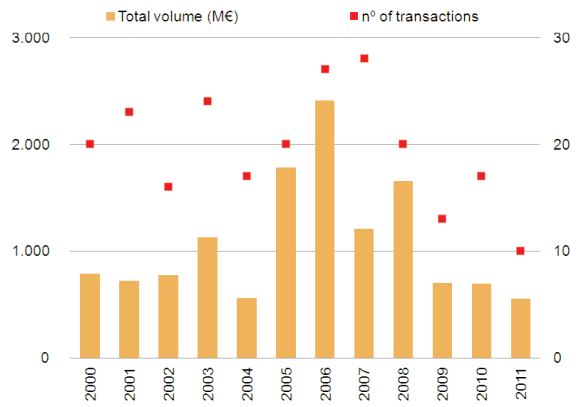
Spain Retail Market

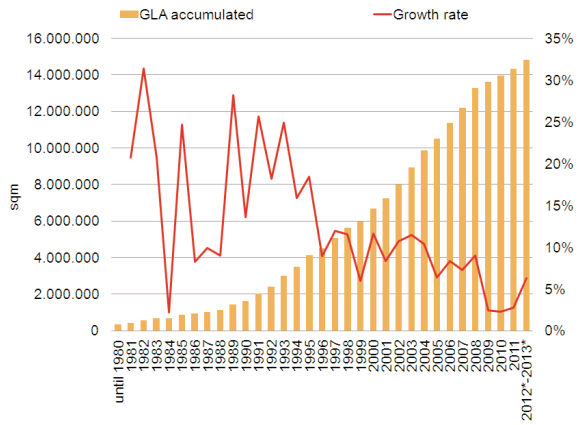
January 2012

Investment volume and number of transactions



Source: Savills Research

GLA accumulated and growth rate



Source: AECC / Savills Research / *Forecasts

"Given the lack of financing, mismatch in pricing, lack of good quality product and macro-economic uncertainty, 2011 resulted in the lowest total retail investment volume since the 1990´s. Consistent yield contraction and rental deductions since 2008 mean that 2012 should present attractive opportunities particularly for investors not dependent upon bank financing. There is scope for strong returns assuming market recovery over the medium term".

Danny Kinnoch - International Investment Director

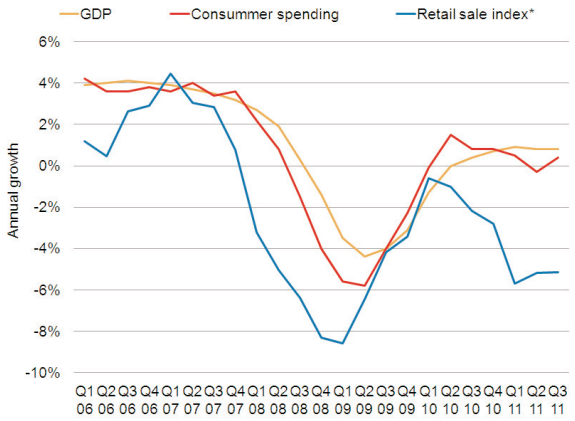
- In 2011 close to 415,000 sqm of GLA came on to the market. For the first time in recent years the difference between the volume of new space and the beginning of the year forecast is minimal, which shows that developers carry out the projects that are clearly considered to be feasible.
- A volume close to 900,000 sqm is expected in the next 24 months. There are 660,000 sqm planned for 2012, but according to our estimates, various projects with delivery dates in the later months of the year could be delayed until 2013.
- On the other hand, to a certain degree, the rate of successful lettings will determine the construction schedule.
- Retailers maintain their expansion plans, but continue to analyze in detail the growth options to optimize their retail networks.
- There are few novelties regarding rents. Prime centres continue to have high occupancy rates and rents remain stable, around €90/sqm/month for average size units of approximately 150 sqm for new leases.
- The annual investment volume has reached its lowest point since our analysis began in the year 2000. The apparent fragility of the national economy, the lack of financing, the high cost of credit and the shortage of prime product have negatively affected the market.

