

# Spain Retail



🗨️ Retail market faces a challenging period of adaptation to the digital revolution 🗨️

**Conclusions**

In 2018, retail assets amounting to €3,600m were transacted, ranking for the second consecutive year at the top of commercial products.

Despite the fact that the retail sector continues to be the most attractive commercial product for investors, the lack of prime product continues to generate the overall yield compression.

In 2018, more than 270,000 sq m of Gross Lettable Area (GLA) and 10 commercial complexes were opened, increasing the national density to 358 sq m of GLA per 1,000 inhabitants.

In 2019, 10 projects totalling more than 260,000 sq m are scheduled to come onto the market.

The common denominator of all these projects is their distinguishing features.

Electronic transactions in 2017 hit a new record: €30,406m (+26%). These figures represent 4.2% of total retail trade, way below the 18% from the United Kingdom. Retail activities account for 29% of total online transactions.

The renewal of contracts and the termination of rental discounts do not have a direct impact on the value of rent per sq m.

# Spain Retail

The retail sector continues to break records despite the slowdown in economic growth

**The economy**

The economic recovery during the last few months of 2018 favoured an increase of GDP, reaching an annual average of 2.5%. However, this is five tenths below 2017.

The factors that accounted for the economic slowdown were the lower contribution from external demand, the downturn in growth of private consumption and the increase in economic and political uncertainty.

The growth of household spending has been losing momentum as savings generated during the crisis have been depleted, causing it to hit historic lows.

In 2018, the Consumer Confidence Index (CCI) published by the Centre for Sociological Research (CIS) yielded a figure of 98.3 points, below the 100 point-barrier that marks the threshold between a positive and negative perception, and 4.4 points lower than the one registered in 2017. Decreasing expectations that citizens have about the economy and the political uncertainty of the country are the most significant reasons for the fall.

In the first quarter of 2019 (the latest available data), the index is 2.57 points over the last quarter of the year.

Economic growth is expected to be moderate, with a GDP forecast of 2.2% in 2019 and 1.8% in 2020, as established by Focus Economics. However, these figures are still above the Euro zone average (1.4% for 2019) as well as economies such as Germany (1.3%) and France (1.4%).

According to the data from Focus Economics, the unemployment rate in the next two years will continue to reduce from the 15.3% in 2018 to 14.0%

in 2020, thus facilitating job creation, with the expectation of reaching 800,000 new jobs.

**Sales and footfall in shopping centres**

According to the official data from the Spanish Association of Shopping Centres (AECC), At year-end 2018, shopping centre sales grew by €45,485 million, up 2.7% y-o-y, and 1.60 points less than the increase recorded in 2017. Two of the factors that have contributed to this are the decreasing consumption and the waning of confidence in the economic situation.

In spite of this, the latest figures shown by the ShopperTrack index confirm a similar level in the number of visits to shopping centres, with a reduction in footfall during the first seven months of the year but with a significant recovery in the last three months. Nevertheless the footfall recovery has not been reflected in the first quarter of the year and the index decreased by 3.80% when compared to the same period of 2018.

To a greater extent, one of the sectors that establishes the performance of shopping centres is fashion, given that it represents more than 50% of the lettable area in many centres. This sector has had a particularly negative year, with a drop in sales of -2.2%, according to the statistics prepared by Acotex.

The dwindling results of winter and summer sales owing to the extended discounts/sales periods throughout the year and the success of online shopping marketplace, along with traffic restrictions in some areas of the city centre, are the factors that are most affecting the clothing sector, thus favouring visits to shopping centres.

**Graph 1: Economy**



Source Savills Aguirre Newman

## “ Sales of shopping centres continue to grow, despite the maturity of the sector and the increase in e-commerce ”

### Current stock and retail density

The stock of commercial space in traditional retail products already exceeds 16.7m sq m and 625 retail facilities. These figures include shopping centres, outlet complexes, leisure centres, retail parks and hypermarkets. The comparison with the previous year shows a 1.7% increase in space.

In the distribution of Gross Lettable Area (GLA), the so-called traditional products (shopping centres, retail parks and hypermarkets) dominate the market, housing 95% of the total existing space. Leisure centres and factory outlets have the smallest representation weighing in with 3% and 2%, respectively.

Over the next two years, it is foreseen that there will be an increase in the retail park format, given that there are greater opportunities for development. Moreover, three factory outlets will be inaugurated, which will increase the presence of the factory format.

On the other hand, no leisure centres have been developed since 2007. The main reasons for this are the risk posed by this format, lower productivity and the increasing inclusion of leisure activities in traditional shopping centres.

In the distribution of current GLA by region, Madrid, Andalusia and the Region of Valencia continue to dominate the sector, accounting for

almost 50% of all retail space.

