

Market Report

High Street Retail

AGUIRRE
NEWMAN

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1. General Market Overview

This report analyses how the Madrid, Barcelona and Malaga high street retail markets have performed over the last 12 months, as well as the trends that have emerged and looks forward to what the rest of the year holds in store.

In 2016, Spanish economic growth exceeded initial expectations, with GDP rising 3.2% and topping the initial-year forecast by over half a percentage point. Domestic demand was the main driver of this growth, particularly highlighting the upbeat performance of household expenditure, which is a key factor for the retail market. Foreign trade recorded a marginally positive result in 2016.

Employment grew throughout the year, with the number of people employed rising by 413,900 at year-end. The number of people in employment reached 18,508,100 in 2016, whilst the number of unemployed came in at 4,237,800, placing the unemployment rate at 18.63%. This gradual improvement in the job market is without doubt the star performance of the Spanish economy. Rather than positive, the average wage per employee posted a fairly neutral result, up by just 0.5%.

The economic backdrop, combined with the healthy performance of the jobs market in 2016, favoured household consumption, as is demonstrated by the main consumer indexes. In 2016, both household consumption and retail sales continued to climb as they have in recent years.

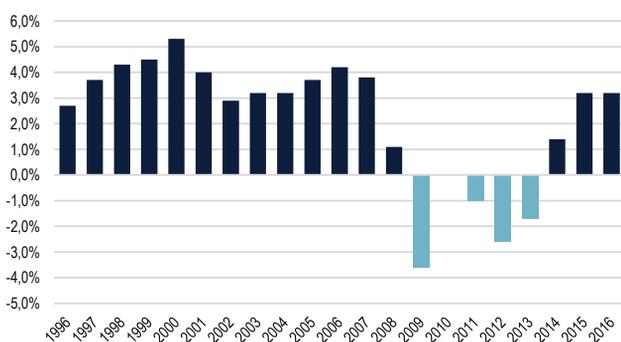
Spanish economic growth forecasts for 2017 and 2018 remain very high, between 2.75% and 2.25% respectively, and considerably higher than that forecast for Spain's neighbouring countries and other advanced economies. Despite this, the rate of growth is expected to ease slightly compared to that seen in recent years, as some factors that previously favoured consumption will no longer have a positive effect, such as low oil prices and the tax reform.

Despite this more moderate growth, the Spanish economy will continue to create jobs at a rate of around 400,000 new jobs per year. However, unemployment will not reach pre-crisis levels as a result of the significant percentage of unemployed people that would have difficulty finding work at any point of the economic cycle.

Inflation will continue to be shaped by fluctuations in oil prices, which are expected to continue steadily climbing in the medium term. Inflation forecasts for year-end 2017 stand at circa 2.4%, with underlying inflation at close to 1.1%. The Eurozone's improving economic activity, together with rising inflation, would suggest potential interest rate increases in the short term (H1 2018).

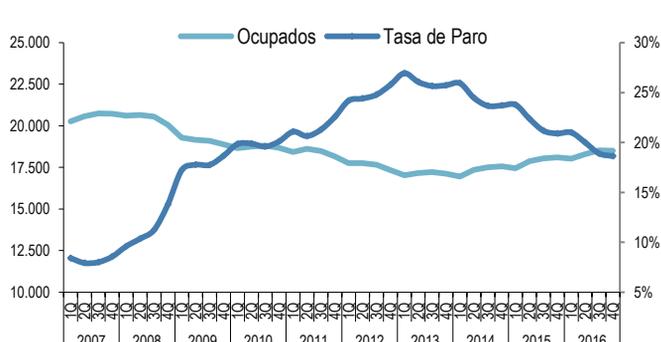
Lastly e-commerce (B2C) continues to gain traction in the retail sector, with a turnover of over EUR24,000 million in 2016. The e-commerce growth rate came in at over 20% y-o-y, whilst the retail business grew by just 3.3%.

1. Variation in GDP (%)



Source: INE

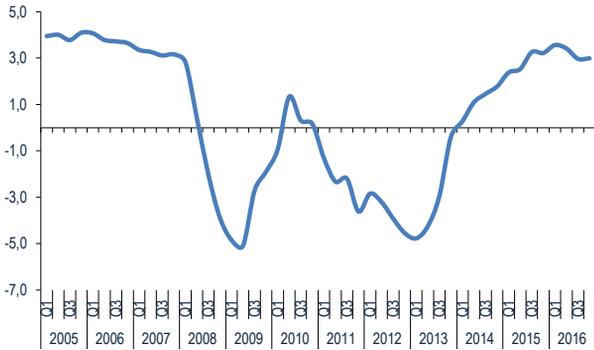
2. Employed Population / Unemployment Rate (%)



Source: INE

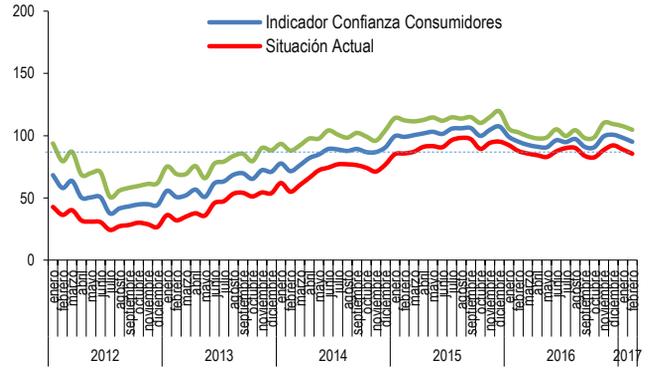
1. General Market Overview

3. Household Consumption Y-o-Y Variation (%)



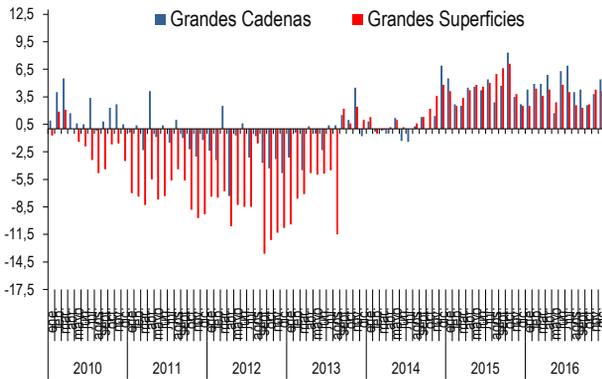
Source: INE

4. Consumer Confidence Index

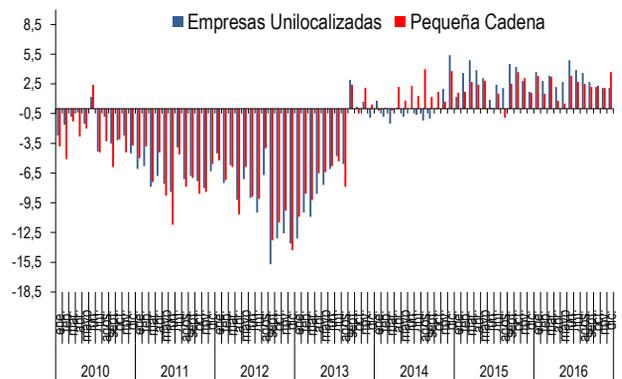


Source: CIS

5. Retail Trade Index (Distribution Method) Annual Variation (%)

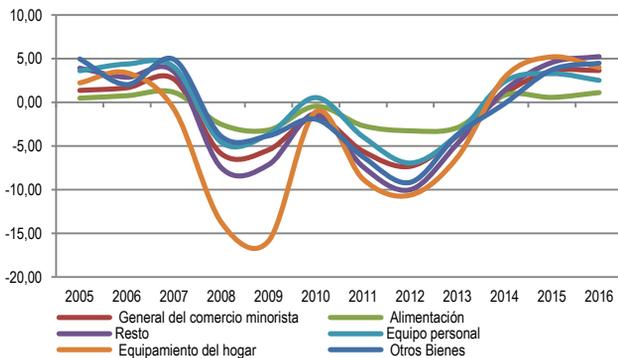


Source: INE

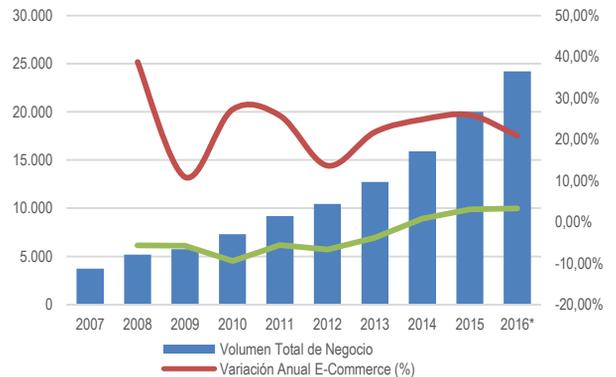


Source: INE

6. Retail Trade Index (Sales Groups) Annual Variation (%)



7. Traditional retail vs. e-commerce





2. Conclusions

The last 12 months saw the positive trends seen in the retail high-street market since 2014 gather pace, in line with the upbeat performance of the economy and household consumption.

The majority of the high streets in Madrid and Barcelona analysed in this report have continued to perform well. Rental prices have remained flat or edged up slightly in almost all areas analysed due to the strong demand from retailers. Availability of retail units on the best high streets remains at the low levels seen in recent years. Most vacant space is located on the less retail-oriented stretches of the high streets, or in retail units where the landlords are asking for above-market rents.

Large and medium sized retailers' expansion plans are focused on retail units located on the best high streets and those that are located on secondary high streets, but that are showing good signs of potential growth. These types of retailers show no interest in high streets that do not meet this positioning criteria. These areas are occupied by small local retailers and usually see high levels of rotation.

Mass market brands are focused on opening large flagship stores (>1,000 sqm), while luxury brands prefer the smaller flagship option (<300 sqm). Recent months have seen mass-market brands such as Mango, Pull and Bear, Primark, Adidas, H&M, Bershka, Oysho and Mediamarkt open new flagship stores. Whilst the luxury sector has seen Gant, The Kooples, Marni and Elisabetta Franchi amongst others, open new stores.

E-commerce is continuing to become an ever more popular form of buying goods, and this is affecting the expansion and fit-out strategies of medium-sized and large chains. In terms of strategies for openings, retailers are tending to streamline their expansion plans by prioritising the search for units located in areas with a heavy retail component and which are able to generate "shopping experiences" that cannot be offered online and incorporate state-of-the-art technology (smart fitting rooms, mobile payment, etc).