Economy, Demand

Economy

The world's economy has suffered a slowdown in 2011. Despite the strength of the emerging economies, western countries have experienced an interruption in their recovery. This is especially applicable to Europe, where the sovereign debt crisis has become worst during the past year, affecting the financial situation of various countries, such as Spain, Italy and even France. This crisis has been transferred to the real economy, affecting the scarce dynamism of the private sector. Therefore, it is reasonable to expect that after the lethargy experienced during the last months of 2011, 2012 will result in continued economic stagnation on the continent.

Spain - GDP, consumption and retail sales



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

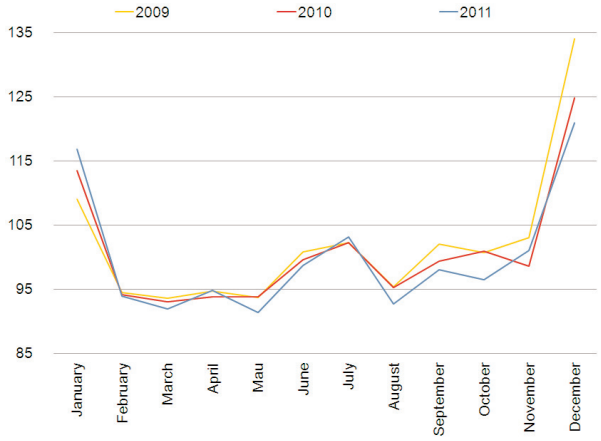
Spain has specially suffered the tensions over its sovereign debt. The cuts in public expenses which have been due to international pressure have come together with the structural problems of the domestic economy: weakness of domestic demand, aggregate supply and a deteriorated labour market without expectations of immediate recovery. As far as private consumption is concerned, its weakness is confirmed by other indicators: consumer confidence continues to be low, with a poor perception of the current situation; the downwards evolution of retail sales persists. Therefore, forecasts in the short term are not encouraging.

Demand

Footfall

The Footfall index, published by Experian as regards attendance to shopping centres, has closed for the fourth year in a row with negative figures, but it is the first year that it has reduced, going from -1.2% in 2010 to -0.8% in 2011. The record registered during the first bank holidays in December (6th and 8th of December) seemed to indicate that the results during the month would not be equal to those in November, which exceeded by 2.5% the figure registered the same month during the previous year. Total attendance was down by -1.8%, though consumer performance was very different during the first weekend, with an 8.2% reduction and the second with an increase of 6%.

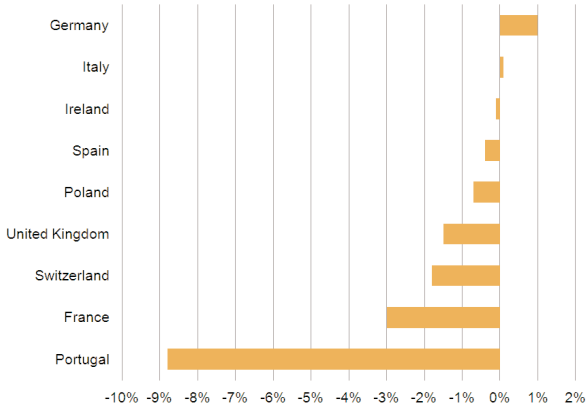
Footfall index - Spain



Source: Experian Footfal

European comparisons published in November including accumulative data state that Germany, registers the best performance as regards attendance, with growth of 1%, while Portugal is located at the bottom end of the ranking, with a decrease of close to 9%. Spain occupies the fourth position in the countries analyzed and it is the second with less year-on-year variation.

European footfall 2010 vs 2011 (accumulated)



Source: Experian Footfall

Demand

Sales and turnover

There are still no final data as regards Christmas shopping figures. The Spanish Confederation of Commerce (Confederación Española del Comercio - CEC) declares that the first surveys suggest that the results will be lower than expected. The calculations of the CEC expected an increase of the annual rate of 8% of turnover for the Christmas Holidays, which would have meant the first Christmas with positive results after three years of negative figures.

