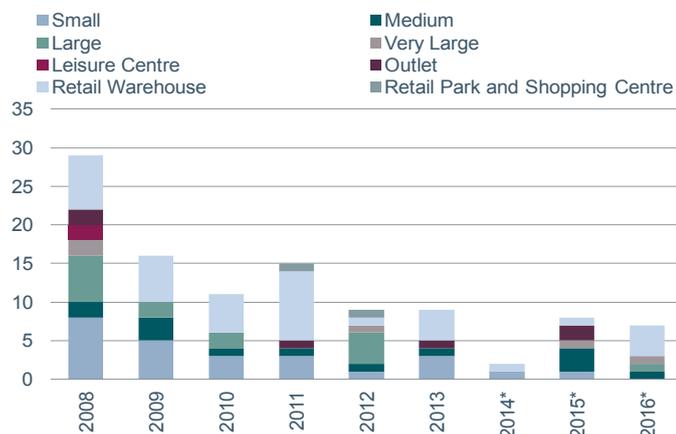


Market Report

Spain retail warehouses

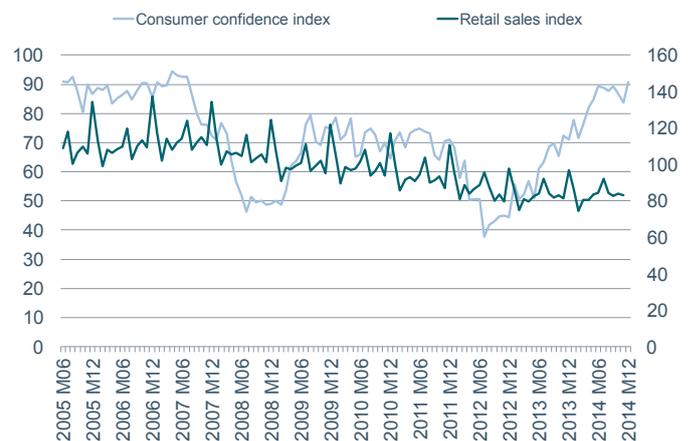
January 2015

GRAPH 1
New retail projects by type of scheme



Source: Savills

GRAPH 2
Consumer confidence and retail sales



Source: Savills

SUMMARY

The growth potential of the retail warehouse segment is attracting new operators and investors

■ The retail warehouse market comprised 4.4 million sq m at the end of 2014 (including retail parks and freestanding retail warehouse units), which equates to y-o-y growth of 4%.

■ In terms of the distribution of space by property type, freestanding units continue to account for the highest amount of market share compared to retail parks, with 59% and 41% respectively. However as this segment consolidates the market is steadily moving towards the development of retail complexes, which is pushing the number of freestanding units down in comparison to retail parks.

■ 30% of new retail projects in the pipeline over the next 24 months fall in to the retail park category, corresponding to a total of 185,000 sq m. Adherence to handover dates, as has been the case over recent years, will depend, amongst other aspects, on the letting rate.

■ The achievable rental level for prime properties remains stable at around €16 per sq m/month, due to the low vacancy rate.

■ The retail warehouse segment is an attractive niche area with potential upside. There is growing interest from specialist international

players from other European markets for this alternative investment product, but the specific traits of the Spanish market, coupled with the lack of product on the market are making it difficult to complete transactions.

■ The imbalance between supply and demand of investment product, which follows suit with the remainder of the commercial property market, has driven prime yields to harden further, which could stand at between 6% - 6.5% (100 basis points below the same figure registered in 2013).

Economic outlook

The Spanish economy continues to grow on the back of national and international confidence in Spain.

According to the latest data provided by Eurostat, for the first time since the start of the crisis, Spain's growth is now above the Eurozone average (0.5% above). The Eurozone economy is now being affected by the economic stagnation of the countries, which up until now, had been the driving forces in the area: Germany and France.

However, it does look like the job market is on the mend. After 23 quarters of decline, INE presented the second increase in job creation in Q3 2014. The EPA also registered an unemployment rate of 23.7%, which still remains extremely high compared to pre-crisis figures, but this figure is beginning to diminish.

In terms of demand, consumers are responding to the improved economy. Q3 2014 saw the fourth consecutive rise in household spending. Furthermore, in 2014 the CIS consumer confidence indicator now stands at above the historic average (2005 - 2014), after six years of being below this figure. In any event, one must take in to consideration that we find ourselves in a phase of lowering prices, which could result in a slight decline in consumption.