In terms of commercial density (GLA/population \* 1,000), the national level stands at 358 sq m of GLA per 1,000 inhabitants. At European level, excluding hypermarkets, the ICSC (International Council of Shopping Centres) ranks Spain 16th with a density of 302 sq m, which is 3% below the European average (312 sq m) and behind countries such as the United Kingdom (424 sq m), France (379 sq m) and Portugal (343 sq m).

During 2018, more than 270,000 sq m of GLA were incorporated into the market. The change in the type of developed product is a reality, with 45% of the space opened being allocated for retail parks.

Of these, VidanovaPark stands out as the best example of the new generation of retail parks, where leisure plays an important role; Puerta de Algete and La Charca, which are grouped within the so-called niche retail parks, are designed to meet the needs of the neighbourhood and nearby areas and be the most comfortable and accessible alternative to the traditional shopping centre.

The maturity of the sector can be seen in the size of developed formats, given that only Torrecárdenas (Almería) has surpassed the 40,000 sq m-barrier of GLA. This 60,000 sq m-shopping centre developed by Bogaris has been designed to cover the lack of modern facilities in an

area with sufficient population and significant tourist potential.

Torrecárdenas includes distinguishing services and technology that represent a point of reference for future openings: the largest cinema screen in Europe, child care areas, intensive surveillance of vehicles and interactive screens for children are some of the new features included.

### Pipeline 2019-2020

Despite the maturity of the shopping centre sector and the finalisation of the execution of predicted deadlines, the next two years will be active from a development point of view. The main reason lies in the fact that the projects that have been halted by the crisis, or by urban planning issues, will finally see the green light in the next two years.

These are interesting projects both from the perspective of the concept and the market where they are located. Of these, Lagoh is the most ambitious, not only for its size (100,000 sq m), but also for the significant investment of Lar España Real Estate Socimi in a centre that will incorporate elements that generate the so-called wow effect. Its success is largely assured by the lack of a large shopping centre in a city of almost 700,000 inhabitants.

X-Madrid (Alcorcón, Madrid) is another clear commitment to differentiation. Merlin Properties has set itself the objective of developing

a revolutionary concept that aims to reinvent the shopping experience through a technological and urban offering. The complex will have 47,000 sq m of activities featuring fashion, sports, urban art, and culture as well as indoor and outdoor leisure. The cinemas will have fewer but larger screening rooms, two of which can be rented out to hold events with viewing facilities.

Galería Canalejas wants to position itself as a first class international shopping and touristic destination. This is one of the areas of the complex being constructed between Puerta del Sol, Calle Sevilla, Carrera de San Jerónimo and Calle Alcalá by the Villar Mir Group through OHL and Mark Scheinberg. The project, designed by Estudio Lamela, includes a Four Seasons hotel, 22 luxury residences and a commercial area of 15,000 sq m with 40 or 50 shops.

In 2020, Open Sky Shopping Center & The Village (91,600 sq m) will be the first entrant in Spain by the French company Compagnie de Phalsbourg.

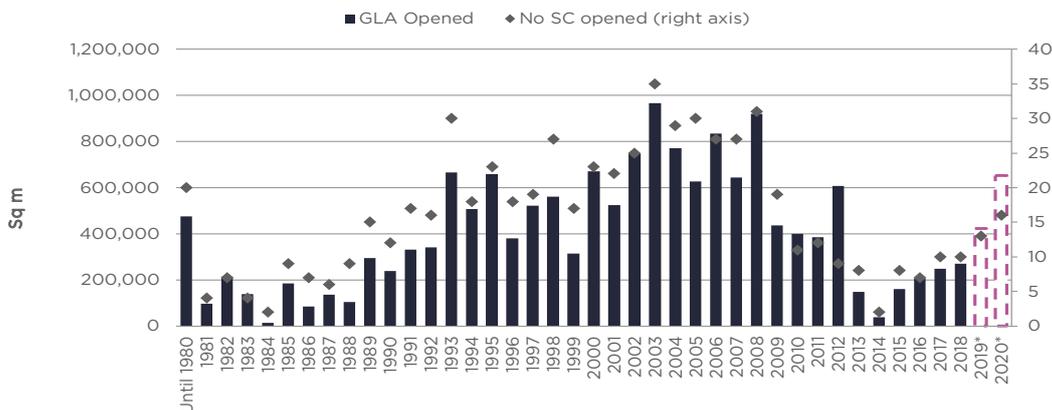
The most innovative feature of this establishment located in Torrejón de Ardoz is its avant-garde structure and design as an open shopping centre with landscaped areas, a central lake and 100 retail units, where a 350 sq m-Asisa clinic stands out, which will open for the first time in a shopping centre, and also comprising Merkal, Mango, Springfield, Women'secret, Ovs, Adidas, Reebok, Orchestra and Kiwoko, among others.

