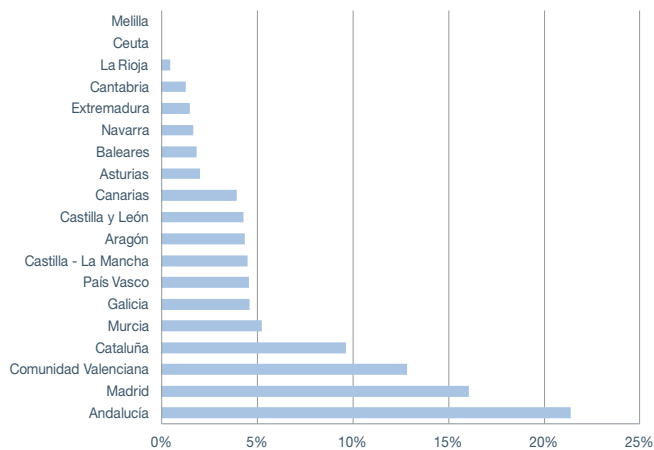


# Market report

## Spain retail warehouse market

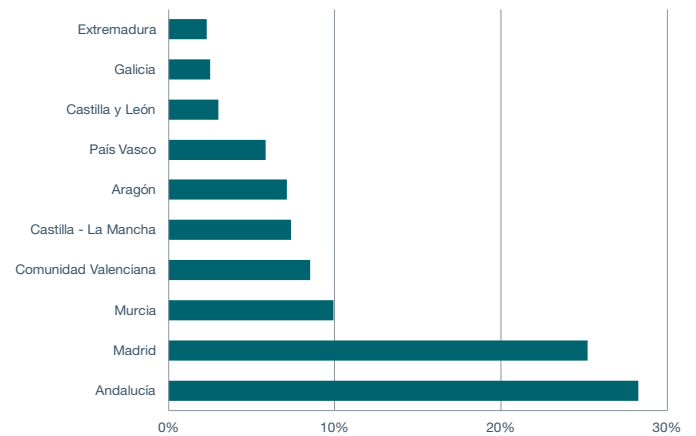
March 2012

GRAPH 1  
Retail Warehouses (RW) - GLA distribution  
(retail parks and stand-alone units)



Source: Savills

GRAPH 2  
Retail Parks - Gross Lettable Area (GLA)



Source: Savills

## SUMMARY

### Overview

■ In Q1 2012, the total estimated volume of the retail warehouse market amounted to around 4m sq m (including retail parks and stand-alone retail warehouse units). This figure is slightly less than the one registered a year ago, and has come about as a result of the slowdown in the construction of new complexes and companies having to change their business models after being forced to close some of the stores in their retail network.

■ Operators, mainly the large firms in each activity sector, continue to press on with their expansion plans; however

growth policies involve increasingly more prudent investment strategies.

■ Over the next 24 months, close to around 300,000 sq m of new retail warehouse parks is in the pipeline, but delivery dates will depend on the sales rate and developers acquiring financing in order to continue with the works, therefore it is more than likely that we will continue to see project handover dates being delayed.

■ The investment market suffered in 2011 due to the macroeconomic climate, the lack of product and the extreme lack of financing. International

firms are failing to show a clear interest in Spain, but having the right product and access to credit are the key factors to closing a deal. This was the case with the Abadía Park, which Rockspring acquired in December.

.....  
 “The retail warehouse market continues to expand, although the rate of growth has slowed”  
 .....

### Economic background

In the last quarter of 2011 and for the first time since Q4 2009, the Spanish economy shrank by -0.3% quarter-on-quarter. This is a result of the aftermath of the decline experienced both in Spain and most of Europe last year, which, to a large extent, was attributable to the circumstances surrounding the sovereign debt crisis. This negative trend will continue in 2012, fuelled by public spending cuts and tax increases, which are necessary in order to contain the deficit in Spain, as well as the weak economies of neighbouring countries. The unemployment rate remains high and will be a further burden for the country in its bid to increase domestic demand in the short and medium-term.

In the last three months of 2011, GDP grew by three-tenths of a percent year-on-year and household consumption and national demand fell by 1.1% and 2.9% respectively. Retail sales, which declined by 4.8% year-on-year in January 2012 (sales dropped in all communities and for all distribution methods around the country), demonstrate the downward trend experienced over the past two years. However, as is the norm, large distribution chains suffered the least. In addition, consumer confidence hit a three-year low at the beginning of this year (index at 58 points), after a long period of being at around 70 points.