The turmoil in financial markets and labour uncertainty continues to negatively and directly affect private consumption. Another factor to be taken into account is the delay of the autumn-winter campaign due to the late arrival of the cold weather. Operators try to catch consumers' attention with special promotions on a number of articles, 'mid season sales' campaigns, discounts in the purchase of a second item or collaborations of prominent designers with low cost fashion chains. Any action that reduces price and encourages shopping is valid. But despite all these efforts, sales between September and November registered a downfall of 15% to 30% when compared to the previous year.

Hope is now focused on the winter sales campaign. They are year after year announced as the most aggressive in history, exceeding the discounts of previous years, but are generally in the range of 10% to 20% in bazaar products and electronics and 50% to 70% in textile.

CEC forecasts estimate a total turnover in the range of €4.2 million, which would represent 5% more than last year.

The forecast from the National Association of Large Distribution Companies (Asociación Nacional de Grandes Empresas de Distribución - ANGED) also encourages optimism, with a 3% sales increase as regards last year's campaign and up to 70% discounts. According to this institution, products mostly in demand will be fashion and winter clothing, sport articles and household equipment.

The Business Association of Textile Retail and Accessories (Asociación Empresarial del Comercio Textil y Complementos - Acotex) expects sales to increase 6% more than in the previous winter campaign of 2011. The same organization announces that despite the general reduction in consumer expenditure, a high percentage of the population has reserved money for sales to purchase textile products at reduced prices. The textile association expects to obtain €3,600 million, which would represent 20% of their annual turnover.

Moreover, according to information from the Federation of Independent Users and Consumers (Federación de Usuarios y Consumidores Independientes - FUCI), for the first time since the beginning of the crisis the average expenditure could increase by 5.8%, even though this information should be taken with certain precaution due to the increase in prices of basic services included in the first package of measures introduced by the current government.

On the other hand, the outlets seem to be living a golden era in the midst of a consumer's crisis. The claim for continuous low prices in first brands in a pleasant and comfortable atmosphere gains each time more followers. The leader in this market in Spain published in October the data for the first half of the year with a clear positive balance. Visits increased by 8% and sales by 10%. According to this company, their clients carry out 13 and 15 visits per year and 75% of consumers that go to these centres make at least one purchase, representing a very high percentage in comparison to the traditional shopping centres.

Expansion plans

Traditional operators continue to increase their sales network, though in order to assure the maximum success, as it has been happening since the beginning of the crisis, the selection of location requires an exhaustive and detailed analysis.

Just to name a few of the most active firms, Primark is gradually reinforcing their presence in Spanish Shopping Centres, already including 22 stores, the last one inaugurated at the end of 2011 in Malaga (Larios Shopping Centre) and another in Barcelona (L'Illa Diagonal). The Irish Multinational Company has also announced their intention to open five more stores in Spain by next spring. They have not specified the locations, but they have engaged retail units in the most prominent developments to be delivered during 2012, as far as volume and location are concerned. Their expansion in Spain reaffirms the good results obtained at year end (submitted in September) including a turnover of €3,547 million with over 13% sales increase.

H&M ended 2011 with 133 stores and they have announced the opening of another four during the first half of 2012, one on high street location and three in shopping centres, of which one is a new development. Their growth target is between 10% to 15% in number of stores per year, but this growth should be profitable and controlled; reason why the company gives priority to the best retail locations in each city.

Despite being focused on international markets and airports, Desigual has opened various stores in Spain in the last few months. As far as airport retail, the company is already located in eight main airports (Madrid, Barcelona, Paris, Amsterdam, Atlanta, Miami,

Demand, Rents

Los Angeles and Houston) and is currently preparing their expansion in large commercial airports of Asia and South America. As recognition to their expansion, they were granted the award to the Best Retail Expansion in the last edition of Mapic.