The saturation of shopping centres in Zaragoza has not been a hindrance for Ibarebro in developing Torre Village. Owned by the Solans family, this complex will be located on the land plot where the Pikolin factory currently stands, with the aim of developing a concept that will be different from the rest.

The centre will have a space of 60,000 sq m divided into three commercial areas: fashion, food and beverage, and retail warehouses. In one of them, the first outlet area of the province will be opened, which will have 13,000 sq m, with the possibility of expanding to 18,000 sq m, if necessary.

If all the work deadlines are

Graph 2: GLA opened in Spain and number of openings



Source Savills Aguirre Newman. \* Forecast

met, retail density could reach 380 sq m by 2020, increasing the current density by 6.1%.

### Digital Society

In an environment where the foundations that support the traditional retail world have changed, the need for rapid adaptation is crucial. Almost nobody doubts the importance of physical stores. However, two determining factors for the developer are as follows: the impact of e-commerce on sales in shopping centres and the lack of a contractual regulation that protects shop owners, leading to concerns that sales have shifted to other channels.

In response to this growth of multi-channel distribution and the importance of physical stores for all forms of purchase, there is a need to re-evaluate the fundamentals of rental models towards something more dynamic, which takes into account the sales that occur in physical stores.

Among some models that have been considered in Europe and America, a percentage of online sales also includes collection and purchases made in store.

Other concepts include models that apply ratios to the different types of transactions. This depends on the participation of the store in the sales process in the sense that higher ratios will be applied to store sales and lower ratios to electronic transactions. In the case of the latter, although the sale is made online, this transaction benefits from the presence of the store.

Similarly, the system consists of measuring footfall count, conversion ratio and average ticket value, as well as the contribution of each shopping unit to the footfall of the centre being forms of quantifying sales, thanks to the location systems that determine the shops visited and the profile of the client.

In 2017 (last full year ended), the National Commission on Markets and Competition (CNMC) reported a new record figure of electronic transactions: €30,406m, 26% more than in 2017. In the second quarter of 2018, the increase was four percentage points higher, reaching a 30% increase.

Important conclusions are drawn from these figures. In the United States, according to eMarketer, 49% of online sales are made with Amazon, a company with an annual sales increase of 29%. Of the total sales, 68% correspond to third-party products offered on their platform, with only 32% being direct sales from Amazon. While it is true that this figure is small when compared to total retail sales (5% in the United States), the growth rate is surprising.

Taking into account that suppliers are sometimes international, not only is there complexity at tax and regulatory levels, but these platforms may be the reason for the reduction of sales of certain retail sectors in Spain. Therefore, the development of regulation and the

quantification of these types of transactions are becoming increasingly necessary.

At global level, in terms of electronic transactions, there have been no major changes. Travel agencies, tour operators and air transport continue to be the sectors that have greater weight within the total volume, reaching 26%.

Activities that are exclusively retail account for only 29% of the total volume, although if we analyse the different sectors we can see important changes:

Comparing the value of electronic transactions in the first two quarters of 2014 with those of the same period in 2018 (the latest available data), we observe that the food and beverage sector recorded the highest sales growth, from €24m in 2014 to €138m in 2018. This meteoric rise is due to the great success of platforms such as Deliveroo, Glovo and Just Eat which, like Amazon, act as marketplaces and virtual store-fronts for the main restaurant and franchise chains.

But these platforms are not turning their backs on the physical world, the result of which is the creation of the so-called dark, or ghost, kitchens. These premises have been equipped so that various restaurants or virtual brands that are not present in the city can operate. Orders are delivered to the address of customers who place their orders online.

Deliveroo already has 30 facilities of this type worldwide, with around 190 kitchens in total. In Spain, they have already installed two shops, with the goal of making the greatest leap in their business model since it was founded in London in 2013.

According to data from CNMC, the clothing sector registered a turnover of €1,062m during the first half of 2018, representing a 30% increase y-o-y. This places the sector in third place within all industries in terms of business volume in e-commerce, accounting for 6% of all e-commerce in Spain, and with 5.4% of the total sales in fashion, according to the report commissioned by moda.es.

According to moda.es, these sales figures are distributed between pure players that generated 53.8% of fashion sales and traditional retailers that generated 46.2%. If we take into consideration the latter (traditional retailers present in shopping centres), during 2017 online fashion sales totalled €1.018m, representing 2.3% of total sales in shopping centres.

