

Market Report High Street

July 2018



SUMMARY

Stability marked the high street retail markets in both Madrid and Barcelona in 2017

■ Demand continues to be high in both markets. In Madrid, 78 letting transactions were recorded last year in the areas analysed, 24 of which were international brands (including five relocations). In Barcelona, demand remains high despite the political instability that transpired in the last part of the year. This can be observed mostly in the prime retail pitch, and is reflected particularly in the opening of 57 brands.

■ The vacancy rate in the prime areas of both retail markets remains stable.

■ Rental prices in the prime areas in both Madrid and Barcelona continue to rise, albeit more moderately. Portal

de l'Angel in Barcelona maintains its position as the most expensive street in Spain, followed by Calle Preciados in Madrid.

■ A pronounced upsurge in both the fashion and food & beverage sectors has been recorded over the last 12 months, with the opening of international fast food chains and trendy cafés. This trend is expected to carry on in 2019.

■ E-commerce continues to trend upwards. 2017 ended with a turnover of €30,406m, which represents a 26% y-o-y increase. Of this figure, €9,678m (32% of the total) stemmed from the retail sector, with a 25% y-o-y increase.

■ In 2017, the investment volume in the main commercial hubs stood at around €500m, 36% below the €800m reached in 2016. Once again, the market was influenced by the lack of shopping units for sale in prime areas when compared to the high pressure caused by the demand coming from both institutional and private investors.

Economic Overview

The favourable economic backdrop, the upbeat performance of the job market and the increased consumption boosted the Spanish retail market in 2017.

The Spanish economy remains upbeat with a growth rate of around 3%, according to the latest data of INE for Q1 2018. However, a slowdown in the economy is expected in the next quarters with the prospect of ending the year at 2.7% (according to Focus Economics).

The labour market, on the other hand, continues to show signs of recovery. The Q1 2018 Spanish EPA placed the

unemployment rate at 16.3%, which represents five consecutive years of decline from the peak of the historical series (registered in Q1 2013). Focus Economics is optimistic and foresees a continued decrease over the coming years, with 2022 figures set to fall at 12%.

The number of people registered with Social Security reflects current market regrowth. The June figure exceeded 18.9m workers, indicating 3% higher than the same month of 2017. Additionally, this is the highest record figure of the last decade.

The retail sales index has grown discreetly compared to the 2017 level, rising barely six tenths up to 1.5% (accumulated up to May). By type of distribution, the most significant growth took place in large chains (3.2%), followed by small chains (2.2%). Large stores increased by 0.4%, although the comparison with the previous year recorded a decrease of two tenths. Finally, single retail units maintained a negative growth (-1%), but recovered by almost four tenths above the 2017 level.

The political situation has affected the consumer confidence index, recording in May the lowest level since February 2017 as a result of a bad rating of the current situation and performance expectations. Nevertheless, the June figure (107 points) reflects the recovery of consumer confidence.

With regards to Barcelona, the

institutional crisis in Catalonia has not yet been reflected in the main economic indicators. It is important to note the slight decrease in the retail sales index, which has been negative since 2017, and continues to fall further from national level.

Madrid High Street

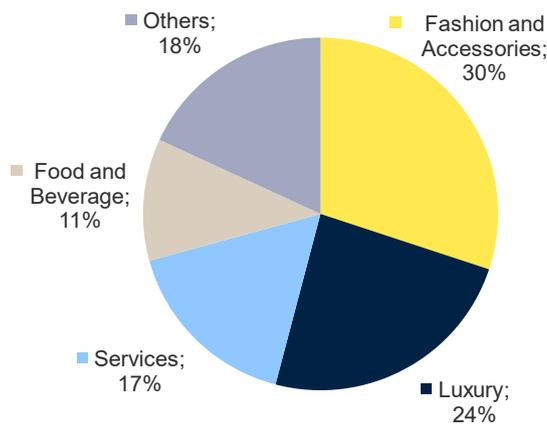
Madrid's high street retail market can be primarily classified into two clearly distinct areas –Barrio Salamanca and Zona Centro – represented by seven commercial streets, with a total stock of 908 shopping units.

Barrio de Salamanca

The District of Salamanca's high-end shopping streets (Serrano, Jose Ortega y Gasset, Goya and Velazquez) form a large rectangle, widely known as the "Golden Mile", due to the presence of the main retailers within the luxury and premium sector. Furthermore, it comprises one of the most exclusive residential, hotel and office markets in Madrid.

