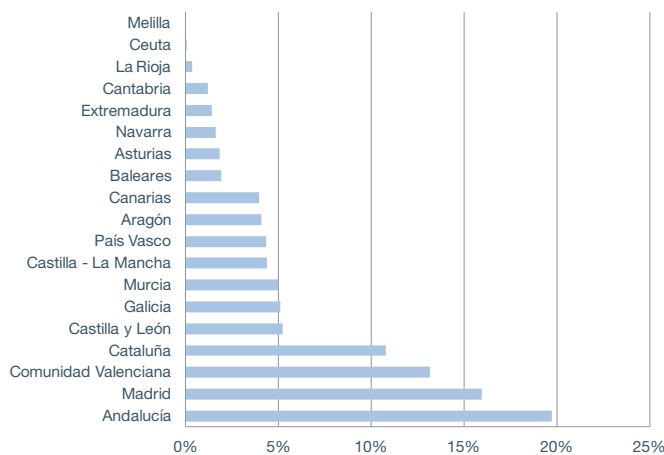


Market report

Spain retail warehouses

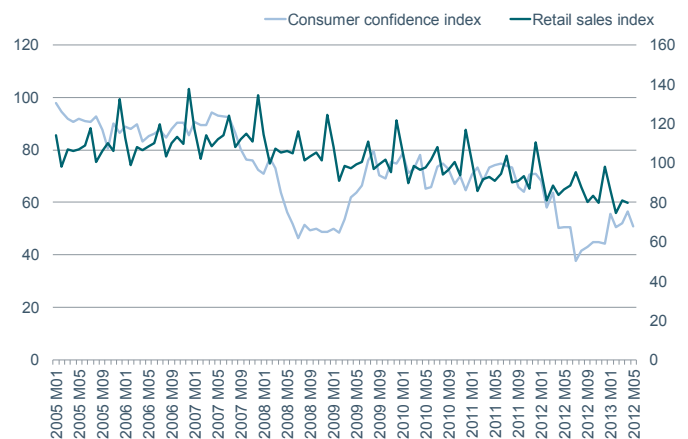
June 2013

GRAPH 1
Retail warehouses (RW) - GLS distribution
(retail parks and stand-alone units)



Source: Savills

GRAPH 2
Consumer confidence and retail sales



Source: Savills

SUMMARY

The strength of prime retail parks is maintaining the occupancy rate at almost 100%

■ The total volume of space for the retail warehouse segment (including occupied retail parks and stand-alone retail warehouse units) is estimated at just over 4.15 m sq m. This is 4% over the figure registered last year, when several Labour Force Adjustment Plans (EREs) signed by well-known retailers, forced these brands to close many of their stores. The y-o-y variation then was -3%.

■ Large retailers continue to push on with their expansion plans in order to improve sales figures.

■ Almost 70,000 sq m of new space spread over three retail parks is expected to be delivered in 2013. 305,000 sq m of space is in the pipeline over the next two years; however delivery schedules will predominantly depend on financing.

■ The slowdown in activity in the retail investment market since 2008 has also affected the retail warehouse segment. Economic instability has meant that international investors have progressively steered clear of the market, which has meant that national investors have carried out some retail park and stand-alone retail warehouse

transactions. These national investors are not necessarily highly specialised in the retail warehouse sector, however they have moved in to this sector, given that it requires less specialist knowledge than the shopping centre market.

■ The lack of transacted deals makes it difficult to establish a yield for this sector. The latest data available would put the prime yield at 7.5%.

Economic background

The Spanish economy has been in decline for seven consecutive quarters. According to the latest data published by INE (National Statistics Institute), GDP fell by 0.5% between January and March, which is a three tenths of a percent quarter-on-quarter decline.

The slowdown in GDP reduction over the first few months of the year was due to household spending not being as affected as in previous months. It fell by only -0.4% compared to -1.9% in the previous quarter, when the indicator was affected by the major fall in sales due to the cancellation of civil servant extra bonus pay and the VAT increase in September.

Retail sales continue to be affected by the ailing economy and the downturn in the job market. The retail trade index in April dropped by 2.6% year-on-year, which is the lowest figure seen for the past eight months. In terms of distribution channels, large chains experienced an upturn of 2% year-on-year compared to April 2012.

The Consumer confidence index published by the CIS fell yet again in May, plummeting 5.9 points compared to the previous month, registering the poorest figure since December 2012, breaking the upward trend that began in March. After five years of crisis, the general public still cannot see any clear indication of when the economy

«The expansion of retail brands in low cost formats will favour the growth of the retail warehouse segment » Gema de la Fuente, Savills Research

or unemployment figures will improve.