### Retailer expansion

The retail ecosystem is at a turning point, leading brands to reflect on their situation. According to a study conducted by Geoblink in which 600 retail professionals were interviewed, 46% of

**Table 1: 2019 forecasted openings**

Location	Name	GLA (sqm)	Category	Developer
Sevilla	Lagoh	100,000	Very Large	Lar Real Estate Socimi
Alcorcón (Madrid)	X-Madrid	47,000	Large	Merlin properties
Jaén	Jaén Plaza Fase I	29,000	Retail Park	Grupo Alvares
Burgos	Burgos Este	19,000	Retail Park	Inbisa, Activ group
Tudela (Navarra)	Calchetas	15,883	Retail Park	Inmuebles Calchetas
V. de Arousa (Pont.)	Polígono O Vao	15,141	Retail Park	Inm. Ponteno (Grupo Nogar)
Madrid	La Galería de Canalejas	15,000	Small	OHL, Inm. Espacio and Mohari
Madrid	pol. Las Mercedes	7,800	Retail Park	Corpfin
El Masnou	Nou Centre	7,500	Small	Nou Centre El Masnou
Palma de Mallorca	Torre Mariona	4,200	Small	Hoteles de Palma S.L.
<b>TOTAL</b>	<b>10</b>	<b>260,524</b>		

Source Savills Aguirre Newman

all participants reported having closed one or more high-street establishments in 2018. Despite this, 68% are planning to open more retail spaces in 2019. The preference for prime and large premises are two of the factors behind this decision.

The trend that has been observed is the decline in the presence of traditional players and the emergence of new concepts geared towards greater efforts in terms of trends, design and the adaptation to new technologies.

Some examples include tutienda.com, which like Amazon Go, has set up its first shop in Madrid without shop assistants; IKEA, with its innovative design and online orders being implemented in shopping centres; Ecoalf, the Madrid-based pioneer company in ecological and sustainable fashion; the organic supermarket of Véritas; and the cake shops of Manolo featuring their speciality: the mini croissant, which has put forth the idea that simple ideas are the most brilliant.

Escape rooms, where groups of players must solve puzzles of all kinds to get out of the room before the end of the given time, waffle stands that gain success thanks to the inviting smell and the Japanese Miniso store based on the idea of manufacturing innovative products at honest prices.

The new projects on the market are experiencing some delays owing to the conservative stance of the

retailers and the need for an in-depth study that measures cannibalisation within their own brands, as well as other competing brands.

Torrecárdenas (Almería), VidaNova Park (Sagunto, Valencia) and Torre Sevilla (Seville) are the main projects that have grouped together the new store inaugurations in 2018, followed by Finestrelles (Esplugues de Llobregat, Barcelona) and Estepark (Castellón de la Plana) at a considerable distance. As openings of large premises in 2018, it is important to highlight Primark (5,000 sq m) in Torre Sevilla (Seville), Alcampo (4,100 sq m) and AKI (3,537 sq m) in Isla Azul (Leganés, Madrid) as well as the Yelmo cinema complex (10 rooms) in Puerta de Europa (Algeciras).

In terms of brands that have brought novelty and differentiation, of particular note are the openings of the amusement park Nickelodeon Adventure (6,000 sq m) in Intu Xanadú (Arroyomolinos, Madrid), the virtual reality site Zero Latency (500 sq m) in Parc Central (Tarrasa) and Altitude Trampoline Park in Málaga Ocio (Málaga).

### Fashion

Despite the drop in sales of the fashion sector in Spain in 2018, according to the Savills Aguirre Newman database, most of the new store openings (30%) were within this sector, although with a decrease of 12 percentage points compared to

2017.

The Inditex Group and H&M have slowed down in the number of new openings in shopping centres in 2018, and to offset this, they have closed less productive shops to open larger premises in more strategic locations. This has given way to other activities to gain prominence, especially in the food and beverage sector, which has accounted for 24% of openings this year.

Despite the appeal of the main fashion brands, customers increasingly value the variety and uniqueness of niche brands. Large anchors are a must for many customers, but smaller stores are increasingly offering different garments that are not easily found on the high street. Hence, the success of temporary collections and aspirational brands such as Bimba and Lola, Aristocrazy and Scalpers.

To this we must add the low-cost phenomenon, which is increasingly diluted due to the large number of promotions, discounts and special offers in the mass market shops.

The young Spanish urban fashion company and family-owned Koröshi stood out in 2018 for the number of openings (six identified). Since 2004, the company has built a commercial network of 36 shops in Spain, and in 2019 it intends to make the leap to the international market. Koröshi has been able to distinguish itself from other brands in the same sector through an ambitious expansion

## SUMMARY

The retail sector is going through one of the greatest transformations in its history. Breakthroughs in technology and the greater influence of the younger generations are two of the main reasons.

As e-commerce advances, brands reinvent their shops and developers include more leisure and restaurants in their shopping centres through spaces that attract consumers.

