

Retail in Spain



International uncertainty and price escalation mark the current economic scenario

2022 will go down in history as the year of the start of the Ukrainian war, international geopolitical tension, and dependence on Russian gas, all of which created widespread uncertainty and had a direct impact on the economy and specifically on prices and transport costs.

Economic forecasts for 2023 follow the same trend, but despite this, the retail sector continues providing reasons for optimism; its features make it one of the most attractive segments for the real estate sector.

The macroeconomic indicators with the greatest impact on consumer behaviour and therefore on the retail sector are as follows:

- The evolution of GDP, given that its growth boosts the economy and encourages consumption. Different projections on the evolution of the Spanish economy anticipate a GDP for this year of 1.0%-1.5%, and 1.8% (Focus Economics) for 2024. Although these data reflect a clear slowdown in the growth pace, they send a positive message, that Spain will not enter recession.
- A drop in unemployment offsets to some extent the moderate GDP growth; in the fourth quarter of 2022 the unemployment rate was 12.9%, 1.19 percentage points lower than in 2019, with a forecast to reach 12% in 2024.
- In 2022 the Consumer Confidence Index (CCI) stood at 66.6 points, a much lower value than in 2021 (83.66) and in 2019 (89.34). During the first three months of 2023 the index reflects a slight improvement with 70.67 points.
- Inflation is one of the indicators with the greatest impact on purchasing power: throughout 2022 it reached 8.40% on average per year, moderating during the first four months of 2023 (average of 5.07%). At 3.3% in March, it is expected to continue its downward trend to 2.6% in 2024.
- Private consumption is projected to grow by only 0.9% year-on-year in 2023 compared to 4.4% in 2022 and to rise again to 1.7% by 2024 (Focus Economics).

- The pulse of retail sales is measured by the Retail Trade Index (ICM) and the Large Stores Retail Trade Index (ICMGS); these indices reached lows in the summer months of 2022, improving gradually since then. In February 2022, the ICM figure was 104.15 and ICMGS 106.99, while in the same month of 2023, the figures were 108.29 for ICM and 109.69 for ICMGS.

🗨️ Thus, an anticipated fall in the unemployment rate, resilience of GDP, a gradual decline in inflation levels, and the forecast end of interest rate hikes, show an optimistic scenario that will take shape as the year progresses. 🌟

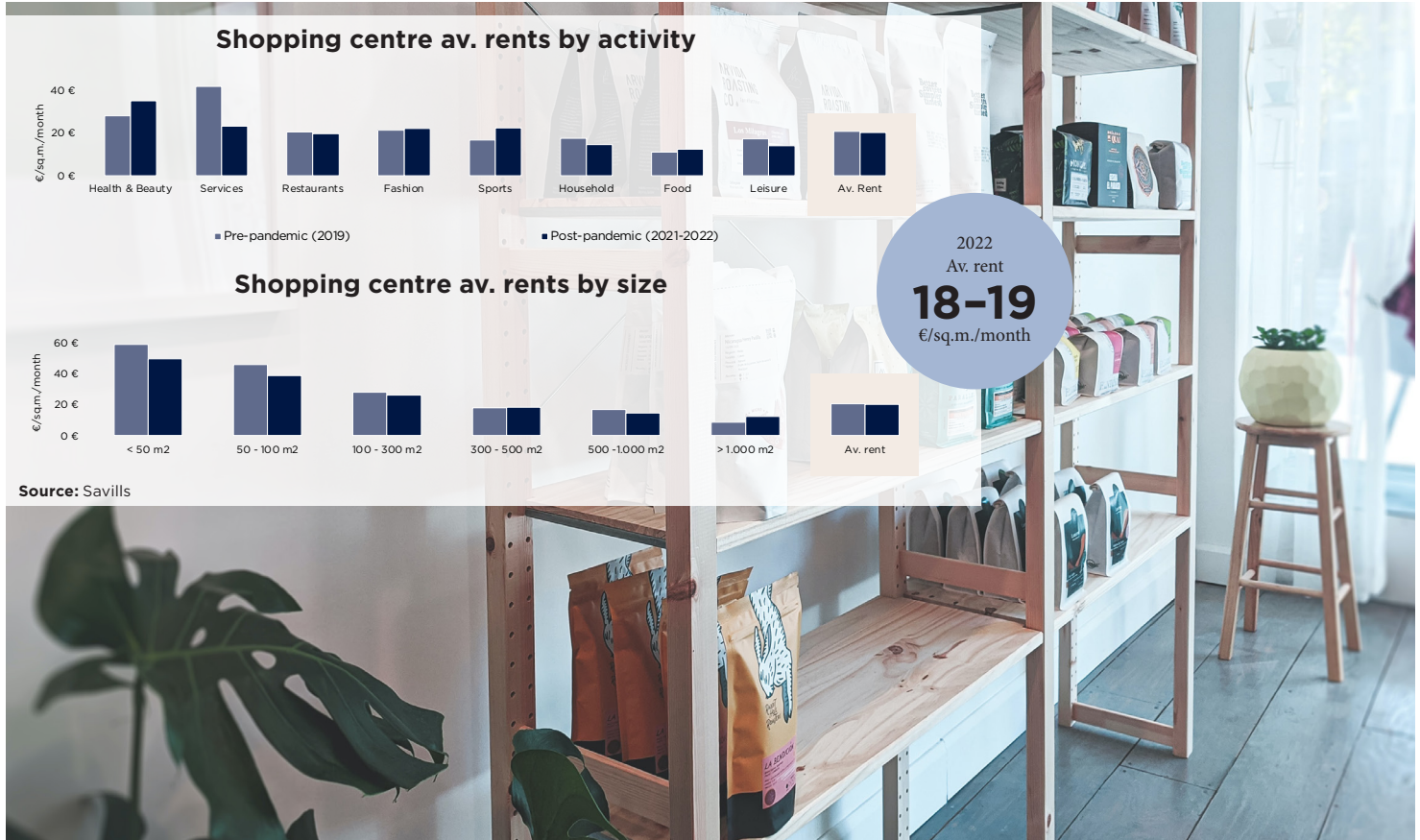
Retail market | KPI's

		Apr.-23			
Market	Indicator	Current situation		Evolution	
Retail	Stock	17.8	M sq.m.	0.44%	Apr./2023 vs. Q1 2022
	Investment vol.	184	M €	-95%	Jan.-Apr./2023 vs. Total 2022

		Apr.-23			
Market	Indicator	Current situation		Evolution	
Shopping centres	Stock	14.6	M sq.m.	0.04%	Apr./2023 vs. Q1 2022
	Vacancy	Low			
	Prime Rents	85	€/sq.m./month	0%	Q1 2023 vs. Q1 2022
	Av. Rents	18 - 19	€/sq.m./month		
	Investment vol.	75	M €	-79%	Jan.-Apr./2023 vs. Total 2022
	Prime yields (Q1 2023)	5.75	%	+50 bps.	Q1 2023 vs. Q1 2022

		Apr.-23			
Market	Indicator	Current situation		Evolution	
Retail parks	Stock	3.2	M sq.m.	2.29%	Apr./2023 vs. Q1 2022
	Vacancy	Low			
	Prime Rents	17	€/sq.m./month	6%	Q1 2023 vs. Q1 2022
	Av. Rents	9 - 10	€/sq.m./month		
	Investment vol.	78	M €	-75%	Jan.-Apr./2023 vs. Total 2022
	Prime yields (Q1 2023)	5.50	%	+50 bps.	Q1 2023 vs. Q1 2022

Source: Savills, AECC



What impact is it having on operators?

