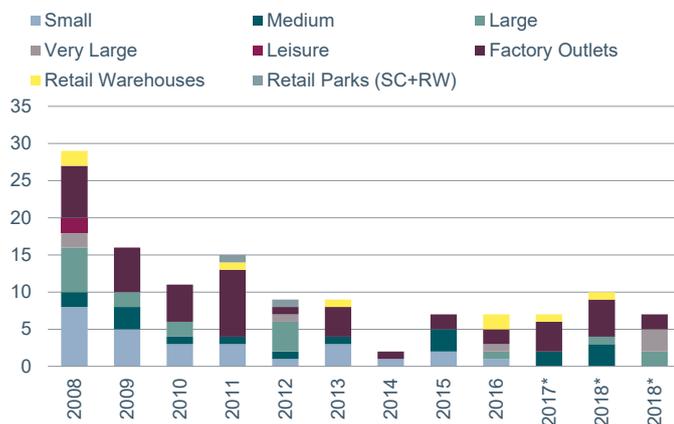


Market Report Spain Retail Warehouses

April 2017

GRAPH 1
New developments by type of scheme



Source: AECC / Savills / *forecasts

GRAPH 2
Consumer confidence and retail sales



Source: CIS / INE / *until March

SUMMARY

The gap tightens between shopping centre and retail park prime yields

■ The circa 2.3 million sq m of retail space occupied by retail parks in Spain now accounts for 14% of the retail market.

■ The retail density per 1,000 inhabitants for this type of scheme stands at around 50 sq m, almost 23% below the European average according to the latest data published by the ICSC.

■ The retail warehouse market's total stock, including the estimated area occupied by the main retailers in stand-alone units, accounts for just over 4.8 million sq m.

■ Despite the apparent saturation in some regions, the low quality of the stock leaves room for new product developed by specialist players. Modern stock would fit better current retailer requirements and attract more brands, consumers and investors.

■ The traditional retail warehouse operators maintain active expansion plans both in retail parks and stand-alone units, however some, in a bid to broaden their scope are also opting for other formats, such as high-street retail units.

■ Rental values have stabilised, however the entry of new retailers, especially from the fashion segment, into the sector could mark a turning point.

■ The transacted volume in Q1 2017 already equates to 48% of 2016's year-end total. Furthermore, an additional €400 million could potentially be close over the coming months, which would be a record figure for the sector (the current record was reached in 2015).

■ Yields are under pressure due to the supply demand imbalance. The current achievable prime yield stands at 5%.

Economic Overview

The main economic indicators are upbeat, and forecasts for the coming years are very encouraging.

The Spanish economy has registered three consecutive years of growth, closing 2016 at 3.2%. Domestic demand was one of the main drivers, fuelled by strong household consumption on the back of confidence in the economy and on-going job creation.

The unemployment rate in Q4 2016 stood at 18.63%, over seven percentage points below the recent-year peak, recorded in Q2 2013. In terms of the number of job seekers, the current figure is 26% lower than in February 2013, when an all-time high was registered. Since then, the number of employed contributing to social security has climbed 11%.

In the upcoming years, a slowdown in economic growth is forecast. The rate of household spending is also set to ease, due to rising prices and the impact of hikes in taxes and the Euribor (the latter expected towards the second half of the year). This said, unemployment figures will continue to trend downwards.

According to the latest forecasts published by Eurostat (Winter Economic Outlook 2017), Spain's

economic growth will continue to outstrip that of countries considered the drivers of the Eurozone, and will continue to exceed the EU average.

E-commerce

According to the latest figures published by the National Commission of Markets and Competition (Comisión Nacional de los Mercados y la Competencia - CNMC), during the first nine months of 2016, turnover from e-commerce exceeded €17,500 million, a y-o-y increase of almost 19%.

However, despite the rapid progression of e-commerce, sectors related to travel agencies, tour operators and airlines continue to have the heaviest weighting, accounting for 28% of the total market share, followed by clothing, with 6%.

In Q1-Q3 2017 The online trade volume of the retail categories relevant to shopping centres and retail parks stood at just over €4,600 million, 27% of the total.

Regarding traditional retail park businesses, with 15%, the electronics segment accounts for the largest share of online turnover. Y-o-y sales rose by 28%.

F&B retailers are found at the other end of the spectrum, accounting for just 2% of the total. However,

we would particularly highlight the 48% y-o-y jump seen in this sector, driven by home-delivery companies that generally manage orders via an app.

Online sales of household goods, one of the business activities with the highest number of retail warehouses, continues to attract very few online buyers, accounting for just 3% of online turnover, a -1.0% y-o-y decline. This was the only sector to see its market share drop.

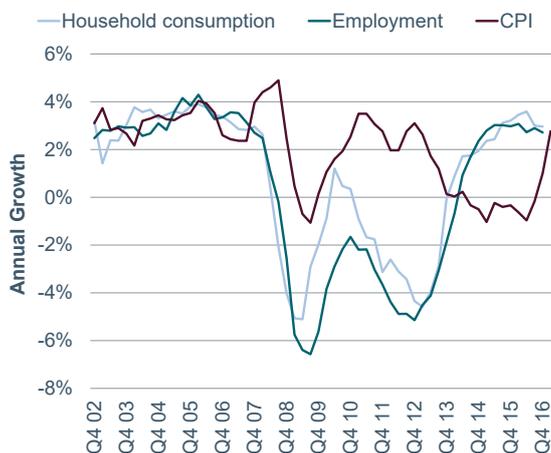
Online+offline

Many retail warehouse operators and retail park developers have significantly invested in updating their businesses by developing web pages and apps. Today, the majority of retail warehouse operators boast powerful online sales platforms which allow customers to buy their products both quickly and easily.