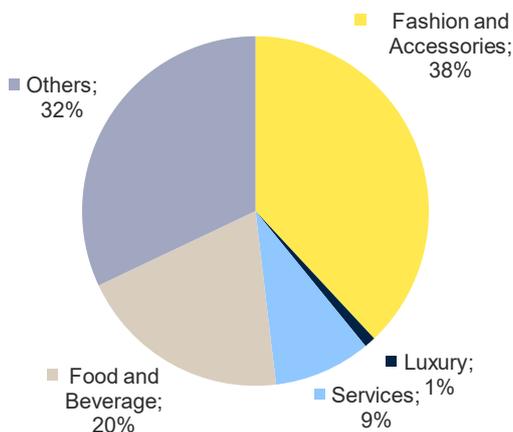
There is a total of 360 shopping units in the analysed stretches of Calles Serrano, Goya and Jose Ortega y Gasset. Luxury brands are mainly concentrated on Calle Jose Ortega y Gasset, whilst premium brands opt for Calle Serrano. Calle Goya, with a higher footfall and more affordable rent compared to the above-mentioned streets, attracts more commercial attention from retailers within the mass market and fast fashion sectors. When considering the activity, the fashion and accessories sector dominates the

GRAPH 1 Business sector breakdown. Barrio Salamanca. Madrid



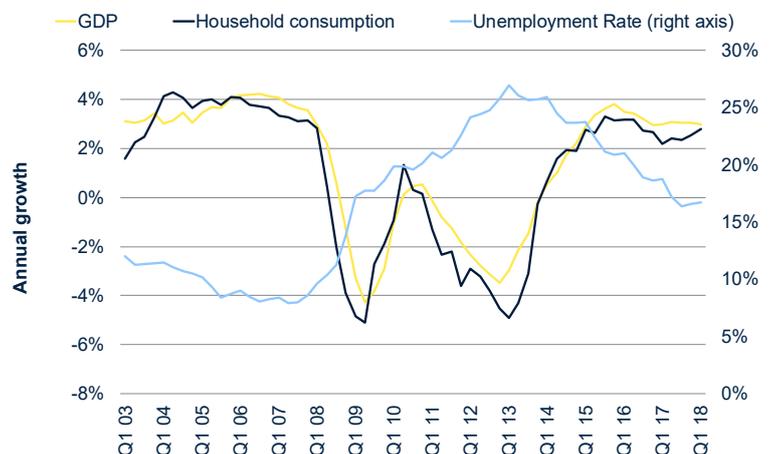
Source: Research Savills Aguirre Newman

GRAPH 2 Business sector breakdown. Zona Centro. Madrid



Source: Research Savills Aguirre Newman

GRAPH 3 Economic indicators



Source: Research Savills Aguirre Newman

area with 30%, followed by luxury and premium brands representing 24%.

In recent years, a number of prestigious brands located on Calle Jose Ortega y Gasset have transferred to Calle Serrano.

The opening of retail premises by companies such as Decathlon on Calle Jose Ortega y Gasset, historically the most exclusive area in Madrid, goes a long way to demonstrate the international level transformation currently taking place in the retail market. The French giant

Decathlon, a traditional big-box operator from Madrid’s periphery, is now occupying the former premises of Hugo Boss, which in turn has moved to Calle Serrano. The third most important of the four aforementioned streets in the Salamanca District is Calle Goya, which mainly houses popular high street brands.

Generally speaking, we find small premises in the District of Salamanca, 46% of the 360 units measure less than 200 sq m. Large premises, with more than 700 sq m, only represent 10% of the total stock, thus limiting

the possibility of opening large flagship stores in this zone. However, brands such as Zara, Mango, H&M (on Calle Velazquez) have large shops in this area.

The vacancy evolution in recent years shows different trends depending on which commercial street is being analysed. Whilst the vacancy rate on Calle Serrano has dropped to 6.7%, and remains stable on Jose Ortega y Gasset, on Goya it has increased significantly from seven available shops in 2017 to 16 in 2018.