"The retail density and spending power of an area are the factors which identify optimal locations for a new scheme"

Gema de la Fuente, Savills Research

Finally, some of the latest forecasts by various bodies have been revised very slightly downwards, but all predict a burgeoning economic recovery.

Retail park stock

In November 2014 the Spain retail park market amounted to just over 1.8 million sq m (GLA).

Over the past few years the retail park market has been very active in terms of new developments, particularly in 2011, when almost a third of projects were for this property type and accounted for 20% of new space. In addition, a five-year activity study demonstrates a spike in construction activity between 2005 and 2010.

Bogaris has been the most active company on record, accounting for close to 20% of retail park space. The latest project it delivered was Ciudad de la Imagen, which is of particular note, as it was selected by Costco to locate its first store in Spain and in Continental Europe.

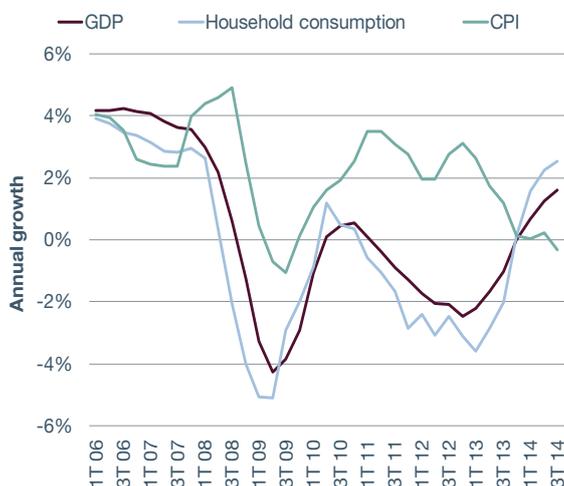
The overall regional distribution of retail warehouse space was slightly affected with the opening of various projects over the year, with the Community of Valencia and Galicia moving up the leader board with Parque Burjasot and Parque Ferrol respectively. However, generally speaking, the distribution of retail park space by autonomous community has barely altered at all.

The ranking continues to be headed up by Andalusia, followed by Madrid and the Community of Valencia. The three combine more than 60%. Only Galicia improved its position with Parque Ferrol coming on to the market, moving it from the end of the scale up to seventh position.

Catalonia continues to be in last position due to its strict protectionist policies for small traders, which the Catalan government put in place over the past few years.

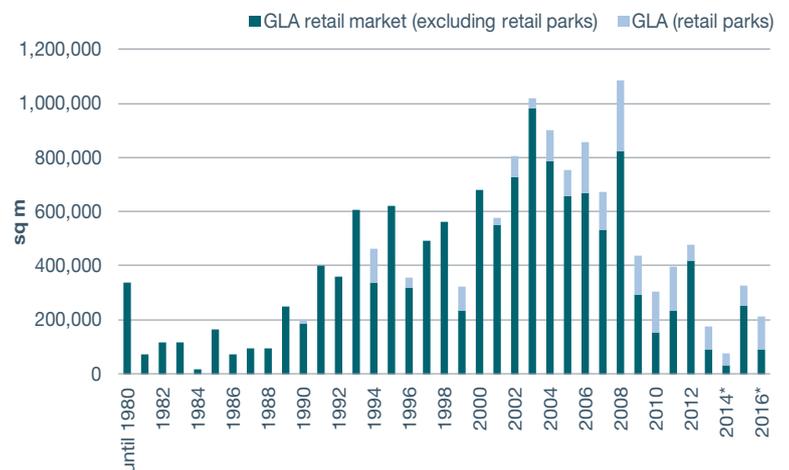
The size of retail parks and their distribution has not changed a great deal either. The average size of the four projects that were opened between 2013 and 2014 stand at

GRAPH 3 Economic indicators



Source: INE

GRAPH 4 Retail market - Completions



Source: Savills, AECC / *forecasts

around 26,000 sq m, which has increased the share retail parks sized between 20,000 and 29,999 sq m from 16% to 20%. Despite the increase in this space category, the standard sized retail park continues to be between 10,000 sq m and 19,999 sq m, accounting for 40% of total space.

If all of the space in the pipeline for the next 36 months is delivered as scheduled, the division would be very similar. However, several large projects will come on to the market, such as the development that Grupo Lar and Wit Retail are working on in Sagunto, Valencia, (Cruce de Caminos), comprising 45,000 sq m of GLA and the macro complex underway around the IKEA store in Alfafar (Valencia), comprising more than 60,000 sq m of GLA.