“Small traders are suffering and the outlook for consumer confidence and private consumption does not look promising in the short-term; however in the midst of this panorama, discount and low-cost operators are managing to weather the storm”

As a result, the economy is subdued, but it seems fairly likely that this is the run-up to the start of a new recovery. This should be more consistent than the slight recovery that took place mid last year, which was interrupted by the debt tensions and the consequent political crisis in Europe. The job market will only start to recover as and when the general economic situation improves. Recovery is likely to be slower and have a time lag, however the latest reforms in the labour market may aid recovery.

### Market Overview

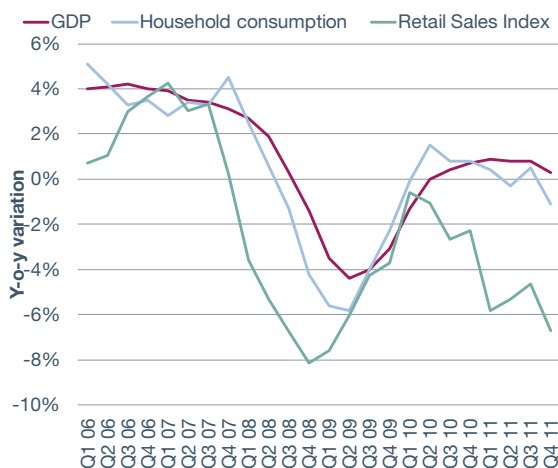
The retail warehouse market continues to expand, although the rate of growth has slowed in recent months given the continued deeply rooted economic uncertainty in Spain and Europe and the subsequent knock on effect this has had on household budgets. The boom years seem to be a distant memory and after years of living beyond its means, society has been forced to change its buying habits, set

priorities and engage in responsible consumption. Small traders are suffering and the outlook for consumer confidence and private consumption does not look promising in the short-term; however in the midst of this panorama, discount and low-cost operators are managing to weather the storm.

Many firms that operate in the low-cost bracket are naturally inclined to operate either within a retail park or in stand-alone retail warehouse units. The retail park segment has grown considerably since the mid-2000s. The highest amount of retail park space supplied to the market was close to 240,000 sq m in 2008 and 2010 was the year with the highest percentage of retail park developments compared to the total amount of space opened (45% of total space).

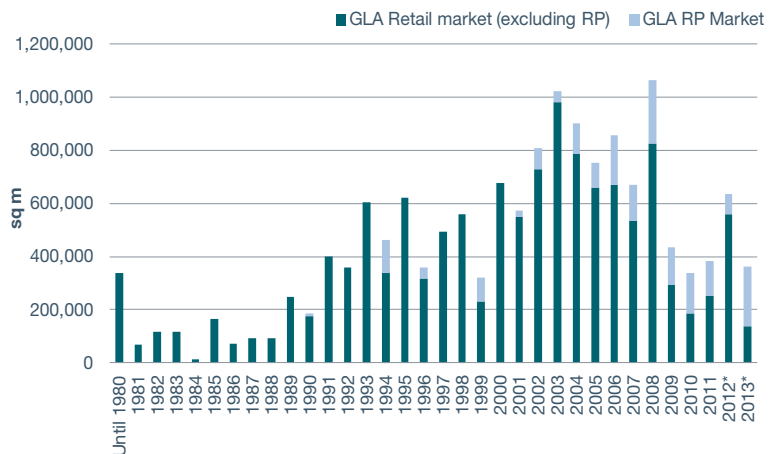
We should differentiate between retail parks and stand-alone retail warehouse units. Retail parks are a

GRAPH 3  
Economic indicators



Source: INE

GRAPH 4  
Retail Market - New GLA



Source: Savills, AECC, /\*forecast

group of large retail units in the same area, which are generally located on the outskirts of a city centre, and developed by the same developer with a similar look. On the other hand, stand-alone retail warehouse units are retail warehouses that are usually located around a hypermarket, which would function as the anchor of the complex, although in recent years anchor tenant activity has changed and we now find retail areas which are "led" by homeware, DIY or sports operators. Each unit is developed separately and they are owned by different companies (in some cases the units are owner occupied).

In terms of the number, area and operators, the retail parks sector can easily be verified and the total is included in the overall figure for the national retail market. However, it is more difficult to monitor stand-alone retail warehouse units, therefore they are not included in the figure of just over 14m sq m of gross lettable area (GLA) in Spain. We have selected the main brands which operate using this format in Spain (around 30) and we have determined which of their locations would best fit the retail warehouse market, either in a retail park or a stand-alone retail warehouse unit, therefore the table only includes occupied space.