As mentioned in previous reports, the best retail hubs will benefit from the growing e-commerce business, given that they are the

go-to locations for retail chains. Such retail hubs have limited vacancy, especially insofar as large units are concerned, a situation which could push rents up in the future. However, the rental levels already achieved do not allow us to contemplate sharp increases, despite the fact that broadly speaking, sales are continuing to trend upwards.

MADRID

Rents in the best retail areas edged up slightly or remained at similar levels to those seen 12 months ago, meaning growth has slowed compared to the 2014-2015 period. Calle Preciados remains the most expensive street in the city, with some tenants paying €275 per sqm/month (for a 200 sqm unit at street level).

Certain brands are starting to make a comeback to the market's prime areas, such as Stuart Weitzman "the go-to shoe designer for celebrities" which has just relocated from Calle Ortega y Gasset to Calle Jorge Juan. Starbucks has also reopened the retail unit that it previously occupied on Calle Serrano, whilst Yves Rocher, Etam and Orange have relocated to Calle Goya.

During the last 12 months, a total of 22 leases have been signed with international retailers in the high streets analysed, highlighting the openings by brands such as NYX, DSquared2, Birkenstock, Carpisa, Subdued, American Vintage, Wagamama, Lindt and Ikea, amongst others.

Over the past few months, the vacancy rate in the Madrid market has remained on a par with that registered in recent years. The vacancy rate of the main high streets studied in the Madrid market stood close to 7.6%.

Furthermore, the vacancy rate for large retail units in prime shopping areas has inched up slightly, creating a window of opportunity for retailers looking to open new flagship stores. Amongst others, these include numbers 4, 48, 43, 68 on Gran Vía; numbers 5, 9 and 11 in Puerta del Sol; numbers 7 and 53 on Calle Serrano; numbers 45 and 77 on Calle Fuencarral and Calle Ortega y Gasset, 32.



The Madrid high-street market is set to see major changes in the short term. The Canalejas Project, the Plaza de España regeneration project, the refurbishment of the Edificio España and the development of the Caleido Project (the Fifth Tower) in the Castellana Norte area will shake-up the city's high-street market. It will be interesting to see the effects that the opening of the Canalejas Project will have on the surrounding high streets that connect the Canalejas building with Puerta del Sol (Carrera de San Jerónimo) and on high streets connecting Puerta del Sol with Gran Vía. In the same area, the Plaza de España regeneration project and the full refurbishment of Edificio España, will help to consolidate the final stretch of Gran Vía and improve its connection with Calle Preciados, another of Madrid's major retail hubs. Lastly, the Caleido Project, a new shopping centre/high-street hybrid, will reactivate retail and F&B activity in the Castellana Norte area.

BARCELONA MARKET

Barcelona's market backdrop largely mirrors Madrid's. Generally speaking, over the last 12 months, rents in the main retail high streets continued to grow, albeit at a more moderate pace than in previous years. The high rental levels already reached, make it more likely to see prices plateau or moderately tick up over the coming months rather than rise significantly. Portal del Ángel remains the most expensive street in Spain, with rents for a 200 sqm retail unit at street level standing at €280 sqm/month.

During the last year, new spaces in the analysed areas have been taken by renowned retailers such as Bershka, Oysho, Media Markt and Benneton who have all let units over 700 sqm;

Kenzo, Barça, Punto Roma and Rituals who have leased units of close to 500 sqm; and Parfois, Levi's, Brandy & Melville, MAC and IKKS who have signed spaces of less than 250 sqm.

As in Madrid, retailers that have traditionally been retail park-based are now opening stores in city centres. Last year, Media Markt opened a retail unit on Calle Diagonal.

The Barcelona market vacancy rate has risen slightly, nearing the 6% mark. In all the retail hubs analysed, the number of available retail units grew very modestly, with Calle Portaferrisa being the high street with the highest vacancy rate out of the 7 prime high streets studied in Barcelona.

The performance of some high streets in Barcelona is particularly noteworthy, namely streets which are not considered prime, but which given their location in an area with a high tourism component, are starting to perform as prime assets, i.e. boasting low availability and high rents. Amongst others, we would highlight Passeig Joan de Borbó and Carrer Ferrán.



INVESTMENT

Investment volume in the main retail high streets in 2016 amounted to circa €500 million, a far cry from the €1,150 million posted in 2015. This reduced volume was not down to a lack of interest in the market, but rather to the lack of supply in prime retail areas. Noteworthy transactions in 2016 included the acquisition of Paseo de Gracia 32 and Paseo de Gracia 88 in Barcelona and Serrano 7 in Madrid. This year to date, investment in retail units is approaching the €400 million mark.

From an asset allocation point of view, the most sought-after areas are the prime areas in Madrid, Barcelona, Malaga, Bilbao, Valencia and Seville.

Investor interest is focused on prime areas, not only rented retail units, but also properties that are either vacant or require management and that have a strong retail component.

Institutional investors were the most active players, with investment funds accounting for more than 41% of the total volume and Socimis 42%. Private investors and family offices have remained very active, representing 13% of the total volume invested.

Initial high-street yields have continued to tighten, reaching circa 3.25% in the prime areas of Madrid and Barcelona and 4.00% in other large cities.

Whilst yields for units with an investment volume of less than €15 million and located on high streets close to prime areas have tightened to circa 4%.

3. Trends



Below we detail the outlook for the retail market in the coming months.

MADRID AND BARCELONA MARKETS

Economic forecasts for the short and medium term remain positive, with GDP estimated to grow by 2.75% and 2.25% over 2017 and 2018 respectively. Household consumption, a key factor affecting retail market performance, will continue to be one of the main economic drivers.

Rental prices on the main high streets are expected to edge up slightly. However, the high levels reached after having trended upwards for 3-4 years suggest that the rate of growth could start to ease.

There will be greater demand for units on the busiest high streets from renowned retailers, while small retailers will continue to be pushed towards secondary high streets. Despite pressure from big name brands looking to secure a pitch on the busiest high streets, they are not prepared to pay any price. Thus, we will continue to see vacant units on the main high streets due to the high asking rents.

INVESTMENT MARKET

The lack of investment grade retail units and the high level of interest for this type of asset class will continue to shape the investment market. Institutional and private investors will also remain the key players.

Due to the shortage of income-producing retail units, investors will continue to be drawn towards value-add deals, for example purchasing vacant retail units or properties with the potential of a change of use in areas with a heavy retail component. Another option for active investors that are unable to find investment options in Barcelona or Madrid would be to turn to alternative markets. We would particularly highlight second-tier cities in terms of size such as Malaga, Seville, Valencia, Zaragoza, Bilbao and Palma de Mallorca.

Yields are expected to remain flat at circa 3.00% in the best locations in Madrid and Barcelona, and circa 4.00% on the main high streets of other major cities.

Madrid Market





4. Retail market: Madrid



AREAS AND METHODOLOGY

In order to standardise the way that we deal with the main retail streets, which have similar levels of demand, we have divided the city up into three different types of high street:

Prime: Prime high streets are those which are frequented by people who live and work in the area, people from all over the city and both domestic and overseas tourists. In Madrid, the prime high streets are Calle Serrano, Calle Goya, Calle Preciados, Calle José Ortega y Gasset, Calle Fuencarral and Gran Vía.

High Streets: High streets are streets that are mostly frequented by people who live and work in the area, although they can also attract people that live in other parts of the city. Madrid's high streets include: Calle Princesa, Calle Alberto Aguilera, Calle Orense, Calle Jorge Juan and Calle Claudio Coello.

Secondary High Streets: These are streets frequented by almost only people who live in the area. In Madrid, this includes: Paseo de la Habana, Bravo Murillo, Alcalá, Quintana and Avda de la Albufera

Within each high street category, there are retail units dedicated to a wide variety of businesses, and these can be subdivided into the following sectors:

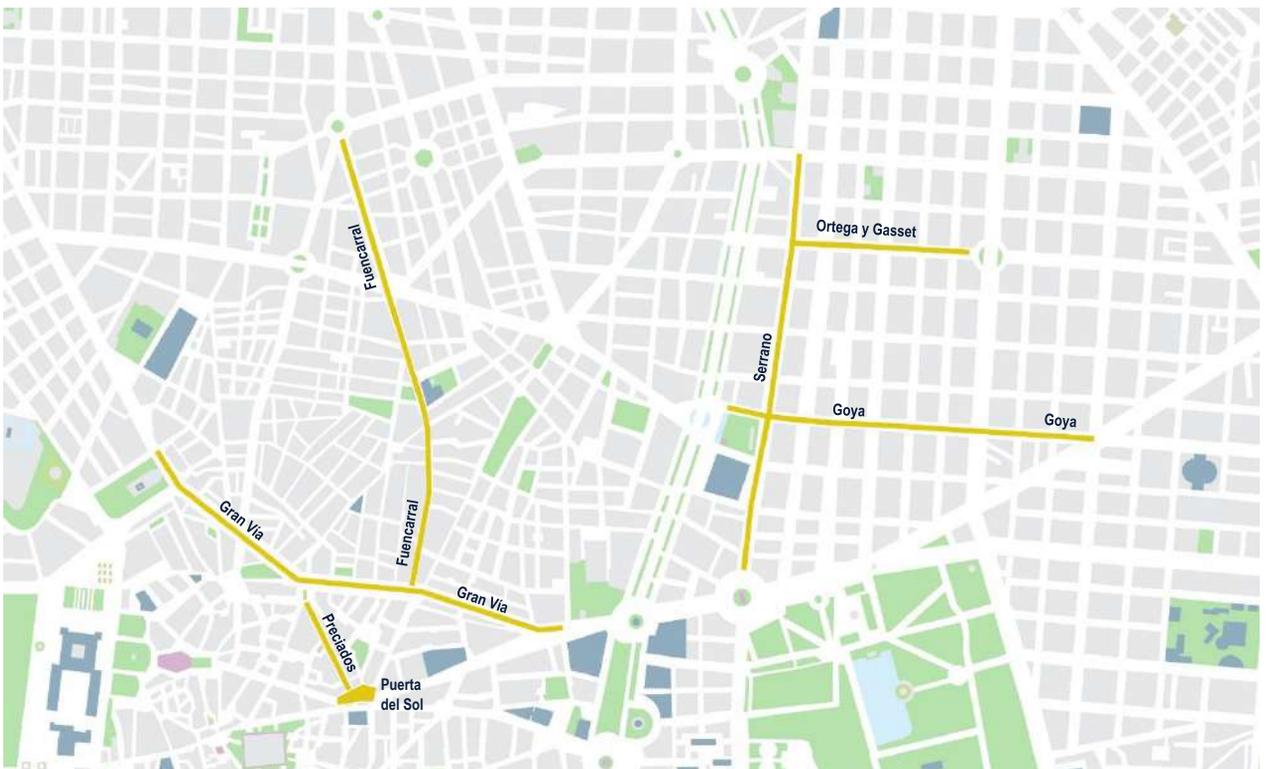
Fashion and Accessories: Retail units that sell men's or women's clothing or both and accessories, including costume jewellery, leather goods, footwear, etc. Examples: Zara, Mango and Desigual.