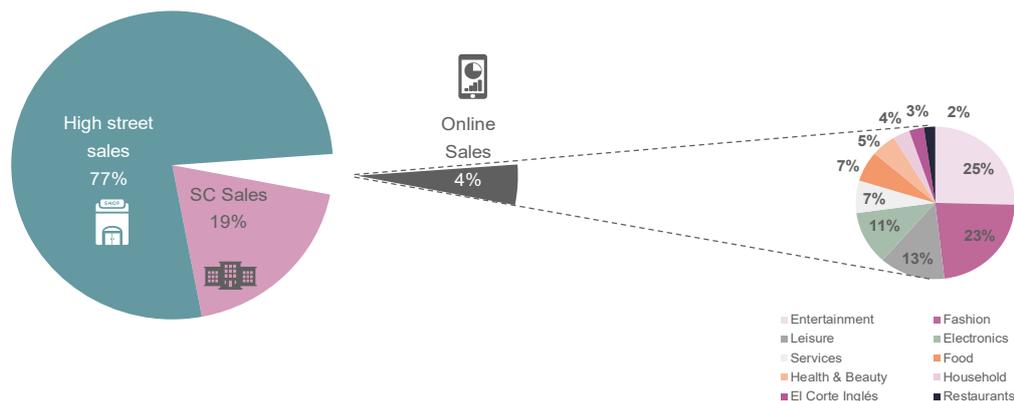
Shopping centres are already active players in the online shopping process and have applications that send customised promotions to customers while they walk through their premises.

From this convergence of retail models emerges a diversity of customers: the person that buys exclusively online, or only in shops, up to the one that searches online and then buys offline, or even the one that purchases online and picks them up in store.

With this diverse scenario, shopping centres take advantage of the ambivalence of millennials who, despite being the best adapted to new technologies, value the experience of purchasing in physical stores.

The trend is to include pure players in shopping centres (even at the expense of reducing rents) as well as more experiential local shops and restaurants.

Graph 3: Retail sales breakdown



Source Savills Aguirre Newman / CNMC / INE 2017

policy and a product that, according to its slogan, goes beyond fashion.

Mango has set two major challenges for the coming years: adapting to multi-channel distribution (although online sales already accounted for 15% of total sales in 2017) and organising the company around the customer through an operational area that acts across the entire firm.

**Sports**

Sports shops continue their unstoppable growth, representing 5% of the openings of new premises in shopping centres. Highlights include the inaugurations of Adidas in Diagonal Mar (500 sq m), JD Sports in Max Center (423 sq m), Alcalá Magna (251 sq m), and Area Sur (171 sq m) and, Inside in Las Rosas (300 sq m). Additionally, brands such as Décimas and Footlocker continue their significant expansion plans.

The new trend of consumers towards a healthy lifestyle places sports on their radar of consumption. Free time now has a lot to do with practicing indoor or outdoor sport. The question is, what is the saturation limit and when will the process of cannibalisation begin to take its toll?

**Food and beverage**

The trend in previous years to open a large number of restaurants continues to be one of the key

drivers of innovation. According to Savills Aguirre Newman database, 24% of the openings in 2018 were restaurants, seven points more than in 2017.

Food courts are designed to imitate the model of street food in which customers decide what kind of food, how much to spend and what ambiance to enjoy. They can find restaurants offering customer service in a cozy atmosphere, fast-food restaurants where they can order food using a tablet, shops where they can have a coffee while browsing a magazine and tasting points where they can smell and sample the food.

Burger establishments are still in fashion: Goiko Grill, TGB and Carl's Jr are some examples, although Five Guys has been the leader in new openings, with eight identified. When visiting a shopping centre, consumers have a wide range of brands, prices and types of burgers to choose from.

Because of this large number of burger restaurants, it is foreseeable that there will be an increase in competitive pressure.

Italian food continues to gain followers and is a classic in shopping centres, but customers now want the sensation of savouring the dish in a special place: light, design, service and even the smell contribute to that unique experience. Highlights include La Tagliatella and Pomodoro in terms of number of restaurant

openings, although the former at a lower growth compared to 2018.

**Leisure**

One of the trends for 2019 is the importance that consumers will dedicate to free time. Owners must implement activities that cannot be replicated in other shopping centres and then replace them once the concept loses its novelty.

The spaces of Lego Fun Factory of H2 Ocio (Rivas-Vaciamadrid) and Aqua Multiespacio (Valencia) where parents can leave their children while making purchases are most welcome undertakings. Although this service does not directly generate income for the owners as it is free of charge, it does provide differentiation and increases customer visiting time and average ticket value.

The large leisure parks nickelodeon in Thader (Murcia) and Intu Xanadú (Arroyomolinos, Madrid) were designed in response to the shopping centre becoming a family leisure space. They are followed by a new generation of activities that combine experience, technology and novelty.

Such are the cases of Play Station Experience, which at the end of the year will open a space of 450 sq m in the 7 Palmas Shopping Centre in Las Palmas de Gran Canaria, and "Game of Thrones: The Challenge", an event organised by Vodafone and HBO España to take place in various

shopping centres.

MTV Lab is a free access space comprised of 2,000 sq m that will be implemented in Germany, where there are co-working areas, a store, a concert stage, interactive virtual sports and a cafeteria, among other facilities.