We know that the vacancy rate for these types of properties is higher than in retail parks that are defined as one lot, however it is very difficult to monitor all of these units; therefore we will use the verified figures we have.

### Retail park stock

At the end of 2011, there was just over 1.6m sq m of space in retail parks, which amounts to 11% of all retail space in Spain. Over the year, six parks totalling 130,000 sq m came onto the market, including the Marineda City retail complex, the first phase of Río Shopping (IKEA store) and the second phase of Ciudad Amposta (Carrefour store), which in total, make up around 205,000 sq m of new space.

The distribution of retail parks by size has barely changed - space between 10,000 sq m and 20,000 sq m remains the most popular with around 50% of the total. The largest complex which opened in 2011 was La Abadía (55,000 sq m) in Toledo, but this is a far cry

from the size of mega complexes such as Megapark Barakaldo, the first phase of Luz Shopping in Jerez de la Frontera in Cadiz, and Parque Oeste Alcorcón, in Madrid, all three of which have over 100,000 sq m apiece.

Hardly anything has changed in terms of the distribution of retail space by autonomous community. Andalusia and Madrid, both of which have over 400,000 sq m of space, make up around 50% of the total, followed by Murcia, where almost two thirds of general retail space in Spain is located.

Lagging behind are Extremadura and Galicia, with just over 2% of retail space in each community. There are also seven autonomous communities where there are currently no retail parks.

In terms of provinces, the amount of retail park space has doubled in Toledo due to Abadía Park coming onto the market. This has increased the retail density figure considerably to 164 sq m per 1,000 inhabitants, which means that the retail park submarket is at the top of the list in terms of retail density.

### Stock of stand-alone retail warehouse units

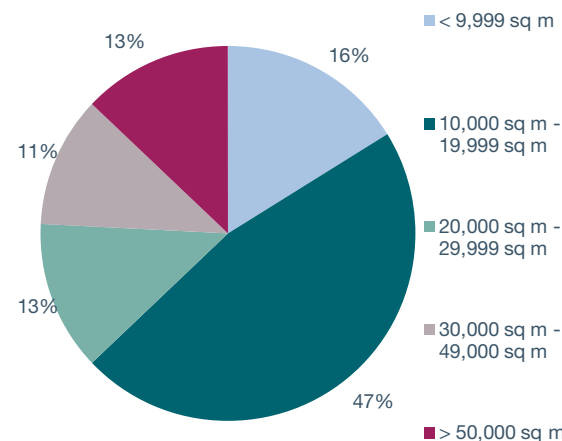
According to our estimates, 2.34m sq m of space is occupied in stand-alone retail warehouse units in retail parks, which is a 12% decline compared to the figure published in the previous Retail Warehouse Market edition in Spain in Spring 2011.

The decline in business and several LFAPs - Labour Force Adjustment Plans (Expedientes de regulación de empleo - ERE) have had a direct effect on this segment.

This was the case with the British firm, Dixons Retail, which owns PC City, which decided to exit Spain after running up losses for several months and the clear decline in consumption was a defining factor in this decision. However, Sonae Sierra took over eight of its 34 stores in Spain to develop several Worten and Forum Sport stores.

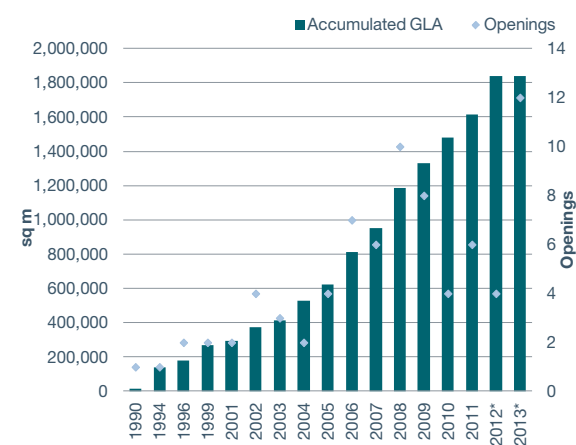
The electrical appliances firm Miró's LFAP (ERE), also sent a significant ripple through the retail market when it closed several stores, and Urende's LFAP (ERE) has meant that it has only

GRAPH 5  
Retail Parks per size



Source: Savills

GRAPH 6  
Retail Parks - GLA and openings



Source: Savills, AECC, /\*forecast

kept on four stores in the hope that the feasibility plan proposed by the Cordoba based company generates €7 million of profit by 2014.

