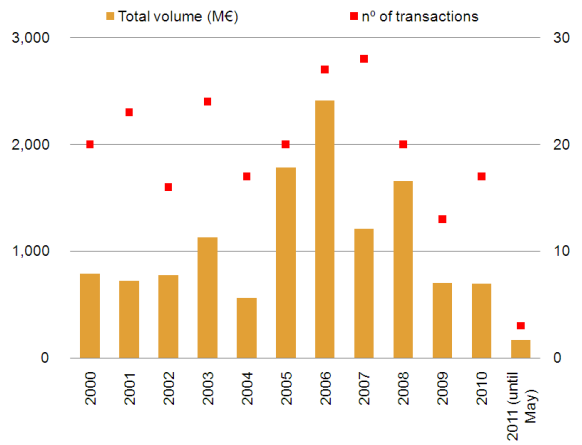
Spain Retail Market

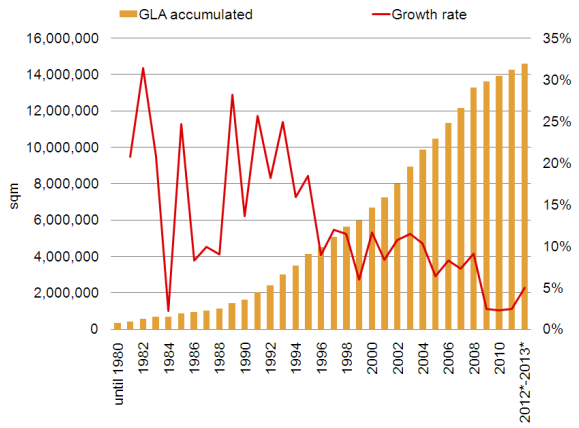
June 2011

Investment volume and number of transactions



Source: Savills Research

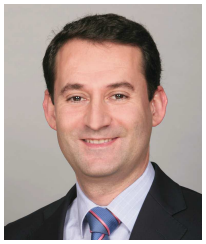
GLA accumulated and growth rate



Source: AECC / Savills Research / *Forecast

"The downward change in the pace of shopping centre openings is clear. Market players (developers, retailers, banks) are becoming increasingly discerning and professional, which has led to more defined retail concepts, sensible locations and, as a result, occupancy rates of almost 100%".

Luis Espadas - Head of Capital Marktes



- Changes in project timeframes are still the general trend in the retail market. After a record amount of GLA (over 1 million sqm) coming onto the market in 2008, the total amount of new retail space forecast at the beginning of each year varies as the year goes on. Difficulties in accessing finance and changes in marketing retail spaces are the main reasons why these developments are being delayed.

- Nevertheless, little more than 335,000 sqm was completed in 2010 and around 416,000 sqm is expected to come onto the market in 2011. Two huge shopping centres (both over 100,000 sqm) made up most of the new retail space. Inter Ikea Centre Group's Luz Shopping amounted to 35% of total space opened in 2010 and Marineda City amounts to 42% of the total volume forecast for 2011 and over 60% of new space up until now.

- Operators are carrying on with their expansion plans, but they are continuing to analyse growth options in minute detail, in order to optimise their retail networks.

- Rents signed in new contracts remain stable. Temporary rental discounts are still being offered, but they have improved in prime and consolidated centres by reducing the amount of discounts, as well as the period of time they are valid for.

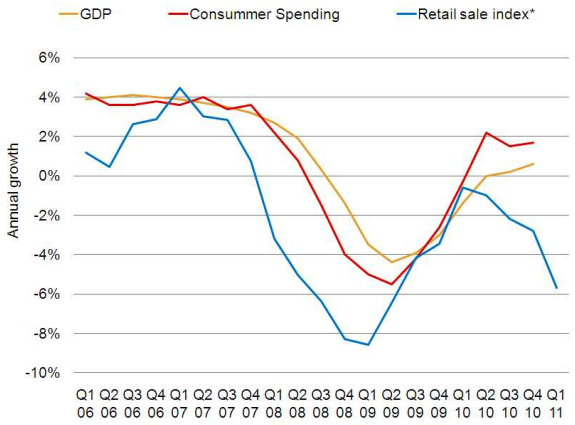
- The investment market was quiet over the first few months of the year, but investor activity is starting to pick up little by little. The amount of properties for sale has increased. In view of the lack of prime properties available, investors are now interested in consolidated centres with added value (e.g. those with the potential for future extension or redevelopment projects).

Economy and Demand

Economy

Consumption, a main factor for economic development and a main economic indicator particularly linked to the retail sector, is showing signs of weakness in 2011. The sluggish improvement of the Spanish economy has meant that Spaniards' purchasing power has still not recovered (a decline in disposable income and the added burden of inflation in recent months), together with a lack of consumer confidence, which is particularly low with regards to household income (current as well as expected income). The employment market situation (unemployed people are not expecting things to improve quickly and there is job uncertainty amongst many employees) is not improving consumption.

Spain - GDP, consumption and retail sales



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

This weakness in consumption is reflected in sales (retail trade), which declined in the first few months of 2011, which was a continuation of what occurred over most of last year. Consumption fell to Q1 2009 figures and declined in all distribution areas.