However, e-commerce is not an entity apart from bricks and mortar stores and neither is its growth, retailers are tending to refurbish their stores with new fit-outs that convert them into eye-catching showrooms that also incorporate the online sales channel.

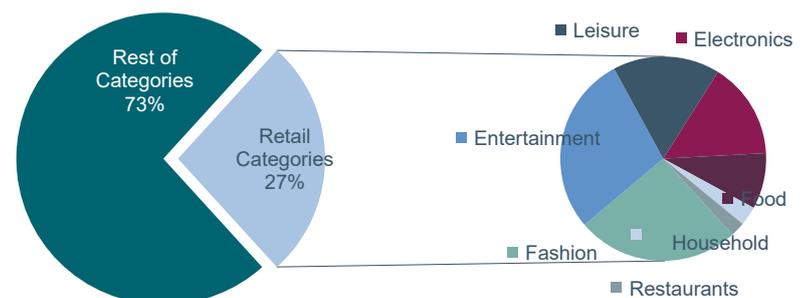
The electronics chain Media Markt is a good example of this, the company has set itself the challenge to become the first omni-channel retailer in Spain. To

GRAPH 3 Main Economic indicators



Source: INE

GRAPH 4 Trade volume share in e-commerce by category 2016 until Q3



Source: CNMC

"Due to the growing importance of e-commerce retail warehouse operators tend to redesign their stores and convert them into showrooms where online sales form an integral part of the store" Gema de la Fuente, Savills Research

do this, it will invest €47 million in its digital transformation plan by rolling out digital price tags, installing specific areas for the most state-of-the-art technology and a "Service" area. this wil house customer services and its 2-hour delivery service for products purchased online.

The electronics chain Worten, which is continuing to increase the number of its stores in Spain, is also investing in providing an omni-channel service for its customers, offering them the Click to Chat solution on its website in a bid to provide its e-commerce customers with an immediate online service.

In December 2016, Ikea launched its online sales channel in Spain which operates all over the country, barring the Balearic and Canary Islands, Ceuta and Melilla. The items purchased can be collected in a designated store or delivered directly to the customer's home. In order to satisfy the demand, Ikea has already opened a Click & Collect point in the Galaria Retail Park (Pamplona) and plans to open two more in Castellón and Alicante.

For all these brands, investing in e-commerce highlights the need to integrate the in-store and online shopping channels in order to reach the client more directly, more quickly and to be able to offer a more personalised approach.

Retail park stock

After comparing and contrasting internal data with figures released by the Spanish Association of Shopping Centres (AECC), the retail warehouse stock in Spain is already approaching the 2.3 million sq m mark, equating to 14% of the total retail surface area.

The retail warehouse format continues to gain an ever stronger foothold in the market. Since 2005, the percentage of these schemes has exceeded 10% of the total retail product, coinciding with the years in which development activity for this type of product has been at its highest.

Circa 900,000 sq m came on to the market between 2005 and 2009 spread over 35 retail parks, i.e. 40% of all GLA and also almost 40% of all properties.

The peak in development activity for this type of asset came five years after the rest of the traditional retail market, mainly comprising shopping centres.

In 2016, the stock barely increased 1%, given that only 14,000 sq m were added to the market, via two small retail parks (one in Ávila, Las Moruchas, comprising 3,350 sq m and another in Murcia, Pinatar Park, comprising 10,600 sq m). These two new additions slightly affected the average size of retail parks, which now stands at 26,500 sq m. This said 75% of the schemes are still smaller than the national average.

In terms of the total distribution of retail parks by size, the lion's share of parks comprise between 10,000 and 19,999 sq m, 27 in total, although they barely represent 20% of the total market GLA.

Retail parks >100,000 sq m which are far fewer in number can be found at the other end of the spectrum. Only three schemes fall into this category, but they alone account for almost 15% of the market's GLA.

