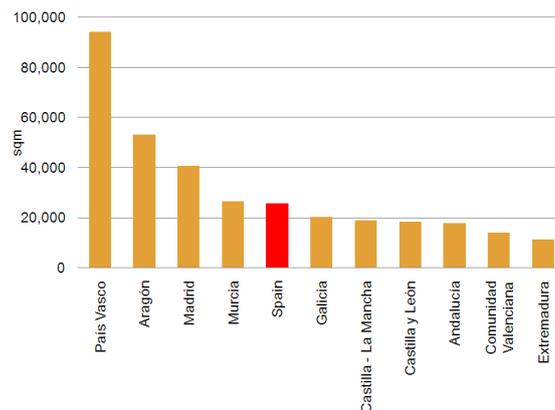


Source: Savills Research

## Independent stock retail units

Just as the number of consolidated retail parks is easily identifiable, parks comprising freestanding units located in areas surrounding hypermarkets with individual units all in different ownerships make analysis of warehousing not on established retail parks more difficult. We estimate that approximately 2.20 million square metres make up the total surface area of freestanding retail warehousing.

## Average size per Autonomous Community - Retail parks

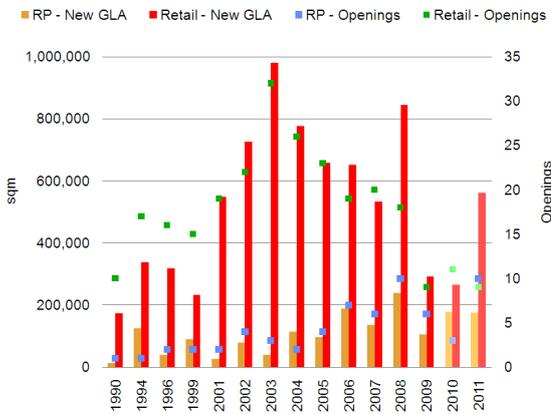


Source: Savills Research

## Commercial density of retail warehousing

Retail warehouse product is widespread throughout Spain but consolidated retail parks are only found in 10 of the 17 regions and 19 of the 52 provinces. The autonomous cities of Ceuta and Melilla comprise no

## New GLA and openings - Retail parks and retail market



Source: AECC / Savills Research

Progress in the overall retail market and retail park market has gone down very different paths. The comparisons between the number of openings demonstrate a consolidated retail market which has been strong and dynamic compared to a retail park market which is still under expansion. But it is noteworthy that in the past two years, despite the setback that the sector has experienced due to the decrease in consumer spending, the percentage of new parks opening and new GLA created with respect to the overall retail market recorded the highest levels of the decade. In 2008 this product type represented 36% of the openings and 22% of the new surface and in 2009, 40% of the openings and 32% of the new surface.

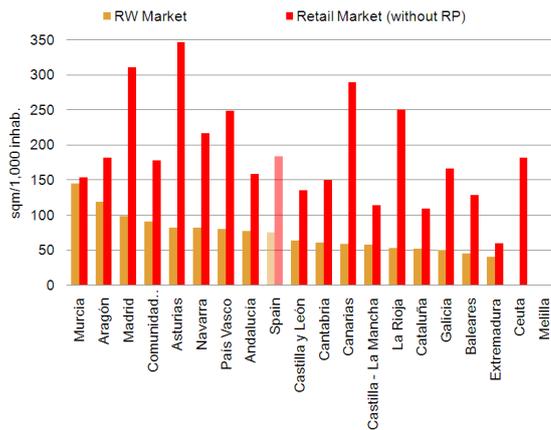
This phenomenon is not surprising when you consider that retail parks are the natural destination of many retail operators with "low cost" lines in diverse areas such as fashion, food, restaurants, etc., therefore in times of economic downturn buyers amend the consumer patterns demonstrated in times of better economic conditions and are more focused on products which cover their necessities at lower pricing.

# Commercial density

retail warehouse space. The average commercial density (square metres per 1,000 inhabitants) of retail parks in Spain stands at 27.68 sqm and the freestanding retail warehouse density is 47.23 sqm, the combined retail density of both retail parks and freestanding retail warehousing is 74.92 sqm.

The difference between the commercial density data in retail parks and the rest of the retail market is significant. While traditional retail developments (malls, leisure centers, factory...) show a robust market, which has a commercial density average in Spain of 259 sqm (excluding the segment's retail parks), the retail park market is situated to 74.92 sqm.