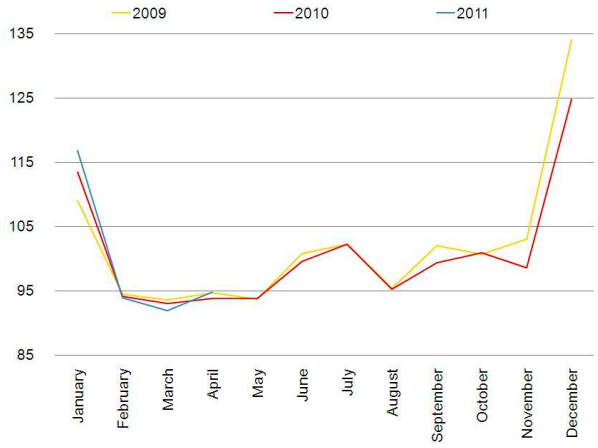
Despite this, the Spanish economy has continued to recover gradually but marginally, with slight changes in annual GDP figures (0.8% in the first quarter of 2011) in each of the last quarters. Investment in capital assets or exports has been positive. Spain will certainly record positive growth figures in 2011, although it is possible that certain risk factors (such as the rise in energy prices with the consequent decline in competitiveness and further decline in consumption), will become a reality, and may stop GDP from improving in the short-term. Nevertheless, in the medium and long-term, Spain will grow gradually again, with more sizeable growth figures.

Unemployment continues to be the most pressing issue in the Spanish economy. The already dramatic figures remain unchanged and have even increased from recent quarters, despite the moderate economic recovery. In the first quarter of this year 21.3% of the economically active population was unemployed, a figure which remains double the European average. On an optimistic note, we can say that in recent decades, net employment has been created when annual GDP growth is around 1.2%-1.3%, which is expected in 2012.

Europe is growing at different paces: central and northern European countries (Germany, Denmark, Austria, etc.) are growing at a good pace, whereas growth in peripheral countries in the Mediterranean in particular is somewhat slow. Countries which have received assistance through an economic bailout plan or those which are going to receive assistance (Ireland, Greece, Portugal) are clearly in decline.

Demand

Footfall index



Source: Experian Footfall

Footfall

As indicated in the Footfall Index published by Experian, footfall for the first four months of the year was very similar to the levels recorded between January and April 2010. In January the beginning of the winter sales campaign revitalised the sector, exceeding the level reached the year before by three percentage points, which enabled it to make up for the clear decline in November and December. Data published by the ANGED (National Association of Large Distribution Companies) on shopping centre

Demand

footfall in the first weekend of the sales, confirms this. In February there was hardly any difference compared to previous years, but in March it decreased again below the 2010 figure. Growth was slow again in April with a year-on-year increase of little more than 1%.

The accumulated figure for 2011 is marginally higher than in 2010, only 0.8% above the figure for the previous year.

Sales and turnover

A considerable amount of purchases were made at Christmas time and despite the fact that business activity was expected to decline, the results from the main players in the most prominent sectors were similar to last year's results and they have even improved in some market segments.

According to ANGED, sales remained at very similar levels or even higher than last season's sales. The Spanish Trade Confederation (CEC) explained that the campaign was better than expected and that although the same amount of products was sold as last year, turnover had declined by approximately 5.0%, as a result of a decrease in prices. The Textiles and Accessories Trade Business Association (ACOTEX) was also satisfied with the results in line with last year.

After the Christmas purchases, came the winter sales. The campaign began with opposing views from retailers and consumers. Whilst the CEC published that they were expecting takings to increase between 2.0% and 6.0% compared to the 2010 campaign, several consumer associations and federations suggested that discounts would be necessary because of the decrease in Spaniards' purchasing power.

In fashion, the large chains offered the most aggressive discounts with up to 70% off. High sales volumes are a big advantage compared to small retailers, which generally offer discounts of between 40% and 50%.

A few days before the winter sales ended, the CEC indicated that sales were generally positive, and even better than expected. Consumer behaviour appeared to be better in the northern regions than in other areas such as Andalusia or the Canary Islands, where the unemployment rate is higher.

The factory outlet market segment calculates and publishes results regularly. The leader of this market segment in Spain published the best sales results in 2010, exceeding the 2009 figure by 6.0%. The owners say that "consumers have quickly adapted to the "outlet" concept and they are appreciating intelligent purchases more and more". In recent years, occupancy rates in these centres have reached 98%.

Occupancy rate

Prime centres continue to lead occupancy rates, with levels of around 95% occupancy. Although there is a limited amount of retail units available, this has allowed new firms, either recent arrivals or "veterans", to enter the market. In addition, the fall in rents over recent years has also enabled operators to access several top-end centres in prime areas, which they were not able to access in the past.

So far this year, new consolidated centres have opened their doors as "almost full" and although they have suffered delays in the construction timeframe, the more feasible projects came out first. We are not just referring to prime projects, but also to others which despite not being top centres in terms of volume, location etc., balance the lack of retail supply in the area or they introduce a new retail concept in the area, which will provide a needed service.

We have seen openings with high occupancy levels in recent years - Las Arenas in Barcelona, Marineda City in La Coruña, Arambol in Palencia and Sevilla Este in Seville have opened with almost 100% occupancy.

Expansion plans

Operators are continuing with their expansion plans, but they are being especially cautious when choosing the best location to optimise their investment when setting up new stores.

Large firms in different sectors have ensured that they have a presence in the main projects opened in recent months, where a planned retail mix supports the success of all operators and encourages local firms to take part.

It looks as if "DIY" is booming. AKI, Bricor, Bricoking and Leroy Merlin are some of the brands which have the most presence in new projects. However, others such as Decathlon or the three brands owned by Sonae (Zippy, Sport Zone and Worten) are also located in various shopping centres which have recently opened.

Low cost firms continue to expand in the fashion and accessories area. Zippy, Merkal and Primark are at the top of the list and H&M and C&A continue to open stores.