It is also important to point out that it is evermore the norm for one development to incorporate a retail arcade area, as well as a retail park, as is the case with Torrecárdenas. The project was originally only set to be comprised of freestanding retail warehouse operators, however, it was then expanded in to a large complex, in order to include a wide range of brands.

Freestanding retail warehouse stock

According to our estimates, 2.56 million sq m of space equates to freestanding retail warehouse units, which is a slight 5% increase compared to the figure published in the previous Spanish retail warehouse market report (Spring 2013). This is the second increase since the sharp contraction seen in 2012 (-12% compared to the previous year), which was due to various brands restructuring their workforce and points of sale, including the closure of all PC City stores.

The opening of the second largest IKEA store in Alfafar, Valencia (37,000 sq m) and the German brand Bauhaus in Paterna, (close to 20,000 sq m), have significantly increased the amount of freestanding retail warehouse GLA in the Community of Valencia, meaning it has now moved up one place and leads the regional distribution ranking, which was headed up by Catalonia in 2013,

thanks to the opening of the largest IKEA store in Spain in Sabadell. In third and fourth position are Andalusia and Madrid respectively. The one area that appears to be out of tune with the remainder of the country is Catalonia, this is due to the restrictions implemented by the local authorities on large retail units.

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

Taking in to account the total GLA in both retail parks and freestanding retail warehouse units, the retail warehouse market in Spain stands at 4.4 million sq m of space, which is a slight 4% increase compared to the same figure in 2013.

The extremely high provision of retail space in Andalusia, Madrid and the Community of Valencia in the retail park and freestanding retail warehouse categories, guarantees them the top three spots in our study of the overall market. Between the three, they combine more than half of all the space.

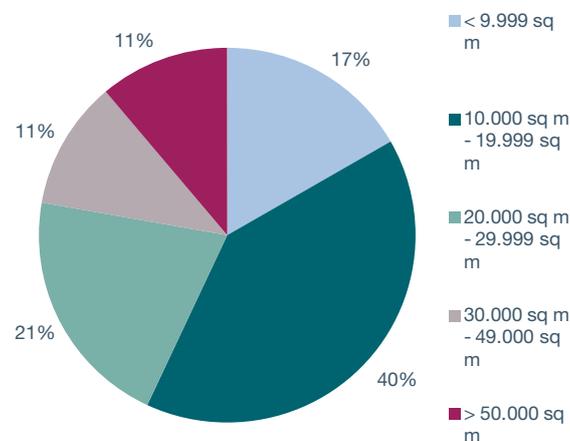
By province, the situation is very similar to last year's market report. Madrid far exceeds the total volume of space per province, accounting for almost 16% of the total, followed by Valencia with almost 8% and Barcelona with 7.5%.

Retail density in the retail warehouse market

Retail warehouse density in Spain amounts to close to 93.3 sq m per 1,000 inhabitants, which is an increase of 6% compared to the same figure in 2013. The improvement in the main economic indicators, as well as the better consumption forecasts coupled with the drive for an easily buildable product, that requires less management, have favoured the continual growth of this property type.

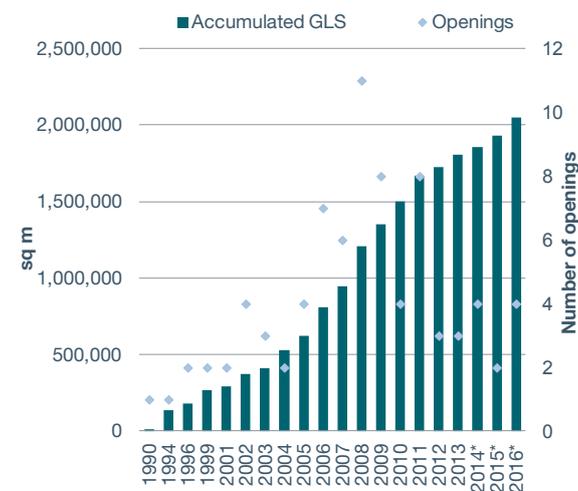
Six of the 17 autonomous communities are above the national average, all of which are above 100 sq m. Amongst the regions with the highest retail density, some of which have the largest retail parks in the country, is Murcia, with Parque Mediterráneo (50,000 sq m). Aragón, with Puerto Venecia