The GLA breakdown by region is headed up by the autonomous

GRAPH 5
Periods of retail market activity



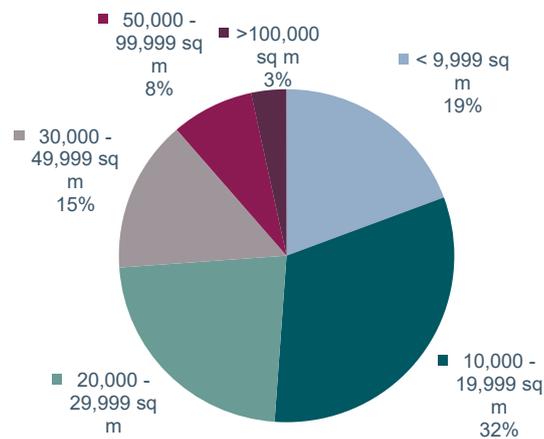
Source: AECC / Savills / *forecasts

GRAPH 6
New openings



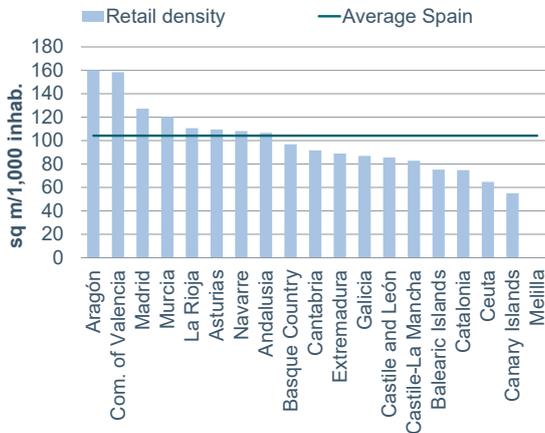
Source: AECC / Savills / *forecast

GRAPH 7
Retail parks by size



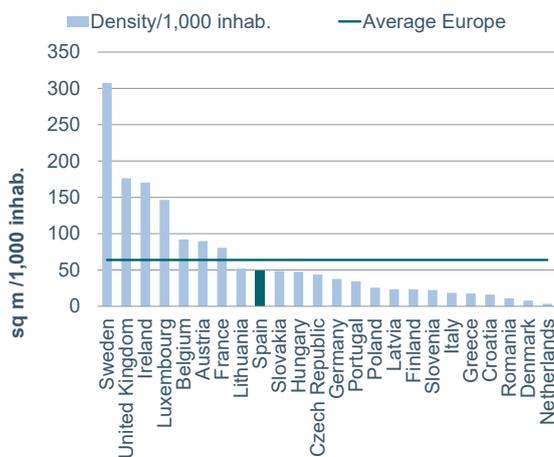
Source: AECC / Savills

GRAPH 8
Retail warehouse densities by region
(Retail parks and stand-alone)



Source: Savills

GRAPH 9
Retail warehouse density Europe -
Retail parks



Source: ICSC

regions that are home to the mega parks: Andalusia, with Luz Shopping (Cádiz) and the Madrid Region, with Parque Oeste (Alcorcón) and Megapark San Sebastián de los Reyes which account for 34% of the region's total GLA.

Despite not having any complexes over 100,000 sq m, the Community of Valencia ranks third, given that it has the highest number of retail parks (16), only behind Andalusia (23). Murcia ranks fourth with a GLA of almost 160,000 sq m.

These regions also have a higher than average retail density, standing

at around 50 sq m per 1,000 inhabitants.

The autonomous regions of Valencia, Madrid and Andalusia are in the top five autonomous regions by retail density, ranking third, fourth and fifth respectively (with values of between 80 and 65 sq m).

The ranking is headed up by Aragón and Murcia (both >100 sq m). Aragón also features one of the largest retail parks (the retail warehouse area of Puerta Venecia in Zaragoza, with 90,000 sq m), whilst Murcia registers in just one province similar figures in terms of GLA and population as Aragón.

At the tail end are Catalonia, Asturias and Galicia, accounting for little more than 7% and retail densities of 12.90 sq m, 16.40 sq m and 41.2 sq m respectively.

We must also highlight the fact that seven autonomous regions (24 provinces), including the autonomous cities of Ceuta and Melilla, do not feature any retail parks, however in some locations this void is filled by stand-alone warehouse units.

Compared with Europe, Spain is still a long way from the retail density levels of its more northerly neighbours. According to the latest data published by the ICSC (International Council of Shopping Centres), the average retail density in terms of retail parks in the EU reached 64 sq m per 1,000 inhabitants in 2014, 23% higher than Spain's figure. Nevertheless, if we compared Spain's level with more up-to-date figures for Europe, this gap would probably be wider. The European ranking is led by Sweden (with more than 300 sq m per 1,000 inhabitants), the UK and Ireland (with 176 and 170 sq m per 1,000 inhabitants respectively).

Total retail park and stand-alone retail warehouse unit stock

The combined total GLA of retail parks and stand-alone retail warehouses occupied by the sector's main retailers stands at just over 4.8 million sq m.

Andalusia, Madrid and the

Community of Valencia account for just over half of monitored space, with all three falling within the five regions with the largest amount of retail space, both in terms of retail parks and stand-alone retail warehouses.

At the provincial level, Madrid, Barcelona and Valencia occupy the top three positions, accounting for 35% of the Spanish total. Furthermore, the three provinces which lead the ranking in terms of stand-alone retail warehouses also feature among the five provinces with the highest GLA in terms of retail parks.

Retail density in the retail warehouse market

Spanish retail density for the retail warehouse market, including retail parks and stand alone units, stands at over 100 sq m per 1,000 inhabitants (103 sq m), equating to an 8% rise y-o-y.

Hence, 19 of the 52 provinces have now broken the 100 sq m physiological barrier, with 18 exceeding the national average, and one, Zaragoza, even surpassing the 200 sq m mark.

The capital of the Aragón region features three retail parks, of which Puerto Venecia is one of the largest retail parks in Spain, (the retail warehouse area of the Puerto Venecia shopping resort), and houses several of the sector's main retailers in spaces ranging from 1,000 sq m to 14,000 sq m, with an average area of 5,300 sq m, 75% above the national average.