Among the national operators, Mango and all the Inditex brands remain particularly active in international markets, although this has not stopped them from being

Demand

present in new shopping centres in Spain. Mango is aiming to open two shops every day in 2011, although its growth is very much focused on international markets. It is also going to launch independent stores for its menswear range HE and its accessories range, Touch, which up until now have been sold in Mango stores. Inditex is also continuing with its international expansion strategy - Asia and Europe are particularly important, but it will also open new stores in several countries in Latin America. In 2011, Inditex will have a global presence on five continents. Zara has recently opened a flagship store in Sydney and Melbourne will be its next stop. The company aims to have a presence in South Africa with stores in Johannesburg and Durban.

Desigual is expected to increase its presence abroad this year: up to 70% of its openings are divided between Europe, the US and Asia. It is particularly preparing its growth in to China; the firm has already set up a commercial office in Shanghai, to set up its first store in the huge Asian country in 2012.

The preppy style of international fashion operators, such as Hollister, from the Abercrombie Group, or Forever 21, are revolutionising the national scene. El Corte Inglés has decided to create its own brand, Gals & Guys, with a clear American feel. The brand is available in 17 shopping centres at the moment, but it could take the new brand to the high street or to shopping centres. Abercrombie Group's venture took place last year via its subsidiary Hollister, which is present in four shopping centres in Madrid, Barcelona, Valencia and Marbella. The first Abercrombie & Fitch store will open its doors on Madrid's Golden Mile. Forever 21 has recently opened a new 4,000 sqm store in La Maquinista in Barcelona.

With regards to other sectors, Imaginarium broke the record for openings in 2010. It plans to go global in 2011 and is expected to go to Russia or Cyprus. The company has a retail network of over 350 stores in 28 countries, almost 60% of which are located in Spain and the rest are located in Europe, Latin America and Asia, where it is present in markets such as Hong Kong.

In the "specialised" restaurant sector, Danone has come into the market with its "yogurteria". The multinational chose Diagonal Mar in Barcelona as the location of its first retail space in a shopping centre, although it also has the Casa Danone on Avda. Diagonal in Barcelona, two retail units in Madrid Barajas Airport, and two corners in Imaginarium stores in Madrid and Barcelona.

Sushita has entered the mall market with the Summun brand. It chose to open its first store in Madrid's Moda Shopping centre located in AZCA, in the centre of the financial district, where you can buy pre-prepared or personalised food boxes.

We have mentioned several cases where companies grow via their own stores, i.e. those which are managed by the same company, located on the high street or in shopping centres. However the Spanish Franchisers' Association (AEF) has looked at the low level of activity amongst franchises in shopping centres and it believes that this is a result of the clear decline in new shopping centre openings and also due to the lack of financing from banks, despite the fact that the price of retail units per square metre is generally cheaper.

To resolve this issue, various agreements were made with banks and developers in order to facilitate financing to operators who set up stores in their shopping centre. A clear example of this was the agreement between BBVA and Invest Cos, through which current and potential brands for Marineda City could access a range of banking services with specific conditions for operators located in the centre. These services included medium and long-term credit lines and guarantees with preferential conditions.

Unfortunately the closing of retail units is also a reality in the market. The chain Brico House has settled its accounts with banks, creditors and its employees. It had ten retail units in 2008, but it had to close stores. It initially let go of its non-profitable stores to embark on an expansion process in the future, planned for 2011. The changes in the business meant that mid last year it had to completely rule out the expansion of the five retail units that survived in its network, and on 1st May Brico House put them up for sale.

At the end of May the electronics and white goods group MIRÓ filed for bankruptcy. After two consecutive years of decline, in 2010 it recovered slightly compared to 2009, but the first results of 2011 reflected a marked decrease in consumption, which caused the Board of Directors to make this decision, although they do not plan to close any of their 150 stores located around Spain.

Uncertainty is also affecting another white goods chain: Darty (previously called Menaje del Hogar). The company is expected to present a redundancy dismissal procedure (ERE), which would result in staff cuts, and it is not ruling out closing some of its 45 stores.

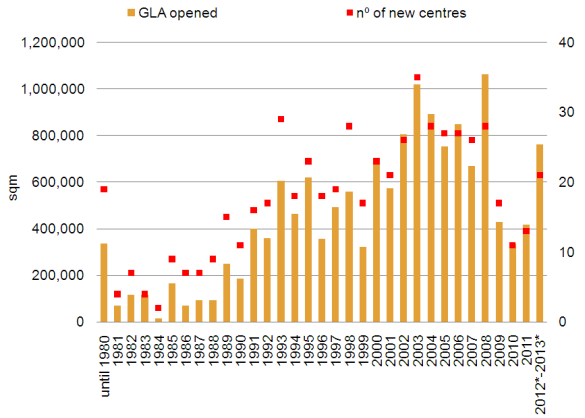
The British group which owns PC City does not want to keep making losses with its Spanish subsidiary either, and in March it announced that 34 of its stores were for sale. In the end, Sonae will take over eight of them. Six will remain in operation under the Worten name and two (Alcorcón and Badalona) will become Sport Zones.

Everything points towards the «electro» sector being controlled by a small group of companies in shopping

Demand and Supply 2010

centres and in retail parks. Media Markt stands out at the moment, but we should highlight that Worten is working very hard to grow.

Openings (GLA & nº of centres) by year



Source: AECC / Savills Research / *Forecast

Supply

Developments 2010

In 2010 the change in pace of developer activity continued and the amount of GLA fell for the second consecutive year, with little more than 335,000 sqm (including extensions), which amounted to 21% less GLA than in 2009. We have to go back to 1999 to find similar figures, when around 320,000 sqm of retail space was completed.