Short term economic growth forecasts are still negative, although it does appear that figures will gradually begin to improve in the second half of the year.

Overview

In an adverse economic climate, with a marked reduction in consumption due to, amongst other factors, to a drop in household purchasing power, retail parks account for around 50% of new retail space in the pipeline up until 2015. However, as time moves on, the likelihood of a development being completed on time, becomes less and less likely.

The increase in the low cost format and the expansion of low cost retailers will be the driving force for this market and many of these brands will be household names in the retail warehouse sector.

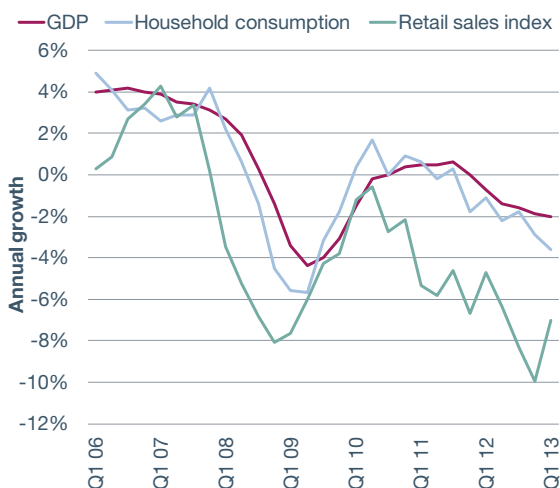
The market has yet to reach the maturity levels of other European countries. The strongest growth was

seen during the second half of the decade following 2000, a period in which more than 800,000 sq m came on to the market. The supply peak took place in 2008, when around 235,000 sq m came on to the market, a third of the volume registered from 2005 to 2009.

Definitions on the retail warehouse market

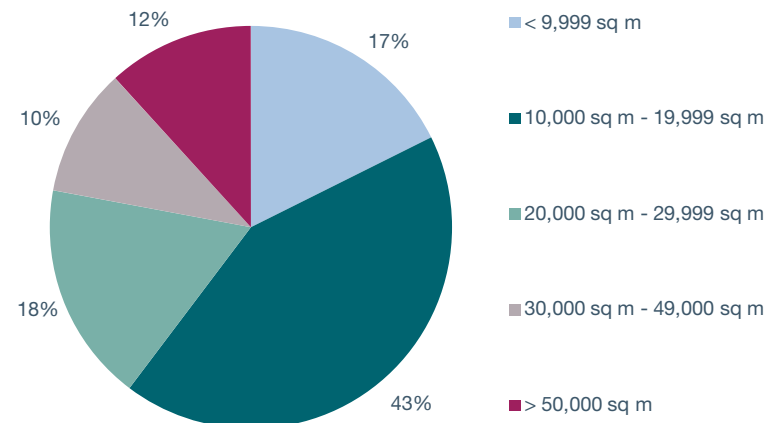
Within the retail warehouse market, it is essential to differentiate between retail parks and stand-alone retail warehouses. The first is comprised of various large retail warehouse units which are constructed in the same format and are intended to be part of a group of units and the complex generally tends to be owned by one company. Stand-alone retail warehouse units began to appear around hypermarkets in the 90s, which acted as the main draw for the units. For several years now, the importance of the food sector has diminished, as there are now various retail brands linked to different sectors (furniture and decoration, DIY, sports, etc.) which can act as anchor tenants for

GRAPH 3 Economic indicators



Source: INE

GRAPH 4 Retail parks by size



Source: Savills

a retail area. They can attract brands which either complement each other or are completely different and which hope to benefit from the footfall that they draw in. The stand-alone retail warehouses can be owner-occupied or belong to another separate company, but in the majority of cases the units are owned by various owners.

In both cases, they tend to be located in out-of-town locations, but must have good and quick access and a large number of parking spaces.

Monitoring retail warehouse parks, both in terms of numbers, as well as in terms of areas and operators, is straightforward and is included in the gross lettable area (GLA) of the overall national retail market. In contrast, the diversity and the more fragmented nature of the stand-alone retail warehouse sector makes it more difficult to verify each space, hence this segment is not included in the slightly more than 14.7 m sq m of retail space in Spain.