## Commercial density - RW and retail markets



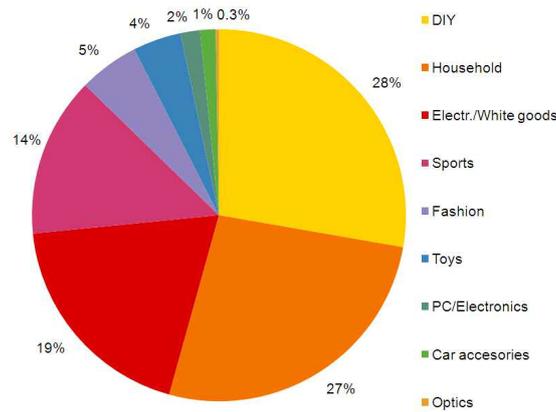
Source: Savills Research

The autonomous community with the highest volume of retail warehousing GLA (including retail parks and freestanding units) is Andalucía, followed by Madrid and Valencia. Between the three of them they comprise 50% of the total 3.50 million sqm of space. By province, Madrid has almost 18% of the total, followed by Barcelona and Valencia which have close to 8% each.

By relating the data with the population, the regional and provincial ranking changes dramatically. By autonomous community, only two exceed 100 sqm per 1,000 inhabitants: Murcia with 145 sqm and Aragón with 119 sqm occupy the top spots. Madrid is in third place with 98.50 sqm. Despite being one of the regions with the largest GLA in retail parks, the high population lowers the level of commercial density.

The provincial map gives a surprising overview in some areas. The top five by density are Zaragoza, Murcia, Zamora, Huelva and Soria. Several of the largest retail parks in Spain are located in Zaragoza and Murcia (Puerto Venecia, Parque Mediterráneo, Thader, Nueva Condomina) therefore the presence of these provinces at the top is not particularly surprising. However, it is striking that Soria, which lacks any consolidated retail parks, has been cast among the provinces with the highest density, however the volume of loose retail park area, just over 10,000 sqm, is very high for just 95,000 inhabitants (according to recent data published by the INE).

## GLA per activity - RW market



Source: Savills Research

## GDP per capita vs. commercial density

The comparison between the economic data per capita and the commercial density of retail parks throws up some very interesting results, identifying areas where development of a retail park could be an opportunity.

According to the latest data published by INE on autonomic data on Regional Accounting (Advanced Data 2008), the regions where the GDP per capita exceeds €20,000 and which have a commercial density less than 70 sqm are Galicia, Cantabria, La Rioja, Castilla y León, Cataluña, Baleares, Canarias and Ceuta and Melilla.

The latest data regarding provincial GDP per capita is from 2007, but by applying the same methods, the provinces with higher levels of GDP per capita and lower levels of retail park density are Guipúzcoa, Barcelona, Lleida, Burgos, Baleares and La Rioja, although the list includes eight more provinces, plus the two autonomous cities of Ceuta and Melilla.

## Main players in the retail warehouse market

After analysing the area occupied by the main operators both in retail parks and freestanding retail warehouses, several appear on both lists, albeit some

# Retailers and rents

more prominent in one concept than the other. Ikea, Leroy Merlin, Media Markt or Decathlon are some that appear on both lists. IKEA and Media Markt occupy more space in retail parks, whilst Leroy Merlin and Decathlon have a more visible presence in freestanding retail warehousing.

By sector, among the most active traders in clothing are Decathlon, Sport Zone, Kiabi, C&A, Cóctel and Merkal. In the electro domestics sector it is worth mentioning indications of fresh activity from Media Markt and Worten, which following the purchase of Boulanger in Spain, is experiencing significant growth. Other labels are suffering given the hard economic conditions.

The food sector is beginning to play an important role in the retail park market. Operators such as Mercadona, Lidl, Aldi, Dia and Carrefour, are showing appetite for space in new parks.

DIY retailers, due to the high level of household products, have suffered a significant drop in sales. Despite this, operators such as AKI, Leroy Merlin, Bricodépôt, Bricorama and Bricomart remain active.

Finally, in the furniture and decoration fields we could say that the only active operator is IKEA, although other operators such as the Danish brand of household goods JYSK has taken space in various Spanish retail parks.