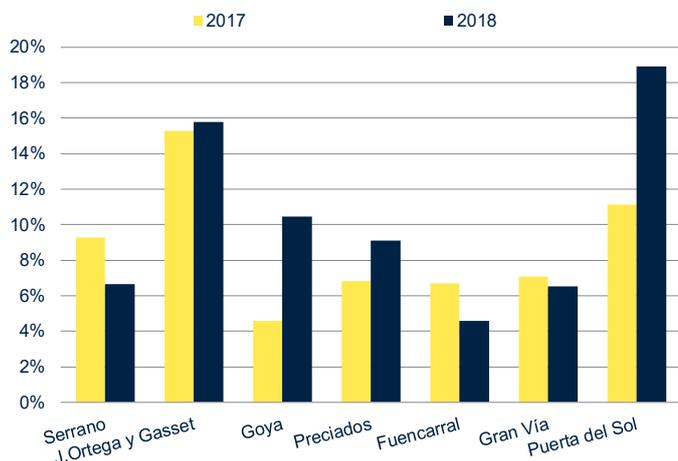
We can attribute the current vacancy rate to several factors. Firstly, the significant difference between the landlord’s asking price and the retailer’s budget. This makes certain premises difficult to let. On the other hand, there has been a trend on the part of large retail operators towards the concentration of products into a single flagship store from previously occupied premises housing male and female collections separately. This, for example, has led to some available shops on high streets such as Goya. Finally, it is important to note that some of the shops which have been on the market for more than 12 months are being temporarily rented as pop up stores until a permanent tenant is found.

Average rents on Calles Serrano, Jose Ortega y Gasset and Goya remained stable during 2017. The high levels registered and the less favourable sales evolution in the market have led to rental stability. Apart from these retail axes, there are a number of retail streets with high commercial activity and the presence of leading national and international brands, albeit with lower rental prices. It is worth highlighting Calle Jorge Juan, with particular focus on restaurants, and nearby streets such as Velazquez, Claudio Coello, Lagasca, Ayala, Don Ramon de la Cruz and Hermosilla, which primarily cater to the fashion and accessories sector.

Zona Centro

The main commercial streets in the Zona Centro comprise the most active retail market in the city. The most important commercial streets in this area, Preciados, Gran Vía, Fuencarral and Puerta del Sol, benefit from their proximity to the main tourist attractions of the city and the

GRAPH 3 **Vacancy Barrio Salamanca and Zona Centro in Madrid. 2017 and 2018**



Source: Research Savills Aguirre Newman

TABLE 1 **Rental values Madrid**

RENTAL PRICE EVOLUTION (€ per sq m/month)		2016	2017	2018
Barrio Salamanca	Serrano	244	245	246
	José Ortega y Gasset	187	185	185
	Goya	162	162	160
Zona Centro	Preciados	270	275	277
	Fuencarral	147	153	158
	Gran Vía	230	235	240
	Puerta del Sol	203	205	205

Source: Research Savills Aguirre Newman

excellent public and private transport. The commercial activity generated by these retail axes has become a tourist attraction leading to intense pedestrian traffic, which includes both national and international tourists as well as residents of Madrid and its surrounding municipalities. It is a market with a high capacity for attracting both investors and retailers.

This zone is made up of 548 premises which offer different types of services that include restaurants, fashion and accessories, souvenirs, electronics, books, cosmetics, perfumes, etc.

The most active sectors in the Zona Centro are fashion and accessories (38%), followed by restaurants,

with 20% of the shops. Here, the practically non-existent luxury sector, whose presence is almost entirely confined to certain streets of the Salamanca district, represents only 1% of the shops.

The supply of retail premises with a size of more than 700 sq m is found primarily on Calles Preciados and Gran Vía. This makes them the most sought-after zones by those retailers who seek flagship stores in Madrid. Some examples on these streets are brands such as Primark, Zara, H&M, Pull and Bear, Adidas, New Balance, etc.

On the other hand, Calle Fuencarral is characterized by the high presence of small-sized shops, which measure less than 200 sq m, enabling the convergence of a wide array of activities and retailers, from leading international brands to small local entrepreneurs.

Currently, there are 36 available shops which represent 6.5% of the total stock in the area. Of the four streets analysed, Fuencarral posts the lowest vacancy rate at 4.6%, with 13 available units, whilst Puerta de Sol, up until the date of this report, had seven available units, accounting for 18% of the total stock.

During the last 12 months, prices in the Zona Centro registered a moderate increase of approximately 1.5%. Calle Preciados continues to be the most expensive street in Madrid with an average rent of €277 per sq m/month, only slightly below figures recorded on Calle Portal de l'Angel in Barcelona.

Nearby streets that show equally high commercial activity and pedestrian traffic include Calles del Carmen, Arenal, Mayor, Carretas and Montera. It is worth highlighting that the future opening of the Canalejas Shopping Centre and the first Four Seasons hotel in Madrid will be launched in the same complex. This will undoubtedly boost commercial activity in this area and will further increase pedestrian traffic between Puerta del Sol and this new commercial complex.