The expansion plan of the giant Inditex also goes beyond borders. They have engaged space in the main developments to be delivered during 2012 in Spain but, as in the last few years, the bulk of their expansion has a clear international trademark. By mid December they confirmed that their inauguration plans for the coming year included 460 to 500 new stores, which would amount to 45 or 85 stores more than its two main competitors together (H&M and Gap). Inditex's main target is China, where they have 130 stores and expect to end the year with 270 distributed in 42 cities, nevertheless, Georgia or Peru are also included among their new retail destinations. Inditex opened new stores during 2011 in Australia, South Africa, Taiwan and Azerbaijan, thereby, currently operating in 78 countries.

Apple continues to expand their sales network in Spain. After their establishment last year in the Shopping Centres La Maquinista (Barcelona) and Xanadú (Arroyomolinos, Madrid), they have incorporated themselves in two more shopping centres during 2011, Parquesur in Leganés, Madrid, La Cañada in Marbella (Malaga) and a store on Calle Colón in Valencia. The inauguration of an Apple Store is expected during 2012 in Madrid's city centre as well as in the Shopping Centre Nueva Condomina in Murcia.

Saturn, which belongs to the same group as Media Markt, has just opened their second store in the Canary Islands and its tenth in national territory. They have announced that they expect to continue growing year after year without specifying dates or locations.

After the closing of PC City, Sonae Sierra incorporated six more stores to the Worten Line and two more to SportZone. Sonae-Sierra's commercial formats continue to reinforce their presence in retail complexes, therefore experimenting noticeable expansion. Worten, Zippy or Sportzone are included in the directories of the main developments delivered in 2011 and will also be included in the retail supply of various projects this year.

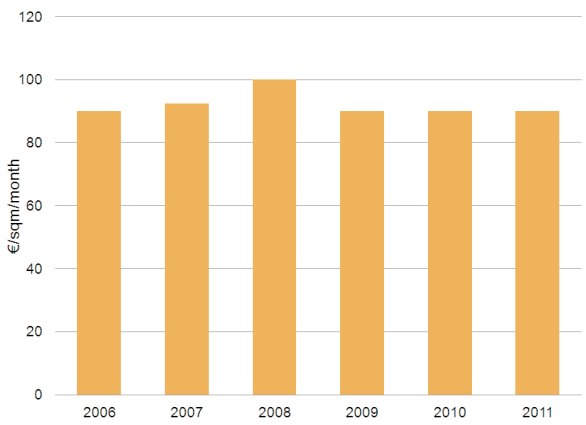
Decathlon, after opening eight more stores during the year, ended with a network of 92 stores. The last stores included, all by the end of November, were in Carcaixent (Valencia), Concentaina (Alicante) and Pozuelo (Madrid). They are also planning to carry out various extensions in already existing stores. The most immediate opening will take place in Bilbao, the former Capitol Cinema is currently undergoing a refurbishment process to transform it into a sports store.

Bricoking entered the franchise market the previous year and in 2011 opted for a new store concept of smaller dimensions to bring the stores closer to the city, known as Bricoking City. The first has been opened in Vilalba (Lugo).

Leroy Merlin has also choosen Spain for their expansion plans. Three more centres in the Community of Valencia (in Orihuela, Burjassot and Elche) will be included to the already existing 49 stores as part of the company's expansion plans to open 17 stores in the next five years, amounting to an investment of 350 million euros.

IKEA continues to invest in Spain, representing 5% of the group's turnover at worldwide level and its expansion plan includes the opening of 14 new stores by 2020, of which eight will be in a shopping centre. Despite the good results obtained in the country (the turnover last year, ending by 31st August 2011, registered a 2.2% increase), they regret the administrative obstacles that slowdown their plans to invest €2,500 million in Spain. The last inauguration took place on 20th of November in the complex that Inter Ikea Centre Group (IICG) is developing in Arroyo de la Encomienda (Valladolid).

Prime shopping centre rents



Source: Savills Research

Rents

There are few novelties regarding rents. Prime centres continue to have high occupancy rates and rents remain stable, around €90/sqm/month for average size units of approximately 150sqm for new leases.

As far as previously established tenants, temporary rent revisions are maintained according to their sales and turnover, but for more reduced periods of time and with more adjusted discounts.