## Rents

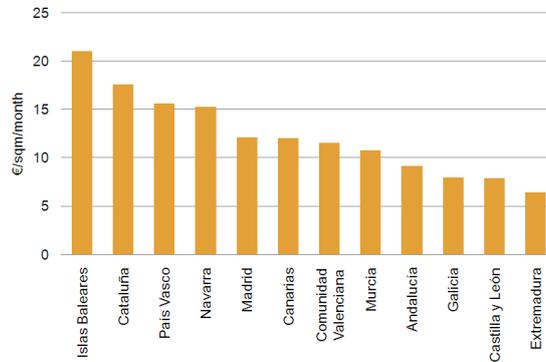
Given the significant presence of household goods retailers in retail parks, the impact of the economic situation has been notable.

The ever increasing unemployment rate, the ongoing decline in consumption and the slowdown in house purchases as well as the stagnation in the development of new residential buildings are some factors that have affected rents.

Two years ago the prime retail park rent in Spain was equal to €22/sqm/month. Today we place prime rents at around €16/sqm/month, 27% below the market peak.

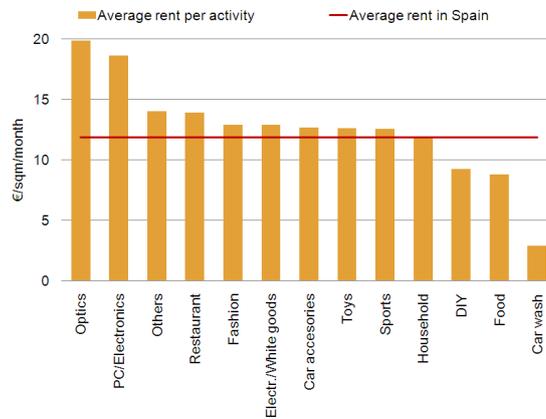
The average rent in Spain is around €11.8/sqm/month. Balears, Cataluña, País Vasco and Navarra are the autonomous communities with the highest average rent. The lowest-rents can be found in Andalucía, Galicia, Castilla y León and Extremadura.

## Rents per autonomous community - RW market



Source: Savills Research

## Rents by activity - RW market

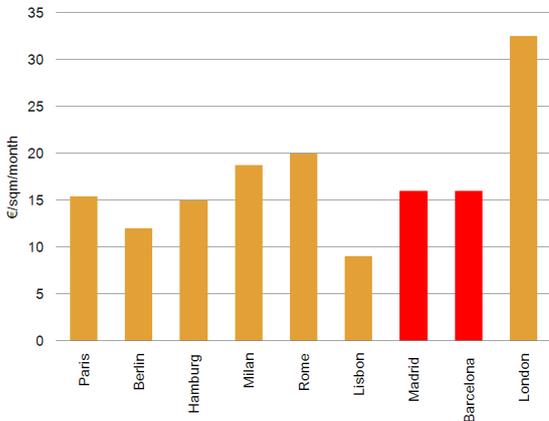


Source: Savills Research

By sector, given the high correlation between rents and unit size, the higher levels, in decreasing order, are paid by opticians, computer retailers (due to the relatively recent sale & leaseback of PC City), restaurants, fashion and sports companies, whilst the lowest levels are paid by food, DIY and household goods retailers.

# Projects and investment

## Prime rents in Europe - RW market



Source: Savills Research

In comparison with other European countries, the prime national rent stands at a level similar to Germany and France, below Italy and the UK. Portugal recorded the lowest rent of the countries surveyed, with €9/sqm/month and the highest was the UK with €33/sqm/month.

Apart from the economic recovery, the growth of rental values in Spain will be affected by various factors such as the development of quality retail parks in major cities, the arrival of a wider range of operators to the Spanish market from the Portuguese, English and French markets, and ultimately, the increasing presence of specialised fashion retailers in retail parks.