In stark contrast, the provinces of Jaén and Segovia record retail densities of <10 sq m. However, there are retail park projects underway in both these provinces (Parque Guiomar in Segovia, forecast for 2017 and Jaén Plaza due to come onto the market in 2018), which will reorganise the rankings at the provincial level.

Economic activity vs. retail density

If we cross-reference socio-economic indicators which allow us to examine the population's average spend (retail spend per

person according to the household spending survey, GDP per capita and unemployment) vs. retail density data, we are better able to identify provinces in which conditions favour the development of new retail schemes.

Thus, the focus should be on the provinces that register a better socio-economic performance and a lower retail density, but especially on those with the lowest difference between retail density weighted by purchasing power and baseline retail density, as the provinces with higher populations are those that have more real spending potential.

According to this analysis, the Balearic Islands and Catalonia (with three provinces) would be the ideal candidates for new developments, even though the low retail density is slightly linked to the administrative restrictions

relating to large retail spaces that have been in place for several years.

Other niches are two provinces in the Basque Country and Aragón, four in Castile and León and one in Galicia, although some of these have a high percentage of elderly people living in the province, which would push down consumption levels.

An extensive analysis of the catchment area would be required for all cases, studying both the existing and future competition in each area, including all retail formats, as well as the quality of the new development and the existing product in the surrounding area. Such an analysis would determine whether a location was more or less suited to housing a new development.

Expansion plans

Activity in the retail park market in Spain is sparking interest among brands that traditionally occupy this type of scheme, and that are now also looking for locations in major city centres (Media Markt, Worten, Decathlon). Traditional shopping centre brands are also in the process of expanding and diversifying their customer-base via the retail warehouse format.

The Swedish household giant **Ikea** has ambitious expansion plans that in some cases have been slowed due to administrative red tape regarding planning permission and a lack of land available that fits the specifications required by the retailer. After breaking into the city centre, opening pop-up stores in Madrid and Barcelona, and with further plans to open a similar 400-500 sq m store in Calle Colón de Valencia, Ikea intends to open two Click and Collect points in Castellón and Alicante, a 68,000 sq m store in Tarragona, another 30,000 sq m store in Pamplona (Navarra) and also plans to enter the markets of Gerona, Alicante, Vigo (Pontevedra) and Seville.

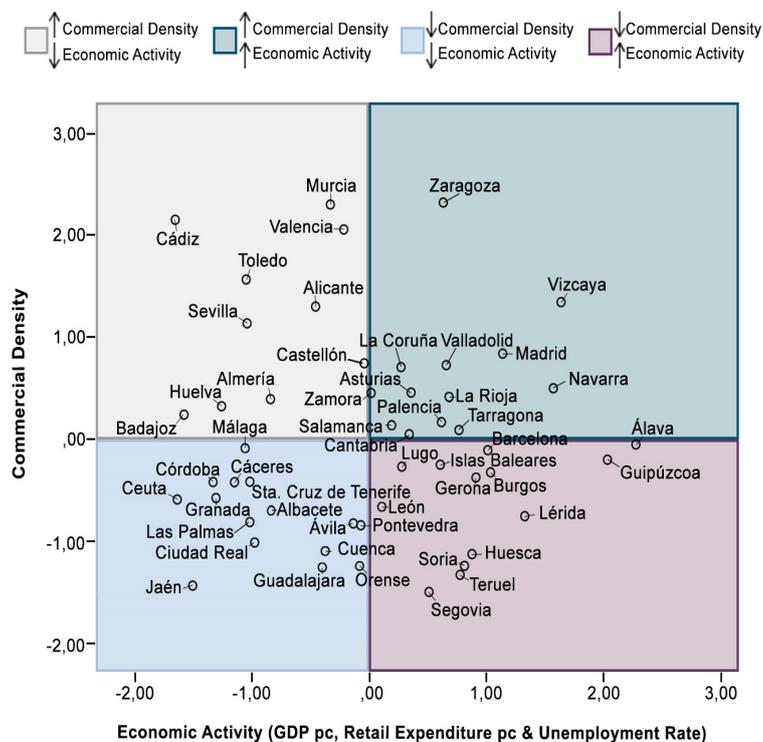
The furniture chain **Conforama**, belonging to the Steinhoff International group, plans to double its size and open 32 new stores across Spain and Portugal by 2018. Its upcoming openings in Spain will be located in Lanzarote, Finestrat-Benidorm (Alicante) and Lleida, whilst the firm is also working on different possibilities in Madrid, Castellón, Valencia and the Canary Islands.

Leroy Merlín is also implementing an ambitious expansion plan via which it aims open 25 new stores throughout Spain by 2020. This comes on the back of three major openings in 2016, in Madrid, Finestrat-Benidorm (Alicante) and La Coruña.

AKI, the DIY, gardening and decorating firm plans to open 33 points of sale in Spain by 2019, 20 of which will be retail warehouses and 13 city centre retail units.

The construction and refurbishment material distribution retailer

GRAPH 10 **New development opportunities ***
Retail parks and stand-alone units



Source: Savills / * Factor analysis carried out with SPSS: The programme proportionally rescales the different weightings of the three variables analysed, in order to deal them in one graph.