Retail park stock

At the end of 2012, there was just over 1.7 m sq m of space in retail parks, which amounts to 12% of all retail space in Spain (Shopping centres, retail parks, leisure centres, factory outlets and hypermarkets). Over the past year, the complexes that were opened were focused on large and very large complexes, however, various of these included a section for retail warehouses in order to accommodate these types of operators. This is the case with Zenia Boulevard in Alicante and Río Shopping in Valladolid, which brought almost 50,000 sq m of retail space onto the market. A small development in Barcelona also opened next to the Cabrera de Mar Carrefour hypermarket. This amounted to a total of around 60,000 sq m, which demonstrates that there has been a 64% decline in developer activity compared to last year.

To date, the opening of phase one of the 25,000 sq m Camino Real park in San Fernando de Henares (Madrid), has barely affected the total retail stock figure.

In terms of size, retail parks have not changed a great deal compared to the previous report published. The 10,000 sq m to 20,000 sq m category continues to be the most popular, accounting for 43% of the market. There has been an increase in the number of retail parks smaller than 10,000 sq m, which now accounts for 17% of the market, and spaces between 20,000 and 30,000 sq m, which account for 18%. The average size of retail parks in Spain stands at just over 25,400 sq m.

In terms of regional distribution, we would point out that, thanks to the retail park located next to the Carrefour hypermarket in Cabrera de Mar, Catalonia has now joined the list of autonomous communities with retail parks, although it hardly makes up even 0.5% of the national total. The autonomous community has various retail complexes which have sprung up around food brands, but up until now none of them has had retail parks.

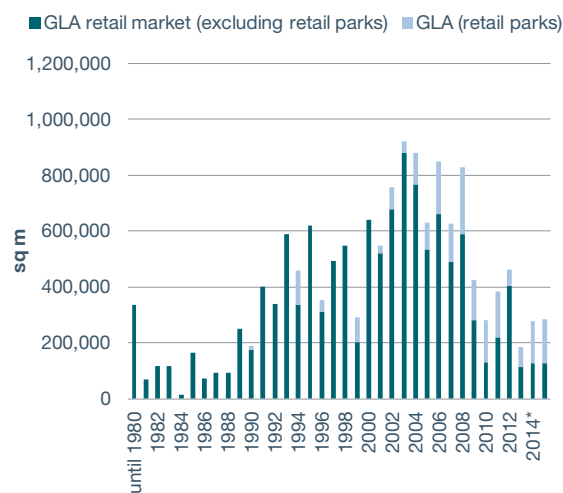
Andalusia and Madrid continue to hold the top spot with over 400,000 sq m each and between them make up 51% of retail park space.

Stock of stand-alone retail warehouse units

According to our estimates, 2.47 m sq m of space is occupied in stand-alone retail warehouse units, which is a 4% increase compared to the figure published in the previous Spanish retail warehouse market report (Spring 2012). This is a slight boost compared to the 12% decline registered in 2012, which was due, amongst other factors, to various Labour Force Adjustment Plans (EREs) which were carried out by companies linked to the sector, such as PC City, Electrodomésticos Miró and Prenatal, that closed several stores to reorganised their commercial network or closed all their stores due to their bad economic situation.

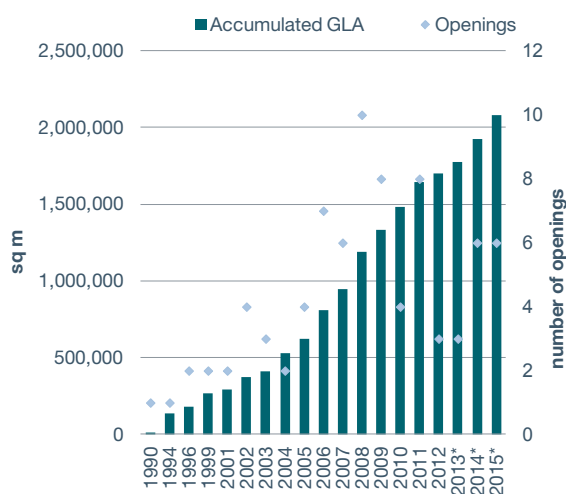
The remaining uncertainty in terms of the global economic situation, means that consumer spending continues to fall even further, which translates in to fewer sales and has meant that various brands have had to reorganise their store networks and that some stores have had to close. Darty (previously known as Menaje del Hogar) given that it was making a loss,

GRAPH 5
Retail market - Completions



Source: Savills, AECC /*forecasts

GRAPH 6
Retail parks - Stock and openings



Fuente: Savills, AECC /*forecasts

had to take more drastic action and was forced to close all of its points of sale, as it had already had to do in Italy, in order to concentrate on its strategic markets, such as France, Belgium and the Netherlands. Stores will be gradually closed up until the end of October.