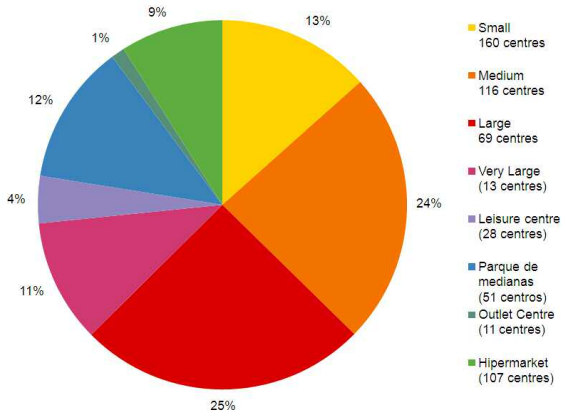
We seem to be a far cry from the peak of the market in 2008, when over one million sqm came onto the market, and also far away from the average amount of new space coming onto the market between 2000 and 2008 with over 800,000 sqm of space. This was over double the average figure of around 380,000 sqm for 2009 and 2010.

Luz Shopping in Jerez (Cádiz) stands out amongst the new projects opened last year. It is the largest centre of the year (over 100,000 sqm, which is a third of the total space opened), and it includes the first development of Inter Ikea Centre Group in Spain (IICG).

In terms of types of centres, retail warehouse parks are gradually increasing in importance. They are easy to build, easily managed by developers and attractive for users, as several discount operators are located in the same place, which makes it particularly attractive during periods of recession.

The autonomous community with the most GLA completed was Andalusia thanks to IICG's macroproject, followed by Catalonia, where amongst others, the Splau Centre in Cornellá and the Altrium in Sant Celoni, which are both located in Barcelona, were completed. In the Canary Islands, new retail space was completed in El Mirador de Jinamar and Las Palmeras, in Jinamar (Gran Canaria) and La Oliva (Fuerteventura), which are both located in Las Palmas.

Total GLA by type of centre



Source: Savills Research

Stock and retail density in 2010

The year ended with a total stock of 13.95 million sqm of GLA, only 2.0% more than the total GLA at the end of 2009. The figure includes data from shopping centres of different sizes, retail warehouse parks and retail parks where several retail factors come together, leisure complexes and factory outlets. Independent stand alone retail warehouses, which are generally built around a hypermarket or close to a retail complex are not included.

The distribution of retail space per autonomous community is very similar to last year, with Madrid, Andalusia and Valencia at the top of the list and Melilla, Ceuta and La Rioja at the bottom.

There was a 2.5% year-on-year increase in retail density in the retail market (retail area per 1,000 inhabitants, reaching 292 sqm).

Suppy 2011

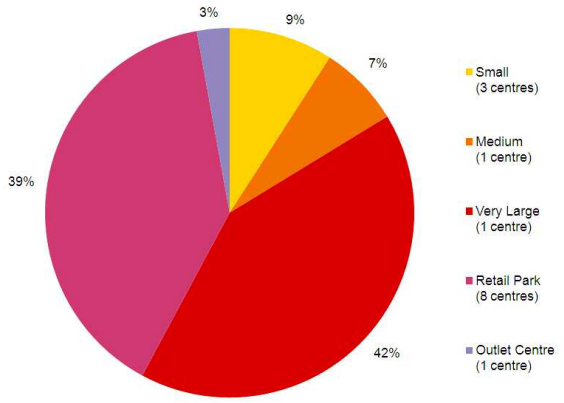
New developments in 2011

Delays in the completion of projects have become a standard characteristic of the market in recent years. The lack of financing and difficulties when marketing retail spaces has delayed the completion of works in several complexes and this seems to be the general trend in the sector at the moment. As the year goes on the total amount of new GLA forecast may fall, but as of today we will have little more than 416,000 sqm, 7,400 sqm of which relates to the extension of Pradera's shopping centre located in Benidorm.

Marineda City, the retail city developed by Invest Cos in La Coruña, stands out among the developments expected to be completed. It is a 170,000 sqm development including an IKEA, an El Corte Inglés, a retail warehouse park, a restaurant area and a traditional retail arcade. Over 40% of the new retail space planned for 2010 relates to this project.

At the moment, around 275,000 sqm of space has been opened, 62% of which relates to Marineda, which amounts to over two thirds of the total expected for the year.

New GLA by type of centre (2011)



Source: Savills Research

Retail parks continue to shine on their own. Toledo, Seville, Badajoz, Palencia and Granada are some of the cities which have opened or are about to open a retail park.

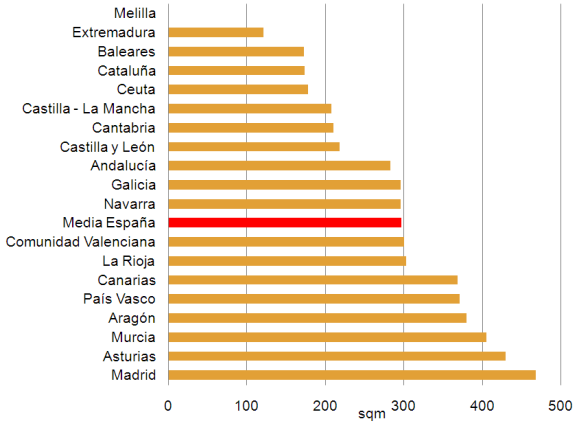
At the end of this year IICG will complete the first phase of its new macro project. The IKEA store in Río Shopping, on the outskirts of Valladolid is the first stage of a 100,000 sqm GLA centre which will be completed a year later.

Stock and retail density in 2011

In May 2011 retail stock in Spain already exceeds 14 million sqm, with a retail density of 297 sqm.

Shopping centre openings have not varied considerably in autonomous communities in terms of the distribution of retail space or retail density, but the increase in the amount of retail space opened in La Coruña over the past four years is significant.