Inflation and rising operating costs have forced operators to implement new pricing strategies to remain competitive with consumers who are increasingly focused on finding the best service at the best price.

According to the shopping centre portfolio managed by Savills, by the end of 2022, service charges exceeded those of 2021 by 11% on average. This increase was lower than expected due to two main factors: savings in other budget items, and the fact that energy costs only represent 23% of the total budget as this item has suffered the largest deviations (70% on average).

Thus, the impact of the increased service charges has not been as marked as in other European economies, where effort rates have risen by up to 25%.

By 2023, an average budget increase of 8% is foreseen; this increase is more pronounced in

shopping centres (10%) compared to parks (5%), mainly due to the usual caps in retail warehouses.

Considering a scenario in which consumption does not fall, and increased sales are due solely to the CPI, increased occupancy costs (charges and rents) in 2023 would produce a variation in operators' effort rates of only 0.1%, from 9.6% to 9.7%. This value is slightly higher for shopping centres (from 13.3% to 13.6%) and slightly lower for parks (6.4% to 6.5%).

After ten years during which the shopping centre sector has enjoyed great rent stability due to low inflation levels (an annual average of 1.57%), we expect that the upturn in occupancy costs will be absorbed by sales inertia and that we will continue in a sustainable scenario over time.

Most active tenants in shopping centres and retail parks



Sports:
Sprinter, JD, Decathlon, Joma



Decor:
Jysk, IKEA



Fashion:
KIABI, Primark, Kik, Pepco

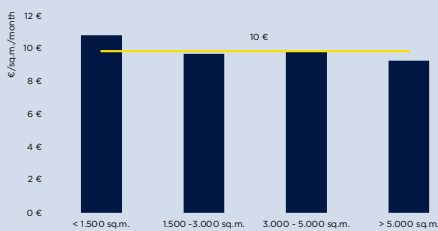


Gym:
Fitness Park, Basic Fit

“ It is necessary to optimise the production chain, maximise synergies between channels, and test business concepts that are more tailored to current trends ”

Spanish Retail Parks av. rents (€/sq.m./month) by size

Spanish Retail Parks av. rents (€/sq.m./month) by size



International entrants by country origin 2021 - 2022



But the openings continue...

All players are aware that, in this new scenario, cost savings are not enough; to maintain margins, it is necessary to optimise the production chain, maximise synergies between channels, and test business concepts that are more tailored to current trends.

The expansion policies of operators are based on maintaining offline market share, opening stores and being present in the main locations, resulting in new openings: according to the Savills database, during 2022, 453 stores will open in shopping centres and retail parks. This figure represents an increase of 18% compared to 2021 and is only 6% below the number of openings identified in 2019. Of these, 84% were in shopping centres and 9% in retail parks.

In terms of activities, 46% were fashion outlets, followed by catering with 16%, with home and health and beauty accounting for 9% and 8% respectively. If we compare the retail units

opened in 2021, we note that fashion had a lower weight (27%) than in 2022 and catering a higher weight (24%).

In terms of brands, Pepco leads the ranking with 23 identified openings, followed by Singularu (10), JD Sports (8) and Kiwoko (7) among others.

The early stages of 2023 have been active, standing out five openings in Vialia Vigo (Cortefiel, Women' Secret, Springfield, Sushisom and Xiaomi), four in Parque Principado (Polinesia, Hubside.Store, GoWok and Ramen) and four in Parque Corredor (Pandora, Waffle Time, Beds and Ikea) among others.

All in all, and even though many operators have redefined their objectives, 2022 has been a positive year in terms of openings due to the momentum on starting the year. This trend is expected to continue in 2023, especially as many operators have delayed some of the openings they expect to make this year.

Which are the most active brands? The new low cost generation

From the transport sector to telephony, food and fashion, no segment has remained untouched by the low cost phenomenon, as the best formula in an environment of clearly deteriorating purchasing power and downtrading, or the search for alternatives to make the shopping basket cheaper.

Supeco

Carrefour has set out to extend its low-cost model with Supeco, with which it aims to reach 200 stores, mainly in Spain. Its business model is characterised by food products at low pricing using simple furniture that also integrates the warehouse into the store itself.

Currently the chain already has 51 supermarkets. In the strategic plan presented by the company they have the aim of reaching 80 on a global scale and to reach 200 by 2026.

Action

The Dutch non-food low-cost retailer is preparing to open 15 new stores in the country, increasing its presence fourfold to 20 stores by the end of the year.

Action stores sell 6,000 items in 14 categories, ranging from gardening and toys to fashion, DIY and a small part of dry food.

Centrakor

The French firm of home decoration and equipment opened its first store in Spain in the Alfafar Parc shopping park (Valencia) where, in an area of 2,300 sq.m., more than 30,000 home decoration products are displayed at affordable prices.

With the Valencian store, Centrakor now has 470 stores in France, Belgium and now Spain, where they were present through a franchise in the Canary Islands.

The opening of the Alfafar store is part of the 2023 and 2024 expansion plan, which foresees the opening of around twenty new stores in France, Belgium and Spain and the entry into Luxembourg and Switzerland.

Cash fresh

The food distribution chain follow the roadmap set out in the 2021-2025 Strategic Plan, which will lead to 50 store openings and 50 refurbishments by the end of 2025, the brand continues its expansion and is approaching 90 food stores located mostly in Andalusia, with a clear commitment to Extremadura, where 8 of its stores are already located.

Zeeman

Founded in 1967 under the concept of a clothing supermarket, the Dutch chain entered Spain in 2015 with three stores in Catalonia, and since then has been expanding its presence in eastern Spain to reach nearly 50. Zeeman's plans are to reach 250 sale points in Spain in the next seven years.

Primaprix

The Spanish-based company's business model is based on stocking up on surplus volumes due to cancellations, labelling errors, old packaging or leftovers from special promotions, which they offer at a discount of between 30% and 70%.

However, in addition to price, part of its success is due to its image as a gift store where the customer makes purchases on a whim and impulse.

Primaprix plans to open seven new stores in Spain, which will be located in Guipúzcoa, Barcelona, Madrid, Zaragoza and Gerona.

Sqrups

The company specialized in household items stock clearance, plans to grow from the current 55 stores to around 75 by the end of the year, focusing on Madrid, Andalusia and Valencia and combining the franchise model with its own stores.

The chain will be supported by Global Social Impact Investments SGIIC, the impact investment fund manager of the Santa Comba family holding company, which recently became a shareholder of the company. The funds will drive an opening plan for the next three years that will allow the company to exceed 120 sale points.

Pepco

The Polish Pepco Group closed the first quarter of the 2023 financial year with increased sales by 27% and has transformed fifteen Dealz stores into Pepco stores, its low-cost fashion chain.

The company has accelerated its opening pace and plans to open up to 100 stores annually in the coming years. From May, the company will also be present in Portugal, where it plans to have a network of 20 stores by the end of 2023.

Normal

It is a Danish supermarket chain in direct competition with Primaprix, which already has more than 400 stores in Denmark, Norway, Sweden, the Netherlands, France, Finland and Portugal and is planning to enter Spain and more specifically Madrid.