Bricomart continues to drive its growth plans in Spain after opening three new stores in 2016 in Sestao (Vizcaya) (5,000 sq m), Palma de Mallorca (the Balearic Islands) (7,500 sq m) and Alcorcón (Madrid) (8,500 sq m).

The German group **Bauhaus**, already has 11 stores in Spain, particularly highlighting the recently opened store in Alfafar (Valencia) and comprising 17,500 sq m, its largest store in Spain, in Alcorcón (Madrid), located next to the new Ikea. The group is also looking to enter the market in Catalonia, Bilbao (Vizcaya) and Seville.

As for **Media Markt**, after opening its new 2,200 sq m city-format store in Calle Fontanella in Barcelona and a 3,100 sq m store in the Fan Mallorca shopping centre last December, it is now planning to invest between €8-€10 million in 2017 and open four new stores, one of which will be a 2,200 sq m retail unit located in Plaza del Carmen in the heart of Madrid city centre.

Worten, the brand specialising in home and electrical appliances intends to open around ten stores in Spain by 2019.

After investing over €500 million in its city-format store in Madrid's Calle Bravo Murillo, the Portuguese group Sonae SR is soon to open stores in retail parks in Tarragona and Jaén, after already opening stores in Soria, Las Palmas, El Ejido (Almería) and Vinaroz, (Castellón), amongst others in 2016.

The electrical appliances firm **Electrodepot**, belonging to the HTM (High Tech Multicanal) group, which operates in France and Belgium is looking for retail spaces of between 1,500 and 2,000 sq m on the outskirts of Madrid and Barcelona.

Despite the fact that **Decathlon** has recently focused its expansion efforts on growing its city-format Decathlon City, which now boasts 31 stores across the country, in 2017 the brand is set to implement a very active expansion plan in retail parks, including: the relocation of its Alfafar (Valencia) store to Alfafar Parc, the opening

.....
 "The fashion segment could spur the retail park market, diversifying the retail offer, increasing both footfall and the average length of stay. This will also draw in other fashion retailers and thus improve overall returns" Alicia Corrales, Savills Research

of its sixth retail unit in the Canary Islands (2,800 sq m), on the Island of Lanzarote (Las Palmas), another store of almost 1,300 sq m in Valdepeñas (Ciudad Real), a 1,400 sq m unit in Soria and the opening in March of a 3,000 sq m in the Myo de Gandía Retail Park (Valencia).

The Spanish and Portuguese division of **JD Sports**, which also owns the Spanish chain Sprinter, has joined forces with the Portuguese retailer Sport Zone, owned by Sonae group, to jointly manage the business of the two companies in Spain. Sprinter, has stepped up its growth rate since 2015 and has outlined an ambitious expansion plan, aiming to open between 20 and 25 stores by 2020.

Merkal Calzados, a traditional retail park operator in Spain, continues to roll out its expansion plan, with openings in the Nevada Park in Armilla (Granada), Les Glòries (Barcelona), Berceo (Logroño) and Madrid Xanadú (Arroyomolinos) shopping centres.

The fashion chain **Kiabi**, belonging to the Mulliez family, which has until now been highly focused on the retail park market, now plans to open in shopping centre and high-street retail units in major Spanish cities with stores of a similar size to its retail warehouse-format, around 1,500 sq m.

Although the pet retailer **Kiwoko** is already consolidated in Spain, it has only entered the retail warehouse market relatively recently, although it has grown very rapidly. According to the Savills database, the brand already has around 50 units in retail parks and stand-alone format, accounting for over half of its total sales points.

The Malaga-based leisure, gaming and entertainment retailer **Pause & Play** is also set to open a new space in Vidanova Parc (Sagunto, Valencia), following the trend to diversify the business via this type of format.

Although gyms are businesses that require their catchment areas to have high population densities, opening them in retail parks can prove a very attractive alternative, provided that the people visiting the park include people that are likely to use its services, for example, students, employees of nearby offices or even the retail park's very own staff.

A positive for gym operators is that they can benefit from lower fit-out costs and lower rents, whilst for developers, gyms provide the possibility of letting the upper floors of the retail parks which are always more difficult to lease (instead of market). Operators such as Basic Fit (in Parque Albán, Sedaví, Valencia) and Mc Fit (in Plaza Nueva, Leganés, Madrid) are two examples of gyms that have gone down this avenue.

New Retailers

The recent entry of new retailers with business activities that are not traditionally a prominent feature in retail parks can be interpreted as the start of a new era in terms of the make-up and concept of this type of format.

The fashion business is taking an ever greater interest in retail parks, with traditional high-street and shopping centre brands starting to debut in the retail warehouse format (Mustang, Orchestra and Deichmann). New international fashion brands are actively looking to take space in Spanish retail parks.

The fashion sector poses very positive prospects for the retail park market, given that it can help to diversify the parks' retail offer, increase footfall and the length of average stays in the park. This, combined with the fact that fashion retailers usually occupy smaller spaces and pay higher rents than other retailers, will increase the overall returns of projects. The incorporation of fashion retailers will strengthen the critical mass of schemes and thus spark interest among other fashion retailers.

The French footwear chain **Chaussea**, is looking for opportunities in Spain and is interested in areas in the region of 1,000 sq m. It has recently signed an agreement to let a retail unit in Alfajar Parc (Valencia), where it will occupy 1,250 sq m.