Luxury Goods: This includes: jewellery, watches, high-end clothing, etc. Examples: Bulgari, Christian Dior and Dolce & Gabbana.

Services: These retail units offer services to their customers, such as banks, laundrettes, hair salons, pharmacies, etc. Examples: Banco Santander and LLongueras.

Restaurants and Bars: Cafes, restaurants, bakeries or similar. Examples: Vips, Mas Q Menos and Lateral.

Other: Retail units that do not fit into any of the above categories. Examples: Sephora and Tiger.



4. Retail market: Madrid



PRICES AND AVAILABILITY

In this section we analyse the rents of the city's main retail stretches. Given the huge disparity existing across all high streets, as a result of the sheer amount of retail units and their differing characteristics, the values detailed in the previous table must be considered maximum comparable prices for 200 sqm units.

Rents on prime high streets have remained virtually unchanged over the past 12 months, following the sharp increase registered over the last two years. As in previous years, the highest rental prices can be found on Call Preciados, €275 per sqm/month after it edged up slightly y-o-y.

The rental price analysis for the two areas of the city where the prime high streets are located, the Salamanca neighbourhood and the city centre, highlights how the streets located in the latter area (Gran Vía, Preciados, Fuencarral, Puerta del Sol), are the ones to have seen the most rental growth in recent years.

The reason this prime area has outperformed the Salamanca neighbourhood is due to this area's more dynamic and thriving retail scene. The main fashion brands are all vying to secure a pitch on the main streets in this area, either via street level stores or flagships. The future for this retail area is bright, as it will benefit from the opening of the Canalejas Project and the future Plaza de España Regeneration Project that will inject even more life into the area, turning it into the city's main retail hub.

Looking at the prime high streets of the Salamanca

neighbourhood, we can see that the hub of retail activity is also spreading out into adjoining streets such as Claudio Coello (analysed in this study as a high street in its own right), Lagasca, Don Ramón de la Cruz and Ayala. Brands that for pricing reasons or simply due to a lack of available space are unable to open a boutique on streets such as Calle Serrano and Calle Goya, are now turning to these neighbouring streets, looking to take advantage of their new-found retail draw.

In the high streets and secondary high streets, generally speaking rents have remained stable. As is to be expected, it takes slightly longer for the recovery to feed through to these streets than it does for prime high streets, with this category now starting to see growing demand. It is important to mention that the recession caused the type of retailers interested in some of these streets, such as Calle Alcalá and Calle Quintana, to change. We are unlikely to see major chain brands return to these streets which have started to shift towards a more local neighbourhood offering.

Calle Orense is the most expensive retail stretch of these two areas (high streets and secondary high streets), with rents at circa €100 per sqm/month. Meanwhile, by way of example of a secondary high street, rents on Avenida de la Albufera stand at €32 per sqm/month, the lowest on all the streets analysed.

VARIATION IN PRICES (€/sqm/month)		2012	2013	2014	2015	2016	2017
PRIME	Serrano	190.00	190.00	196.00	238.00	244.00	245.00
	Goya	147.00	144.00	144.00	160.00	162.00	162.00
	Preciados	248.00	244.00	245.00	257.00	270.00	275.00
	José Ortega y Gasset	187.00	182.00	171.00	185.00	187.00	185.00
	Fuencarral	120.00	120.00	124.00	143.00	147.00	153.00
	Gran Vía	142.00	151.00	165.00	210.00	230.00	235.00
	Puerta del Sol	N.A.	N.A.	190.00	200.00	203.00	205.00
HIGH STREETS	Princesa /Alberto Aguilera	87.00	87.00	82.00	84.00	84.00	85.00
	Orense	80.00	80.00	85.00	94.00	96.00	98.00
	Jorge Juan	80.00	76.00	76.00	81.00	83.00	83.00
	Claudio Coello	82.00	80.00	79.00	82.00	85.00	85.00
SECONDARY HIGH STREETS	Pº Habana	40.00	41.00	41.00	43.00	43.00	43.00
	Bravo Murillo	50.00	47.00	41.00	42.00	42.00	43.00
	Alcalá / Quintana	46.00	38.00	35.00	37.00	38.00	38.00
	Avda. Albufera	39.00	30.00	28.00	30.00	32.00	32.00

4. Retail market: Madrid



PRICES AND VACANCY

The following table displays the availability of retail units in each one of the main retail stretches analysed. Generally speaking, the average vacancy rate in H1 2017 stood at 7.6%, slightly above the 7.0% registered in H1 2016. This means that during the period analysed, only 146 out of the 1,930 units studied were available, a figure that clearly shows that these areas are highly sought-after by retailers.

the last 12 months.

High streets and secondary high streets once again generally saw their vacancy rates increase across the board, with Avenida Albufera and Calle Bravo Murillo being the only exceptions to this trend, and seeing their drop y-o-y.

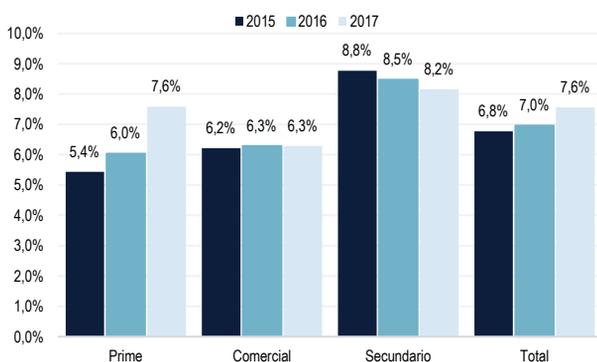
The vacancy rate on prime high streets has generally risen over

Availability		Total Retail units 2017	% Vacancy 16	% Vacancy 17
PRIME	Serrano	151	9.2%	9.3%
	Goya	153	3.2%	4.6%
	Preciados	44	2.1%	6.8%
	José Ortega y Gasset	59	12.3%	15.3%
	Fuencarral	283	5.6%	6.7%
	Gran Vía	184	6.1%	7.1%
	Puerta del Sol	36	2.8%	11.1%
HIGH STREETS	Princesa /Alberto Aguilera	115	7.0%	7.0%
	Orense	81	4.9%	4.9%
	Jorge Juan	36	5.6%	5.6%
	Claudio Coello	102	6.9%	6.9%
SECONDARY HIGH STREETS	Pº Habana	86	9.3%	8.1%
	Bravo Murillo	161	6.8%	6.2%
	Alcalá / Quintana	313	9.3%	9.3%
	Avda. Albufera	126	8.1%	7.9%

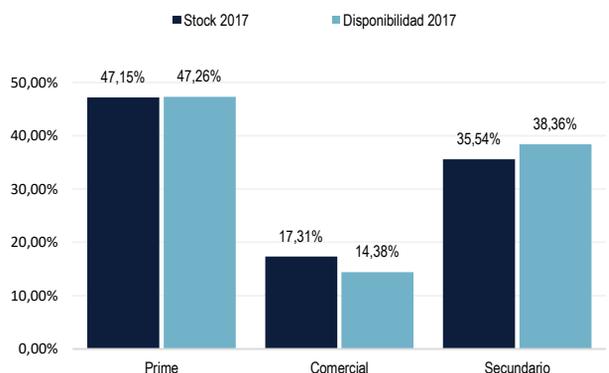
The following graphs show the variation in the vacancy rate over the last 2 years by high street type and compare the percentage of vacant units on each type of high street (as a % of the total number of vacant units) with the percentage of total units on each high street (as a % of the total number of units). As can be seen, the rise in the vacancy rate across all high streets analysed during the last few months is down to the increased number of unoccupied units on the prime high streets. However, the vacancy rate stands at 7.6%, which is considered low.

The second graph shows how the situation is more adverse on secondary high streets. These represent 35.5% of the total retail units analysed and account for 38.3% of the total number of vacant retail units. High streets are the category to register the best performance, representing 17.3% of the total stock analysed and just 14.4% of the vacant units.

Vacancy rate by areas (%)



Stock vs. vacancy by areas (%)





RETAIL UNIT SPECIFICATIONS

This summary analyses the surface areas and business activities carried out in the units on each of the prime high streets analysed in this report.

The vast majority of retail units on all the high streets are between 0 and 200 sqm is clearly the most common size. The second most common type of unit is, except for on Calle Jose Ortega y Gasset, units of between 200 sqm and 400 sqm.

It is particularly notable that there are very few units of 700 sqm and over, except on streets such as Calle Gran Vía, Calle Preciados and, to a lesser extent Calle Serrano. This means that for certain retailers that require large spaces for their flagship stores, there is relatively little to choose from, given the type of units that are most commonly found on the prime high streets.

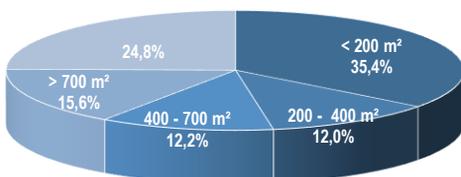
Generally speaking, the less emblematic the street, the higher the number of small retail units and the lower the number of larger ones.

Once again this year, Fashion and Accessories is the most common type of retail activity present on the streets analysed in this study, accounting on average for 37.7% of the existing retail units. The Other sector is the next most common and accounts for an average of 22% of retail units. The Restaurants and Bars and Services sectors account for very similar market shares, with 15.6% and 16.8% on average respectively.

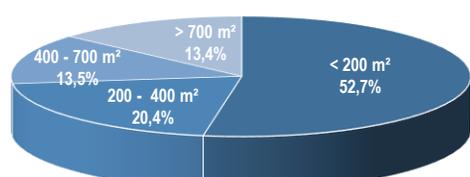
Lastly, the least represented sector is the sale of luxury items, which is mainly focused on Calle José Ortega y Gasset and Calle Serrano.