Supply

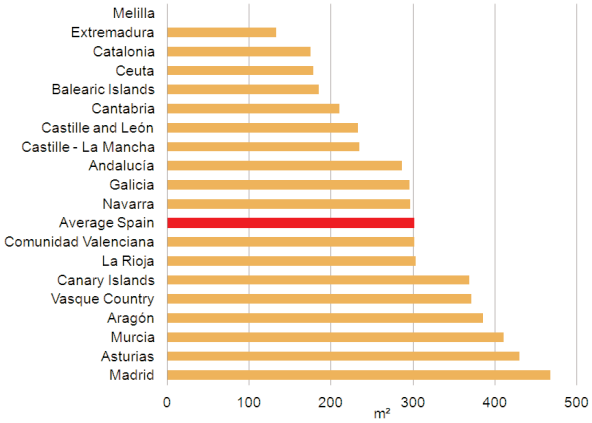
Supply

Current stock and developments in 2011

The current stock in the retail market already exceeds 14 million sqm and brings retail density to 301 sqm per each 1,000 inhabitants. Close to 415,000 sqm of gross lettable space (GLA) were delivered during the year (excluding 3,300 sqm of the extension of Vallsur Shopping Centre in Valladolid), distributed among 13 developments, amounting to an average area per project of a little bit over 30,000 sqm.

It is important to point out that for the first time in recent years the difference between the volume of newly inaugurated space and the predictions carried out at the beginning of the year is minimal; therefore reinforcing the idea that developers carry out the projects that are clearly considered to be feasible.

Commercial density by Autonomous Community



Source: Savills Research

The new retail complexes include the 170,000 sqm of Marineda City in La Coruña, including in one single complex an El Corte Inglés, an IKEA, a retail gallery, restaurants and retail warehouse units. This complex has represented 40% of the total national GLA inaugurated and 93% of the new space in the region, since La Coruña also houses Neinver's first outlet centre opened in Spain under the concept "The Style Outlets".

The average size retail park concept continues to grow and eight new assets were incorporated during 2011 adding up to a total of almost 175,000 sqm of GLA. The total area for retail parks is close to 1.6 million sqm, representing 11.25% of Spain's overall total retail area. The type of retailer that opts for this type of format are usually low cost operators of different activities, which are sought after by consumers to weather the crisis, reducing costs in clothing, household, DIY, etc. Good results encourage these companies to expand and ease the putting in place of extansion plans.

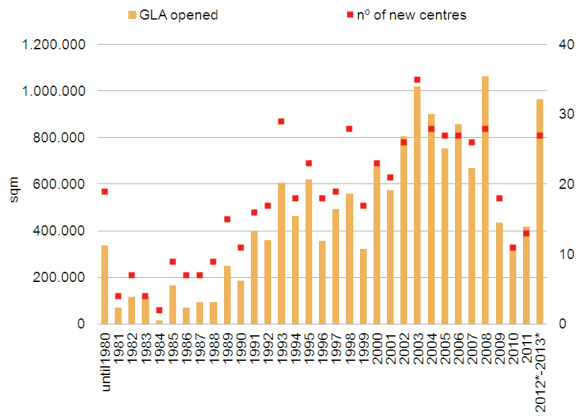
Future developments

Macro-economic indicators and family figures, closely related to the consumer capacity, do not offer a very encouraging panorama, and therefore only projects that are clearly feasible are carried out. Close to 660,000 sqm are expected to come onto the market, though this figure will probably be adjusted as the year goes due to the delay of some projects expected by year end, which will be postponed to the following year, leaving the total annual volume in the range of 480,000 sqm. Some of the projects that seem to be feasible are various projects that were once again resumed after years of being on hold.

Therefore, after being delayed for two years, Gran Plaza 2 in Majadahonda (Madrid) will open its doors in the spring of 2012. The centre benefits from a privileged location since its catchment area includes various municipal districts with the greatest rent per capita not only of the region, but of the country.

As Cancelas, in Santiago de Compostela (La Coruña) is another project that resumed its construction activity and that it is expected to open by the end of 2012.