Its commercial strategy is based on the sale price of brand-name products at fixed low prices with promotions or offers.



New services: second-hand clothes and repairs Second hand

Second-hand fashion is already present in the mass market as well as in the luxury market, which is generating the most interest.

Zara Pre-Owned

This is a platform that is currently operating in the United Kingdom but which aims to be implemented in the rest of the countries, by which Zara pieces can be resold, donated and repaired, thus moving closer to the circular economy and at the same time controlling the resale of its garments on other portals.

Handle and I:CO

In 2022 the company has signed an agreement with the Swiss company I:CO, specialised in collection, reuse and recycling of used clothes and shoes, to manage the garments collected in Mango's containers, called Committed Box, in Germany, Poland, Switzerland and Turkey.

I:CO will sort the garments collected in the containers and classify them according to the second life they may have: reuse, recycling or a second use.

In Spain, all items collected are donated and processed at the Koopera recovery and recycling centre, which is part of Moda Re, a group of social initiative cooperatives promoted by Caritas.

H&M and Remondis

The Swedish fashion multinational has just announced the creation of a company together with the specialist waste treatment and management group Remondis. This new company will operate independently under the name Looper Textile Co. and aims to drive circularity and sustainability within the fashion industry by collecting, sorting, and selling used and end-of-life garments and textiles.

Balenciaga and Reflaunt

According to the section provided on the brand's website, customers will be able to sell their Balenciaga garments and accessories and receive cash in exchange, discounts or credit to redeem in the company's stores. To do so, they will be able to deposit the items in selected Balenciaga stores, and Reflaunt will authenticate, photograph and appraise them, as well as distribute them through a network of secondary marketplaces and platforms.



Repairs

The rising cost of living and awareness of sustainability has made repair, for individuals or brands, a collateral consequence. In recent years, start-ups have thrived in response to this trend. Such is the case of Sojo, The Restory or Save your wardrobe, which aim to connect artisans and tailors with textile companies.

Uniqlo and Repair Studio

The Japanese firm has teamed up with Atelier Aletheia, a national artisan clothing firm that will provide them with raw materials for patches, garment repairs, size adjustments and button replacements. In addition, they offer a customisation and mending service according to the ancestral Japanese embroidery technique Sashiko Boro.

Farfetch and The Restory

The Portuguese digital platform for high-end clothing launched Fix, a service in partnership with The Restory (a London-based high-end repair store); customers can send in garments or accessories in need of repair and the company takes care of shipping and collection.

Revolution in the world of pets

Investing in the pet market has become a worldwide and domestic trend, as in our country more than 40% of households have a pet (Euromonitor International).

According to ANFAAC (Asociación Nacional de Fabricantes de Alimentos para Animales de Compañía) in Spain there are 29 million pets that produce an annual expenditure of 1,493 million euros (2021) in pet food, 14% more than in 2020. A report by Grand View Research reveals that the global market will grow by around 5% annually to over €180 billion by 2025.

Kiwoko (162 stores), TiendAnimal (100), Miskota (73) or Guaw (20) are some examples of pet stores that have experienced significant growth in recent years with openings in retail parks, shopping centres and high street stores.



Kiwoko

With a total of 162 stores in Spain and Portugal, Kiwoko is the leading chain in Spain offering veterinary services in most of its stores. After undertaking an ambitious organic and inorganic growth plan, Kiwoko was divested and acquired by the TA Associates fund in 2016.

The flagship, which began by opening stores in retail parks, has expanded its locations to include shopping centres and high street stores. One of the most notable recent openings was in May 2022, of its flagship in Madrid (Calle Velázquez, 136) with more than 1,400 sq.m., the largest currently existing in the Iberian Peninsula.

It's not all retail: mixed uses

The trend to include non-retail uses fits very well with the new retail park formats, as their urban character provides the possibility of implementing activities that benefit from these locations, where there is a significant population mass.

Tarraco Centrum, the future business park of the Dutch developer Ten Brinke will accommodate a hospital, Breogán Park in La Coruña, in addition to retail activities, will include a coworking centre and logistics facilities and Infinity in Valencia, will include 3,200 homes. The commercial-services area comprises 113,000 sq.m., where a large shopping centre is planned and 23,000 sq.m. of service uses where a hotel, offices or a retirement home could be located.

And online brands continue to take the leap to offline

Following in the footsteps of Hawkers, Muroexe, Pompeii, Singularu, Shein and Cossy, an increasing number of brands, aware of the importance of the physical store, are leaping to the offline market. All of them are facing important challenges and are increasingly aware of the huge range of areas to explore when setting up a store: from choosing the best location, furniture, staff recruitment, etc.

Wallapop

Following the opening last November 2022 of its first transitory store in Madrid's Salamanca district (Calle Maldonado, 37), the online company is in negotiations with the developer Unibail-Rodamco to include stores in its shopping centres portfolio.

We Are Knitters

The Spanish company that sells woollen yarn kits and knitting patterns worldwide opened a store in autumn at the Madrid Fuencarral street.

Rastreator

The company has opened its first store in Seville and plans to open several in other Spanish cities after reaching 17 million digital users.

La Martinuca

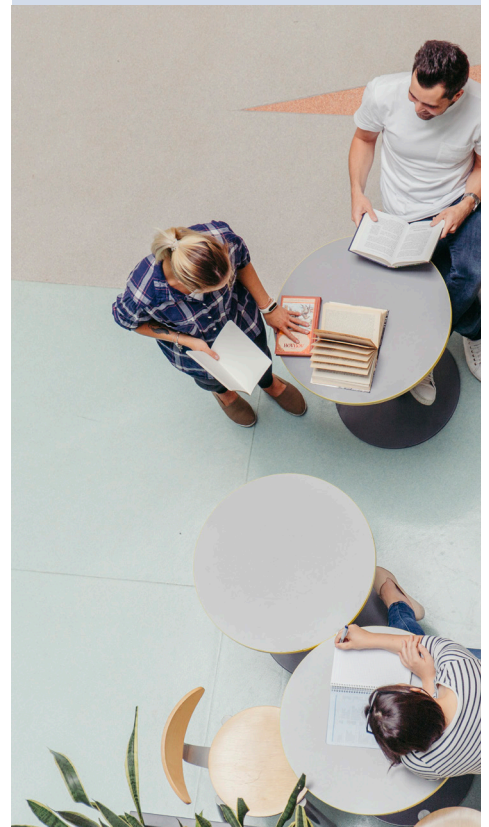
After succeeding in delivery, La Martinuca, one of the best-selling tortilla companies in Madrid, has opened its first store in Barquillo street, later opening three other stores in Plaza de Castilla, Plaza de España and Alcobendas, all of them in Madrid.

Lingokids

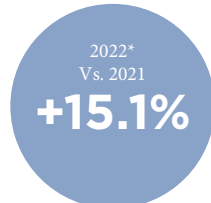
This is a well-known English learning app for children, which in March 2022 took the leap to the physical world for the first time with a store on Princesa Street in Madrid.

Nude Project

The pure digital player specialised in the online sale of inclusive and genderless collections in the streetwear category, takes an important step forward with the opening of its first physical store of 80 sq.m., at the Fuencarral street in Madrid, besides We Are Knitters.