Despite the collapse predicted for the cinema industry, they have managed to reinvent themselves by focusing on technology and service. Many complexes have rooms where one can dine while watching a film comfortably reclined, children's rooms, classic and alternative cinema showing the original version, and the possibility of renting space for private events.

**New entrants**

The political uncertainty has taken its toll on the interest of international retailers in opening new shops in our country, with 2018 having a reduced number of new entrants.

Italian and French retailers account for 70% of the new openings. Among the different sectors, fashion accounts for 57%, followed at a considerable distance by cosmetics stores, which represent 13%.

The American springboard operator Altitude Trampoline Park was the most prominent opening in terms of size, as it included a 4,000 sq m-complex in the Málaga Ocio Shopping Centre.

It is important to highlight French

Table 2: Most active retailers in shopping centres 2018


Source Savills Aguirre Newman

Table 3: New entrants in 2018 (SC & HS)


Source Savills Aguirre Newman

fashion brand Gemo for investing heavily this year in the Spanish market with two 1,500 sq m shops in the Parque Asturias (Corvera de Asturias) and El Teler (Onteniente, Valencia) shopping centres.

The same thing has occurred with the French electronics brand LTCD which opened two premises, with 1,500 sq m and 1,192 sq m, respectively, in Madrid (Paseo de la Castellana, 144) and Barcelona (Avda. Diagonal, 417).

One of the most anticipated shop openings will undoubtedly be the third Uniqlo store in Spain, and the first in Madrid, for which the retailer has been considering some options, one of which is the space currently occupied by El Jardín de Serrano Shopping Centre on Madrid's Calle Goya. The brand, which is committed to marketing simple, basic and universal products to be combined at any time of the year, aims to be a new fashion concept in Spain.

Among the most important openings in 2019 stands out the first Salomon store in Spain, in Fuencarral 11 street, or Bohodot, the swimwear brand that has made the leap to the Spanish retail market with its first store in Barcelona, in La Forja, 126 street in Barcelona. It also highlights Liu Jo store in L'illa Diagonal (Barcelona), that for the first time specializes only in men's fashion.

### Rents

The prime shopping centres are still the most sought-after locations; their low vacancy rates provide the owners greater bargaining power, although current uncertainty has resulted in longer negotiation processes than usual.

The main fashion retailers are still investing heavily in large stores, negotiating more conservative fit-outs and rents per sq m, while catering and sports continue to push marketing processes to achieve rents without large variations compared to previous years.

Premises dedicated exclusively to leisure (inflatable mattresses, bowling and cinemas) continue to increase their presence in shopping centres and in many cases provide opportunities to developers to rent out large spaces that are difficult to market, although at lower rents.

The heterogeneity of the projects promoted in 2018 and the scarcity of available premises in prime locations make it difficult to estimate the evolution of rents. Nevertheless, it is true that the increase in the presence of leisure and restaurants as well as the main retailers leasing towards larger premises, results in rents per sq m in the entire shopping centre not to increase.

However, the termination of the rental discounts negotiated during the crisis and the increase in additional rent from temporary assignments of space, have generated a raise in the income of owners.

The vacancy rate in consolidated and prominent secondary centres in their immediate catchment areas is gradually decreasing, as reflected in the modest rental growth.

With regards to the turnover rent, the slowdown in consumption growth and the movement of sales to e-commerce are causing this source of income to not increase for the owners.

With regards to the achievable rent in prime shopping centres, taking the premises between 100 and 200 sq m as a reference, the average value of new contracts stands at €90 per sq m/month. Within the European framework, the UK tops the list with almost €536 per sq m/month, followed by Dublin with €246 per sq m/month. The average calculation of the achievable rent of prime product in Europe is in the region of €151 per sq m/month, 68% above the Spanish level.

### Investment market

Despite the uncertainty in the retail sector, 2018 has once again been a record

year for investment, reaching levels very similar to those of 2017. The total value of transactions was €3,650m, representing almost 32% of total commercial trade, much higher than the average of 25% in 2011 and ranking for the second consecutive year as the commercial product with the highest investment in Spain, above offices.

### Activity in the traditional market

In the volume analysis by type of sub-market, the so-called traditional product (shopping centres, retail warehouses and supermarkets / hypermarkets) is still the most important in terms of volume. However, the importance was diminished in 2018 (representing 68% of retail investment compared to 85% in 2017).

The current situation of the investment market in traditional products is marked by the gap between the scarce prime available product and the demand by core investors for prominent centres. This situation results in three alternatives that use indirect investment through any of the existing vehicles, the development of new projects or the acquisition and subsequent repositioning of existing shopping centres.