Openings (GLA and nº of centres) by year



Source: AECC / Savills Research / *Forecasts

The biggest project this year will correspond to the second phase of Puerto Venecia, including 118,000 sqm, becoming the largest retail complex in Spain and Europe, more than a total of over 200,000 sqm.

IICG will complete two of their developments in Spain. The first phase of Luz Shopping in Jerez was inaugurated during 2010 and this year the retail gallery of 40,000 sq m will open. The first IKEA store in Castilla y León opened its doors on the 20th of

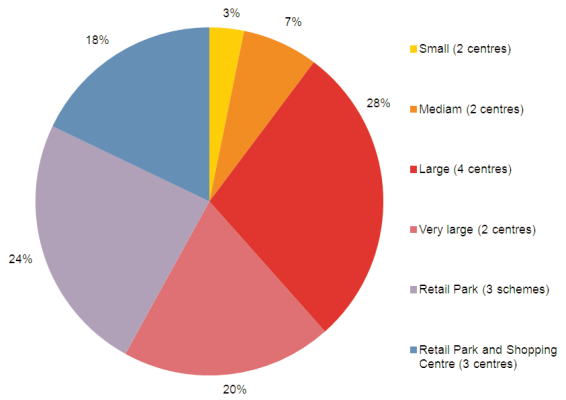
Supply, Investment

December 2011, in Arroyo de la Encomienda (Valladolid) and a few months later the annexed shopping centre will be completed.

As far as forecasts for 2013, figures in the range of 300,000 sq m are being considered, even though any change in the construction schedule in the previous year, as well as the possible repercussions that Spain could experience as a result of the evolution of the international financial market, could modify the initial calculations.

In any case, and despite the confusion that many international means imply over Spain, the large retail developers, many of them international, continue to trust the country for their investments in the short to medium term. Unibail-Rodamco will open a shopping centre in 2012 of 66,000 sqm in Badajoz and has just taken over one of the retail projects planned in Valencia five years ago. Neutopía, of Duprocom, stalled when the company became part of NAU, real estate agency controlled by Bancaja Habitat and Gesfesa. The new name of the complex is Oceanic and the French-Dutch Group expects construction works to begin during the first quarter of 2013 and its delivery date is expected by the end of 2015.

New GLA by type of centre (2012*-2013*)



Source: Savills Research / *Forecasts

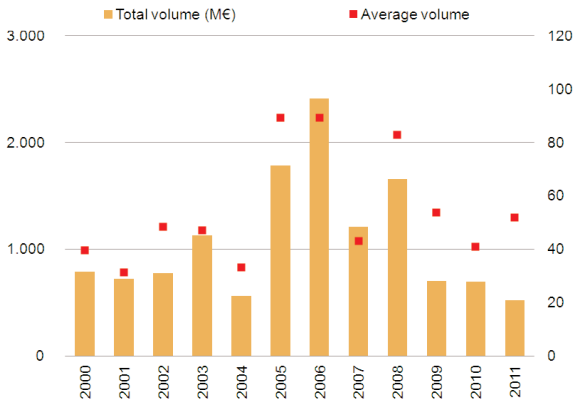
Investment market

Year 2011 will be remembered for the stillness of the retail investment market. The volume registered was around €520 million, thereby registering the lowest rate since before the year 2000. We must point out that only transactions with a change in ownership are registered, since various transactions parallel to this market have taken place, such as the acquisition of shares, full transfer of a business or sale of debt associated to real estate property, all of which are excluded.

As an example we refer to transactions such as the acquisition of mortgages of The Royal Bank of Scotland (RBS) by Perella (most of the products were linked to retail product), the purchase by Orion of a group of national investors 50% interest in Puerto Venecia, subsequently becoming joint developers with British Land. Puerto Venecia will shortly become the greatest retail and leisure complex in Spain and Europe, the exchange of assets carried out between Carrefour and Klepiere or the acquisition by Sonae Sierra of the minority equity of Plaza Mayor Shopping Centre in Malaga, up until now in hands of a Dutch, French and American group of investors to control 100% of the asset.