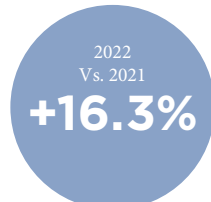


Shopping centre footfall



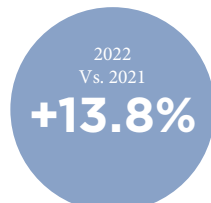
Source: ShopperTrack (09/2022), Savills (03/2023)
*Note: From October 2022, Savills Portfolio

Shopping centre sales



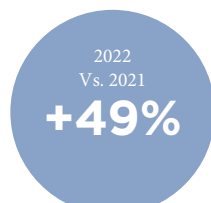
Source: AECC

Fashion sales



Source: Acotex

Cinema sales



How have prices impacted foot traffic and sales?

The degree to which prices have an impact on inflows and sales in shopping centres depends to a large extent on the consolidation level of the shopping centre, its type of offer, competitive pressures, the environment in which it is located, as well as its ability to adapt to change.

Customers are aware of the latest trends, offers and discounts in real time, making it easier for them to find quality products at the best price. As a result, there has been an increase in the average ticket and visit frequency has dropped.

While shopping centre sales in 2022 achieved growth of 16.3% and almost 1.7% over 2019 (AECC), footfall was 15% higher than in 2021 and 14% lower than before the pandemic (2019).

During the first two months of 2023, both indicators have shown a similar progression, with more than 15% in January and almost 7% in February, continuing the noted positive trend and in turn reproduced in two of the sectors most affected by the pandemic: fashion and cinemas.

With regard to clothing, and after 2020 with a 40% drop in sales, 2022 was the first year after the pandemic with positive figures, specifically with an increase of 13.8%. This figure is far from the 2019 figures, but nevertheless shows a clear improvement, that has continued during the first two months of 2023, with a YTD growth of 7.8% (Acotex, February 2022). Although there are many uncertainties, fashion is steadily following the path of recovery, albeit at a slower pace.

The cinema sector has experienced a remarkable recovery in 2022 with a 49% increase in revenue and a 45% increase in spectators, however, compared to 2019 they are still down by 38% and 42% respectively. This trend evolution suggests that the number of spectators will not grow as much as before, while the average ticket will increase due to increased operators' services, and the improvement in the cinemas' quality.

Are there too many stores? How do owners cope with the current situation?

Commercial density is one of the most appropriate indicators to determine market saturation: the average density of commercial facilities in Spain is 375 sq.m. per 1,000 inhabitants.

Analysing the data for the different regions, not all provinces are close to the average. The densest are Zaragoza, with 631 sq.m. per 1,000 inhabitants, and Las Palmas, with 616 sq.m. per inhabitant, while those with the lowest density are Teruel, where there is no shopping centre, Lleida (39 sq.m. per 1,000 inhabitants), Ávila (106 sq.m. per 1,000 inhabitants) and Ciudad Real (107 sq.m. per 1,000 inhabitants).

However, to make more sense of these figures, especially at the micro level, a number of factors need to be analysed, as follows:

- Restrictions on new openings of commercial facilities established by each community.
- Social or economic circumstances, such as the flow of tourism or socio-economic status.
- Availability of land and the orography of the land itself, which has a direct impact on construction costs and depends to a large extent on the environmental policies of each region.
- Competition from high street and from surrounding shopping centres, and their level of obsolescence.
- Development costs and lack of financing.

In general terms, regions with low commercial density would be interesting locations for the development of new projects, but it must be considered that while the shopping centre market has reached maturity, with a limited number of future projects occupying a very specific niche market, the park sector still has some way to go.

Proof of this is that the average number of parks opened before 2007 was 7%, rose to 39% in the period 2008 - 2019 and is expected to increase to 68% for the years 2020 -2024. Specifically, in 2022, nine projects with 165,500 sq.m. were opened, and of these, more than 50%, in terms of number and area, were retail parks.

In 2023, retail parks account for 64% of the number of projects and 55% of the area, excluding extensions, while in 2024 the proportion in both

number and area rises to over 80%. Most of the retail warehouse park projects are in semi-urban locations in secondary cities with a good population mass and have a common denominator, an average size of around 15,000 sq.m..

As in previous years, growth in the shopping centre format will come from refurbishment, expansion or repositioning either by changing the retail mix or by including mixed uses.

Around 30 shopping facilities, totalling more than one million square metres are anticipated to be fully or partially refurbished on a short/medium term. Of these, 77% of the total number and 84% of the area are shopping centres.

A good example is the reopening of Las Ramblas Shopping in Cartagena, a project that had no commercial activity during several years, and which already has Mercadona as a tenant for some 4,500 sq.m. of its 35,000 sq.m..

As for the High Street market, which is more vulnerable to economic contingencies, it has recovered its sales and inflows in a similar way to the shopping centres due to the revival of tourism. As a result, retail space vacancy has gradually declined, especially in the major cities, and currently stands at 10%.

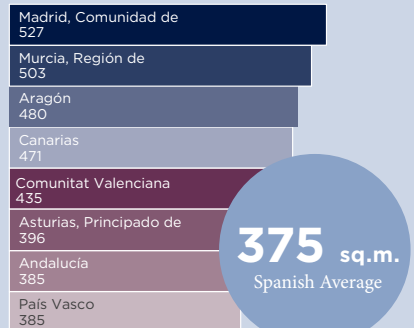
The number of high street stores has been decreasing since 2010, when there were 617,548 active retail units according to the INE, to 543,650 in 2022, a fall of almost 12%. However, part of the decrease in these numbers is due to the increase in the area of some brands, such as Pepco, JYSK, Basic Fit, Media Markt, Kiwoko, Leroy Merlin or Decathlon, among others, which have joined several stores.

The climate, the structure of the cities and the tradition of visiting neighbourhood stores, especially in the historic centres, has encouraged both the establishment of important flag-ships in the main commercial arteries of the cities, and the development of a commercial network in the peripheral neighbourhoods, which are gradually recovering their prominence. The result of this is the slight increase in the number of retail units during 2021 (0.4%).

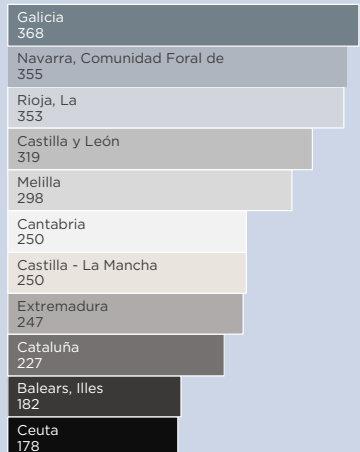
“Some of the items to analyse in order to understand the feasibility of a specific project.

- Restrictions established by each community.
- Social or economic circumstances.
- Orography of the land itself.
- High Street or Shopping centre competition, and the obsolescence level.
- Costs and lack of financing.”

Regional density above the average (sq.m.)