## Future projects

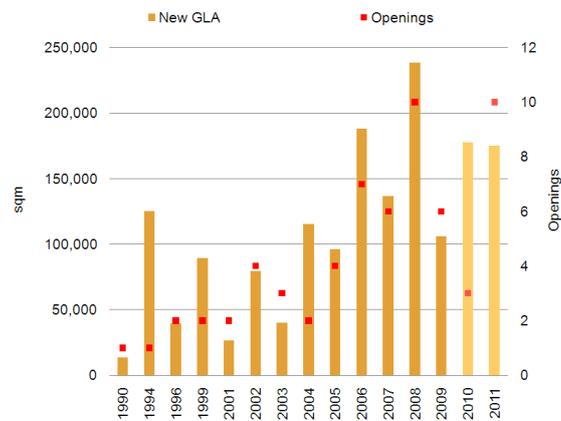
60% of Spain's total pipeline supply is focused on Andalucía given that the region is subject to one of the largest projects in recent years: Parque XXI in Jerez de la Frontera which will comprise 140,000 sqm of which 33,000 sqm is allocated to the region's third IKEA store. The opening of the Swedish multinational's shop is due for the 20th April and following this the other retail tenants will begin occupying the rest of the park. The retail offering is very focused upon the household sector taking advantage of the complementary IKEA effect, but the scheme will also benefit from the presence of retailers such as Decathlon, Alcampo, McDonalds and Toys R Us. With this park the developer Inter IKEA Centre Group is responsible for 40% of the total retail park GLA until 2011. Other developers who specialise in retail park development are Bogaris (24% of total GLA) and 3C development, although they usually have development partners.

The 178,000 sqm forecast for 2010 represents 68% more than the retail park GLA that entered the market during 2009. The macro-project of IICG in Jerez de la Frontera includes 79% of the total area to be opened in 2010. In 2011 175,000 sqm will enter the sector,

although the evolution of the economic outlook could substantially alter these figures.

The retail park market has a very limited number of specialized developers mainly due to the difficulties in the planning system. Given developers requirements to maximise buildability and the large surface areas required for retail park construction it is difficult to achieve profitability. In Spain the most active developers have been Arcona, Bouygues, Bogaris, Neinver, 3C Development and Indexa.

## New GLA and openings - RP market

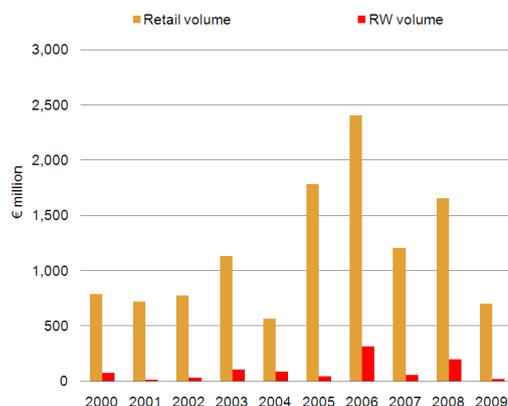


Source: AECC / Savills Research

## Investment market

During 2009 only one retail warehouse transaction took place: a unit occupied by Decathlon and developed by Lubasa located in Valencia. The investment volume was just over €19 million. In analysis of the historical data over the decade, 2001 was the only year which demonstrated a lower total transaction volume: €9 million for a unit occupied by Media Markt in Castellón.

## Investment volume - RW and retail markets



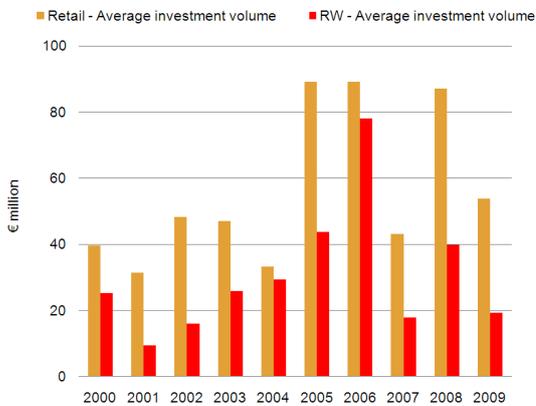
Source: Savills Research

# Investment and yields

The average transaction size of retail warehouses over the course of the last 10 years is €34.6 million, we can compare this with the average shopping centres which is €58.6 million.

Since the year 2000, the retail warehouse market has recorded 27 transactions with a total volume of €935 million which represents 8% of total global retail market transactions.