The Italian fashion chain **Globo Moda** has embarked on an ambitious expansion plan for Spain. In addition to the future openings of a 2,700 sq m retail unit in the Terrassa Plaça Retail Park (Barcelona) and another 5,800 sq m unit in Alfajar Parc (Valencia), it also plans to open other stores, most likely in Madrid and Zaragoza.

The German footwear giant

Deichmann also has an aggressive expansion strategy. The recent opening of a 450 sq m store in the newly opened Pinatar Park (Murcia) may suggest that retail parks are fixed firmly on its radar for growth.

Mustang, another classic shopping centre and high-street brand, is also investing in the retail warehouse format, with the opening of its outlet store in the Ginés Plaza Retail Park (Seville) clear proof of this new strategy.

Fifty Factory and **C&A** will also take space in the future Vidanova Parc that Lar is scheduled to bring onto the market in Sagunto (Valencia) next year.

Orchestra is investing in mega stores and is taking space in retail parks, either opting for sales spaces of 500 sq m or of over 1,500 sq m. Its stores at Luz Shopping (Jerez de la Frontera, Cádiz) (with 669 sq m), Parque Ferrol (Coruña) (with 2,000 sq m) and the El Golf Retail Park (Talavera de la Reina, Toledo) (with 1,000 sq m) are a few examples.

In addition to classic Food & Beverage retailers (Burger King, KFC, McDonald's), other retailers such as **Starbucks**, **Muerte la**

Pasta and **La Tagliatella** are also starting to become a regular feature. These retailers often occupy above-average sized spaces and have a positive impact on the retail parks where they are present, given that they favour longer average stays and higher average tickets per visit.

Rents

The increased appeal of the retail park sector to investors has still not fed through to rental values, which are yet to see increases. This is partially explained by the lack of prime product and the growth in the number of small secondary retail parks.

It is forecast that this trend may change thanks to the entry of new retailers that until now have not been present in retail parks and that are starting to spark greater interest in the retail warehouse format.

In 2016, rental levels for retail parks stood at circa €10 per sq m/month. The location and the catchment area are the main factors that determine rental levels, however, a more detailed analysis of the prime product highlights differences between super-prime parks, where rents stand in the region of €15-€18 per sq m/month and other prime

TABLE1

New GLA expected in 2017 - 2018

Asset	Location	Province	GLA (sq m)	Developer
Vidanova Parc	Sagunto	Valencia	45,000	Lar España Real Estate
Terrassa Plaça	Terrasa	Barcelona	30,500	City Grove
Jaén Plaza (1st phase)	Jaén	Jaén	28,000	Grupo Alvares
Calchetas	Tudela	Navarra	15,900	Inmuebles Calchetas
Park Sabadell	Sabadell	Barcelona	15,500	Bogaris Retail
Parque Guiomar	Segovia	Segovia	11,900	Sigla
Parque Finestrat	Benidorm	Alicante	10,500	Activ-Group
Puerta de Algete	Algete	Madrid	10,000	Ten Brinke
Parque Alcorcón	Alcorcón	Madrid	8,000	Corpfin Capital Real Estate
			175,300	

Source: AECC / Savills

parks where rents range between €9 and €11 per sq m/month. Regarding secondary parks, rents in small/medium towns are circa €7-€8 per sq m/month and in large towns they are between €8-€10 per sq m/month.

A comparison of the performances registered for the periods 2010-2013 and 2014-2017, highlights an almost 7.2% drop in rents. DIY, homeware and games were the segments to register the sharpest rental declines, whilst rents for fashion, sportswear and electrical appliance retailers recorded a more stable performance.

An analysis of rents by business activity highlights that fashion and vehicle accessories have the highest rents, with levels reaching €12 per sq m/month, exceeding the sector average by two euros. Gyms and Entertainment stores display the lowest rents, paying €4 and €8 per sq m/month respectively, largely due to the narrower margins in these types of businesses and, in the case of gyms, due to the fact that they can occupy two floors, thus benefitting from the rental discount applied to floors that are not located at street-level.

In Europe, the average rent stands at €17.75 per sq m/month, equating to a very slight y-o-y increase, given that only two out of the cities analysed have seen growth (Madrid and Dublin). Stability remains the

norm both in cities where Savills is present in the Eurozone and in cities with local currencies (London, Stockholm, Oslo and Copenhagen). Of these, London is the only city to have registered slight growth.

The highest rental levels can be found in Dublin and London, where they stand at €36.25 and €35.90 per sq m/month respectively, whilst Amsterdam and Belgrade are positioned at the other end of the spectrum, both with €10 per sq m/month, levels that have remained flat y-o-y.

Future Projects

The retail park market is playing an ever greater role in the traditional retail market.

Retail parks represent 35% of all new developments for retail schemes in the pipeline between 2017 and 2018, although each year is set to have a very uneven weighting. During 2017 it is expected that 61,000 sq m will come on to the market via four parks, among which we would particularly note Terrasa Plaça (Terrasa, Barcelona), comprising 30,500 sq m, which is being developed by City Grove, which is scheduled to open in H2 2017.