GRAPH 5
Retail parks by size



Source: Savills

GRAPH 6
Retail parks - Stock and openings



Source: Savills, AECC /forecasts

(85,000 sq m), which up until last year held second place. The second place has now been substituted by the Community of Valencia thanks to the new arrivals of IKEA and the largest Bauhaus store in Spain, which between the two of them have increased the amount of retail warehouse space by 40,000 sq m

The autonomous communities with the lowest amount of retail warehouse space continue to be the autonomous city of Ceuta and La Rioja. Over the past few years Extremadura and Catalonia jostled for third place before bottom,

trading places with each other depending on whether one of the two opened a significantly large project or not. In 2013, the opening of the IKEA store in Sabadell moved Catalonia up one place, but in 2014 the opening of the first Leroy Merlin store in Badajoz moved Extremadura up this time.

In terms of by province, Valladolid moved up in to first place with 180 sq m, thanks to the opening of the Decathlon store in Arroyo de la Encomienda, which forms part of the properties around Rio Shopping.

Cadiz and Toledo share second place with 176 sq m, the difference between the two is negligible. It is interesting to note that two of the three provinces with the highest retail density have schemes being developed by Inter Ikea Centre Group, which incorporate the Swedish giant's own store and a shopping centre. In this respect, all IKEA stores breathe new retail life in to the towns where they are located and their surrounding areas and IKEA is considered to be one of the strongest anchor tenants there is for a retail park or shopping centre. According to sources in the sector, retail sales for retailers located around the new store in Alfajar could see their sales rise by as much as 8.5% per year, thanks to the expected increase in visitors, which is forecast to increase by 8.7%.

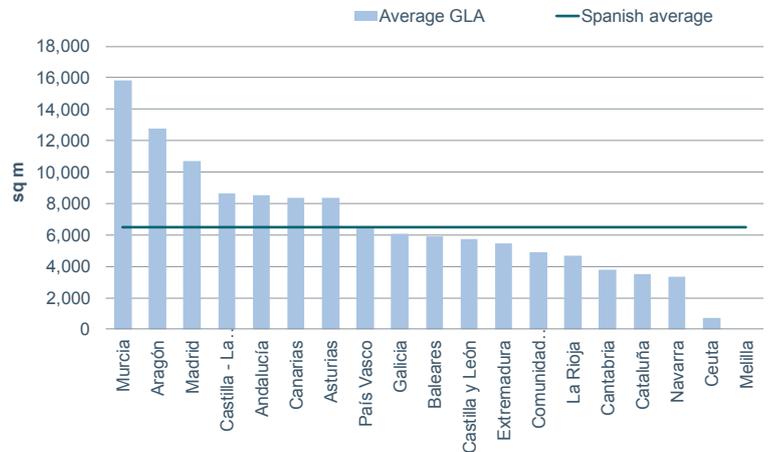
The list is rounded off with Teruel, Ceuta and Cáceres, however, it is surprising that Teruel is in this category as, according to preliminary data published by INE for 2011, it has an income per capita, which is 10% above the national average, and also has one of the tenth lowest unemployment rates in the latest employment census, which would suggest that its population has more spending power and should therefore mean that it is a good option for developing retail parks.

Affluence vs. retail density

By cross-referencing GDP per capita data with the retail density of the retail warehouse market, one can quickly see which regions have good opportunities to develop a new retail park. However, the

GRAPH 7

Retail park market - Average GLA (retail parks and stand-alone retail warehouse units)



Source: Savills

differences between the amounts of retail by province within the same region distort the result, as whole regions would be ruled out due to an excess of retail space in one specific province.

Consequently, the provincial study shows six provinces with a GDP per capita of above €25,000 and retail density in the retail warehouse sector of below 75 sq m

Adding other economic variables, such as the unemployment rate and gross disposable income, one gains more of an insight in to the market's actual situation. There are various provinces which are more niche, most of them in the northern zone, where there is room for more retail space and where an excess of retail supply could be endorsed in areas with more moderate levels of business activity, but thanks to their location close to other provinces (as is the case with Badajoz) or due to high levels of tourism in the local area would benefit from extra footfall.

Expansion plans

The expected recovery in private consumption is encouraging the expansion plans of the main retail brands in the market. Almost all of them have continued to push forwards with their growth strategies over the past few years, but they have all been studied down to the minutest detail, in order to optimise

the investment. The reservation of space in new developments or taking space in areas close to consolidated shopping centres are the standard option of choice, as well as the safest.