Prenatal has recently sealed a deal for an LFAP (ERE) which could involve closing 40 of its 92 stores in Spain, but the company's board has stated that this is necessary in order to guarantee the future of the company in Spain, which involves gradually replacing the small stores in city centres with a new concept of large stores on the outskirts of cities and this will have a positive effect on the retail warehouse market. ➔

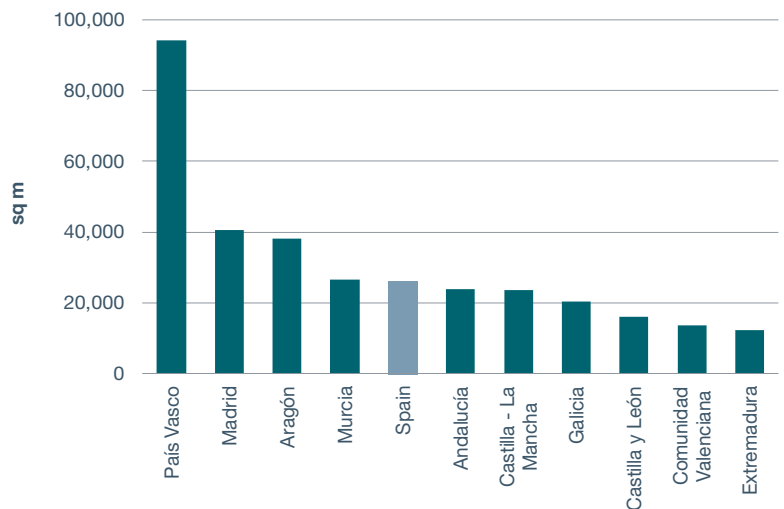
## Retail offering and regional economic drivers

The least affluent regions with less retail supply have more retail warehouses

Taking regional purchasing power into consideration (using GDP per capita as an estimate, as it is almost entirely linked to disposable income) we found an interesting trend: the most prosperous regions generally have more retail supply (this includes the retail warehouse segment, as well as the traditional retail market). However, in terms of the percentage of the volume of retail warehouses out of the total retail market, both in terms of the volume of overall supply and the economic climate in the region: generally speaking, the least affluent regions with less retail supply have more retail warehouses (which could also be related to the type of operator that usually occupies these warehouses, which are generally low-cost companies).

Thus, on the one hand, Andalusia, Castilla-La-Mancha and Extremadura, with a low GDP per capita, also have a high number of retail warehouses, although less retail supply overall. At the other end of the spectrum, Madrid, the Basque Country, Asturias and the Canary Islands have a very high retail density, but their supply of retail warehouses is lower. Murcia and Aragón have a high retail density, as well as a considerable number of retail warehouses and retail parks in particular (both have some of the largest retail parks in Spain; after it has been extended, Puerto Venecia in Zaragoza will be the largest shopping centre in Europe). The rest of the regions (Navarre, Valencia, Cantabria, Castilla y León, the Balearic Islands, Galicia, La Rioja and Catalonia), with considerable purchasing power and not a very significant retail supply, have an average number of retail warehouses, although they have a very limited or non-existent presence of retail parks.

GRAPH 7  
Retail Parks - Average GLA



Source: Savills

➔ Prenatal already has nine macro stores in Spain and it expects to open a tenth store in Madrid before the end of 2012.

The distribution of stand-alone retail warehouse units is a whole new ballpark compared to retail parks. Andalusia appears at the top of the list again, however retail warehouse units amount to 17% of total space compared to 28% in the retail parks segment. The next two regions with the most space are Catalonia and the Valencian Community, with 16.5% and 16% respectively. Madrid comes fourth place, with around 10%.

It is surprising that Catalonia appears to be one of the regions with the most retail space given the tight administrative restrictions that it has upheld for years, but interestingly, if one analyses the average area per retail warehouse unit, it is one of the regions with the lowest average amount of space. The same goes for the Valencian Community, which is also one of the autonomous communities with the lowest average space when it comes to stand-alone retail warehouse units.

### Total supply

Therefore, according to our calculations, the figure for the overall retail warehouse market in Spain, taking into account the retail space in both retail parks and stand-alone retail warehouse units, is around 4m sq m.

Andalusia, Madrid and the Valencian Community top the list of regions with the most retail space in the retail warehouse segment, with half of the total figure for Spain located in these three regions. Cantabria and Extremadura are at the other end of the scale, with 1.25% and 1.5% respectively.