CLASIFICACIÓN POR USUARIOS		Moda y complementos	Artículos de Lujo	Servicios	Hostelería	Varios	< 200 m²	200 - 400 m²	400 - 700 m²	> 700 m²
PRIME	Serrano	39,4%	26,3%	13,1%	8,8%	12,4%	35,0%	30,0%	20,0%	15,0%
	Goya	37,0%	6,8%	17,8%	13,0%	25,3%	61,4%	21,6%	8,5%	8,5%
	Preciados	56,1%	2,4%	7,3%	4,9%	29,3%	61,4%	11,4%	2,3%	25,0%
	José Ortega y Gasset	14,0%	44,0%	20,0%	12,0%	10,0%	37,3%	23,7%	32,2%	6,8%
	Fuencarral	46,2%	0,8%	8,0%	20,0%	24,6%	87,3%	6,4%	2,1%	4,2%
	Gran Vía	29,8%	3,5%	13,5%	28,7%	24,6%	41,8%	21,7%	15,8%	20,7%
	Puerta del Sol	25,0%	0,0%	6,0%	22,0%	47,0%	44,4%	27,8%	13,9%	13,9%

Distribution of retail units by business (%)



Distribution of retail units by area (%)



Calle
Serrano
MADRID



4. Calle Serrano

This study of Calle Serrano focuses on the retail stretch that runs from Plaza de la Independencia to Juan Bravo, an area which features 151 retail units. Fashion and Accessories and Luxury are the most common business sectors featured on this street. Calle Serrano and Calle José Ortega y Gasset are two of the city's points of reference for Luxury brands.

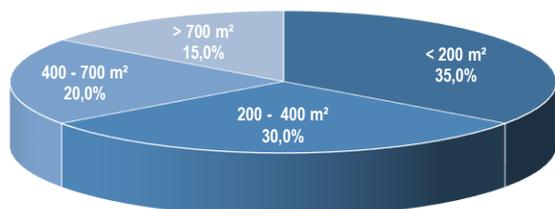
Calle Serrano is the fourth most expensive street in Spain, behind Portal del Ángel and Paseo de Gracia in Barcelona and Calle Preciados in Madrid. The average rent stands at €245 per sqm/month along the street's very best retail stretch for a unit of circa 200 sqm at street level.

Over the past 12 months, vacancy has remained virtually unchanged at 9%. The difference between landlords' asking rents and what retailers are prepared to pay continues to make it difficult to let the vacant units on the street. This is causing retailers that were initially interested in these vacant units to turn to other areas. The majority of these vacant units are in the stretch of Calle Serrano that is considered less commercial. The

vacant units are located on the odd-numbered side of the street and on the even-numbered side of the street in the stretch between Puerta de Alcalá and Calle Juan Bravo. We would highlight **Loewe's** decision in 2016 to close one of the two units it occupied on the street and focus solely on the unit that it still occupies.

A total of 6 new lettings have been signed over the past 12 months, highlighting the openings completed by international brands such as **Timberland**, **TagHeuer**, **Samsung**, **Ikea**, and the relocation of the Spanish jewellery brand **Carrera y Carrera**. The British chain **Wagamama** debuted in Spain, opening its first restaurant in collaboration with **Grupo Vips** in its unit at number 45. Lastly, at the end of March, **Mango** opened the doors of its long-awaited new megastore.

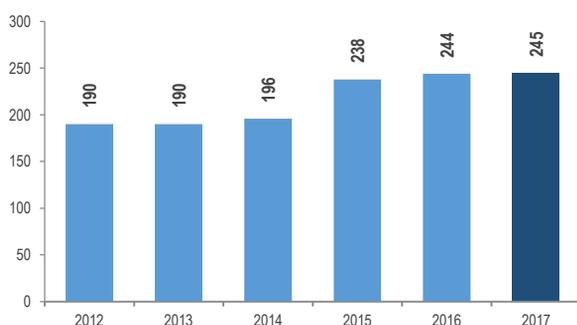
Distribution by size of unit (%)



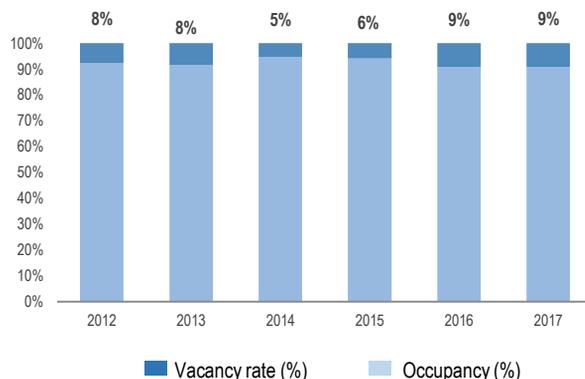
Distribution by business sectors (%)



Rental Prices (€/sqm/month)



Vacancy rate (%)



Calle

Goya

MADRID

aristocrasy
1943

aristocrasy
1943

COYA 27
aristocrasy
1943



4. Calle Goya

The stretch of Calle Goya analysed runs from Paseo de la Castellana to Conde de Peñalver and Alcalá, and includes a total of 153 retail units. Of the three high streets analysed in the Salamanca neighbourhood, Calle Goya features the highest number of retail units with areas of less than 200 sqm, attracting retailers looking for units with these specifications.

Fashion and Accessories is the most common business sector featured on this street (37%), although there is also a considerable percentage of retailers that belong to the Other business sector (25%), which includes the sale of mobile cases, perfume, homeware, amongst others, etc. Generally speaking this stretch of the street is home to retailers focused on selling goods that are more affordable than those that can be found on other streets in the Salamanca neighbourhood.

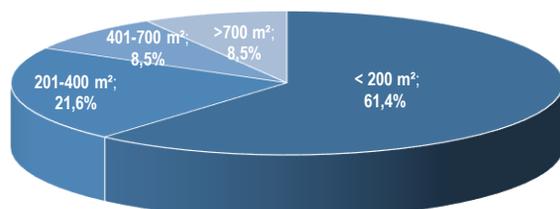
Calle Goya has seen rents remain fairly stable over the last two years, increasing from €160 per sqm/month in 2015 to the €162 per sqm/month that a retailer would currently pay for a unit of less than 200 sqm on the best stretch of the street.

The vacancy rate has increased slightly in the last year. Although the odd-numbered side of the street is traditionally the

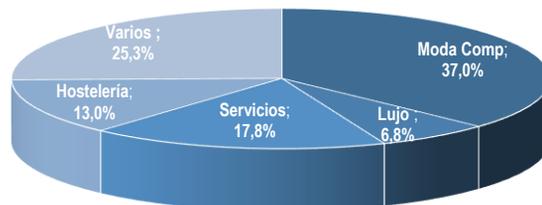
most sought-after, the even-numbered side of the street has improved considerably over recent months, seeing new openings and its vacancy rate decline.

During the last year, 18 lettings have been signed, an impressive number that demonstrates the high level of interest in this street. The new leases signed included new openings by major brands such as **NYX**, **TheBody Shop**, **Gran Óptica**, **Dentix**, **Apodemia** and **Altonadock** and relocations of **Etam**, **Massimo Dutti** and **Yves Rocher** stores. We would highlight **Orange's** decision to reopen a store to improve its presence by gaining greater visibility and frontage, and **Parfois'** decision to open its second store on the same street.

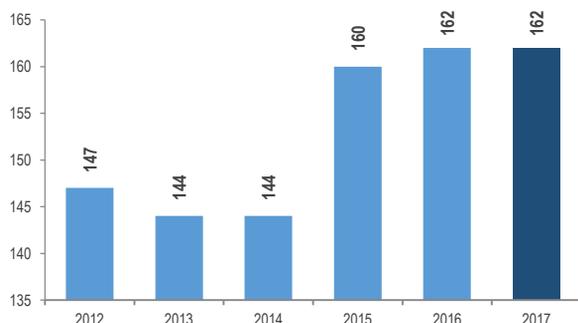
Distribution by size of unit (%)



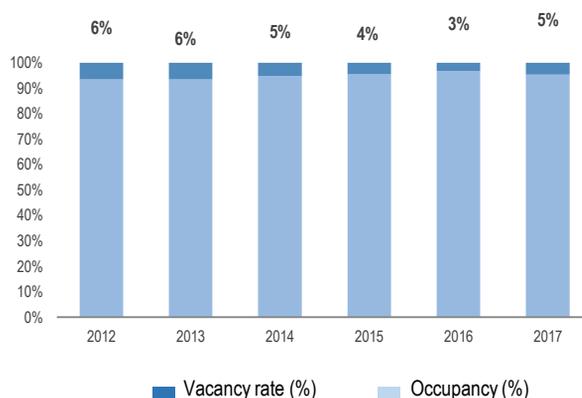
Distribution by business sectors (%)



Rental Prices (€/sqm/month)



Variation in Vacancy rate (%)



Calle

José Ortega y

Gasset
MADRID



4. Calle José Ortega y Gasset

The stretch analysed on Calle José Ortega y Gasset runs from Paseo de la Castellana to the Plaza de Marqués de Salamanca, although we would note that the most commercial stretch of the street is located between Calle Serrano and Calle Velázquez. This stretch features 59 retail units.

The analysis of the distribution by size of unit shows that small units with an areas of less than 200 sqm are the most commonly found on this street. Large units of over 700 sqm are very few and far between in this street.

Calle José Ortega y Gasset remains the luxury high street *par excellence* and is home to many of the most exclusive international brands. The Luxury sector accounts for 44% of the occupied units, and is followed by Services (20%), primarily bank branches on this street. In recent years, some luxury brands, such as **Louis Vuitton**, **Armani**, and **Stuart Weitzman**, have relocated from this street to nearby streets such as Calle Serrano and Calle Jorge Juan.

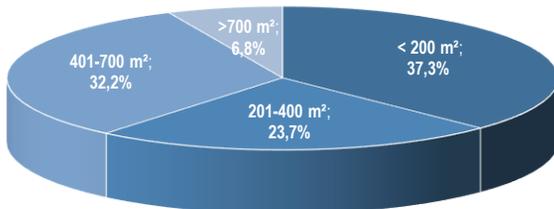
In terms of rents, we can see that they seem to have plateaued

in recent years at levels of close to €185 per sqm/month. There were 9 retail units available at the time of writing this report, accounting for 15% of the total stock. We would particularly note the closure of the German brand **Hugo Boss'** boutique, which decided to relocate its Madrid store to Calle Serrano 28.