The main reason for the reduced investment volume in traditional products compared to 2017 is the size of the dual large transaction registered in 2017, consisting of the sale of Intu Xanadú to Intu properties and the subsequent sale of 50% to TH Real Estate, accounting for €794m. Despite this, 2018 was the year with the second highest level of investment in the traditional product in the entire historical series.

By volume, the most significant transactions were the sale of the portfolios of Unibail-Rodamco made up of Los Arcos (Seville), Bahía Sur (San Fernando), Vallsur (Valladolid) and El Faro (Badajoz) to Castellana Properties, Socimi of the South

### SPANISH RETAIL SALES

4%

online

12%

in shopping centres

77%

in high street



Despite the great attraction of the main fashion brands, the customer values the variety and uniqueness of "niche brands"

“ Food courts are designed to imitate the model of street food and customers decide what kind of food, how much to spend and what ambiance to enjoy ”

“ The commercial projects that are set for 2019 and 2020 have a common denominator: differentiation. Sky Shopping Center, Lagoh and X-Madrid are centres with a clear commitment to novel elements that will not go unnoticed by the clients ”

🗨️ A pipeline of almost €2,000m has been identified 🗨️

African group Vukile and the sale of Sonae Sierra/CBRE of: Valle Real (Maliaño, Cantabria), Max Center (Barakaldo, Vizcaya) and Grancasa (Zaragoza) to the joint venture formed by J & T Real Estate + Sonae Sierra for close to €500m each.

Pradera has also carried out a significant transaction with the sale of six of its galleries to Carmila, Carrefour's real estate arm. The deal amounted to €234m and a GLA of 73,300 sq m.

**Retail Warehouses**

The investment market in retail warehouses and retail parks recorded a modest performance in 2018, with a

transacted volume of €233m, which was slightly less than half of that registered in 2017.

The highlights were the value per transaction, going from €37m to €33m in 2018, with the Spanish capital reducing its investment volume in 2018. German and American shareholders followed suit as they were not interested last year in any asset from the commercial segment.

The main deal was undertaken by Lar España Real Estate Socimi, purchasing 36,700 sq m of retail warehouses from Credit Suisse in the Rivas Futura retail park in Madrid (Rivas Vacia-Madrid) for €61.6m.

During 2018, Lar continued its strategy of selling non-strategic assets, highlighting the sale of two retail warehouses located in the Nuevo Alisal (Santander) and Villaverde (Madrid) retail parks to the French fund Pierre Plus for €33.2m, as well as two buildings that house three retail warehouses (Aldi, El Corte Inglés and Feu vert) in Parque Galaria (Pamplona) to AEW.

Meanwhile, in 2018 Frey Invest, a real estate fund managed by Pradera, acquired Parc Vallès, in Barcelona for €82.5m while Procinco sold the Millenium retail park in Majadahonda (Madrid) to Ores Socimi for €31m.

**High street**

The high-street market hit record highs in retail investment in 2018, reaching for the first time in the historical series a volume greater than €1,000m. The stand-out megadeal was completed at the beginning of the year comprising of the sale by Inditex of 14 of its shops to the German fund Deka for €366m.

In 2019 high street market continues to arouse the interest, although the scarce offer of prime locations is slowing down the growth of the investment.

**Cross border investment**

During 2018, the decline in foreign investment was one of the reasons for the drop in investment figures in traditional products, accounting for 61%, the lowest in the entire historical series.

While 2017 saw TH Real Estate, Marathon Asset Management and Barings Real Estate closing significant transactions, (such as the purchase of Intu Xanadú by TH Real Estate), in 2018 there were no acquisitions despite the general trend of American funds has been selling assets.

However, in relation to cross-border investment, it is important to take into account that although Socimis are Spanish companies, 83% of the investment of these vehicles comes from foreign capital in order to obtain greater tax benefits.

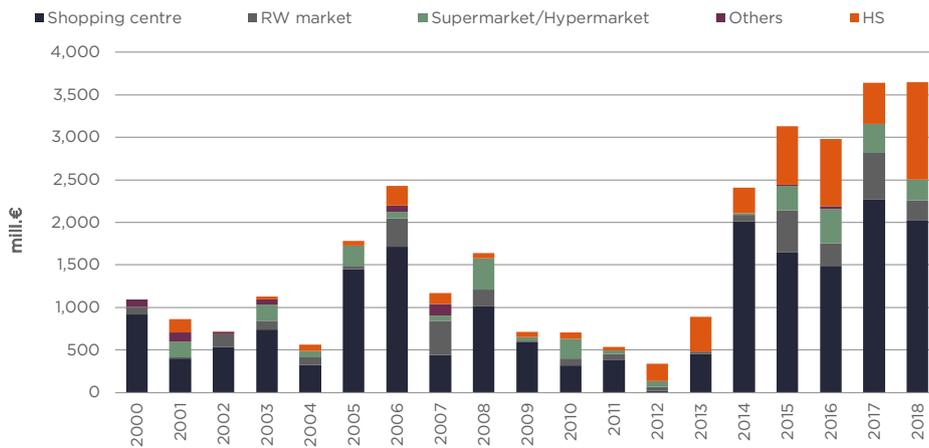
Of particular note under this scheme is the investment capital of South African origin Vukile, whose Socimi, Castellana Properties, has undertaken one of the largest deals of the year.