### Retail density

Retail density of retail warehouses in Spain amounts to 85.52 sq m per 1,000 inhabitants. The overall figure has fallen slightly compared to last year, and this is mainly due to different companies closing a number of their stores, which has then not been offset by the expansion plans of others.

Eight of the 17 autonomous communities exceed the national average, with Murcia, Aragón and Navarre heading up the list with a retail density of over 100 sq m, and Andalusia and the Valencian Community are also in this category. Madrid's retail density figure is close to this, but it remains slightly lower. Catalonia and Extremadura are two

areas with the least retail density in the retail warehouse submarket. The restrictions imposed on the development of large retail space in Catalonia may be one of the reasons which would explain the low supply of retail space for these types of properties. On the other hand, in Extremadura, this could be explained more by the lack of purchasing power of residents in the area, as both Cáceres and Badajoz are lagging behind in terms of wealth per capita and the region has the lowest average wage in the country.

In terms of provinces, Toledo's retail supply has increased considerably in the retail warehouse segment (particularly the retail park segment), primarily due to La Abadía opening its doors to the public, which has increased the retail density per 1,000 inhabitants from 110 sq m in 2011 to almost 185 sq m in 2012, meaning it currently tops the provincial ranking of the whole retail warehouse market.

Teruel, Cáceres and Lérida are at the bottom of the list. This is surprising, as the latest GDP figures per capita for both provinces were above average.

### Expansion plans

Generally speaking, good sales and turnover figures result in continued growth, however current expansion plans are accompanied by increasingly more prudent investment strategies,

“Current expansion plans are accompanied by increasingly more prudent investment strategies, and in some cases operators are even choosing a better location over stronger market presence”

and in some cases operators are even choosing a better location over stronger market presence. This is the case with Leroy Merlin, which will move from where it is currently located in Equinocio in Valladolid to Rio Shopping, the complex which was developed by the Inter Ikea Centre Group (IICG) and was opened at the end of last year. Leroy Merlin is going to make the most of the business synergies and opportunities that may arise from being located next to the IKEA store.

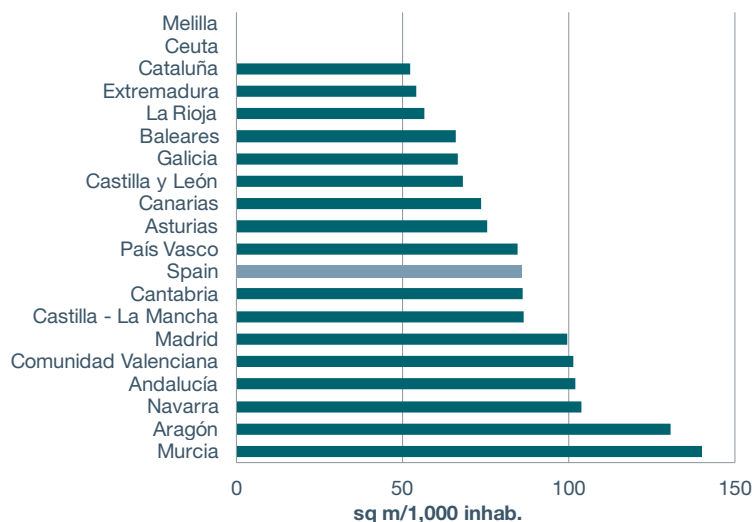
The draw of the Swedish giant has captured the interest of several operators for the retail arcade that will open in September; however other firms will enter the retail market as a result of the Rio Shopping retail park. Decathlon, for instance, is working on what will be the largest store in the region, with 8,500 sq m comprising a sales area, exhibition area and a test area at Viapark in Arroyo de la Encomienda.

Large firms that dominate the retail warehouse market continue to head

up the leader board in terms of the opening of new stores. AKI and Leroy Merlin in the DIY sector, Media Markt in the electronics and household appliances sector and Decathlon in the sports sector will open half of the new stores which are in the pipeline.