Barcelona High Street

The upscale shopping district of Barcelona consists of two areas, namely: Prime A comprising of Portal del Angel, Portaferria and Paseo de

Gracia, and Prime B, which includes Rambla Catalunya, Pelayo, Rambla Canaletas and Avda Diagonal. The two areas have been classified based on both their rental prices and types of retailers. There is a total stock of 940 shops, 278 of which are situated in Prime A and the other 662 in Prime B.

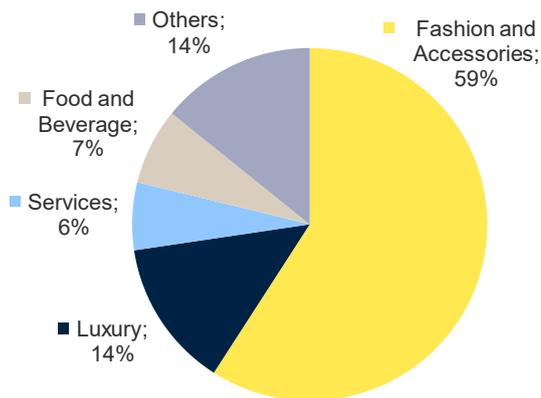
As in other Spanish cities, the most common shopping units in Barcelona have a size of <200 sq m, representing 43% of the supply in the prime area, whilst medium-sized units measuring between 200 and 400 sq m account for 32%. Shops usually allocated for large flagship stores with a size of more than 700 sq m have 15% of the total stock. Paseo de Gracia is the axis with more options for opening large shops, with 49 units exceeding 700 sq m.

The strong tourism factor along with the reputation of Barcelona as one of the most cosmopolitan cities in the world mean its commercial sector has attracted retailers not present in other local markets. These brands include retailers such as Fendi and Uniqlo, which have recently opened their first flagship stores on Paseo de Gracia. In recent months, a total of 14 international brands have opened shops in the main commercial area of Barcelona, most of them premium brands such as Levis, Rituals, Laline and Thomas Sabo.

The food and beverage sector has registered significant growth with new establishments dedicated to various specialities. Some examples of this activity are the opening of gluten-free premises, bubble tea (Wobbly, Zen Zoo and Bobba) and frozen yoghurt (Smoöy, LlaolLao, Yogurtería by Danone). Many international restaurant operators which have already opened in Madrid are currently seeking to expand in other locations. Five Guys burgers has just inaugurated its first branch in Barcelona two years after its debut in Madrid, where it already operates several branches on high streets and in shopping centres.

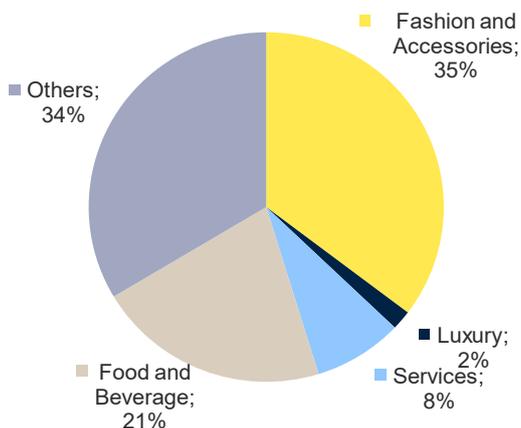
During 2017, there was a slight increase in the number of available units accounting for a total vacancy rate of 7.2% up until the date of this report. Most of these units are found in the Prime B area, specifically on Ramblas de Catalunya and Canaletas, where there are 36 available units. As

GRAPH 4 **Business sector breakdown Prime A. Barcelona**



Source: Research Savills Aguirre Newman

GRAPH 5 **Business sector breakdown Prime B. Barcelona**



Source: Research Savills Aguirre Newman

in Madrid, the availability of units in the prime axes of Barcelona is due to the discrepancy between the landlords' asking price and what retailers are willing to pay. Additionally, this can be attributed to the wait-and-see attitude of some retailers in the wake of the political crisis.

After the strong growth seen since 2014, rental prices in recent months seem to have increased only moderately. There has been a moderate rise in rental prices on three streets, Portal del Angel,

Paseo de Gracia, and Pelayo, whilst the remaining four streets have maintained stable rents during the last few months. It is important to note that Portal de l'Angel in Barcelona maintains its position as the most expensive street in Spain (€285 per sq/month for a shop of 200 sq m at street level).

In spite of the political uncertainty, retailers have continued to be active in their search for retail opportunities, clearly playing for high stakes in Barcelona as a strategic market.