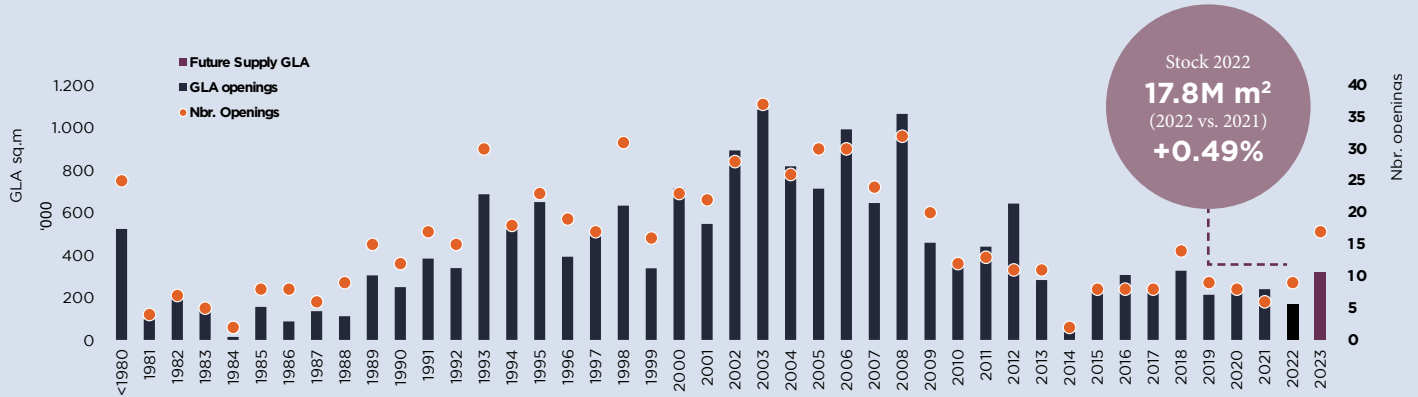


Regional density below the average (sq.m.)



Source: Savills, INE (03/2023)

Shopping centre openings



Source: AECC (Asociación Española de Centros Comerciales), Savills (03/2023)

Main future supply projects (2023)

Province	City	Project Name	Developer	Category	Sq.m.
Murcia	Cartagena	La Rambla Shopping	General de Galerias Comerciales	Medium SC	35,000
Madrid	Fuenlabrada	Nexum Retail Park	Equilis	Retail Park	26,000
Barcelona	Vila nova I la Geltru	Nova Center	Titan Properties	Medium SC	23,000
Santa Cruz de Tenerife	San Cristóbal de La Laguna	Leroy Merlin Phygital & Co	Inmobiliaria Leroy Merin	Retail Park	23,000
León	León	Oalmacenter (Parque Comercial La Lastra)	Oalma Center	Retail Park	18,000
Cádiz	San Fernando	Parque comercial La Isla (Tiro Janer)	Ten Brinke	Retail Park	15,403
Madrid	Getafe	Parque Comercial Imagina	Sociedad Parque Imagina	Retail Park	13,000
Coruña, A	A Grela	A Revolta	Private	Retail Park	10,000

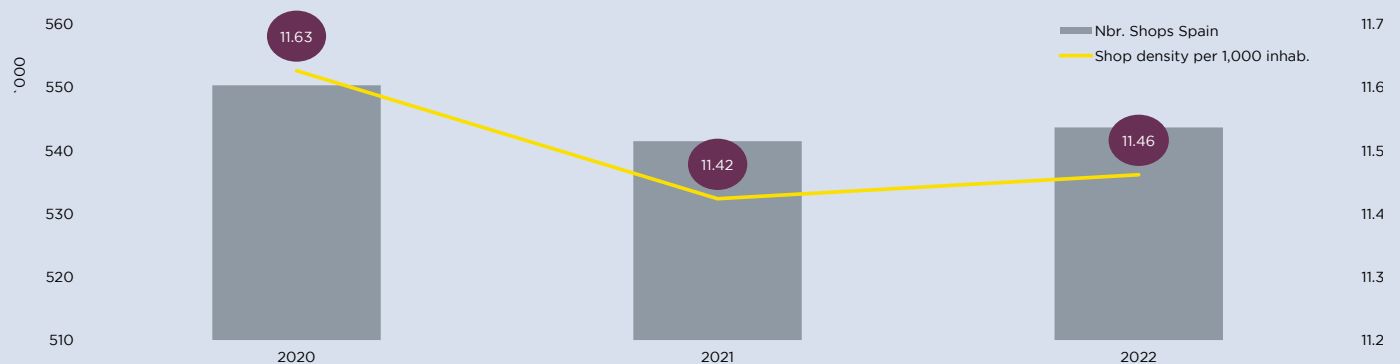
Total
334,900
sq.m.

Source: AECC (Asociación Española de Centros Comerciales), Savills (03/2023)

Total Projects: 250,700 sq.m.

Total Extensions: 84,200 sq.m.

Nbr. of shops and densities | Spain



Source: INE

What is more important, a wide range of products or sustainability and socially responsible?

Today's consumers are looking not only for variety and quality but are increasingly demanding codes of good environmental practice and socially responsible investment. As a result, landlords and operators have naturally had to evolve with society.

Sustainability has become a key factor in a brand's reputation. In order to clarify what is or is not sustainable and to avoid the practice of greenwashing (green marketing that creates an illusory image of ecological responsibility), the European Commission published a proposal for a directive on this subject in March 2023.

At present there are no unified criteria on what sustainable means; no "green clauses" are compulsory for retailers, but there are already parent companies that oblige operators to locate their stores in ESG-friendly spaces and even some investors focus solely on this type of asset.

Landlords of commercial facilities are already working to implement certifiable actions not only with respect to the environment, acting on water and energy consumption or recycling, but also with actions that have an impact on the surrounding population and the good governance of companies: Donations, psychological help for vulnerable groups, blood donation campaigns or art exhibitions in collaboration with non-profit associations are some of the measurable actions

carried out by centres managed by Savills that have a positive impact on the community.

On the other hand, fashion giants, the fourth most pressured category in terms of raw material and water use and the fifth in terms of greenhouse gas emissions, are pre-empting these regulations with actions such as banning the display of sustainability labels that are not based on a certification scheme or self-certified. Specifically, Inditex has removed its "Join Life" label, while Mango removed its "Committed" label earlier this year.

ASOS recently launched its "Fashion with Integrity" programme, committing to achieving a goal of zero net carbon emissions across the value chain by 2030. Primark, meanwhile, has announced that by 2030 all its clothing will be made from recycled or more sustainably sourced materials.

Ultimately, ESG principles are being implemented in all major retail companies, creating associations to align with legislative requirements for sustainability and recycling. Inditex, Tendam, H&M, Decathlon, Kiabi and Ikea have joined forces to create the first SCRAP (Collective System of Extended Producer Responsibility) in the Spanish textile market, the Asociación para la Gestión del Residuo Textil, with the aim of managing textile and footwear remnants.