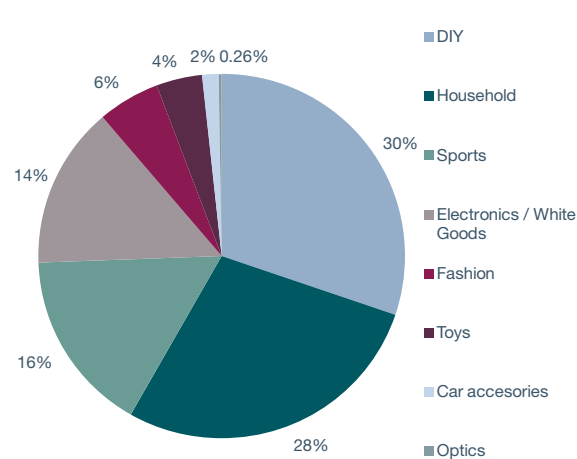
IKEA continues to remain committed to Spain, which it considers to be a country with potential. It is continuing with an ambitious expansion plan. It aims to open 14 new retail outlets by 2020, although it had initially planned to open them by 2015. It is expected to open its next store in the centre of Sabadell in Summer 2012. In addition, it appears that the town of Alfafar will be home to the first IKEA store in the Valencian Community. After years of negotiations with municipal corporations in several towns, such as Mislata or Paterna, the Nordic multinational was awarded the retail licence at the end of 2011 to move to Alfafar Parc, thanks to a further 10,000 sq m being allocated for its project, to the detriment of the buildability of the rest of the retail park.

GRAPH 8 Retail warehouse density



Source: Savills

GRAPH 9 RW - GLA per activity



Source: Savills

### Rents

Hardly anything has changed in terms of rental prices. Prime theoretical rents remain between €16 to €18 per sq m/month in new contracts. The sharp 20% decline from the top of the market when rents were at approximately €20 - €22 per sq m/month, has enabled rental prices to remain stable. In any event, renewals for between €18 and €19 per sq m/month are being signed, which should make the market more optimistic.

Rental prices in Spain are slightly above the European average, with rents similar to those of Milan, Paris, Budapest and Brussels. London tops the list with €31 per sq m/month and the Nordic cities of Oslo and Stockholm, both with rents in the region of €20 per sq m/month.

### Future projects

Almost 25% of new retail warehousing space expected to come onto the market in 2012 (75,000 sq m) will be in retail parks. In terms of size, the following stand out: the first phase of Camino Real which Chelverton is developing in San Fernando de Henares in Madrid, as well as the group of retail warehouses which is being developed by Immochan in the Zenia Boulevard complex in Alzira, Alicante. These two retail parks comprise around 25,000 sq m of GLA, and amount to approximately two thirds of the total.

Delivery timetables are overshadowed by a degree of uncertainty, as they are always dependent on the sales rate and the liquidity available in order to continue carrying out works, which means that the initial figures may change as the year goes on.

Uncertainty is increasing as time goes by, but almost 220,000 sq m of GLA in retail parks is currently in the pipeline for 2013, which is 60% of the total expected to come onto the market next year.

### Investment market

Activity in the retail investment market in 2011 suffered for several reasons, amongst others the lack of quality product available, the lack of financing or the difficulty of acquiring credit and the increase in borrowing costs and the uncertain economic climate that still overshadows Spain. This was

exacerbated by the sovereign debt crisis mid last year, which in the eyes of investors considerably increases the risk of investing in Spain.

The overall figure for the year stood slightly over €500m, which is 25% below the figure for the previous year, although the total for 2010 was distorted by Eroski selling several packages of supermarkets (a third of the total).

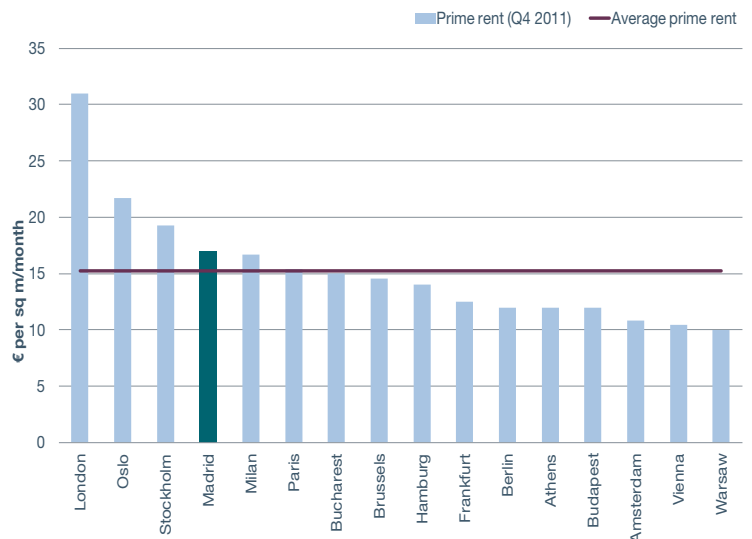
Focusing on the retail warehouse segment, in 2011 around €70m was

invested, which amounts to 13% of the total figure for the year. Performance in the retail warehouse market was very similar in 2010 (12%) although the volume transacted stood at over €80m, which means that it has fallen by around 15%.