**Yields**

Despite the fact that the retail sector continues to be the most attractive commercial product for investors, the lack of prime product continues to generate the overall yield compression that started in 2009. In 2018, it reached 4.25%, a figure which had been stable since 2016 and 275 basis points below the market peak recorded in 2009.

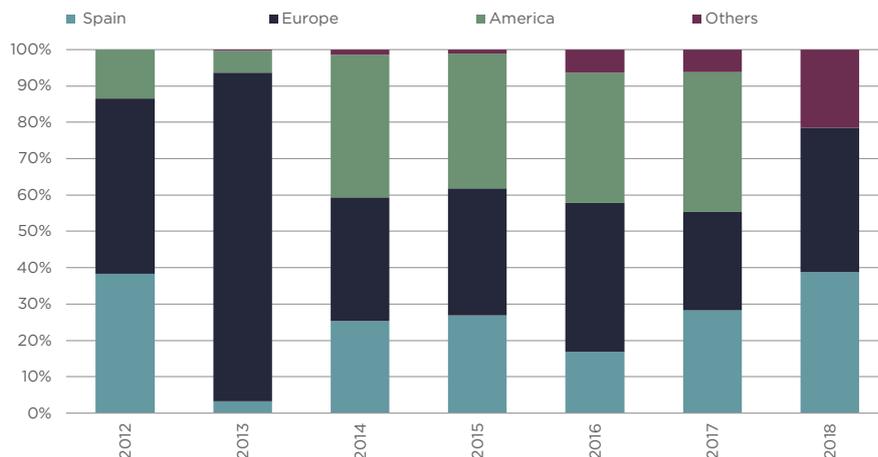
The secondary shopping centres continue to be an interesting alternative to the scarcity of prime product. In this category, the yield

**Graph 4: Retail investment by type of product**



Source Savills Aguirre Newman

**Graph 5: Retail investment purchaser nationality**



Source Savills Aguirre Newman

“ The demand for retail products is focused on convenience shopping centres anchored in a supermarket in prime and secondary retail parks ”

remains in the region of 6.5%, 5 p.p. above that registered in the two previous years.

With regards to retail warehouses, the yield stands at 4.50%, 50 basis points below the year 2017 and 300 basis points below the market peak registered in 2012.

**Table 4: 2018 main deals**



**Los Arcos, Bahía Sur, Vallsur, El Faro**

489 M€  
205,600 sq m  
Yield: N/A  
Vendor: Unibail Rodamco  
Purchaser: Castellana Properties



**Valle Real, Grancasa, Max Center**

485 M€  
148,543 sq m  
Yield: N/A  
Vendor: Sonae Sierra + CBRE  
Purchaser: J&T Real Estate + Sonae Sierra



**Pradera Portfolio**

182 M€  
67,200 sq m  
Yield: 6.30%  
Vendor: Pradera  
Purchaser: Carmila



**L'Aljub (Elche, Alicante)**

170 M€  
31,112 sq m  
Yield: 5.10%  
Vendor: TPG Capital + Retail Property Found  
Purchaser: Deutsche Bank

**Outlook 2019**

- The economic slowdown and the success of e-commerce are generating a certain conservative stance and investors are adopting a “wait and see” attitude.
- This suggests a 2019 with investment levels lower than those registered in the two previous years and an increase in yields.
- A pipeline of almost €2,000m has been identified. The shopping centre portfolio of Intu in Spain, comprising four shopping centres valued at close to €1,000m, has not been added to this volume.

- The products in the pipeline are mainly composed of non-prime retail parks, supermarket/hypermarket portfolios and prominent shopping centres in secondary locations.
- The demand is primarily focused on small convenience shopping centres anchored in a supermarket as well as prime and secondary retail parks.
- Despite this conservative scenario, stability in rents is foreseen. However, it is expected that there will be certain adjustments because of the increase in the size of the premises and the greater importance of the leisure sector.

- The projects are undergoing longer marketing processes that are causing some delays in their opening.
- Although the projects are increasingly incorporating more leisure, fashion continues to be the main activity, but through larger anchors that act as show rooms and aspirational “niche brands”.
- Differentiation will come from an improvement of the shopping centre through capital investment and actions that, although not generating a direct income, have a positive impact on customer service.



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## Savills Aguirre Newman Research

We carry out a thorough and objective analysis of the real estate market in order to provide our clients with accurate information on the current situation in each of the sectors, helping them make the right decisions at each moment.

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### Savills plc

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