It is forecast that 115,000 sq m will be added to the market via retail warehouse complexes in 2018, with Lar España heading up the year's largest project: Vidanova Parc, comprising 45,000 sq m, which will increase the retail offer in Sagunto (Valencia).

However, as has been seen in the past few years, the leasing (instead of sales-marketing) rate will be the factor that determines the scheduling of the construction works. More than 60% of the space in the aforementioned projects was already pre-let at the end of 2016 (a year ahead of the Terrasa Parc opening and more than a year ahead of the Vidanova Parc opening), further underlining the feasibility of the projects.

Development activity remains dominated by local players. Since 2008 the projects completed by Spanish companies (real estate companies and private investors)

have accounted for 65%, a percentage that rises to 75% if the new schemes planned between now and 2018 are included.

Bogaris Retail has accounted for 13% of the total GLA developed over the last two years and is ranked second in terms of new GLA brought onto the market, only beaten by IICG (Inter Ikea Centre Group), which with just two mega deals accounted for 16% of total new GLA.

Bogaris also has several projects that are currently underway, one of which is scheduled for delivery over the coming months and two of which are due to come onto the market post-2018.

A special mention must be given to the Socimis, who have recently debuted on the development scene; in fact, one Socimi is developing the largest project forecast for the next 24 months, the previously mentioned Vidanova Parc.

Investment Market

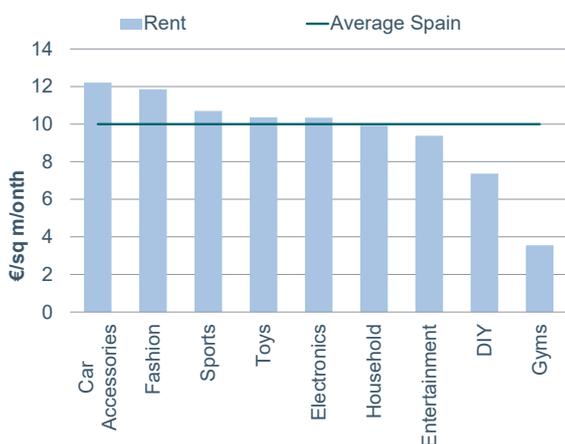
The volume transacted in the retail market in Q1 2017 now stands at more €1,200 million, a 33% yoy increase.

By product type, traditional retail properties (primarily shopping centres, retail warehouses and supermarkets), which currently represent just over 80% of the total figure, registered an even higher increase, almost 45%. The spike in this category is due to the sale of Xanadú (Arroyomolinos, Madrid) by Ivanhoe to Intu for over €500 million, a deal which represented 54% of the quarter's volume.

The first quarter already accounted for 42% of the total investment volume recorded at YE 2016; 46% in terms of traditional retail product and almost 30% for retail high-street units.

It must be taken into account that several of the deals closed during the first few months of the year first emerged in the second half of 2016, coinciding with both the significant increase in investment market supply that was seen after the Summer, and the average time required to close this type of deal

GRAPH 11 Average rents by sector



Source: Savills

(around six months).

At the end of Q1 2017, the retail warehouse segment registered a volume of almost €130 million; 48% of the total YE 2016 volume.

The highest ticket so far this year has been registered by the Parque Abadía deal. Lar España acquired 65% of the scheme for just over €63 million. This is the year's second investment deal involving a retail park, after Savills IM acquired a small retail scheme in Oiartzun (Guipúzcoa) for €16 million.

The other deals signed in the retail warehouse market involved two stand-alone units occupied by Forum Sport and the retail warehouse that housed Madrid's first IKEA store, in Parque Oeste Alcorcón, until it relocated last year to open the region's largest store, comprising 39,500 sq m.

All signs suggest that 2017's investment volume could equal, or even outstrip the record figure recorded in 2015 (when the sale of the €170 million Megapark Barakaldo (Vizcaya) significantly drove up the yearly figure), given that retail warehouse deals totalling over €400 million could be closed over the coming months.

Among the transactions closed in 2016, of particular note is the portfolio of six Bogaris retail parks located in Andalusia and Extremadura, which was acquired for €95 million.

Demand

The traditional product in the market continues to be dominated by international capital. Since records began, cross border investment has accounted for an average of 83% of the total volume, although since 2014 domestic investors gained a greater foothold in the market thanks to the inclusion of Socimis (considered Spanish companies, despite having a significant weighting of international investors among their shareholders).

Between January and March 2017, domestic investors accounted for 27% of the volume transacted for shopping centres, retail warehouses

and supermarkets/hypermarkets, a percentage which rises to 36% if only the retail warehouse segment is considered.

The international investor profile remains dominated by investment funds which specialise in the sector, however the weighting of their average volume invested has been pushed down by the impact of the Socimis.

Yields

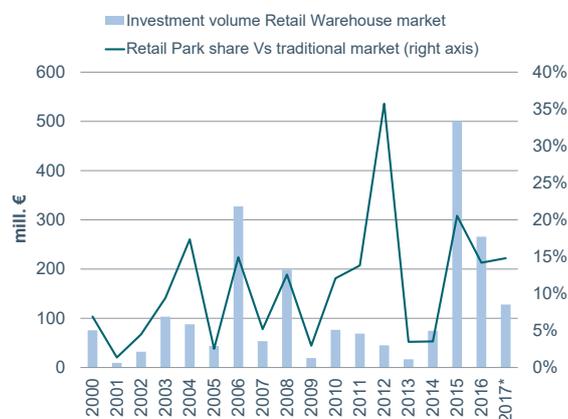
The yield compression seen in the commercial real estate market has also affected the retail warehouse segment. In fact, within the retail sector, retail parks register the widest yield gap with the levels registered in 2007 (last market peak), 105 basis points, indicating that there is still significant uplift potential.