🌱 New generations (Millennials and Z-Gen) set new trends
Tomorrow's shopping centres will be positioned as catalysts for social and environmental value. 🌱

A sustainable building is:

1. Design
2. Construction and refurbishment
3. Management

Sustainable buildings

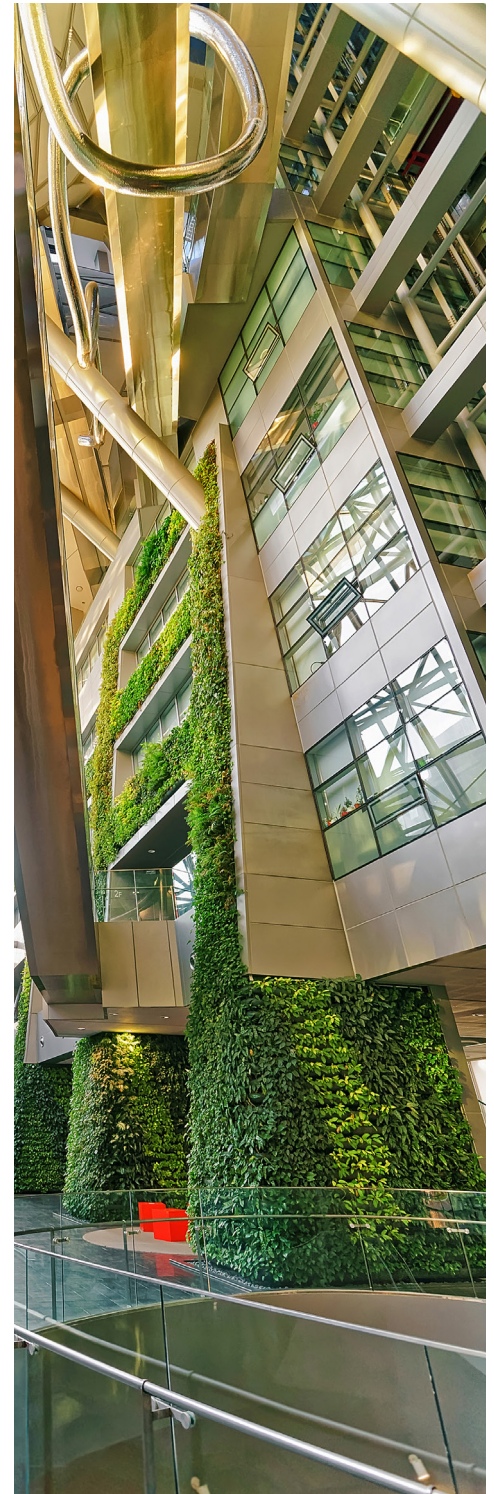
Energy consumption

-25%

Water consumption

-30%

Source: Savills



What are consumers like and what do they want?

TECHNOLOGICAL, BUT WITH HUMAN TOUCHES

The digital world brings convenience and speed, but emotional connections will remain essential.

In 2022, 58% of consumers are comfortable with human contact in customer services, compared to 19% who are comfortable with a bot.

METHODICAL WITH MONEY

Consumers will redistribute their shopping basket to tackle rising prices.

46% of consumers will increase savings and 31% will increase consumption in discount stores.

EFFICIENT USE OF TECHNOLOGIES

Consumers are not willing to reduce screen time, but to increase efficiency of use.

By 2022, more than 20% of consumers have deleted unused social media accounts.

ECO-ECONOMIC

The need to save money has led to environmentally responsible actions: repairing items, buying second-hand products, or renting.

55% of consumers have reduced food waste and 43% have reduced energy consumption.

GAME ON

Gaming communities are a good platform to socialise and connect with other people of similar interests and of all ages and are increasingly investing money in enriching their experiences.

In 2022, 30% of consumers owned a console. Of these, 37% have played online games during the past weekend.

HERE AND NOW

In spite of the economic situation, consumers continue to make impulse and volume purchases because they have learned to live with uncertainty.

44% of consumers are willing to spend money on things that help them save time.

BACK TO THE STREET

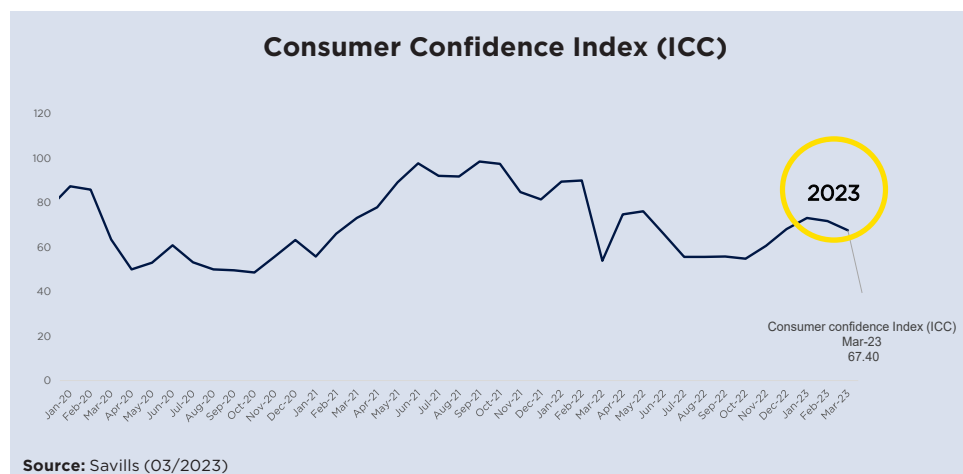
Nightlife has recovered and social events are back. Consumers are returning to their routines.

28% of consumers will increase their visits to restaurants and 26% to cinemas, concerts, and theatres in 2022.

YOUNG PEOPLE AND DISRUPTORS

Generation Z is more resilient and aspirational than previous generations, with technology in their DNA, TikTok is their calling card.

44% of Generation Z consumers considers it is important to cultivate their personal brand online.



Which are the new challenges and opportunities of online trade?

E-commerce turnover in Spain exceeded €52.75 billion during the first nine months of 2022, an increase of 29% compared to the same period last year.

The integration of this channel into the physical shopping experience and the end of restrictions has led to a slowdown in the growth of electronic transaction volume in retail categories, which grew by 12.9% in the first nine months of 2022, compared to 18.1% in the previous year.

However, the average ticket has increased by 15%, from 72 € in 2021 to 83 € in 2022; increased consumer awareness of the environment may be contributing to this result and reducing the number of purchases and increasing the amount.

Within this retail segment, the groups with a larger increase of their online turnover between Q1 and Q3 2022 were entertainment, with 51%, followed by services, with 28%, and restaurants, with 21%, reflecting the shift in consumer habits towards spending on more experiential activities. However, among the retail categories, fashion has increased its share of total e-commerce by far, with 6.3%, followed by gaming and betting (4%), and entertainment (3.3%).

The future of online business is changing by leaps and bounds as a result of the incorporation of artificial intelligence, which is marking a difference in the way society interacts with technology.

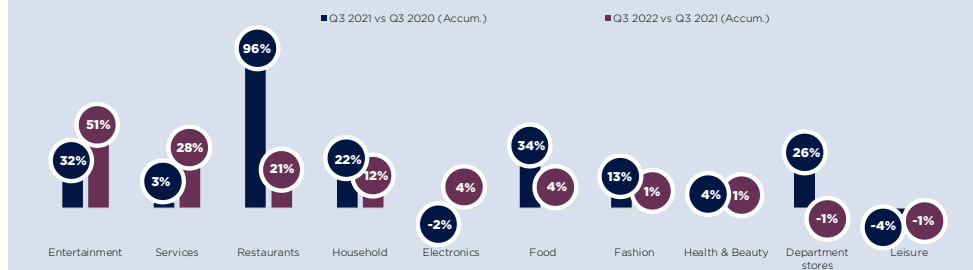
So-called “machine learning”, which analyses the behaviour of visitors to websites and contributes to a deeper understanding of consumer needs, is already being used very effectively. It collects feedback from users, launches surveys and provides fully personalised recommendations, not only quantitative but also qualitative.

The natural step would be facial recognition in stores. AI would make it possible to understand in-store traffic and interest in certain actions or items by analysing customers approaching a specific area or touching a product.