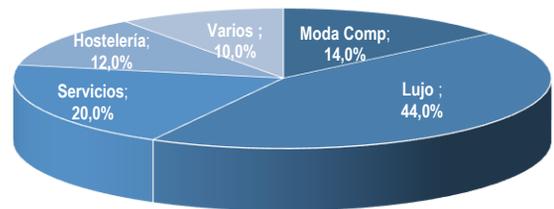
Despite the increase in the number of vacant stores, some major brands have opted for this street as their preferred pitch in the Salamanca neighbourhood. One of these is **Magrit**, a major footwear brand in the Spanish market and the other is the Canadian brand **Dsquared2**. This last year has also seen **Ibercaja** open a new branch on this street.

In terms of investment, the unit located at Calle José Ortega y Gasset 16 was sold in H1 2017.

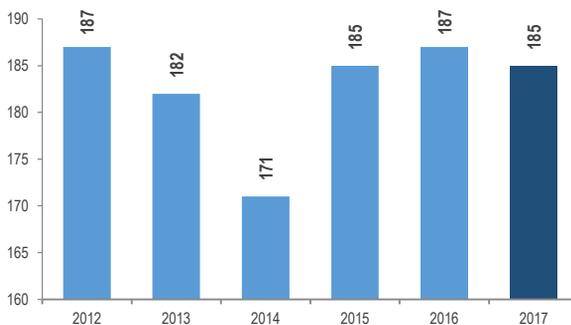
Distribution by size of unit (%)



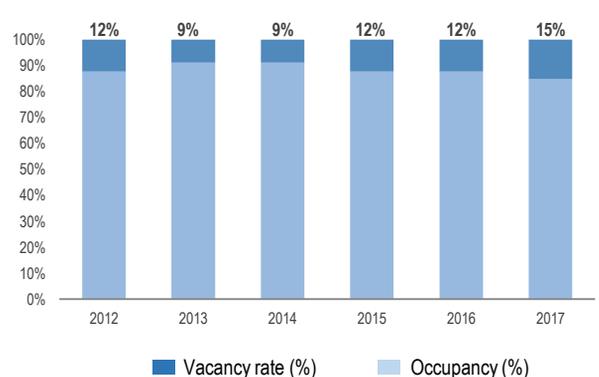
Distribution by business sectors (%)



Rental Prices (€/sqm/month)



Vacancy rate (%)





Calle

Preciados

MADRID

4. Calle Preciados

Calle Preciados has two clearly distinct pedestrianised stretches. This study focuses on the stretch that runs from Puerta del Sol to Plaza de Callao, which comprises a total of 44 retail units. The second stretch runs from Plaza de Callao to Plaza de Santo Domingo and features a large number of restaurants and bars.

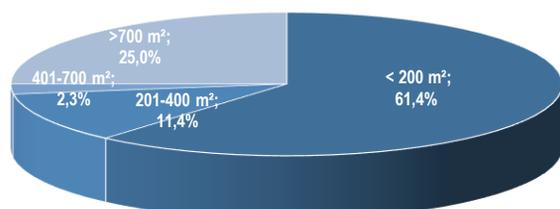
Calle Preciados is Madrid's most expensive high street and Spain's second most expensive, behind Portal del Angel in Barcelona. The current average rent is at an all-time high of €275 per sqm/month. Along with Gran Vía, it is the street that offers the most large units (over 700 sqm), a category that is becoming increasingly sought-after by major retailers to open flagship stores.

Fashion and Accessories is the leading business activity on the street, accounting for 56% of retail units. Units occupied by retailers belonging to the "Other" category, including souvenir shops, book stores and stores selling lottery tickets, are the second-most common, accounting for 29% of retail units. Lastly, we would highlight that Luxury, Services and Restaurants and Bars occupy an insignificant percentage of units on Calle Preciados.

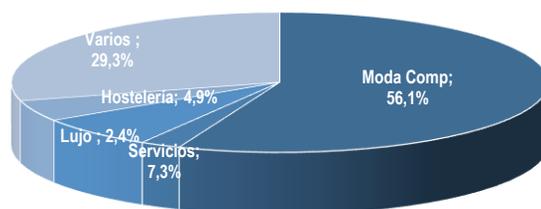
The vacancy rate at the time of publishing this report stands at 7%. Although the vacancy rate has grown over the last year in percentage terms, this only equates to three units given that the total number of units on this street is low. The two units formerly occupied by **El Corte Inglés Book Store** and **Footlocker**, which have relocated on the same street, are currently being marketed. The third, is the unit previously occupied by a second-hand watch store, located at number 13. The most significant changes in the short term will be the opening of the new **Pull & Bear** flagship and the extension of **Mango's** store.

Investors remain interested in this street, as can be seen from the recent acquisition of the property located at number 13 by the investment fund **Hines**. This unit was previously occupied by the male fashion brand **Springfield**. The investment firm **Thor Equities** also acquired the unit previously occupied by **El Corte Inglés Book Store**, which is currently being marketed.

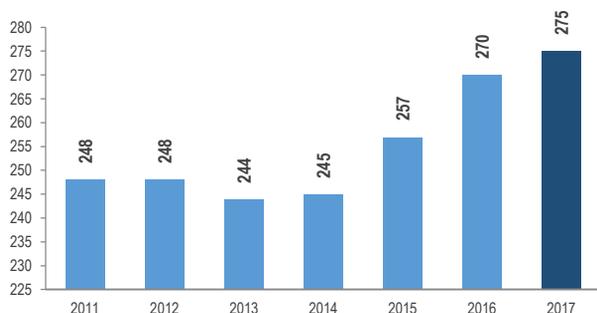
Distribution by size of unit (%)



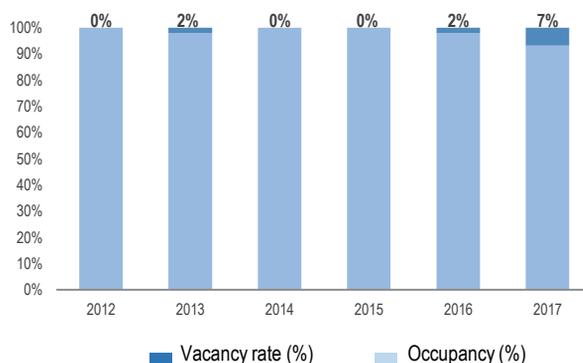
Distribution by business sectors (%)



Rental Prices (€/sqm/month)



Variation in Vacancy rate (%)



Calle

Fuencarral

MADRID



4. Calle Fuencarral

All three of Calle Fuencarral's retail stretches, featuring a total of 283 retail units, are studied in this report. These stretches include the sections that runs from Gran Vía to number 45 (the former Fuencarral Market), the Tribunal area, and the stretch from the Glorieta de Bilbao to the Glorieta de Quevedo. Of the streets analysed, Fuencarral is the one featuring the most units measuring between 0 and 200 sqm, a size that suits the retailers looking for space in this area perfectly.

As on the city's other streets, Fashion and Accessories is the segment that dominates, accounting for 46% of total stock on the street known as Madrid's Soho. This street is home to renowned Fashion and Accessories brands aimed at a young target market, both via direct stores that are dedicated to one single brand and multi-brand stores, the majority located on the stretch between Gran Vía and the former Fuencarral Market.

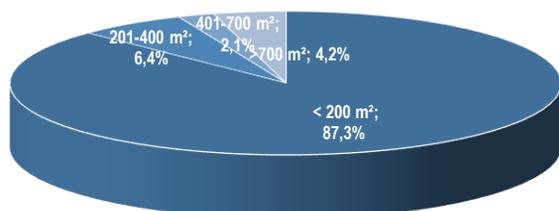
Rental prices continue to trend upwards, standing at €150 per sqm/month on the best stretch of the street for retail units smaller than 200 sqm.

This upward pressure on prices is a result of the high demand from retailers that need to secure a pitch on this street due to the target market of their brand and in light of the street's prized location, close to Gran Vía, Preciados and Puerta del Sol.

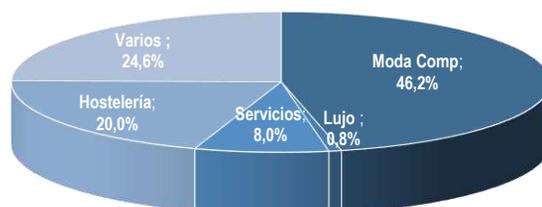
The vacancy rate has edged up slightly. However, the vacant units are located in the Tribunal area, which is the less commercial stretch of the street. The large properties located at numbers **45** and **77**, with an area of over 700 sqm, offer a unique opportunity for brands that require a pitch that will provide them with significant presence on the street.

The most significant changes over that last few months in this street include the reopening of the legendary **Café Comercial** – praised by many customers – and the recent openings by international brands **Lindt**, **Guess**, **Birkenstock**, **American Vintage** and **Subdued**, as well as the Venezuelan restaurant **Gramma Lounge** and sports shoes store **Size**. **Vastned** is the latest player to close an investment deal on this street, acquiring the unit occupied by **Décimas** at number 37.

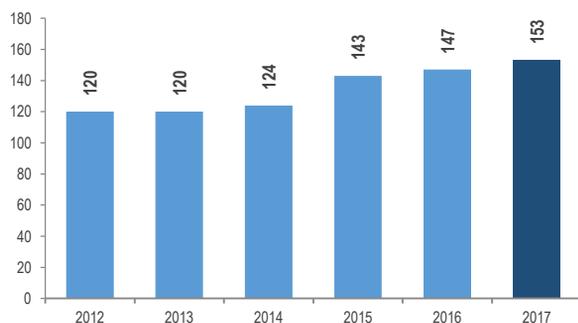
Distribution by size of unit (%)



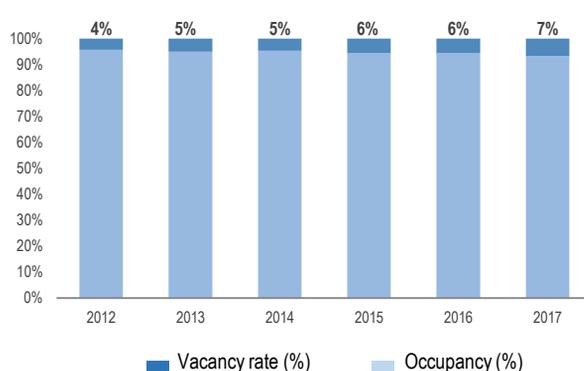
Distribution by business sectors (%)



Rental Prices (€/sqm/month)



Vacancy rate (%)



Calle

Gran Vía

MADRID



4. Calle Gran Vía

The study of Calle Gran Vía has traditionally focused on the streets two classic retail stretches, the one running from Fuencarral to Plaza de Callao and the one stretching from Plaza de Callao to Plaza de España. Due to the growing interest from prospective tenants, this year we have also analysed the stretch between Calle Alcalá and Calle Fuencarral for the first time. The three stretches studied feature a total of 184 retail units.