However, despite the fact that the outlook is not favourable, the market has not come to a complete standstill.

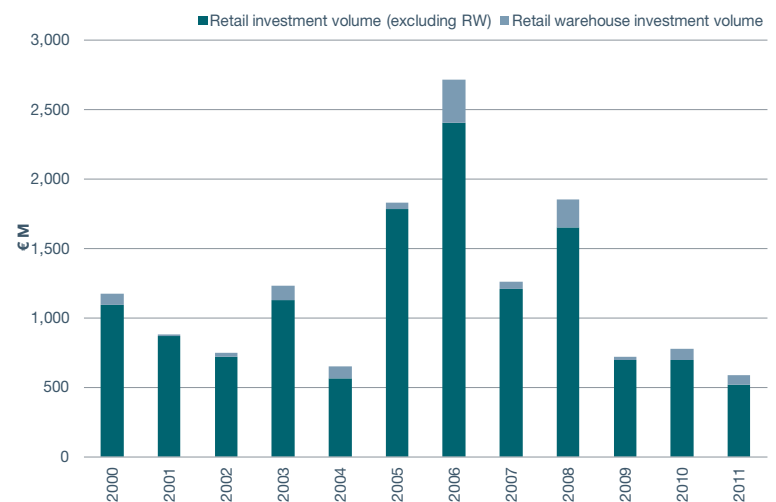
Currently, traditional investors in retail parks are failing to show a clear interest in Spain, but having the right

GRAPH 10 Prime rents in Europe



Source: Savills

GRAPH 11 Retail market investment



Source: Savills

product and access to credit are the key factors to closing a deal.

This was the case with the Abadía Park. Grupo Murias, a local developer, was responsible for developing the park, which opened at the beginning of November with a high occupancy rate. One of the occupiers was the supermarket Alcampo that joined important retail operators that have good consumer draw, such as Leroy Merlin, Media Markt and Decathlon.

In December, Rockspring acquired the complex for just over €50m euros, although access to finance set the completion of the deal back by a few months.

The British fund manager is already a regular in the Spanish retail market as it took part in another three deals over the previous 24 months: it purchased two packages of Eroski supermarkets and a package of two stand-alone retail warehouse units, which are let to Forum in Bilbao and Pamplona.

National investors, who are not really regular players in the retail market, took centre stage when it came to the two other transactions in the retail warehouse segment. On the one hand a private investor acquired a retail warehouse unit that PC City occupied in Montigalá, Barcelona, where Worten is currently the tenant,

.....  
 “Traditional investors in retail parks are failing to show a clear interest in Spain. The presence of private national investors must be considered as a mere coincidence, rather than a trend”  
 .....

and the other transaction took place in the Mandarache Park in Cartagena, Murcia. The retail park was one of the properties that Perella Weinberg acquired from the Royal Bank of Scotland (RBS) via a non-performing loan purchase in Spain. The final sales figure for the transaction was not revealed, but it appears that the deal was closed at a considerable discount. However the presence of private national investors must be considered as a mere coincidence, rather than a trend.

We should also mention that opportunistic investors are keeping a close eye on the development of the overall market and are looking out for investment opportunities that meet their expectations. The retail warehouse segment played a small part in the property package that the Australian fund Vårde acquired. The portfolio that APN acquired in 2005 changed hands at the end of the year and the retail properties included three retail warehouses in Pamplona,

which are occupied by El Corte Inglés Oportunidades, Aldi and Feu Vert, and a retail park in Cuadernillos, in Alcalá de Henares, Cuadernillos, Madrid.

There are investment properties available, but they are off market, in the hope that they will receive the right offer. The issue is that investor activity from funds that traditionally had a strong presence in Spain are now failing to show a clear interest, on the one hand this is due to the difficulty of acquiring finance, and on the other, the current risk exposure associated with investing in Spain.