The strength of Barcelona as a tourist destination and its favourable economic situation are factors that make Barcelona a priority market for leading worldwide brands. However, the search for commercial spaces is focused on prime areas, adversely affecting secondary locations, which have failed to have been considered in recent expansion plans.

The fashion and accessories sector dominates the prime retail pitch in Barcelona, accounting for 39% of the total stock. The only exception is Rambla Canaletas which is dominated by the food and beverage sector. The bulk of luxury and premium brands are located on Paseo de Gracia.

E-commerce

The continuous and unstoppable rise of e-commerce is one of the most important challenges which brick-and-mortar shops have to reckon with. Physical stores are resorting to different types of technological features to complement e-commerce and attract customers. In this sink or swim climate, brick-and-mortar shops are becoming more innovative in order to assure customer loyalty.

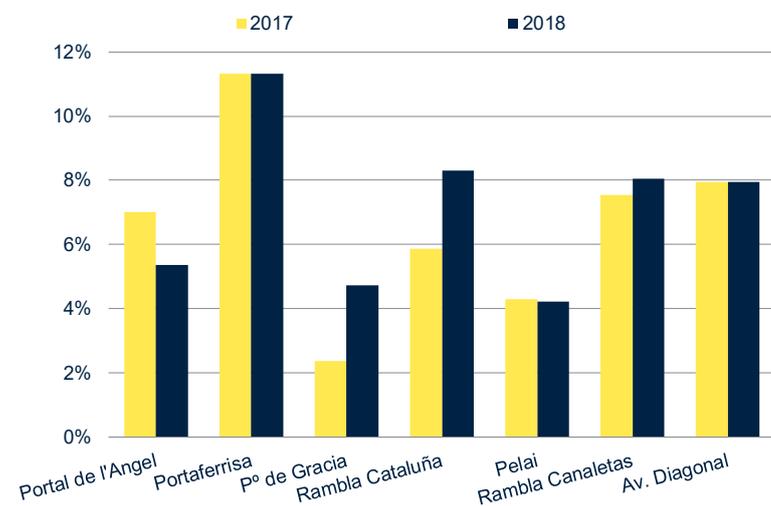
Digital technology

There are some retailers such as Mango which offer digital fitting rooms in which shoppers can try on different products, switching from one model to another, trying different combinations of designs and colours, etc. without the need to physically do so. Zara has recently launched its Augmented Reality (AR) application in which shoppers can view virtual models advertising various combinations of their latest collections. The pioneers of this innovation have been fast food outlets such as McDonald's and Burger King which use digital panels for ordering and buying food.

Investment market

In 2017, the investment volume in the main commercial hubs stood at around €700m, 13% below the €800m reached in 2016. Once again, the market was influenced by the lack of shopping units for sale in prime areas when compared to the high pressure caused by the demand coming from both institutional and private investors. It is important to highlight the purchase of Preciados 13 and Puerta del Sol 5 in Madrid in 2017, as well as Carrer Boters 4 and Passeig

GRAPH 6 **Vacancy Prime A and Prime B in Barcelona. 2017 and 2018**



Source: Research Savills Aguirre Newman

TABLE 2 **Rental values Barcelona**

RENTAL PRICE EVOLUTION (€ per sq m/month)		2016	2017	2018
Prime A	Portal de l'Angel	270	280	285
	Portaferrisa	150	150	150
	Pº de Gracia	220	255	260
Prime B	Rambla Catalunya	90	100	100
	Pelai	120	135	140
	Rambla Canaletas	115	130	130
	Avda. Diagonal	60	75	75

Source: Research Savills Aguirre Newman

Joan de Borbó 60 in Barcelona in the same year.

Since January 2018, close to €700m has already been recorded in the investment market (impacted heavily by the Mistral portfolio, which accounts for more than 53% of the total accumulated). During the first six months of the year, the transacted volume exceeded 44% of the 2017 total annual investment.