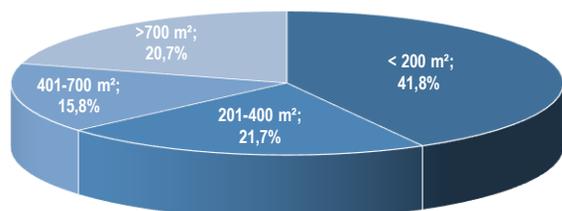
Calle Gran Vía houses all forms of business activity, thanks to its strategic location in the city centre and the tourism factor. The street offers an interesting and varied retail mix that attracts all types of public. The three business sectors accounting for the most units are Fashion and Accessories (30%), Restaurants and Bars (29%) and Other (25%), all boasting similar market shares.

Rents have continued to climb in recent months, although we are starting to see signs of them levelling off. As shown in the graph, rents have risen less this year that they did in the last two years. The average rent for a 200 sqm unit at street level on the best stretch of the street stands at circa €235 per sqm/month.

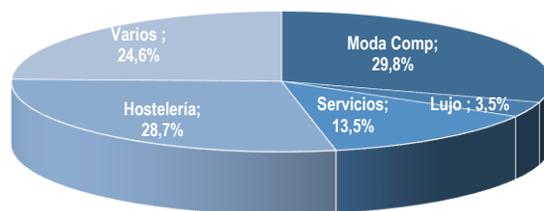
Including the Alcalá-Fuencarral stretch, the number of vacant units reaches 13, two more than last year and 7% of the total stock. We would highlight that including the new stretch in the study has added a further 36 units to the total stock.

During the year studied 15 new lettings have been signed on Gran Vía, highlighting the openings of **Atlético de Madrid**, **NYX**, **Carpisa**, **Rumbo**, **Oven** and **La Primera**. We would also particularly note the return of the **Coliseum Theatre** with **Mamma Mia** and the upcoming opening of **Dentix**. **Primark** continues to attract a large number of customers and generate significant footfall along this specific stretch of the street. Investors remain highly interested in this street, as demonstrated by the sale of the two units located at numbers 45 and 55, acquired by a private investor and the **Socimi Saint Croix** respectively.

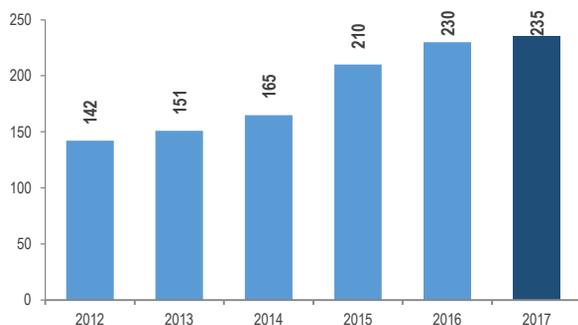
Distribution by size of unit (%)



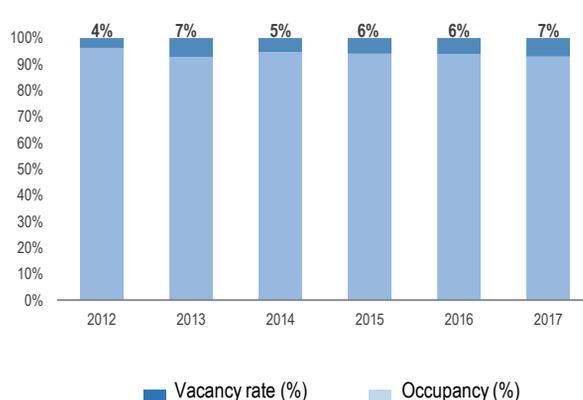
Distribution by business sectors (%)



Rental Prices (€/sqm/month)



Vacancy rate (%)



Calle

Puerta del Sol

MADRID



4. Calle Puerta del Sol

The Puerta del Sol tourist hub comprises 36 retail units, and it is on these that our study of this square will focus. Puerta del Sol connects with some of Madrid's most important high streets, such as Calle Preciados (studied in this report), Calle del Carmen, Calle Montera and Calle Arenal. As can be seen in the graph, 44% of these retail units are smaller than 200 sqm, followed by units measuring between 201 sqm and 400 sqm which account for 28%.

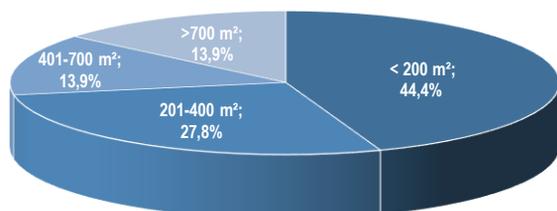
The business sector Other is the most commonly featured on the square, occupying almost half of the units occupied (47%). The high presence of this type of business is mainly due to the type of people that visit this area, mainly domestic and overseas tourists looking for gifts, souvenirs, currency exchange, mobile phones, games, lottery tickets, etc.

In recent months, rents have continued to steadily climb up to €205 per sqm/month. This upward trend looks set to continue due to the increased retail activity that the Canalejas Project will generate and the interest from major retailers seeking space on this high street.

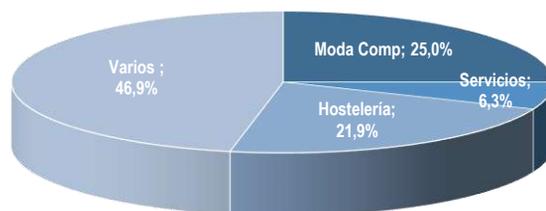
The increase in the number of vacant units compared with 12 months ago, is largely down to the units acquired by **Thor Equities** at numbers 5 and 9 (previously occupied by **Futbolmanía** and **Nuevos Guerrilleros**, as well as by **Kutxabank**) and that are currently being marketed.

During the last year, the brand **TheBody Shop** and two money wiring branches have opened units at Puerta del Sol. **Sephora** has relocated to the units previously occupied by Cortefiel. The nearby Project Canalejas, currently under construction, will increase the footfall between Puerta del Sol and Plaza de Canalejas, which will boost retail activity in the area.

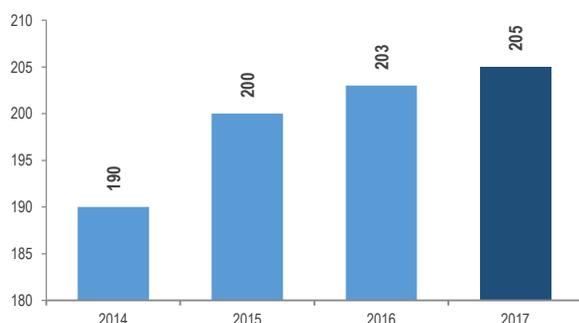
Distribution by size of unit (%)



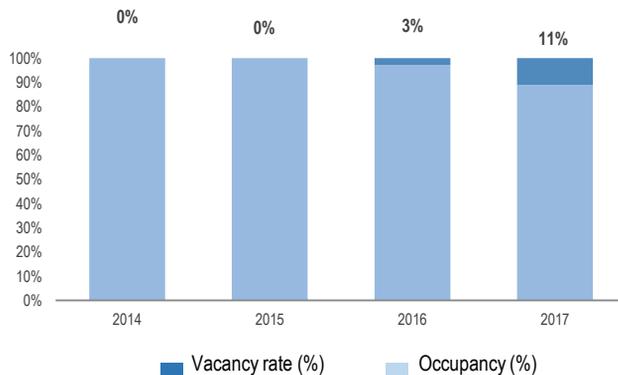
Distribution by business sectors (%)



Rental Prices (€/sqm/month)



Vacancy rate (%)



Barcelona Market





5. Retail market: Barcelona



AREAS AND METHODOLOGY

In this section we analyse the performance of retail units on the prime high streets of Barcelona.

Prime high streets are those which are frequented by people who live and work in the area, people from all over the city and both domestic and overseas tourists. In Barcelona, they are Portal de L'Angel, Portaferrisa, Paseo de Gracia, Rambla Cataluña, Pelayo, Rambla Canaletas and Avenida Diagonal.

Based on the rental prices and vacancy on these streets, we have further subdivided the prime category to distinguish between the streets with the highest rents and low vacancy (Prime +) and the rest (Prime -). We can therefore class the streets as follows:

Prime +: Portal de L'Angel, Portaferrisa, Paseo de Gracia

Prime -: Rambla Cataluña, Pelayo, Rambla Canaletas and Avenida Diagonal.

On each high street, there are retail units dedicated to a wide variety of businesses, and these can be subdivided into the following sectors:

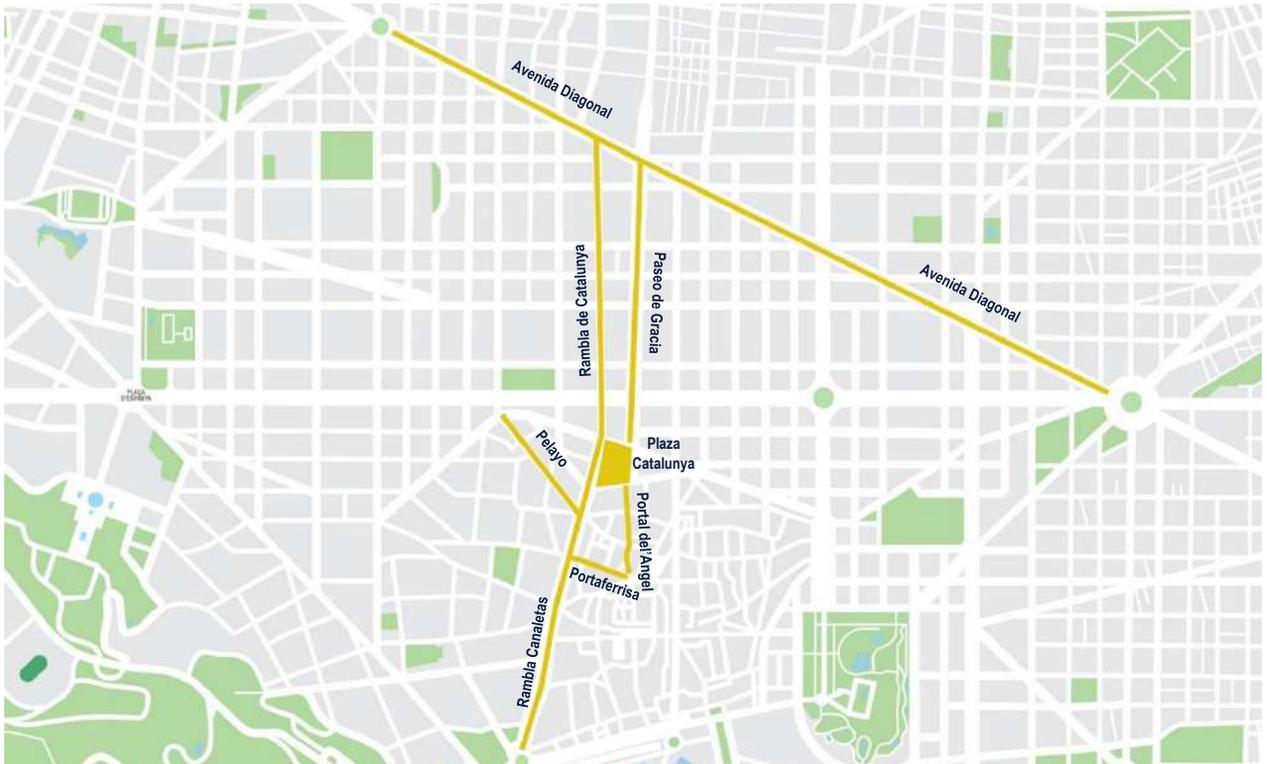
Fashion and Accessories: Retail units that sell men's or women's clothing or both and accessories, including costume jewellery, leather goods, footwear, etc. Examples: Zara, Mango and Trucco.