This was the case with Leroy Merlin's recent opening of its first store in Badajoz next to the El Faro shopping centre, which opened in 2012. Both complexes benefit from the visitor footfall they both generate. The brand has announced that its next opening, scheduled for the end of 2015, will be the opening of a store in Majorca (where it already has another two stores), which will be in line with the company's expansion plan, which forecasts 22 new stores over the coming 5 years.

In H1 2014 IKEA also opened its store in Alfajar (Valencia) and continues a pace with its expansion plans, which aims to allow everyone in the country to be able to reach one of its stores in under one hour by car. The company has not detailed the location of its future stores, but it would appear to still be interested in Alicante, despite the bureaucratic obstacles to the project. In addition, IKEA plans to open stores in the centre of Madrid, where consumers can see and try the products, prior to going to the main stores on the outskirts of the city. This would be a pilot project, the first of its kind for the company

anywhere in the world, but which would not alter the company's existing business model.

Media Markt has also announced its intention to reach one hundred stores in the next seven years, it currently has 72 spread across the whole of Spain. This growth will be achieved via its traditional store format, in shopping centres and retail parks or freestanding retail warehouses, although the units will be smaller. Furthermore, after the good results achieved in its store located in the retail arcade in the Castellana 200 business complex in Madrid, it has also added locating stores in city centres to its company policy, with stores of between 2,000 sq m and 2,500 sq m. In line with this policy, in mid December and coinciding with the Christmas campaign, the company opened its second store in central Madrid, in the former Benlliure Cinema, on Madrid's Calle Alcalá. A few weeks prior to this it opened its first inner city store in Valencia on Calle Colón.

Conforama, the French chain specialised in homewares, recently went public with its ambitious expansion plans for Spain, planning to reach 90 stores over the next ten years, which would virtually quadruple the current number of stores (it currently has 25 points of sale).

"The improvement in economic forecasts and the potential development of the retail warehouse sector has spurred on the interest of new players, both in terms of retailers, as well as investors" Luis Espadas, Capital markets

New retailers

Costco selected Seville as its first location to kick-off its presence in Continental Europe, which will be followed by a new store in the southern area of Madrid. Based on the response from consumers, the US group believes it would be feasible to open up to 12 stores over the coming ten years. Various provinces are being studied as future locations, such as Barcelona, Valencia and Zaragoza, as well as opening more stores in Madrid, which appears to be the area with the greatest potential.

Carrefour is also testing out its new retail format 'Supeco' in Spain, a low-cost cash and carry. It already has various centres in Andalusia, Madrid and Galicia, which are located on the outskirts of the city and are in freestanding retail warehouses.

Ever since the start of the crisis, consumers have replaced

compulsive spending with responsible spending and price has become evermore important. Despite the fact that economic indicators are suggesting that things are gradually on the mend, it appears that low-cost is here to stay, which will mean that we will see more low-cost brands appear across the length and breadth of the country.

Rents

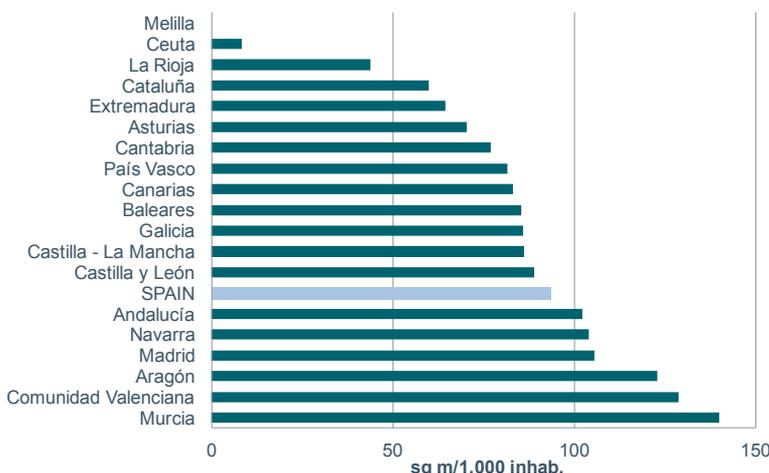
Hardly anything has changed in terms of rental prices. The best retail parks are close to 100% let, which makes it increasingly difficult to ascertain the achievable prime rent, which we have left at €16 per sq m/month, however figures above this may be achieved for new lease agreements in the most sought after locations.