In terms of stand-alone retail warehouses, Catalonia has achieved the top spot (it was in second place in 2012) after IKEA opened its second largest store in Spain (40,000 sq m) in Sabadell at the end of 2012. With more than 400,000 sq m it accounts

for 18% of occupied space in the stand-alone retail warehouse market.

It still seems contradictory that Catalonia is in the top ranking of stand-alone retail warehouses, despite its tough protectionist policy in terms of small retailers. That said, actually it remains below the national average size (3,900 sq m) in terms of medium-sized retail spaces.

Combined supply of retail parks and stand-alone retail warehouse units

According to our calculations, the total volume of retail space in both retail parks and stand-alone retail warehouse space, would be slightly more than 4.15 m sq m.

Once again, Andalusia, Madrid and the Community of Valencia are the regions with the largest amount of retail space and together the three of them account for nearly half of retail warehouse space.

In terms of provinces, Madrid far exceeds the total volume of space per province, making up almost 16% of the total, followed by Barcelona, which lags behind with 8% and Valencia with 6%.

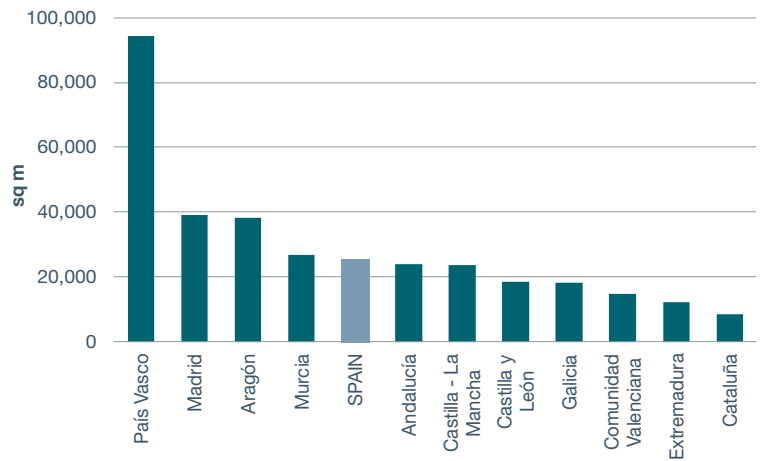
Retail density in the retail warehouse market

Retail warehouse density in Spain stands at 87.87 sq m per 1,000 inhabitants, which is just a 3% increase on spring 2012's figure. This confirms that the closure of stores in stand-alone retail warehouse units has slowed down the increase of stock despite the new openings.

Only six of the 17 autonomous communities exceed the national average, compared to eight last year. Despite the fact that very few retail parks were opened during 2012, the market is showing signs of continued growth. The stand-alone retail warehouse segment saw a considerable increase, both in terms of take-up of vacant retail warehouses, as well as the construction of new ones.

Murcia, Aragon and the Community of Valencia are the three regions with the highest retail warehouse

GRAPH 7
Retail parks - Average GLA



Source: Savills

density (all above 100 sq m) and Navarra and Madrid are also in this group. One of the more significant changes compared to 2012 is that the Community of Valencia has climbed one place, thanks to the Zenia Boulevard coming on to the market, which has a retail warehouse section, and this has therefore meant that Navarra has dropped one place. A special mention should also be made in terms of the drop in retail density in Andalusia, in 2013 (which has now fallen below 100 sq m) and the increase of Madrid to 102 sq m, which puts it on the list of the regions with the largest amount of retail warehouse space.

La Rioja, Extremadura and the autonomous city of Ceuta have the lowest retail density. Catalonia has moved out of last place thanks to IKEA opening its macrostore in Sabadell.

In terms of provinces, Toledo continues to head up the ranking, with close to 175 sq m. This has been the case ever since Parque Abadia was opened in 2011, which doubled the amount of GLA in the retail warehouse segment. At the bottom of the list sit Teruel, Ceuta and Caceres. However, it is striking that Teruel is in this category as, according to preliminary data published by INE for 2010, it has an above-average income per capita and one of the lowest unemployment rates (Q1 2013).

GDP per capita vs retail density

The cross-reference of economic and retail density data shows which region offers good potential to develop a new retail park. INE's 2012 advanced autonomous data for Regional Accounting show that there are six regions with GDP per capita over €25,000 (the national average is €22,772), of which two have a retail density below 70 sq m per 1,000 inhabitants. Hence, a priori, Catalonia and La Rioja appear to be the two Autonomous Communities where there is still room for new retail warehouse developments. However, one also has to take in to consideration the retail offering from other segments of the retail market (shopping centres, outlet centres, etc.) and the administrative subsidies or obstacles to develop new retail properties.