Luxury Goods: This includes: jewellery, watches, high-end clothing, etc. Examples: Bulgari, Christian Dior and Dolce & Gabbana.

Services: These retail units offer services to their customers, such as banks, laundrettes, hair salons, pharmacies, etc. Examples: Banco Santander and LLongueras.

Restaurants and Bars: Cafes, restaurants, bakeries or similar. Examples: Vips, Mas Q Menos and Lateral.

Other: Retail units that do not fit into any of the above categories. Examples: Sephora and Tiger.





PRICES AND VACANCY

In this section we analyse the rents of the city's main retail stretches. Given the huge disparity existing across all high streets, as a result of the sheer amount of retail units and their differing characteristics, the values detailed in the following table must be considered maximum comparable prices for 200 sqm units.

Rental prices of units on the high streets analysed in this report have continued to rise sharply as they have in previous years, except on Portaferrissa where rents have plateaued at last year's levels.

Portal de l'Angel and Paseo de Gracia have the highest high street rents, not only in Barcelona but in the whole of Spain. Rents have risen sharply on both high streets over the last 12 months, reaching €280 per sqm/month on Portal de l'Angel and €255 per sqm/month on Paseo de Gracia. We must remember that since 2014, the study of the Portal del'Angel area has been limited to the street's most prime retail stretch, excluding the less exclusive areas that were previously included in the study.

VARIATION IN PRICES (€/sqm/month)		2012	2013	2014	2015	2016	2017
PRIME +	Portal de l'Angel	195.0	235.0	245.0	260.0	270.0	280.0
	Portaferrisa	160.0	145.0	145.0	145.0	150.0	150.0
	Pº de Gracia	155.0	170.0	185.0	195.0	220.0	255.0
PRIME -	Rambla Catalunya	78.0	78.0	80.0	85.0	90.0	100.0
	Pelayo	120.0	120.0	120.0	120.0	120.0	135.0
	Rambla Canaletas	95.0	95.0	98.0	105.0	115.0	130.0
	Avda. Diagonal	52.0	45.0	42.0	46.0	60.0	75.0



PRICES AND VACANCY

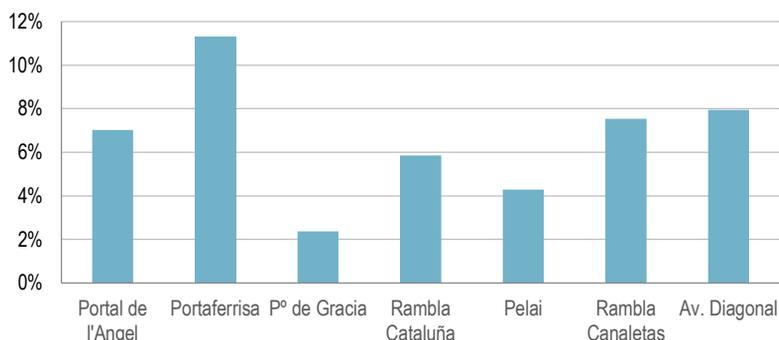
The following table displays the availability of retail units in each one of the city's main retail stretches. Generally speaking, the average vacancy rate at the time of writing this report, stood at 6.18%, slightly up y-o-y. This means that only 58 out of the 938 units studied were vacant, a figure that clearly shows that these areas are highly sought-after by retailers. It must also be taken into consideration that the figures reflect the vacancy at the exact moment the study was completed and that some retail units recorded as vacant in our study are actually in an advanced phase of lease negotiation and could be occupied in the short term.

Regarding the two prime categories described earlier in the report, the vacancy rate in the Prime + streets stands at 5%, whilst it stands at 6.7% in the Prime - streets. However, if the units that we believe will be let in the short term are excluded, the vacancy rate drops to levels similar to those seen 12 months ago; circa 2%-3% in Prime + streets and 4%-5% in Prime - streets.

Although most of the vacant units are located on Rambla de Canaletas and Rambla de Catalunya, an analysis of the number of vacant units as a percentage of stock highlights that vacancy is higher on Calle Portaferrisa.

Availability		Total Retail Units 2016	Vacancy rate 2016 (%)	Total Retail Units 2017	Vacancy rate 2017 (%)
PRIME +	Portal de l'Angel	60	1.7%	57	7.0%
	Portaferrisa	53	2.8%	53	11.3%
	Pº de Gracia	171	1.8%	169	2.4%
PRIME -	Rambla Cataluña	242	3.7%	239	5.9%
	Pelayo	72	2.8%	70	4.3%
	Rambla Canaletas	209	4.3%	199	7.5%
	Avda. Diagonal	156	4.5%	151	7.9%

Distribution of vacant units (as % of total stock on street)



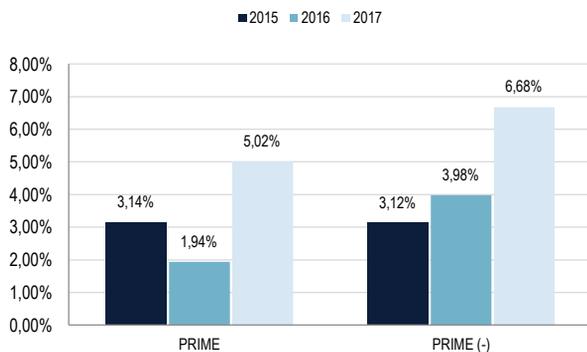


PRICES AND VACANCY

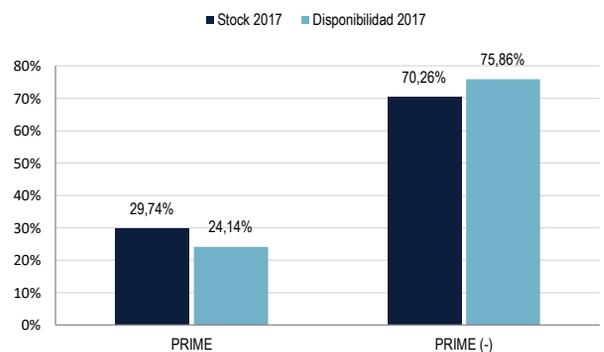
The following graphs show firstly the variation in the vacancy rate over the last 3 years by high street type and secondly compare the percentage of vacant units on each type of high street (as a % of the total number of vacant units) with the percentage of total units on each high street (as a % of the total number of units). The number of vacant units has generally increased on both Prime+ and Prime- high streets. However, we would once again highlight that this reflects the vacancy at the exact moment data was collected for this study. Nevertheless, the vacancy rate is very low both on Prime+ and Prime- high streets, below the 7% mark.

The second graph shows how Prime- streets perform slightly worse than their Prime+ counterparts; representing 70.3% of the total retail units analysed, yet accounting for 75.8% of the total number of vacant units, whilst Prime+ high streets represent 29.7% of the total stock analysed, but only account for 24.1% of the vacant units.

Vacancy rate by areas (%)



Stock vs. vacancy by areas (%)



5. Retail market: Barcelona



RETAIL UNIT SPECIFICATIONS

This section analyses the average size of the retail units located on each street, as well as the business sectors featured on each.

As is usually the case, units of less than 200 sqm are the most common, accounting for over 40% of the supply in the prime area. Medium-sized units of between 200 sqm and 400 sqm account for 33% of the stock, whilst units of over 700 sqm account for 15%.

We would highlight that Fashion and Accessories clearly dominates in terms of business sectors present, especially on prime high streets.

Restaurants and Bars account for circa 20% of all retail units, with the Rambla de Canaletas a particularly important hub for this type of activity. Luxury retailers are largely located on Paseo de Gracia, where they account for 28% of the stock.

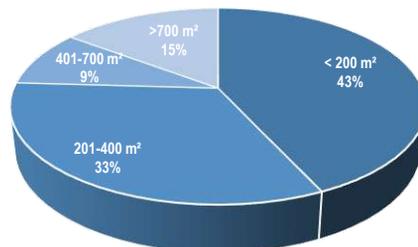
The Other category includes a wide variety of businesses, such as interior decor, book stores, giftshops, florists, etc. This category is more common on prime high streets, where it sometimes accounts for over 50% of the supply, as is the case on Rambla de Canaletas.

		Fashion & Accessories	Luxury	Services	Restaurants and Bars	Other	< 200 sqm	201-400 sqm	401-700 sqm	>700 sqm
PRIME +	Portal de l'Angel	72%	6%	8%	4%	11%	32%	42%	7%	19%
	Portaferrisa	62%	6%	4%	9%	19%	68%	23%	8%	2%
	Pº de Gracia	44%	28%	7%	12%	10%	18%	37%	17%	29%
PRIME -	Rambla Cataluña	44%	4%	3%	20%	29%	61%	24%	4%	10%
	Pelayo	51%	0%	10%	15%	24%	46%	33%	6%	16%
	Rambla Canaletas	12%	1%	2%	33%	53%	45%	30%	12%	13%
	Avda. Diagonal	35%	3%	15%	19%	28%	34%	46%	9%	11%

Distribution by business sectors (%)



Distribution by size of unit (%)





Calle

Portal de l'Angel

BARCELONA



5. Calle Portal de l'Angel

Located in the heart of Barcelona, Portal de l'Angel is one of the city's main high streets and one of the pedestrianised streets with the highest footfall in Spain. The stretch analysed comprises a total of 57 retail units. The leading business sector on this high street is Fashion and Accessories, accounting for 72% of occupied retail units.