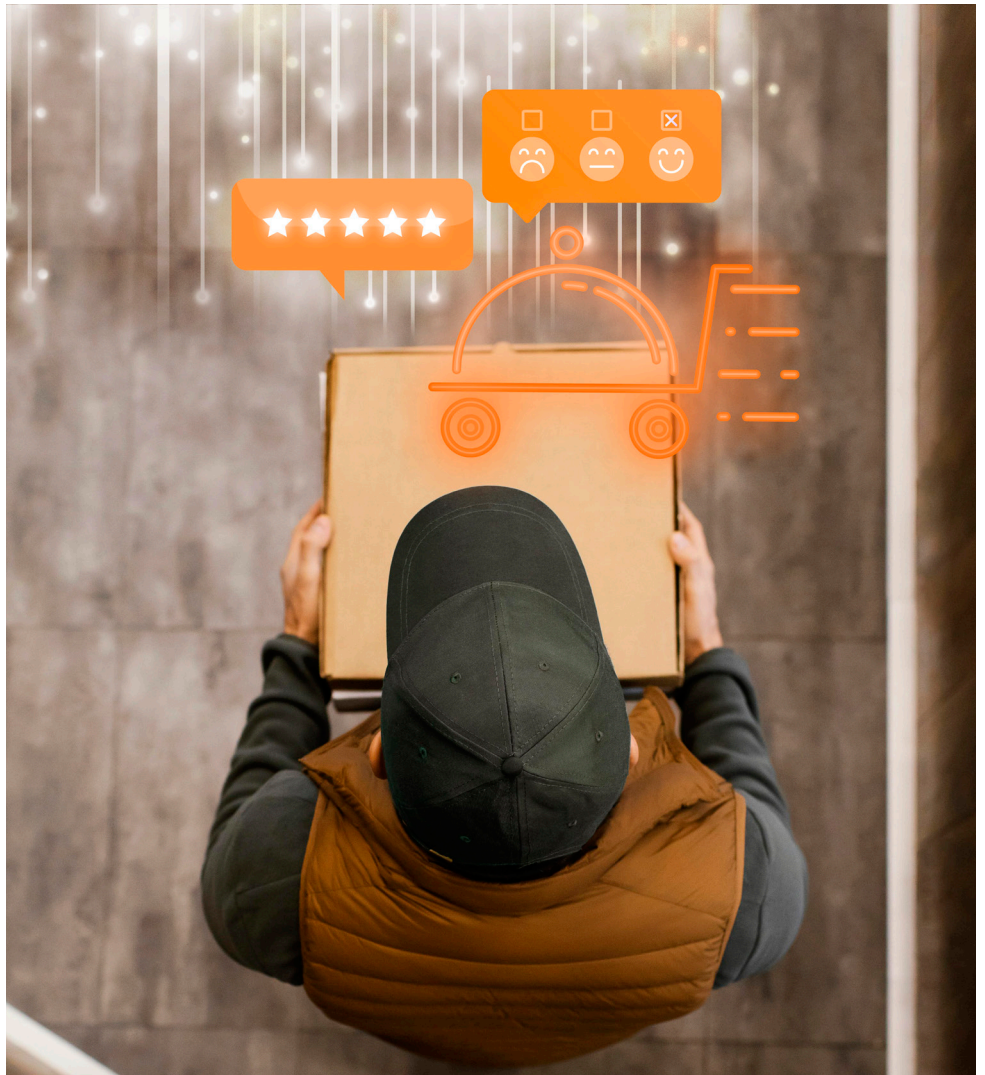
However, as these analyses violate privacy, they are being replaced by more generalist studies. Artificial intelligence is being used to study different indicators that are very different and to draw conclusions aimed at a specific consumer; “fake news”, photographs, consumer panels, aggregated data on transactions or interactions on social networks are some of the parameters used.

In addition to trend analysis, the virtual reality or metaverse is being used to achieve greater

Accumulated variation e-commerce transaction retail categories



Source: Comisión Nacional de los Mercados y la Competencia (CNMC)



personalisation of products; however, its goal is more ambitious and long-term, an integration into consumers' everyday lives using avatars and augmented reality.

Now the focus of this technology is on being a showcase for communication and interaction with the brand's user

community, but its use could have a positive impact on the operators' bottom line: overstock and return ratios could be improved as a result of virtual fitting rooms and digital experiences with the items.

Retail sales distribution by channel 2022 The online segment has the smallest market share

E-commerce
13%

Shopping centre
19%

High Street
68%

FILTER COFFEE
ESPRESSO
CAPPUCCINO
LATTE
ALMOND MACADAMIA
LATTE
MOCHA
G&B SHAKE
BUSINESS & PLEASURE
ICED COFFEE
MOST DRINKS AVAILABLE ICED

TEAS
SMOOTH BREAKFAST
SWEETENED OAT MILK
KIN GONG YI
SAL IN VI WINTER SPROUT
BAI HAO

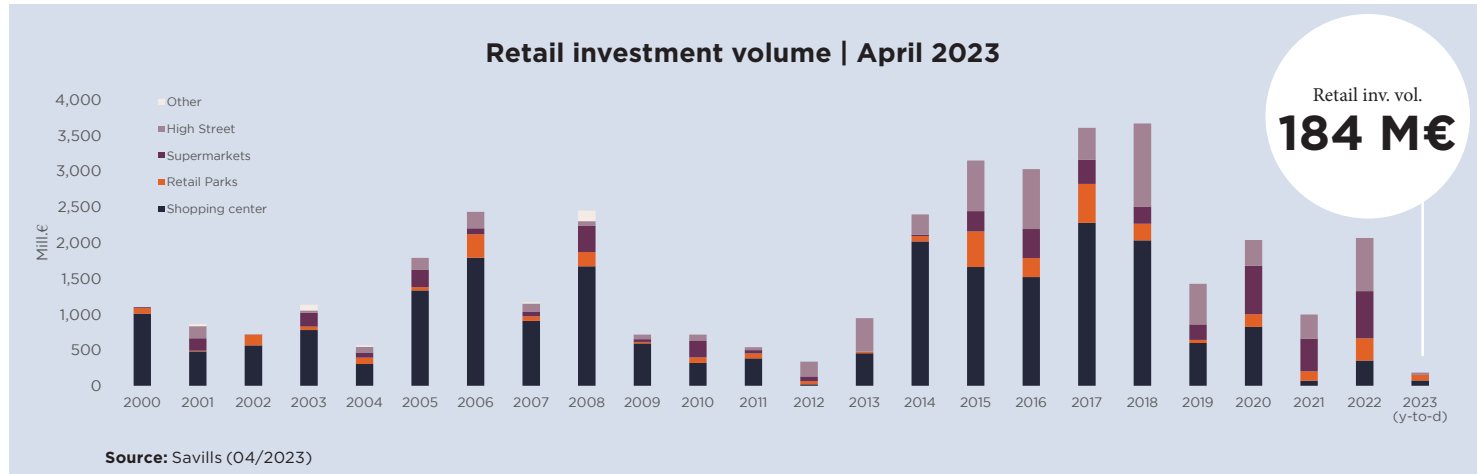
CORNMEAL CHOCOLATE
WAFFLE w/ HONEY
HOUSEMADE GRANOLA
w/ MILK 5 w/ YOGURT 7
w/ ALMOND MACADAMIA MILK 6

Retail categories increase Q1-3



Source: Forrester/ AECC

In light of this panorama, how are investors acting?