Returning to the genuine investment market, it is a very professional sector, dominated almost completely by foreign investors which up until now have been very distrustful over the evolution of the economy and of how the international turmoil could affect the country. On the other hand the lack of financing and the difficulty and high cost of obtaining credit have been other obstacles which have slowed down the investment activity. Finally, the lack of product that fits with investor requirements has had a negative impact in the total market volume.

Investment volumes



Source: Savills Research

Prime centres continue to centre investor attention, but they are in the hands of companies with no equity problems, which block their entrance in the market. Due to the lack of these prime assets, investors are diverting their attention to consolidated centres, having a good flow of visitors and sales, high occupancy rates, etc.

There are also investment opportunities in “distressed” assets including interesting discounts which will be in the spotlight of opportunist funds.

Among the transactions signed during 2011, we must point out the sale of Splau, due to its volume (the biggest this year) and the type of asset involved.

Investment, Outlook

Inaugurated a little over a year ago, the shopping centre located next to the RCD Espanyol Stadium has become part of the Unibail-Rodamco Portfolio, having paid Acciona close to 185 million Euros.

The following significant transactions would be the sale of two of Sonae Sierra's centres (El Rosal, in Ponferrada (León), and Plaza Éboli, in Pinto (Madrid)) to Doughty Hanson for 120 million Euros

The sales of Eroski properties continue to be present in the retail market, but only one supermarket transaction has been carried out during 2011. At the beginning of the year, Rockspring acquired a new package of 22 retail properties (in the summer of 2010 they had already purchased a portfolio of 21 supermarkets), for 45 million Euros. We could expect the sale of more supermarkets and hypermarkets in the coming months, some of them within shopping centres.

Rockspring, at year end, appeared once again in the market with the acquisition of Parque Abadía in Toledo. It is the most significant transaction in the retail parks sector, since Parque Mandarache (assessed by Savills' team) was of a clearly opportunistic nature. Recently inaugurated, Parque Abadía opened its doors with a high occupancy rate and includes as tenants some well known firms such as: Decathlon, Leroy Merlín, Alcampo, Media Markt, Kiaby, Worten or Merkal Calzados.

The traditional assets in the market, shopping centres and retail parks, have once again dominated the investment scene, concentrating almost 81% of the total investment. During 2010, their share in the investment activity was atypical due to the sale of various supermarkets and hypermarkets belonging to Eroski, which concentrated one third of the total, leaving only a bit more than 53% for shopping centres and retail parks.

Yields

Yield levels remain stable for all types of assets. The gross yield in prime shopping centres continues in the range of 6.50% and the best retail parks will stand at 7.00%. Up until now there have not been any products in the market that comply with all the investment requirements (dominant in their catchment area, good flow of visitors and sales, 100% occupancy, retail mix adapted to consumers' demands, market rents, etc.). Incompliance with any of these factors would result in schemes being penalized in price, therefore increasing yields.

The gross yield for consolidated products, of shopping centres as well as retail parks, would be in the range of 7.50%, and once again incompliance with the initial mentioned requirements would increase the risk and therefore would imply an adjustment in the yield rate.

Outlook

Economic forecasts

The growth of the Spanish economy will be interrupted in the coming months. Tensions on sovereign debt, political crisis in the heart of the European Union, the need to contain deficit and the stagnation of western economies come together with poor internal demand and the battered Spanish labour market. This new stagnation period or perhaps exceptional recession during 2012 will end once the European political panorama and the difficult international financial situation is cleared. It is then when domestic consumption should once again become the main driver of the Spanish economy.

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

	2011	2012	2013
GDP	0,7%	-0,3%	1,0%
Consumption	0,2%	-0,1%	0,8%
CPI	3,1%	1,5%	1,5%

Source: Focus Economics (January 2012)

Market outlook

Short term perspectives are not optimistic. The social scourge of unemployment will continue to affect the citizens' capacity of consumption, which in the retail sector will mean discrete sales and turnover rates and more rental adjustments.