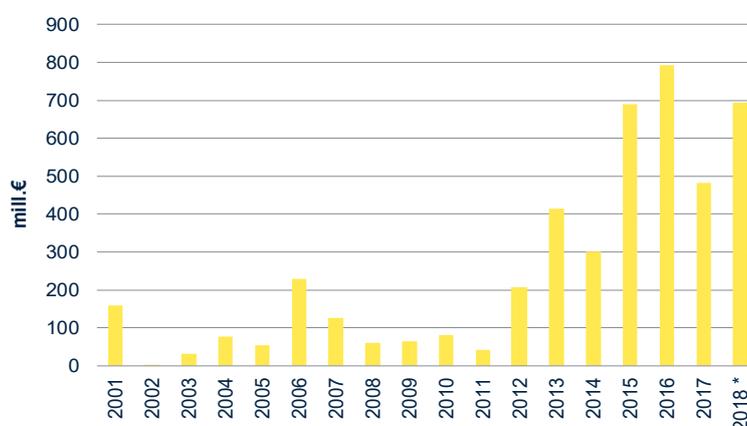
From an asset allocation perspective, the prime areas of the cities of Madrid, Barcelona, Málaga, Bilbao, Valencia and Sevilla continue to be the most sought-after locations. Investor interest is focused not only on rented premises, but also on vacant units or buildings which require management and a strong retail component.

Institutional investors have continued to focus on the most commercial hubs of large cities where purchases above €20m enable them to carry out the investment. Meanwhile, private investors, who are very active in the retail premises sector below €10m, continue to direct business towards the most commercial streets of the cities where they reside, as they are experts in their markets.

Institutional investors were the most active players, with the investment funds representing 76% of the total volume, and with the remaining 24% being distributed among insurance companies, private investors/family offices and Socimis.

Initial high street yields in Madrid and Barcelona have remained in the region of 3.25%, whilst yields on second-tier streets stood at between 4.50% and 4.75%. In other large municipalities, the yield required for prime retail units is approximately 4.00% ■

GRAPH 7
Investment volume 2017-2018



Source: Research Savills Aguirre Newman / *up to June

TABLE 3
Main deals - Investment market 2017-2018

Asset	City	Vendor	Purchaser
Preciados, 13 *	Madrid	Grupo Baraka	Hines
Mercado San Miguel *	Madrid	El Gastródromo de San Miguel	Redevco+Ares Management
Mercado de Fuencarral	Madrid	Activum SG	AEW
Fuencarral, 16	Madrid	Thor Equities	Union Investment
Portfolio Mistral *	Several locations	Inditex	Deka
Preciados, 9	Madrid	CBRE GI	Generali
Gran Vía, 68	Madrid	Oaktree	M&G Real Estate
Gran Vía, 30 *	Madrid	Private investor	Thor Equities
Portfolio Stradivarius	Several locations	Inditex	Ores Socimi

Source: Research Savills Aguirre Newman / *advised by Savills Aguirre Newman



Outlook

2018: The impressive growth of e-commerce is one of the most important challenges facing physical stores.

■ E-commerce will continue to become an ever more popular form of buying goods, and this will affect the expansion and fit-out strategies of several brands. In terms of strategies for openings, retailers will prioritise the search for shops located in areas with a heavy retail component and which are able to generate “shopping experiences” that cannot be offered online as well as incorporate state-of-the-art technology (smart fitting rooms, mobile payment, etc) in order to attract more shoppers.

■ The retail trend of big-box stores opening on high streets will continue in 2018. In Madrid, with the already operational Media Markt (Plaza del Carmen) and Decathlon (Calles Fuencarral, José Ortega y Gasset and Princesa), other brands such as Leroy Merlin (Calle Raimundo Fernandez Villaverde) and Ikea (Calle Goya) are scheduled to follow suit. Barcelona is following in Madrid’s footsteps, with

the opening of branches from Media Markt and Leroy Merlin in the city centre.

■ The rise of megastores will still be a dominant trend in the retail sector in the years to come. In addition to the recently-opened COS on Calle Fuencarral, Mango and Pull & Bear on Calle Preciados in Madrid, as well as Kiabi on Paseo de Gracia, Oysho on Calle Portal del Angel, and Pangea The Travel Store on Rambla Catalunya in Barcelona, other similar brands are likely to follow suit in the coming months.

■ After the opening of pure players such as Hawkers, Dr Bloom and Foot District, we may start to see an even stronger emergence of click-to-brick establishments in Madrid.

■ The proliferation of low cost gyms, yoga studios, cross-fit training centres and other spaces allocated

for personal care is a strong retail trend to contend with. These activities will continue to gain relevance in the market.

■ In Barcelona, the food and beverage sector will maintain growth with the proliferation of establishments dedicated to several specialities, which is expected to continue in the medium term. Many international restaurant operators which have already opened in Madrid and/or Barcelona will continue to expand in other locations.

■ Due to the lack of income-generating retail premises, investors will continue to be attracted to value-added transactions, that is to say, purchasing vacant premises or properties in very commercial areas with the possibility of a change of use.

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