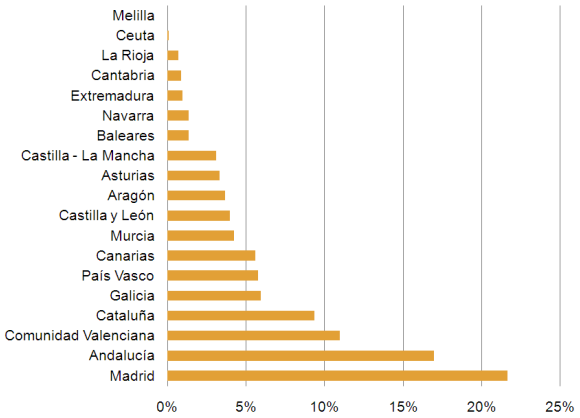
Commercial density by Autonomous Community



Source: Savills Research

The province currently has around 390,000 sqm of retail space, 80% of which is located in the city and the nearest catchment area. Out of this total, 79% was opened between 2008 and 2011. The province's retail density (430 sqm) exceeds the national average considerably, placing La Coruña in sixth place in the provincial ranking, but the city overtakes the provincial figure by 64%.

GLA by Autonomous Community



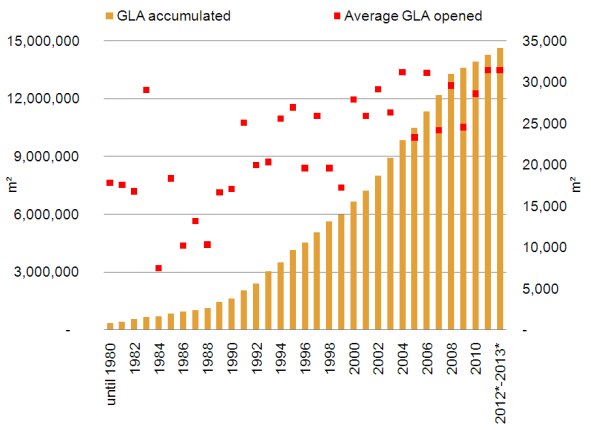
Source: Savills Research

Supply 2011, Sustainability and Online commerce

The huge Marineda shopping centre amounts to over 40% of GLA for urban complexes, and based on the law of the strongest, it should certainly survive without any problems; the other centres will probably have to reinvent themselves in order to differentiate themselves from the wide range of retail supply in the city.

Neinver opened its fifth centre in Spain at the beginning of May and its first outlet which has been in operation in other European countries since 2009. The Style Outlet will offer more than fashion, with a wider range of products and sectors. Neinver is choosing to focus on services which facilitate and make the visit to the centre more pleasant, paying particular attention to architecture, sustainability and decoration and it will incorporate this into the three Factory centres it has in Madrid and its Factory in Seville.

GLA accumulated & average GLA opened



Source: AECC / Savills Research / *Forecast

Sustainable shopping centres

The trend of being green has reached the retail market as well and there are now several shopping centres and stores with international accreditation which guarantee their commitment to sustainability and the environment and projects which have been designed using strategies to reduce their environmental impact and improve their energy performance. As a result LEED (Leadership in Energy and Environmental Design) or BREEAM (Building Research Establishment Environmental Assessment Method) certifications will become increasingly more frequent and evident in retail complexes.

The US Green Building Council recently launched «LEED for Retail», new specific standards for shopping centres and stores. The Spanish Green Building Council has a list of certified buildings on their corporate website, but this list only includes one shopping centre. Zielo in Pozuelo (Madrid) holds the title of the first shopping centre in Europe with LEED certification. Several retail units from restaurant operators (Starbucks) and fashion operators (Zara) also appear on the list. The Inditex Group has been a pioneer in implementing sustainability policies in its network of stores. Luz Shopping complex in Jerez de la Frontera (Cádiz) as well as several high street units from Inditex such as Pull & Bear and another restaurant operator, Grupo Vips are currently in the process of being certified with LEED certification.

The two shopping centres with BREEAM certification are located in La Coruña. The certification guarantees that the construction and maintenance of El Espacio Coruña and Neinver's recently opened Style Outlet meet BREEAM's strict evaluation criteria and their commitment to the environment and energy savings.

Regarding LEED certification, other retail complexes are currently trying to obtain a final certification. El Faro del Guadiana shopping centre, which Unibail-Rodamco is developing in Badajoz has begun the process to obtain BREEAM international accreditation.

Online commerce

According to the latest report published by the CMT (Telecommunications Market Commission) online commerce in Spain amounted to €7,317.6 billion, which is 27% more than in 2009, with a total of €100 million of transactions, exceeding last year's figure by almost 35%.

Data from the fourth quarter confirms the strength of this sector. In the last three months of the year e-commerce amounted to €1.911 billion, which is 26% of the annual total. This is a 21.4% increase year-on-year, and the seventh consecutive quarter of growth, although the increase in the last quarter was more moderate. €28.5 million worth of online transactions were completed, which is a 29% increase compared to the year before.

The most popular online sales were tourism (30%), direct marketing (7.4%), art, sports and recreational shows, games of luck and gambling (6.0% each), followed by clothing, which amounted to 4.0% of the total.

Despite the fact that the textiles sector does not currently contribute much to total online sales, growth has continued, which has enabled it to be included in the list of the top ten sectors with the most turnover in 2010.

Fashion companies have seen another business opportunity in this market niche. DBK analyses the changes in fashion e-commerce in Spain up to 2009 in its Special Report on On-line Fashion Shopping, where they link the robust development of this sector with

Online Commerce, Rents and Investment market

more access to the internet, people becoming more used to the internet and e-mail and the main brands becoming more interested in making the most of a new means of accessing the market. According to DBK's data, the dramatic development of this sector has mainly been sustained by online outlets, with 61% of fashion sales in 2009, which has enabled them to get closer to products from the big brands at very competitive prices.