Retailer expansion plans

In the existing climate of severe cuts in private consumption, there have been 34 consecutive months of negative sales growth. It is not the most encouraging of times to be expanding, however, despite the poor economic situation, some operators continue to push ahead with expansion plans in order to improve sales.

Reason prevails and any new location is subject to an in-depth study in order to fully maximise the investment. Consolidated retail areas or for a new

retail complex are the most usual options. Leroy Merlin recently opened a new retail warehouse close to the new Holea centre, which Carrefour Property is developing next to its Huelva (Andalucía) hypermarket and this is expected to open in the Autumn. In reality, this is a relocation to a better location, as it closed the store it previously had in Aljarafe. The same strategy will be adopted for the store closed in the Sant Quirze del Vallès centre and the opening of the store in Sabadell. A new tenant, Bricomart (part of the same group) will occupy the vacant space from October.

Badajoz (Extremadura) is also on Leroy Merlin's short-term radar. The works that were started in 2011 for their first store in Extremadura and which were stopped in June 2012, will begin again soon, with the goal being to open at the end of 2013 or beginning of 2014. The El Faro shopping centre has seen interest from other mega retail operators and Decathlon is working on the first phase of its new store which will open after the summer.

A new operator has come on to the continental European market and Seville has been chosen as the first city to open in. The American distribution giant, Costco Wholesale Corporation will open its first store in the Ciudad de la Imagen Park in Seville, which will be a showcase store for other openings in Spain and the rest of Europe. It also appears that it

"Over the past few months, Spain has improved its image abroad, which is attracting international investment. The American distribution giant Costco will shortly premiere in Continental Europe and will open its first store in Seville." Luis Espadas, Capital markets

has signed its first store in Paris and it continues to search for locations in Madrid and Barcelona.

Ikea continues to show a keen interest in the Spanish market, despite the fact that sales have fallen by 2.5% over the past year. The company continues to carry out its 2010-2020 expansion plan, which involves reaching a total of 27 stores and eight shopping centres in Spain. The next store, which will be the first store in the Community of Valencia, is expected to be delivered in Summer 2014. The search for new locations continues, with the goal being that everyone in Spain will have an IKEA store less than one hour from their door. Currently, 58% of Spaniards do not fall in to this category.

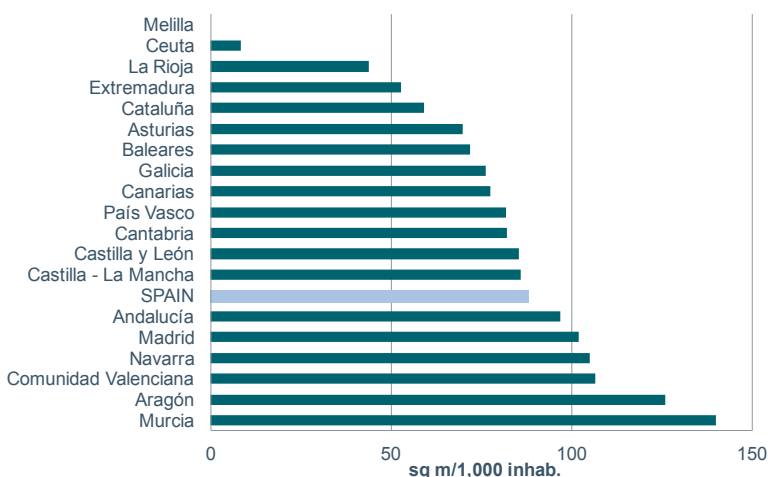
Rents

Hardly anything has changed in terms of rental prices. The achievable rental value for prime retail warehouse product continues to stand at around €16 per sq m/month, which has not changed since the almost 30% fall seen between 2007-2008. This figure

is merely an estimation, as it would relate to new contracts in prime retail parks and hardly any lease agreements have been signed which comply with both of these premises. This is due to the fact that on the one hand, the best retail parks are virtually 100% let and on the other, because very few retail parks are considered to be prime. When it comes to lease renewals in these retail parks, we have detected a slight decrease of about 4%, compared to the €20-22 per sq m/month registered in 2012. It is important to highlight that this is merely an average figure, as the size of the retail space and the term of the lease agreement are defining factors when it comes to the final rental value.