Main investment transactions | January - April 2023

Asset	Vol. M €	Location	Sq.m	Seller	Purchaser
SC Portfolio Carmila	~80	Various	24,623	Carmila	Family Office
RP Quadernillos	~40	Alcalá de Henares (Madrid)	30,800	Private	Family Office
RP Viapark	~35	Vícar (Almería)	16,420	Inmobiliaria Colonial	-
RW Leroy Merlin (Nassica)	~30	Getafe (Madrid)	10,000	Silicius	Family Office
RW Maison Du Monde (La Dehesa)	~10	Alcalá de Henares (Madrid)	5,300	Electrodomésticos Bernal	Mazabi
Super. Eroski San Sebastian	~5	San Sebastián (Guipúzcoa)	2,000	Silicius	Family Office
RW Maison Du Monde (Parque Oeste Alcorcón)	~5	Alcorcón (Madrid)	4,000	Electrodomésticos Bernal	Termo Gestión Patrimonial
RW Kiwoko (La Dehesa)	~2	Alcalá de Henares (Madrid)	700	Electrodomésticos Bernal	Mazabi

Source: Savills (04/2023)

Shopping Center
Retail Parks
Supermarket

The retail investment market, excluding the sale of bank branches, ended 2022 with a total volume of €2,063 million, 107% higher than in 2021. High street was the segment with the highest number of retail transactions, with almost €750 million, followed by supermarkets, which continued to be the preferred retail segment for investors, with more than €650 million.

During the first months of 2023 we observed a clear containment in investment, mainly due to the interest rate rise. Up to April, assets worth €184 million have been transacted. Of these, the most noteworthy transaction was the sale of the Quadernillos retail park in Alcalá de Henares, Madrid, by Proudreed Spain and BPN Capital Partners.

In addition, deals continue to be signed in retail warehouse retail outlets, such as the one sold

by Silicius in Nassica (Getafe, Madrid) for €18.4 million, occupied by Leroy Merlin, or Viapark (Vicar, Almería), which was bought by Axiare and sold by Inmobiliaria Colonial for €19.5 million.

During these first months of 2023, private investors are starting to focus on retail warehouses, as opposed to previous months that their main objective were supermarkets and high street.

For the rest of the year, the emphasis will be supermarkets and warehouse parks, where the main players monitoring the market are French, Belgian, German and some SOCIMIs. In shopping centre opportunistic transactions, funds are the most active seeking for one-off low ticket with optimal yield level.

The increase in financing costs had a direct

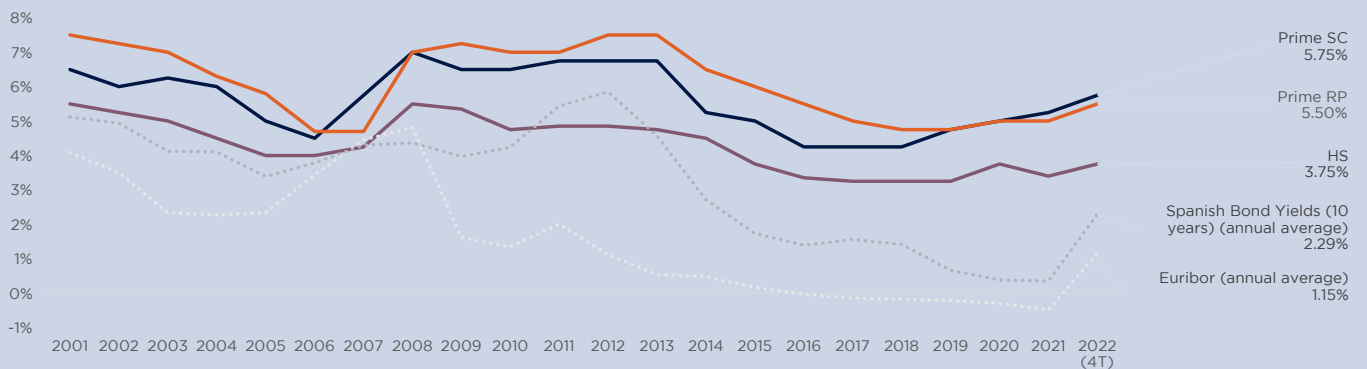
impact on yields, which have risen gradually so that investors can obtain the necessary return. This situation has become apparent from the second half of 2022, closing the year with a yield of 5.75% for prime shopping centres and 7.25% for secondary ones, the highest values since 2013 in both cases.

Forecasts for the coming months are closely linked to the evolution of the economy; the food market will regain the prominence it had in 2020 and the retail park and mid-market segment will be a safe haven for many investors.

We expect the year to end with volumes lower than 2022 because of the lack of shopping centre transactions.



Interest rate increase impact in yields



Source: Savills (04/2023)

What does the future hold?



OPERATORS:

- Their expansion strategies continue.
- The most active are low cost, in detail bazaar, textile and household and pets.
- Those purely online will continue to open physical stores.
- ESG principles are being implemented in all major retail companies through partnerships (Textile Waste Management Association), elimination of self-certifiable labels, actions with direct impact on the community and good corporate governance.
- Returns are no longer free, as in the case of Inditex and El Corte Inglés, which charge for returns that are not made in store.
- More experiential shops using technology and leisure.
- Co-branding or joining of operators in the same space, such as a bookstore or fashion with a branded coffee store.

TRENDS:

- The second-hand market is increasingly present in all major operators and there is a boom in garment repair companies.
- New ranges of home, sports, or pet products in textile brands.
- Cinemas are increasing their range of cinema services.
- Use of virtual reality or metaverse to personalise products.

CONSUMER:

- Will be more technological and efficient in its use, but essentially human.
- More methodical with money and more eco-economical
- More and more money will be invested in virtual games and associated experiences.
- Part of the money will be used to achieve time savings.
- Society has returned to outdoor life in streets.
- Social media is becoming increasingly important.

RETAIL FACILITIES:

- New consumer habits have boosted retail parks, which still have a long way to go.
- Growth in the shopping centre sector will come from refurbishment, expansion or repositioning either by changing the retail mix or by including mixed uses.
- To adapt to new formats, some brands have increased their floor area while others have reduced it, because they believe they will sell the same in less space and reduce their costs.

LANDLORDS AND INVESTORS

- The most active players are French, German and Belgian investors and some REITs.
- The most demanded products: supermarkets, retail parks and, within shopping centres, value add assets.
- For coming months, the outlook is closely linked to economic developments.
- The year 2023 could end with lower volumes than 2022 because of the lack of shopping centre transactions and the low level of financing. However, it will depend on the interest rates evolution.



Savills 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..

Research

Alicia Corrales

Research Retail Director
+34 91 319 13 14
alicia.corrales@savills.es

Olga Hornillos

Senior Analyst Research Retail
+34 91 319 13 14
olga.hornillos@savills.es

Retail

Luis Espadas

Executive Director
+34 91 319 13 14
luis.espadas@savills.es

Retail | Capital Markets

Salvador González

National Director
+34 91 319 13 14
salvador.gonzalez@savills.es

Retail | Services

Patricia Matías

National Director
Retail Services Shopping Centres
+34 91 319 13 14
patricia.matias@savills.es

Carolina Ramos

National Director
Shopping Centres
+34 91 319 13 14
carolina.ramos@savills.es