Turnover published by the most active portals in this business in Spain (BuyVip, Privalia, Venta-Privee and Venca) has increased year after year, even though spending has been declining.

International investors have seen the potential of these companies and they have been quick to inject capital into these companies. The American giant Amazon bought the Spanish firm BuyVip for €70 million at the end of last year. In 2009 two North American funds, Insight Venture Partners and Highland Capital Partners which specialise in online sales, invested €8 million in Privalia.

The second group of companies with the most online fashion sales was traditional fashion channels (24%). DBK's analysis does not include recent arrivals such as Zara, Springfield or Bimba & Lola, which opened their e-shops last year, but there is a clear interest in this channel. The pioneers were Mango and Women'Secret, which expanded their retail activity to the internet in 2000.

International brands such as GAP or Anthropologie could be using this method to test their products in the market before potentially opening stores in the future. Cortefiel Group is gradually strengthening its position on the internet. Pedro del Hierro arrived after Women'Secret and Springfield. In turn, the launch of Zara's e-shop will be a good pilot test for Inditex, which could bring more of the Group's brands such as Massimo Dutti, Pull & Bear and Stradivarius onto the Internet.

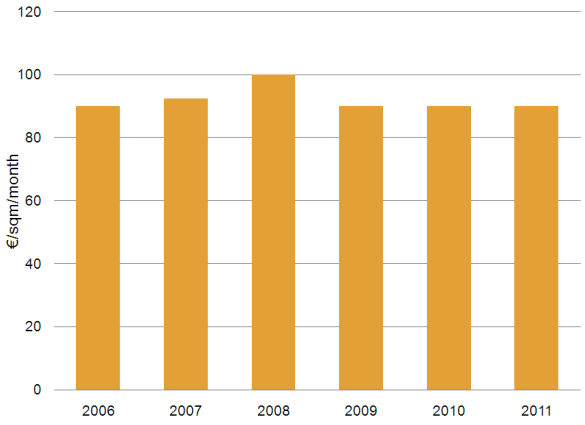
The huge Swedish company H&M is one of the large firms which is absent from the Spanish market. H&M has an online channel in some European countries and although they expect to open a virtual store in Spain, they do not have a fixed date for this at the moment. Primark is a similar case – it does not have immediate plans to launch online sales at the moment, but they have not ruled it out.

And what will be next? M-Commerce platforms (making purchases via mobile phones) or F-Commerce (or social commerce, via social networks) are already a reality. The development and growth of these platforms will depend on consumers.

Rents

There is nothing really new to report with regard to rents. Rents for new contracts in prime centres are stable, remaining at around €90/sqm/month. Temporary rental discounts are still around, although they are very much related to the performance of the centre. There are rent reviews every three to six months, to check how sales are changing in order to establish whether discounts should continue to be provided in a set period of time or whether they should be stopped. It is difficult to work out exactly how much it has declined in percentage terms, as it varies according to centres, operators, etc., but we can say that at the moment, the average discount is around 25% of the rental price indicated in the current contract.

Prime rents



Source: Savills Research

Investment market

Annual investment volume in the retail market in 2010 remains unchanged since last year, but the distribution per product of around €700 million is different. Even though traditional retail product, i.e. shopping centres, amounted to the most transaction volumes in both years, Eroski's supermarket portfolios bursting onto the investor scene injected a considerable amount of capital into this segment. Whilst in 2009 shopping centres amounted to 85% of the total, in 2010 supermarkets led the market with 46% and 33% of capital respectively. The rest in both years was divided

between other retail units, retail parks and retail space in independent shopping centres. We must clarify that

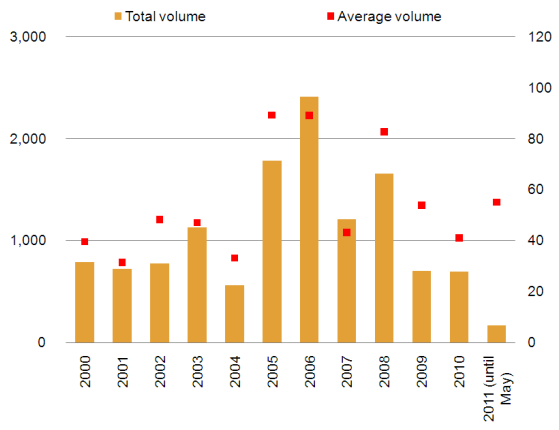
Investment market and Main investment deals

the bank branches which several banks have put onto the market in recent years are not included in this.

The biggest transactions in 2010 both exceeded €100 million and were both sold by Eroski. Eroski sold a lot of twelve supermarkets for €150 million to European Property Investors Special Opportunities (EPISO). But Eroski's divestment plan did not just include the supermarkets it has all over Spain, but rather all kinds of properties. Six transactions, over a third of the total for the retail market, were for several batches of supermarkets, two shopping centres and two independent retail park units. The second most important transaction was the Ballonti shopping centre in Portugalete (Vizcaya). DEKA is the new owner after it purchased the shopping centre for €115 million.

The investment market was generally quiet in the first few months of 2011. The first transaction was by Sonae Sierra, which sold two shopping centres as a joint lot. The British investment fund Doughty Hanson expanded their asset portfolio with El Rosal in Ponferrada (León) and Plaza Éboli in Pinto (Madrid).

Total Investment volume and average investment volume



Fuente: Savills Research

The transaction was part of the Portuguese firm Sonae's strategy to recover capital, which will enable it to make new investments and to ensure sustainable growth.

After a quiet first quarter, the market is gradually picking up. Eroski came on the investment scene again with a new supermarket portfolio. Rockspring and Eroski's paths have aligned yet again, only six months after closing their last deal.