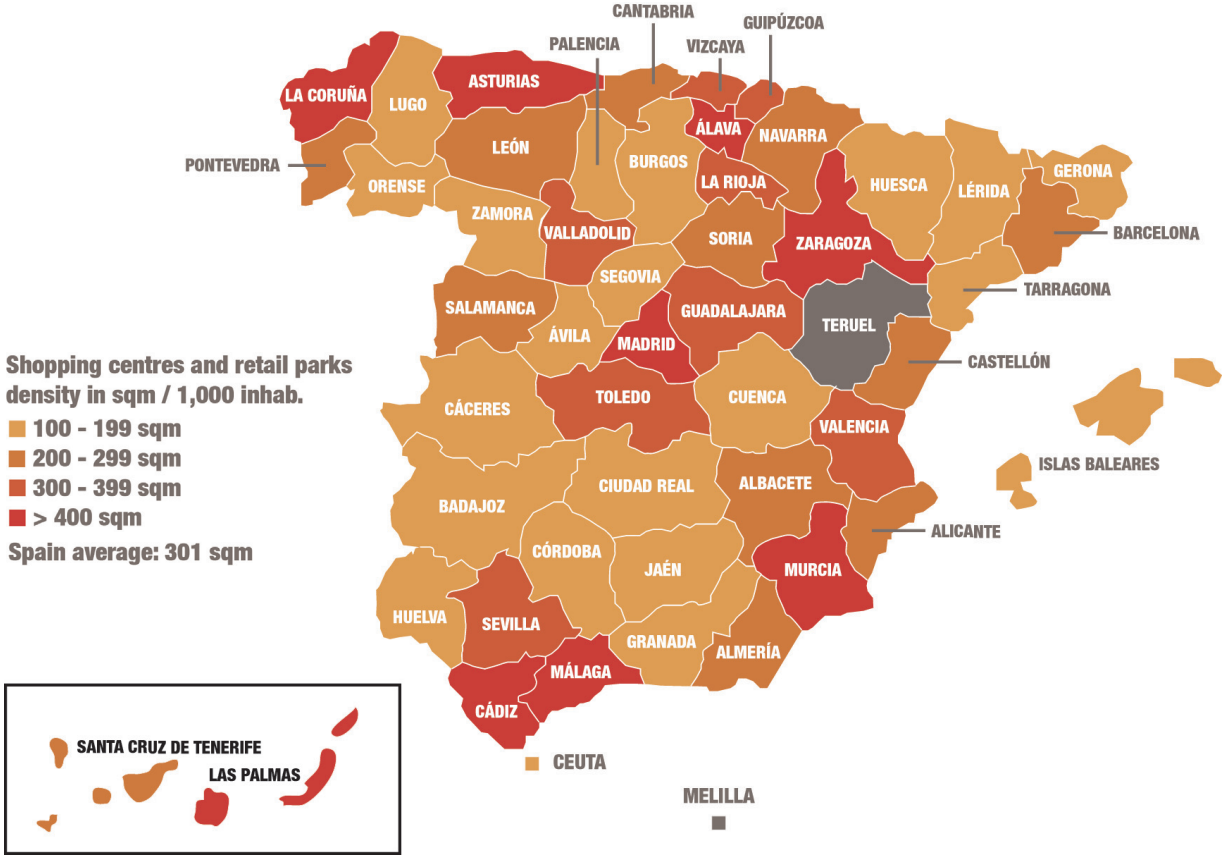
All hopes are set on the change of government and on their restructuring plan which will be carried out in the coming months. One of the main areas for action would be a labour reform that encourages employment, improves consumer confidence, increases the purchasing power and generates an increase in expenditure.

Up until then, since the results would not be immediate, no great changes in the market are expected. Yields will remain stable in prime or very consolidated properties due to the lack of product and strong demand for this type of asset.

The product for opportunistic profiles could register adjustments in their yields due to the lack of financing and the difficulty and expensive access to the same. As far as investment volume is concerned for 2012, nothing indicates it will surpass the rates achieved in 2010 – 2011, especially considering that due to the sale of Eroski's supermarkets and hypermarkets during 2010, the rates were slightly distorted.

Spain Retail Market

Commercial density map



Source: AECC / Savills Research

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