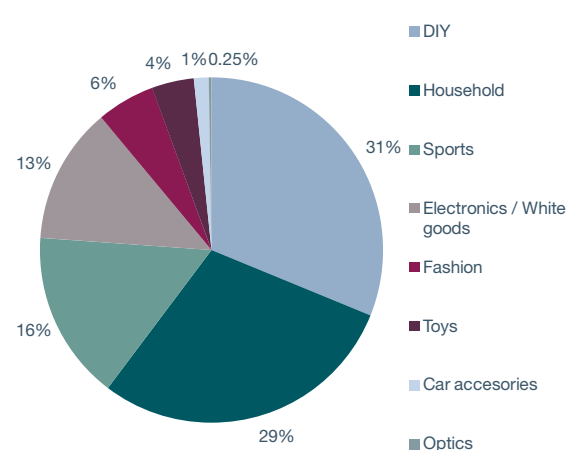
When it comes to renewing a contract, operators in prime retail parks have very little negotiating power, as availability in a prime retail park, in terms of location, retail mix and sales volumes is virtually zero, which means that rents have remained at pre-crisis figures.

GRAPH 8 Commercial density (retail parks and stand-alone retail warehouse units)



Source: Savills

GRAPH 9 GLA by activity (retail parks and stand-alone retail warehouse units)



Source: Savills

Within Europe, Spain is just above the average prime rental value in the countries studied, which at the end of Q1 was at €15.40 per sq m/month. London holds onto the top spot, with €31 per sq m/month.

Future projects

40% of new GLA in the pipeline for 2013, falls in to the retail park category, thereby returning to levels seen back in 2011. The total volume, close to 70,000 sq m, is divided up between three complexes. Based on size, we would highlight the first phase of Camino Real (25,000 sq m) in San Fernando de Henares (Madrid), which opened on 15th March.

The projects in the pipeline for 2014 and 2015 comprise a total of 305,000 sq m, but whether these projects will be developed depends very much on whether financing can be obtained. Access to finance will only be possible for those projects that have a very low debt risk, therefore the process of obtaining the specific licences needs to have been resolved, the urbanisation of the area and accesses to the site need to have been carried out and the retail park needs to have been at least 60% pre-let.

Assuming that all of the projects in the pipeline for the next two years do come to fruition, retail park GLA would exceed 50% of total retail space.

Investment market

Investor activity in the retail market has progressively slowed since 2008. The instability in the economic climate has gradually driven away the usual investors in this sector - the majority of whom were international investors - at a time when it was all the more difficult to acquire financing and there was a lack of quality product for sale. With no traditional retail properties on the market (shopping centres and retail parks) and the fact that there were no experienced investors capable of purchasing large lot sizes, the annual investment volume has fallen each year, reaching a record low at the end of 2012 of €320 m.

The retail warehouse segment has also seen the same drop in investment, however, the share of investment achieved in retail parks and stand-alone retail warehouses over the total

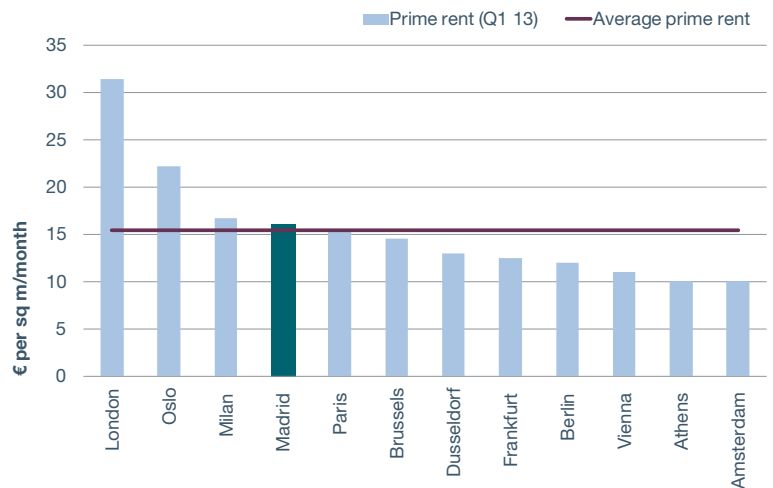
retail turnover has remained stable over the past three years (2010-2012), at between 12% and 13%.

Along with a drop in business, the new market dynamic also brought with it a change in market players. Up until 2008, the majority of deals were between an international development company selling a property to an international fund. The special characteristics of the retail segment require very specialist companies with an in-depth knowledge of the market, which meant that various Spanish companies remained on the sidelines, preferring to focus more on the traditional residential and office markets. However, since 2009,

Spanish investors slowly started to invest in retail (this also happened in the other commercial real estate segments). They primarily focused on high street retail units, but also carried out retail warehouse transactions and within this area went from accounting for 23% of sales up to 2008, to 83% between 2009 and 2012 and went from 19% of investment volume to 40% in the same period.