Main investment deals - 2010 & 2011

Year	Centre	City	GLA (sqm)	Invest. Vol. (m€)	Vendor	Purchaser
2010	12 hiper Eroski	several locations	120,000	150.0	Eroski	EPISO
2010	Ballonti	Portugalete	52,600	115.0	Eroski	DEKA
2010	H2Ocio	Rivas Vaciamadrid	50,000	87.0	Avantis	Alpha Tiger
2010	Espacio Torrelodones	Torrelodones	22,000	65.0	Multi Development	Corio
2010	Bilbondo	Basauri	37,800	52.2	Eroski	IVAF (ING)
2010	21 super Eroski *	several locations	30,200	45.0	Eroski	Rockspring
2010	Parque Meixueiro *	Vigo	18,100	35.0	promotor local	Henderson
2011	El Rosal	Ponferrada	50,000	120.0	Sonae Sierra	Doughty Hanson
2011	Plaza Éboli	Parla	31,000			
2011	22 super Eroski	several locations	29,000	45.0	Eroski	Rockspring

Source: Savills Research/ * Deals advised by Savills

Investment market

The total investment volume recorded between January and May rose to €165 million.

The transaction from the European fund Orion Capital has been excluded because the company purchased shares as opposed to it being a genuine property investment transaction. Orion has teamed up with British Land by acquiring 50% of Puerto Venecia. Orion's presence will boost the feasibility of the project which is expected to be completed in 2012.

Everything points towards the fact that investor activity is improving. The amount of product for sale has increased and investors appear to be more interested in actively participating in the market. Also, new players on the investment scene could certainly boost investor activity.

Shopping centres, which are currently openly on the market, could amount to around €1 billion, although €500 million relates to just two shopping centres: Invest Cos' Marineda City and Acciona's Splau.

And what are investors looking for? Prime assets are still the crown jewels, but there are not enough existing properties for sale and there are not many investors who are capable of purchasing such large assets.

The majority of the retail market in Spain is in the hands of companies with no cash flow problems, therefore they do not intend to leave the market.

Because of the lack of desired product, consolidated centres with added value, i.e. those with a redevelopment project for part of the centre, or the potential for expansion, etc., are beginning to raise more interest.

It is also important to highlight the increasing interest in the northern part of Spain. The low level of retail density, together with a healthier economic outlook than the national average, is putting Catalonia into the spotlight, but investors are also interested in other areas outside the usual investor "route".

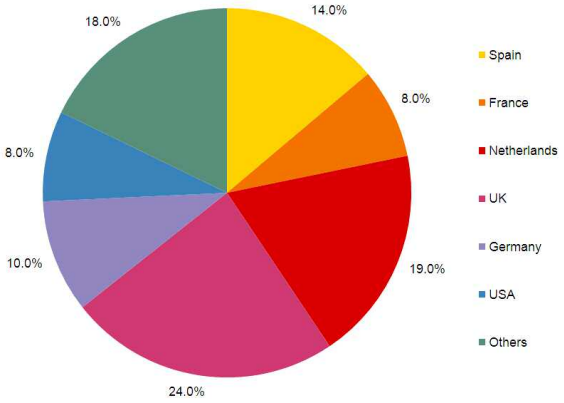
Who is buying and who is selling?

There is nothing really new in this sense. The traditional funds, mainly international funds, are clearly dominating the playing field. Such a specialised and professional market does not make it easy for investors to enter the market without the necessary know-how.

In 2009 and 2010 sellers have been mainly national. Developers, family offices, a fund and a private company (Eroski mainly) have been present in 85% of transactions.

The buyers are international funds. Dutch, British and German had the most presence in the market, taking over 90% of the business.

Purchasers by nationality (accumulated 2000 - 2011)



Source: Savills Research

There could be more vendors throughout 2011. We could see banks starting divestment plans, in addition to local developers and several traditional investors in the retail market, which are streamlining portfolios to increase performance.

Buyers include core funds (mainly German), opportunistic funds and companies specialising in the retail market. Clearly each of these funds are focused on products depending on their particular interests. Foreign capital is the common denominator.

Yields

Yields should remain the same as they were in 2010. The gross yield for a prime shopping centre is around 6.5%, provided it meets all the investment requirements (leader in its catchment area, high level of occupancy, strong retail mix etc.). If any of these requirements are not met, this will affect the price.

Yields for prime retail parks are close to 7.0%. For secondary products (both shopping centres and retail parks) yields start at around 7.5%.

Outlook

Outlook

Economic forecasts

The Spanish economy will not grow considerably in 2011. Amongst other factors, the increase in interest rates, inflation, unemployment and a loss of purchasing power will prolong the sluggishness of domestic demand and thus the national economy. However, factors such as the good performance of exports, the considerable control of the deficit and the differentiation of country risk compared to the Greek, Irish and Portuguese economies, allow for a certain degree of optimism. The path to recovery has begun, albeit slowly, and as long as there are no unexpected glitches, Spain will grow in the mid to long-term at a considerably faster pace.

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

	2009	2010	2011	2012	2013	2014
GDP	-3.7%	-0.1%	0.7%	1.3%	1.6%	1.9%
Consumption	-4.3%	1.3%	0.4%	0.9%	1.3%	1.6%
CPI	-0.2%	1.8%	2.8%	1.8%	1.6%	1.6%

Source: Focus Economics (May 2011)

Future developments

As we mentioned previously, the level of marketing in projects will largely determine how much access one has to financing and as a result, how quickly a retail complex is built.

At the moment, almost 700,000 sqm of GLA is expected to come onto the market between 2012 and 2013, although this could change as time goes on.