Yields for prime parks currently stand at 5%, 75 basis points higher than prime shopping centres yields, whereas in 2007 this gap barely reached 20 basis points. The lack of comparables since the Megapark was closed (in summer 2015) has held the achievable yield very stable, barely adjusting 50 basis points between the moment the deal was signed and YE 2016.

However, due to the growing interest among potential buyers and the lack of product on the market, all signs suggest that deals involving prime products could be closed with yields of circa 5%.

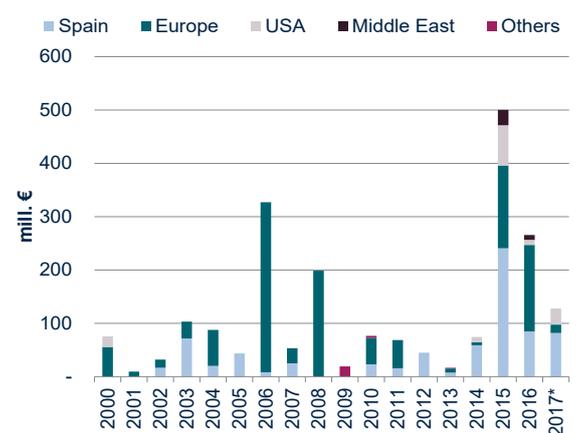
Deals involving secondary products would register yields of around 6.50%. ■

GRAPH 12 Retail warehouse investment (retail parks and stand alone units)



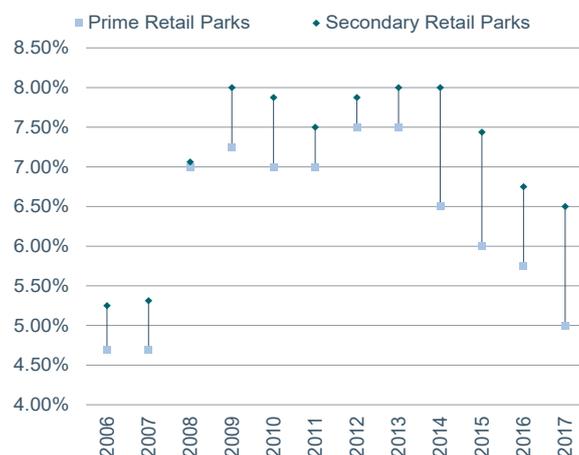
Source: Savills / *until March

GRAPH 13 Investment volume by origin of the purchaser



Source: Savills / *until March

GRAPH 14 Yields Spain



Source: Savills

Outlook

2017: Market expanding, both in terms of retailers, new developments and investment

■ The Spanish economy registered three years of consecutive growth, with the main indicators remaining upbeat. 2017 will mark the start of a period of moderate growth, although growth in Spain will still beat both the EU average, and even the levels registered by the countries considered to be the Eurozone's powerhouses.

■ For the time being, the ECB is maintaining interest rates at 0%, focusing more on the results of the General Elections being held in several European countries. The FED, however, rose rates 25 basis points in March, thereby completing the third rate hike in 15 months, and is set to announce two more before the end of 2017.

■ New business activities are emerging that will diversify the retail supply on offer in retail parks, and increase customers' average stays and spends per visit. In retail parks, the leisure component, such as cinemas and F&B offerings, will become an ever more present feature and enhance the appeal of schemes for both customers and investors.

■ Significant interest has been shown by French retailers in retail warehouses in France, Orchestra and Chaussea, who could increase their rate of entry into retail parks in Spain via French developers.

■ Despite the fact that some of the most traditional retail park operators are looking for city locations in the centres of major cities, their stores in retail parks continue to feature heavily in their expansion plans.

■ Developers are looking for market niches via the development of small retail parks. Taking advantage of the opportunities brought by locations that fail to offer the critical mass required to build a shopping centre, but benefit from large catchment areas that do offer the potential to develop a retail warehouse park. On one hand, retail parks are able to access a very specific customer profile, and on the other, they diversify the developer's business activity.

■ Despite the fact that prime products remain few and far between, the entry of specialist developers onto the market will favour the development of higher quality retail parks.

■ The retail warehouse segment continues to generate evermore interest among retailers and investors. This will undoubtedly lead to a higher number of deals and increase this sector's weighting within the traditional retail product.

■ Retail warehouse deals totalling over €400 million could be closed before the end of the year.

■ The supply-demand imbalance continues to drive down yields, which are tighter for prime assets.

■ International capital will continue to dominate the investment market, even though since 2014 domestic investors have gained a greater foothold following the entry of Socimis onto the market.

Savills Team

For further information please contact



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



Salvador González
Investment Retail
+34 91 310 10 16
sgonzalez@savills.es



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



Alicia Corrales
Research
+34 91 310 10 16
acorrales@savills.es

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