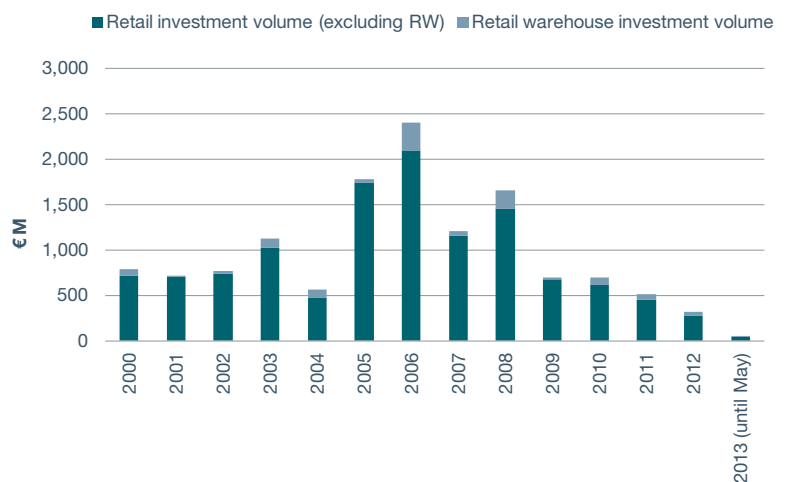
Properties in the retail warehouse sector, whether they are retail parks or stand-alone retail warehouses, now require less of a specialist profile than shopping centres, in terms of construction, marketing and management, which has encouraged

GRAPH 10 Prime retail warehousing rents in Europe



Source: Savills

GRAPH 11 Retail investment market



Source: Savills

national developers and investors to take part in a business area which still has a good deal of growth potential in Spain. We believe that the potential of this business opportunity has not been fully explored yet.

If we focus on last year, investment volume hardly even reached €40 m (two deals), which was a 44% decrease compared to the previous year. Both buyers were national investors. One of the properties that changed hands was the Arambol retail park in Palencia, which opened just one year ago and was 100% let. The other was a stand-alone retail warehouse let to one of the large DIY brands.

Yields

The lack of transactions makes it difficult to set market yields. The latest deal closed would set the prime yield at 7.50%, which would reflect a year-on-year increase of 25 basis points.

This would be the gross yield for retail parks that comply with all of the investment fundamentals (good location, high occupancy rate, correct retail mix and long term lease agreements). Failure to meet any of these requirements would mean that the initial yield would be higher.

Yields for secondary properties are in the region of 8%. ■

OUTLOOK

2013

■ Large retail operators continue to push ahead with their expansion plans. In many cases, the opening of new stores will in reality be the relocation and the improvement of store network.

■ The arrival of new brands on the market is sign of optimism. Costco, the American distribution firm and Deko Palace, the German homeware and decoration company, will join the list of regular brands present in the retail warehouse market.

■ Another new player to have come on to the market is Teyoland (a national brand), which aims to be the Spanish competitor to Ikea. Teyoland opened its first store at the beginning of June, 15 months before the Swedish multinational opens its first store in the Community of Valencia.

■ Average rental prices for secondary properties continue to fall; however it appears that prime rents have already stabilised.

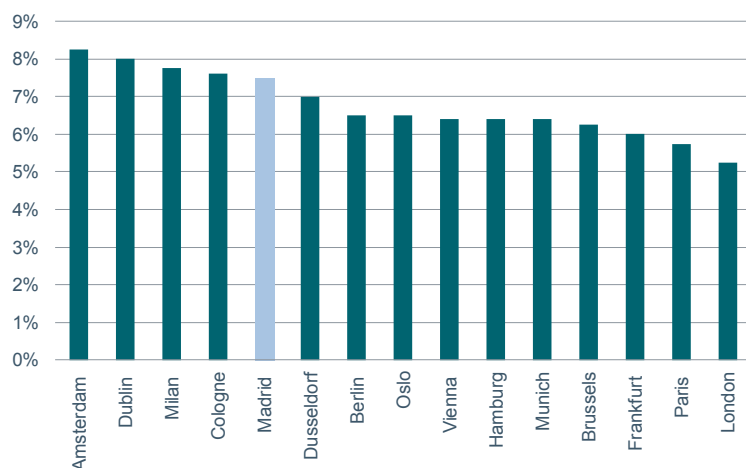
■ The strength of prime retail parks is maintaining the occupancy rate at almost 100%. However, in less consolidated areas or secondary properties, the issue of availability still needs to be addressed. In a bid to avoid vacant retail units, we have seen previously unseen practices being carried out in the retail warehouse sector, such as sales linked variable rents.