The works for the second phase of Puerto Venecia in Zaragoza are coming along well. The retail arcade, which holds the title of the biggest shopping and leisure centre in Europe, is expected to be completed by autumn 2012. Like many other projects, failing to keep to the initial timeline has delayed the opening of the shopping centre by over a year, but in spite of everything, 70% of the centre is pre-let over a year before it opens its doors to the public.

Río Shopping in Arroyo de la Encomienda (Valladolid) is another big development for 2012. In spring almost 70,000 sqm of GLA will be handed over together with the IKEA store. The Swedish multinational has said that 52 units now have a “name to them” and they are in negotiations with 22 more companies.

The opening of Gran Plaza 2 in Majadahonda (Madrid) has been delayed by around two years. In the end, it will open its doors in 2012; although final figures have not been published as regards the pace of marketing, we are aware of the first companies that have signed for retail space. We should highlight the importance of retail parks and project timelines once more. Bogaris and Carrefour Property are particularly active with over 70% of planned parks, although many projects are in the “possible” phase.

Rents

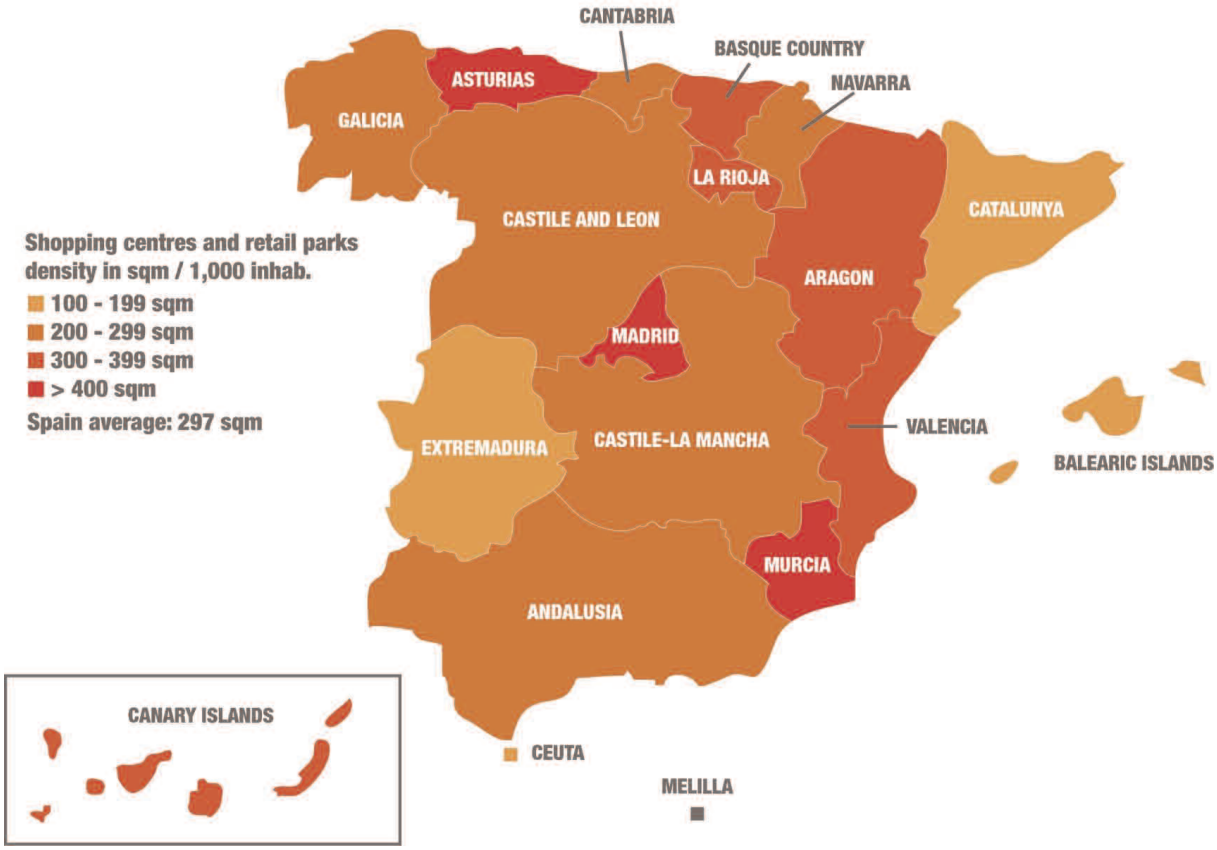
The signs are not pointing towards recovery in the short-term. Sluggish household consumption, a decline in disposable income, limited purchasing power as a result of an increase in inflation, and an unemployment rate which continues to increase etc., are some of the factors which do not point towards retail sales recovering quickly. Temporary rental discounts will continue to be present in the retail market until this happens.

Investment

The annual investment volume is expected to be between €700 million and €800 million and it could remain at the same level as the past two years or slightly higher. That is only an approximate estimate, because, as we have mentioned, there are currently properties on the market, which are worth well over €100 million. The closing of transactions of this size would considerably increase the annual total. Amongst the biggest assets, at least in terms of asking prices, are both new shopping centres and portfolios, leading centres and retail warehouse parks.The key factor which will affect whether transactions are closed or not is financing, which is currently weak and only offered by certain banks.

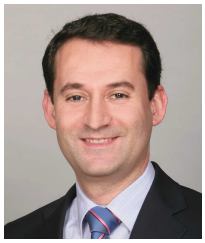
Spain Retail Market

Commercial density map



Source: AECC/INE/Savills Research

For further information, please contact:



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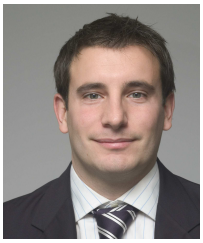

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