The cumulative fall compared to the top of the market is slightly over 25%, which demonstrates the robustness of the sector compared to other sectors in the real estate market, where rental prices have fallen by up to as much as 60% compared to 2007-2008 figures.

From a European standpoint, rents are generally stabilising, however, there are some countries that continue to see rental corrections, with the most marked being in Norway and Sweden at around 10%. The United Kingdom was the first to see growth, with rents rising by 6% y-o-y.

The average prime rent in the countries monitored stands at €14 per sq m/month, which Spain is 14% above. The United Kingdom continues to head up the list in terms of rents, with a rent of €35 per sq m/month, slightly more than double Spain's figure, which would suggest good upside potential.

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



Source: Savills

Future projects

The retail park market is playing an ever-greater role in the national retail market. Despite the fact that the retail park market hardly accounts for 12% of the overall market, close to 30% of new space in the pipeline is earmarked for this type of product (close to 185,000 sq m). As has been the norm over recent years, conforming to initial delivery dates very much depends on the letting rate of the retail space, which means that only those projects that really are viable will be the ones to actually come to market.

Investment market

The renewed investor interest in the Spanish market from 2013 onwards, which was thanks to an improvement in the economic outlook, has continued ever since, which has translated in to frenetic activity in the real estate investment market. On the other hand, the weight of money in the market and the lowest rate for 10 year Spanish bonds on record, have been the driving forces behind catching the attention of investors in order to take positions in a burgeoning real estate market recovery. In the commercial property sector, traditional retail product (shopping centres and the retail warehouse market) has regained the ground it lost to high-street retail units.

Consequently, with just two weeks to go before the end of 2014, the overall transactional volume for retail properties is now approaching €2b traded so far this year, which is almost four times more investment than in 2013.

The retail warehouse market increased its total volume transacted compared to 2013, albeit to a lesser extent. The €71.5m registered in 2014, is more than four times the amount transacted in 2013 (€17m).

Despite the y-o-y comparison remaining positive, the amount of retail warehouse space transacted in terms of retail product, has fallen, primarily due to the lack of quality product on the market, as there is pent-up demand interested in this niche area, which is interested in the potential growth of this sub-market, and also due to several megadeals

closed in the shopping centres segment.

Key transactions

In terms of the key transactions completed, of particular note is Parque Vistalegre, located in Zamora, which was acquired by KKR as part of a portfolio of two properties owned by British Land. The total value of the transaction was €90 million, of which slightly more than 10% equated to the retail park.

The other key transactions were for freestanding retail warehouses, with an average lot size of seven million euros. Socimis also invested

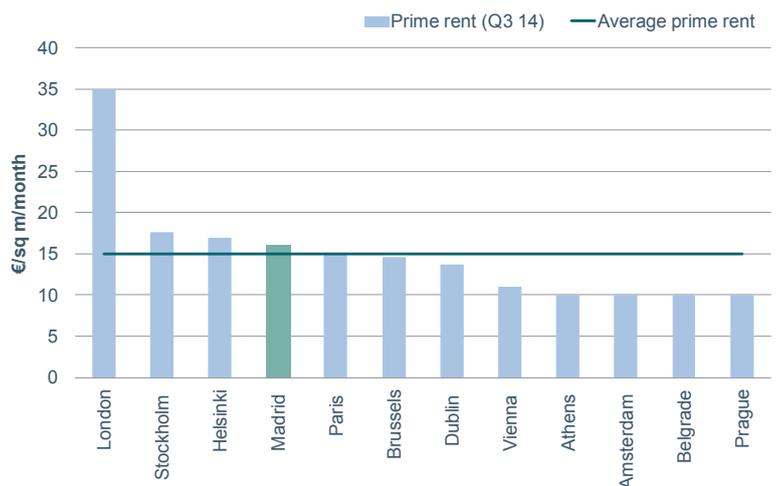
in this market. The retail warehouse occupied by Media Markt in Villaverde (Madrid) was acquired by Grupo Lar's Socimi and Axia Re purchased the Bauhaus in Les Gavarres (Tarragona) via the purchase of a portfolio owned by Credit Suisse. In the latest weeks of the year Lar acquired also the Media Markt and Toys R Us stores in El Alisal (Santander).