■ The retail investment market will continue to be driven by high street units on the main shopping streets of large cities. Demand for traditional products (shopping centres and retail parks) will remain subdued, mainly due to the shortage of buyers and the difficulty of acquiring financing. In the last few weeks, a French company closed a deal to purchase a retail warehouse occupied by an electronics and electrical appliances firm.

■ Few changes are expected with regard to yields, which is mainly due to the lack of transactions.

GRAPH 12

Prime yields in Europe

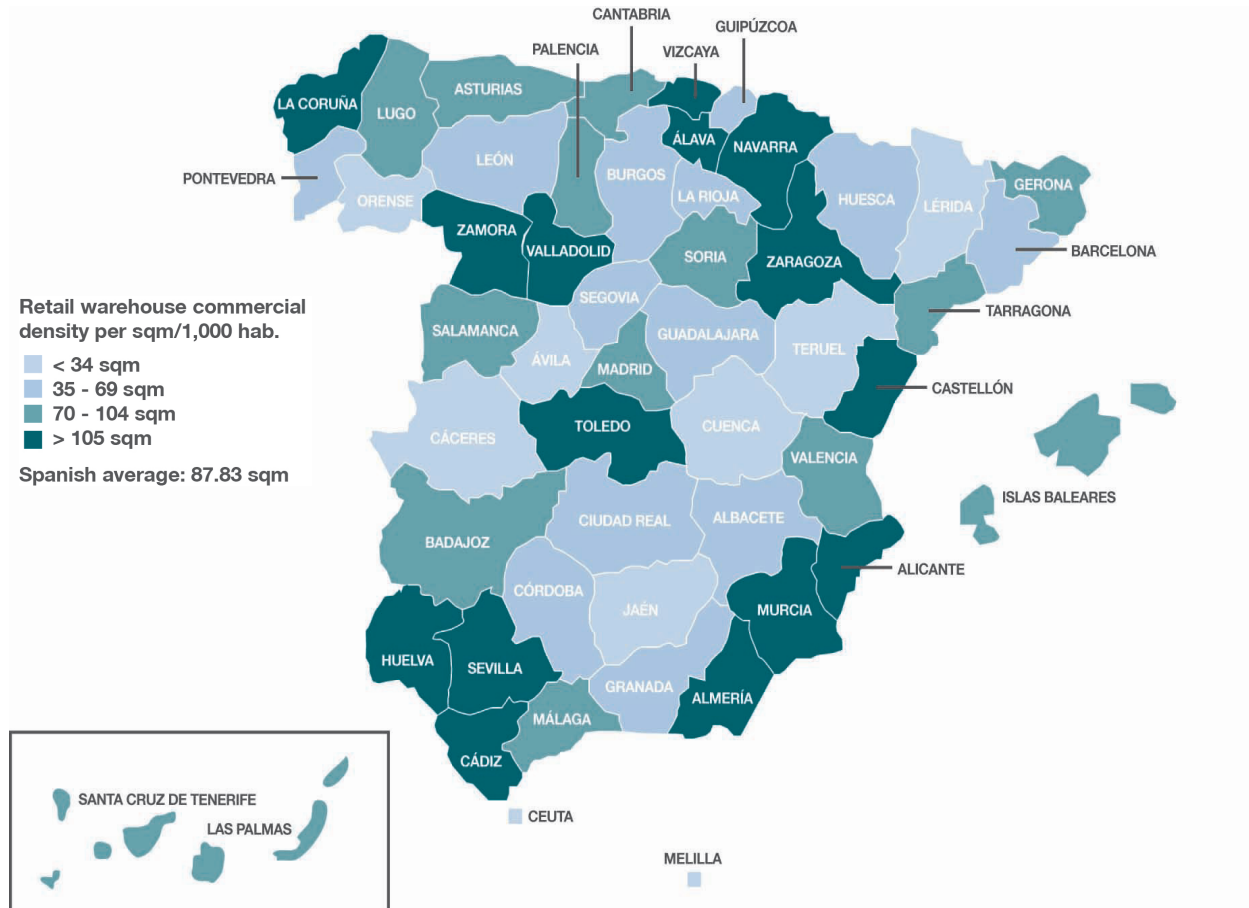


Source: Savills

MAP 1

Retail warehouse market

Retail parks and stand-alone warehouse units



Savills Team

For further information, please contact



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



Danny Kinnoch
Pan-european investment
+44 (0) 20 7409 8864
dpkinnoch@savills.com



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

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