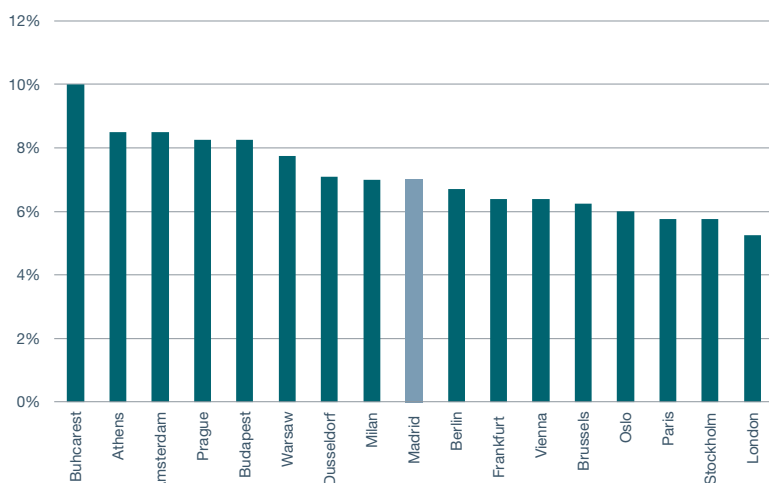
In spite of this, investment properties in the form of both retail parks and stand-alone retail warehouse units will probably come onto the market over this year. It is important to highlight that although most parks belong to a single owner, some have different owners, meaning that several retail warehouse units in the same retail park can go up for sale at the same time.

### Yields

After two years of stability, the estimated yield for prime real estate in retail parks is 7.25%, which is 25 basis points above the figure registered in 2010 and 2011. This figure refers to the gross yield for a retail park that meets all investment requirements (good location, high occupancy rate, suitable retail mix and long-term contracts). Failure to meet any of these factors will mean that the initial yield will be higher.

For secondary properties, yields are in the region of 8%. ■

GRAPH 12 Prime yields in Europe

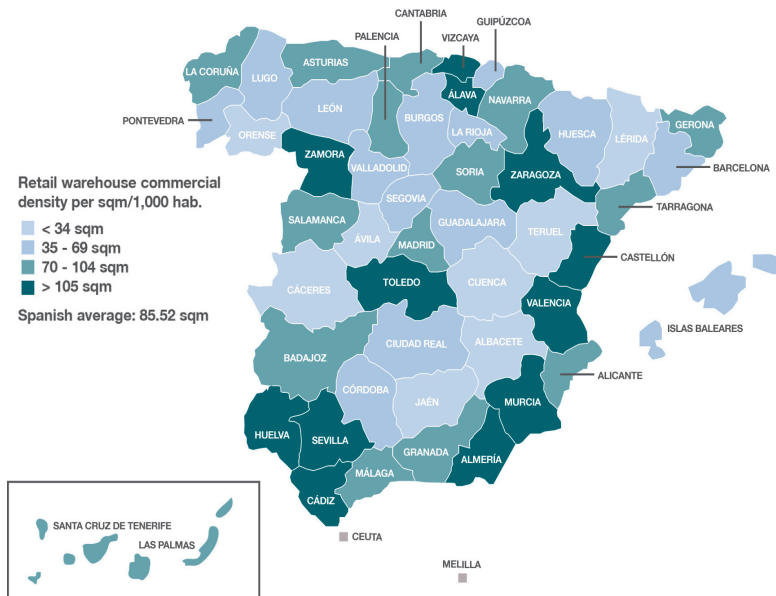


Source: Savills

MAP 1

## Retail warehouse market

Retail parks and stand-alone retail warehouse units



## OUTLOOK

### 2012

- Large operators are continuing with their expansion plans; however, they are looking at them in more detail. They are analysing all growth options in order to optimise investment when it comes to expanding their retail networks. New firms are continuing to adopt a “wait and see” approach when it comes to entering the market, in the hope that Spain will show signs of economic recovery.
- Average rental prices continue to fall, but it appears that prime rents have already stabilised.
- Vacancy rates have increased slightly in areas that are not as consolidated or in secondary retail parks, but they generally remain sound.
- Few changes are expected with regard to yields, which is mainly due to the lack of transactions.
- New assets coming onto the investment market will breathe some fresh air into the market. On the other hand, it appears that a large transaction (over €100m) could be completed over the year, but more subdued investor activity will remain the order of the day.

## Savills Team

For further information, please contact:



**Luis Espadas**  
Capital Markets  
+34 91 310 10 16  
lespadas@savills.es



**Danny Kinnoch**  
Pan-European Invest.  
+44 (0) 20 7409 8864  
dpkinnoch@savills.com



**Gema de la Fuente**  
Research  
+34 91 310 10 16  
gfuente@savills.es



**Rafael Gil**  
Research Analyst  
+34 91 310 10 16  
rgil@savills.es

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