Demand

A key question to take in to consideration in relation to the retail warehouse market is that the specific traits of this market, require in-depth explanation to international buyers that have only recently

GRAPH 9

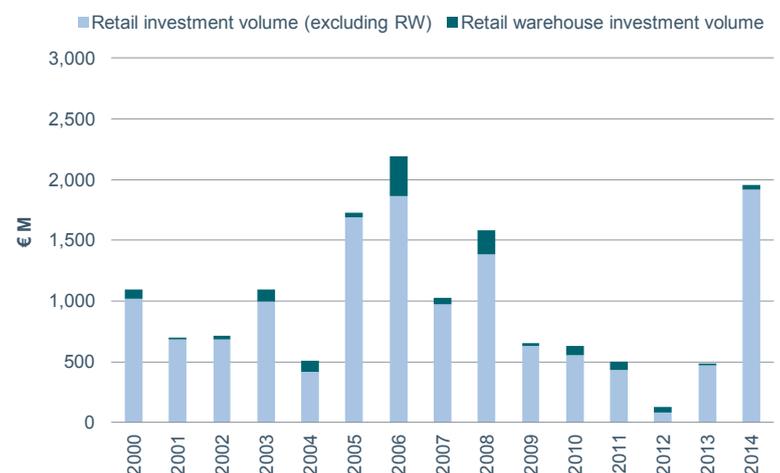
Prime retail warehousing rent in Europe



Source: Savills

GRAPH 10

Retail investment market



Source: Savills

entered the market. Despite being a traditional retail product, it is not governed by the same procedures as its big brother (shopping centres). For example, in terms of quantifying financial data, it is not common, except in very specific cases, to be able to see retailers' sales figures, as variable rents are not requested, which makes it more difficult to justify the robustness and solvency of certain retailers.

Hence, there is a large pool of demand that specialises in this sector, which has come forwards to sound out and understand the market, but many of them have been frustrated by the fact that they have found adequate product in terms of property type and location, but this has not complied with their structural contract criteria.

In addition, there is another type of new investor in the niche retail warehouse market in Spain, but which has an established track record in France, which is heavily focused on freestanding properties with well-known brands on long leases. In 2013 they started their search for opportunities and have since completed some transactions.

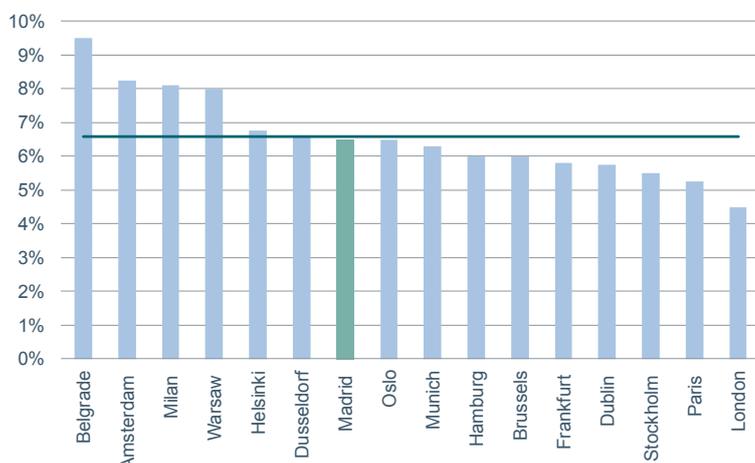
Yields

As is the case in other segments of the commercial property market, demand far outstrips product for sale, which is driving yields down. The current yield for a prime property now stands at between 6% and 6.5%, assuming that it meets all investment requirements. Hence, we are now 100 basis points below the achievable yield registered at the end of 2013.

The yield for secondary schemes currently is now in the region of 8% (stable since mid 2012).

Compared to the other main European markets, Spain's prime yield sits midway, given that the average prime yield stands at 6.6%, with the two extremes being Belgrade at 9.5% and London at 4.5%. Spain is therefore a competitive country, where market risk has subdued and the forecast for the main macroeconomic indicators, as well as private consumption, are much more positive. ■

GRAPH 11 Prime yields in Europe - Q3 2014



Source: Savills

OUTLOOK

2015

■ The gradual improvement in the forecasts for the main macroeconomic indicators, corroborate the growth forecast. Private consumption forecasts are now increasing at a slightly lower rate than unemployment, which will be key in order to increase consumer confidence and encourage spending.

■ It seems that the low-cost philosophy will not be solely linked to times of crisis and that it is here to stay. Consumers have now become more responsible in their spending patterns and evermore business endeavours in all sectors are focused on low-cost. Retail warehouses are the obvious choice for these types of businesses.