## Average investment volume - RW and retail markets



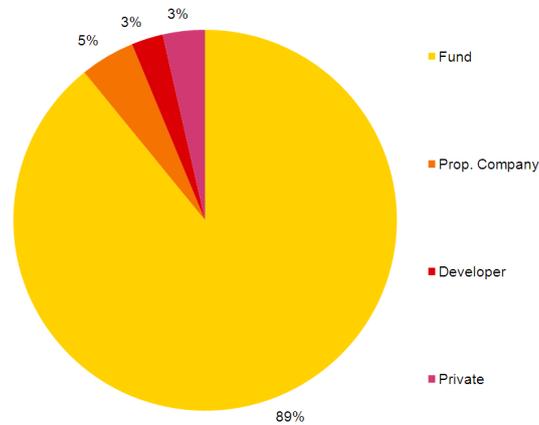
Source: Savills Research

This data confirms that we are facing a market with great potential to develop further, but up until now, there has been a lack of activity, due primarily to the lack of institutional quality products and the still limited number of retailers compared with other countries.

The main investors in this type of retail product over the past ten years have been German, British and French funds, but there has also been activity from several Spanish private investors. On the sell side, the most active companies have been Spanish and French developers, as well as British funds that have generally timed their sales well (essentially Rockspring and British Land).

British Land and Rockspring have also demonstrated significant buying activity, in the list they are accompanied by other institutional funds, such as Invesco, Pradera, Vastned, CGI or AXA. All share basic criteria that available product must fulfill: good location, long-term contracts, little competition, easy management and low rents with tenants of good financial standing.

## Type of investors - RW market



Source: Savills Research

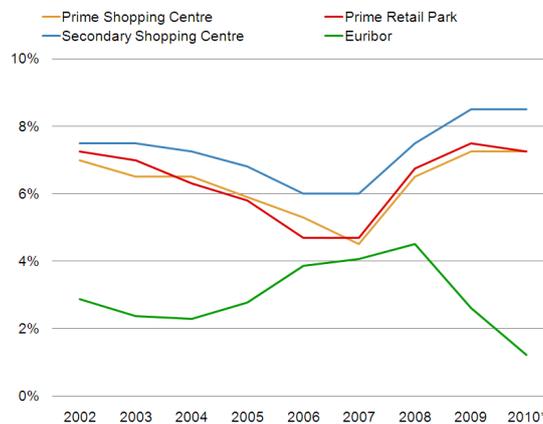
Currently, many specialised Anglo-Saxon investors and some Germans are interested in acquiring retail parks in Spain, but still find it difficult to locate product which is attractive to them.

## Yields

Over the course of 2009 yield levels in the UK retail park market compressed some 150-200 basis points with prime parks at yields of below 6.00%. Spain closed the year with a prime net yield of between 7.00% and 7.25%. Given the shortage of good quality product, yields and the difference in yields with respect to the British market, UK investors are looking at prime Spanish retail warehouse opportunities with enthusiasm.

Prime yields in Spain are on a downward trend due to a shortage of available supply and the upturn in demand. We anticipate increased investment activity in the sector during 2010, with total potential transaction volume reaching between €70 and €100 million.

## Yields - Retail parks and shopping centres



Source: Savills Research / \*Forecast

# Investment transactions and developments

## Main investment transactions - 2008-2010

Year	Name	City	Area (sqm)	€ million	Vendor	Purchaser
2008	Vista Alegre	Zamora	17,150	23.0	Rockspring	British Land
2008	Rivas Futura	Rivas Vaciamadrid	37,000	81.0	Avantis	AXA Reim
2008	Oleiros	A Coruña	22,000	45.0	Bouygues	Generali
2008	Tres Caminos	Puerto Real	9,250	20.12	Área Óptima	Rockspring
2009	Decathlon	S.A. de Benageber	8,500	19.6	Lubasa	confidencial
2010	Burger King y Foster's Hollywood	SS de los Reyes	1,000	Confidential	Private investor	Private investor

Source: Savills Research

## Developments delivered in 2009 and projects for 2010

Year	Name	City	Area (sqm)	Developer
2009	Plaza Nueva Leganés	Leganés	50,950	Realia
2009	Meixueiro	Vigo	19,000	Grupo Oreo
2009	Parla Natura	Parla	18,000	Frey Invest
2009	Cavaleri	San Juan de Aznalfarache	16,000	Parque S.J.
2009	Viapark	Murcia	9,500	Coperfil Real Estate
2009	Puerta del AVE	Ciudad Real	7,900	3C Development
2010	Jerez XXI	Jerez de la Frontera	140,000	Inter Ikea Centre Group
2010	Ciudad de Amposta	Amposta	25,800	Futuro Ciudad Amposta
2010	La Serena	Villanueva de la Serena	12,000	Bogaris

Source: AECC / Savills Research

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