■ The fashion segment, which is so prevalent in retail warehouses in other neighbouring countries, still has not found its feet in retail parks. The entry of new low-cost fashion retailers that are adapted for this model, will be a new wake-up call for the market. In the meantime, having a presence in both retail parks and shopping centres could be a good alternative. There are evermore brands that are diversifying in order to reach a wider range of consumers. In the retail warehouse segment, H&M chose the Luz Shopping retail park to launch its new store, instead of the shopping arcade.

■ After various years of sitting on the sidelines, traditional retail product (shopping centres and retail warehouses) have made up lost ground. The retail warehouse market has stirred up strong interest from many international investors that are convinced of its growth potential. However, the differences of the Spanish market compared to their respective home countries or the countries where they are currently operating, mean that an in-depth study of the properties is required in order to ascertain if they are in line with their investment criteria or not.

■ Spanish investor involvement in this market (including socimis) is still inconsistent. The market will continue to be dominated by international investors.

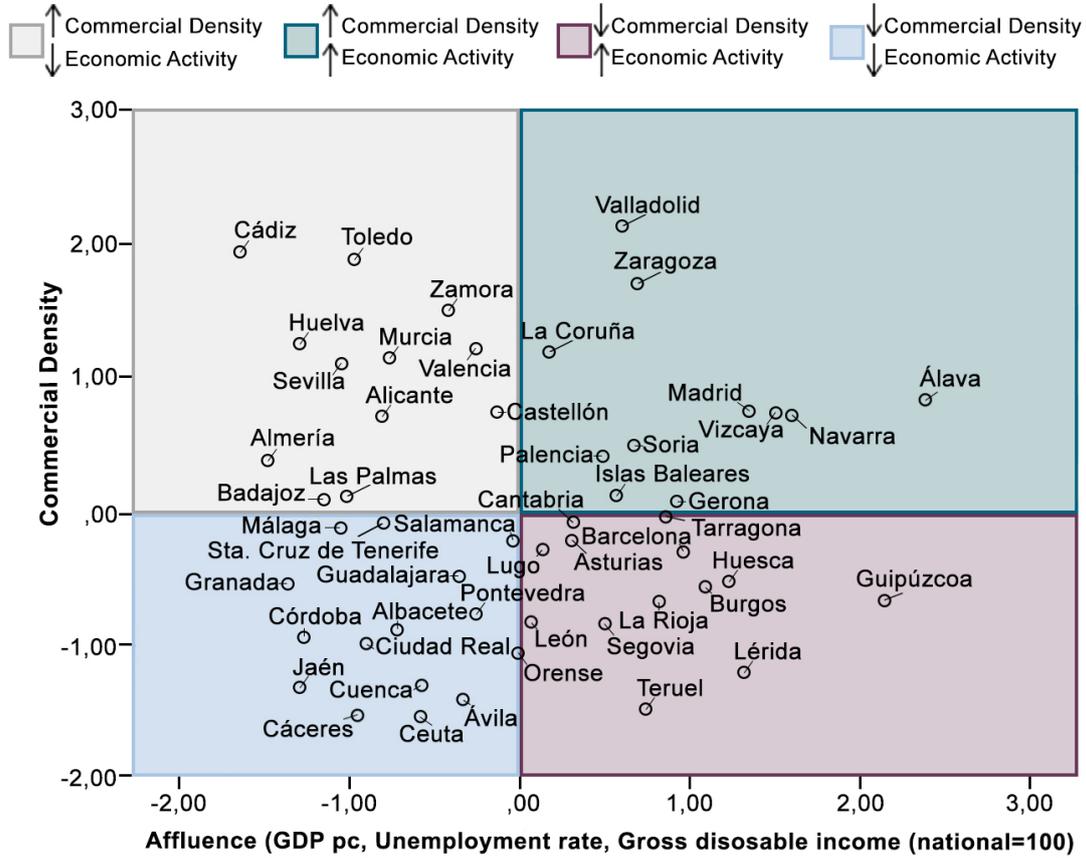
■ The imbalance between supply and demand for quality product, as is the case in the other real estate sectors, will mean that rents will continue to rise.

■ Furthermore, the lack of product in other markets, such as offices, could mean that investors will be drawn to this sector by properties with higher yields and less risk, with quality tenants and high occupancy rates.

GRAPH 12

New developments oportunities *

Retail parks and stand-alone warehouse units



* Factor analysis carried out with SPSS: The programme proportionally rescales the different weightings of the four variables analysed, in order to detail them in one graph.

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