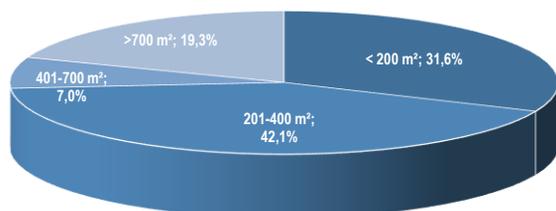
Retail units of 201-400 sqm are the most commonly featured on this street, accounting for 42% of the total stock, followed by units of less than 200 sqm which account for 32%. The latter large format was chosen by five of the brands that have recently opened stores on this street.

Portal del Ángel is the most expensive street in Spain, with the average rent for a street level retail unit of approximately 200 sqm standing at €280 sqm/month. This equated to a y-o-y increase of almost 4%.

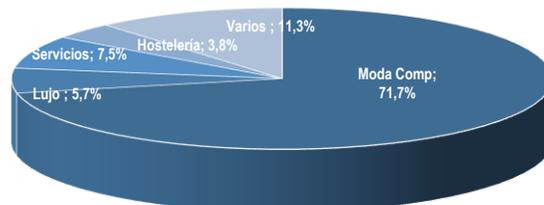
At the time of writing this report, the vacancy rate was very similar on both sides of the street and had edged up slightly in the y-o-y comparison. This increase is not considered relevant given that it is the result of various retailers deciding to relocate at the same time. This said, vacancy on this street is virtually non-existent, being one of the most sought-after streets by both domestic and international retailers.

Some of the new brands that have opened stores on this retail stretch include **Macson**, **Brandy Melville** and **Weekend** on the even-numbered side of the street. We would highlight that the first two brands mentioned are also present on the best retail stretches of two of Madrid's prime streets, Calle Serrano and Calle Fuencarral respectively. On the odd-numbered side of Portal del Ángel, brands such as **Mango Man** and **Ulanka** have all opened stores.

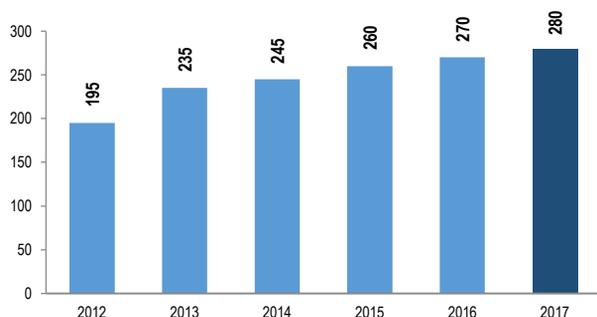
Distribution by size of unit (%)



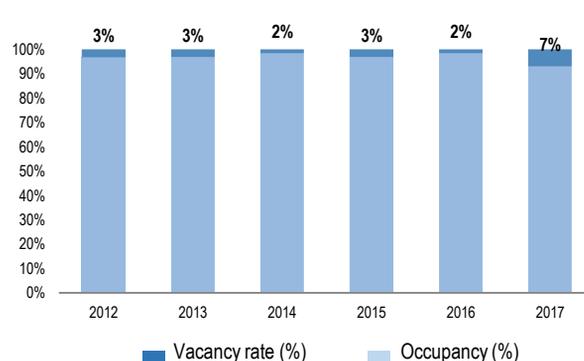
Distribution by business sectors (%)



Rental Prices (€/sqm/month)



Vacancy rate (%)



Calle

Portaferrisa

BARCELONA



5. Calle Portaferrisa

The market study of this high street focuses on the stretch that runs from La Rambla de Canaletas to Calle Del Pi, where there are a total of 53 retail units. The leading business sector on this high street is Fashion and Accessories, accounting for 62%.

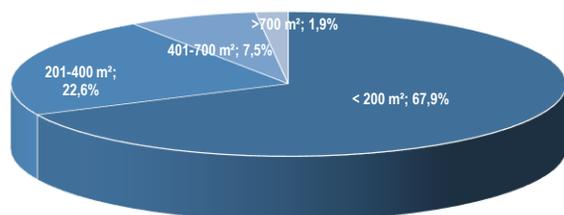
Retail units of between 0 and 200 sqm are the most common, accounting for 68% of the total supply, whilst units between 201 sqm and 400 sqm account for 23%. Four of the six brands that have opened stores on the street have opted for units of less than 200 sqm.

The average rent on Portaferrisano has changed compared to last year, now standing at €150 per sqm/month. It therefore ranks as the third most expensive prime high street in terms of rents. As with the other high streets analysed in this study, this rent is for the street's best retail stretch and is what would be paid for a street level unit of approximately 200 sqm.

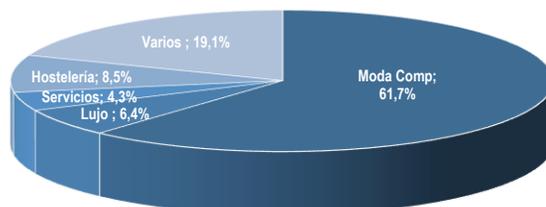
The vacancy rate has increased during the last year and stood at 11% at the time of writing the report. As with Portal del Ángel, the y-o-y increase is not a cause for concern, given that it is simply the result of the continuous retailer rotation seen on the market.

Regarding the latest changes on this street, we would highlight the opening of **Florencia** at number 8, the seventh store opened by the Chinese Fashion and Accessories chain. The Dutch firm **Hema**, has also invested in this street, opening its largest store in Spain at number 16. Other names that have opened stores on this street in recent months include the Deichmann Group's sports shoe chain **Snipes**, the Fashion and Accessories retailer **Arazaga** and the Accessories retailer **Aita**.

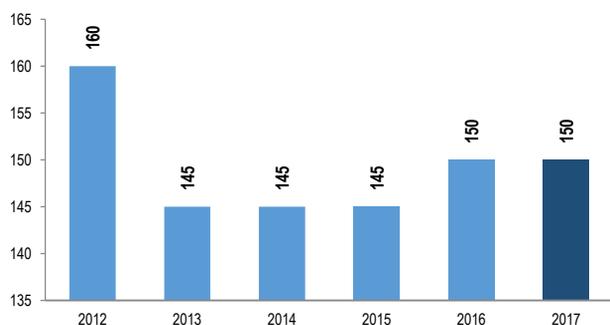
Distribution by size of unit (%)



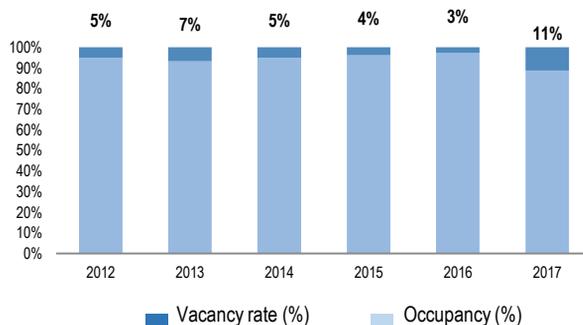
Distribution by business sectors (%)



Rental Prices (€/sqm/month)



Variation in Vacancy rate (%)



Paseo

Gracia

BARCELONA



5. Calle Paseo de Gracia

This section analyses two clearly distinct stretches of Paseo de Gracia, which comprises a total of 169 retail units. The two stretches that make up Barcelona's most exclusive retail area can be found between: Plaza de Cataluña and Calle Valencia, home to flagship stores of mass-market brands such as **Zara**, **Mango**, etc.; and between Calle Valencia and Avenida Diagonal, home to the more exclusive brands such as **Prada**, **Bulgari**, **Chanel**, etc.

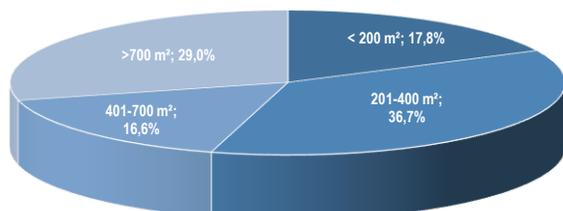
Paseo de Gracia remains the city's standard bearer for all things Luxury, with 28% of its stores occupied with by high-end retailers. However, it is not the most commonly featured category, with Fashion and Accessories accounting for just less than half (44%) of its retail units.

Paseo de Gracia is the second most expensive street in Barcelona, behind Calle Portal del Ángel and the third most expensive in Spain, once again behind Calle Portal del Angel and Calle Preciados in Madrid. Rental prices have continued to trend upwards over recent months, reaching €255 per sqm/month on the best stretch of the street, for street level retail units of less than 200 sqm.

At the time of writing this report, there were 4 vacant retail units, equating to just 2% of the street's total supply. Hence we can class total availability on this street as insignificant.

Paseo de Gracia continues to attract major national and international retailers. Over the last year, a total of 6 new leases were signed on the street, including new openings by **IKKS**, **Uno de 50**, **La Tienda del Barça** and **Kenzo**, the relocation of **Hugo Boss** and the store extension completed by **H&M**, and via which it incorporated a cafe in their new megastore thanks to the collaboration with **Flax&Kale**. The upcoming store opening by the Japanese brand **Uniqlo** will make this street's retail draw even stronger. Before the end of the year, Paseo de Gracia will house the world's three largest textile brands **Zara**, **H&M** and **Uniqlo** itself. In terms of the investment market, we would highlight the acquisition of the retail unit occupied by **Prada** at number 88 by the investment fund **Invesco**.

Distribution by size of unit (%)



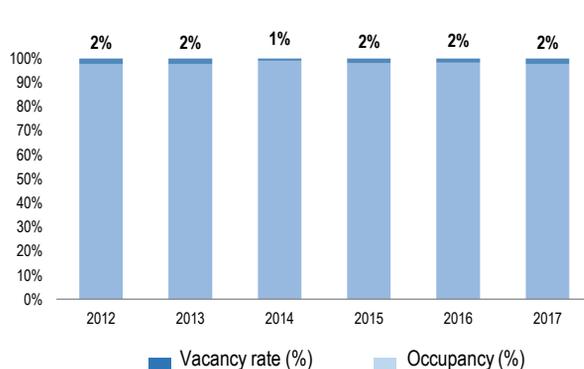
Distribution by business sectors (%)



Rental Prices (€/sqm/month)



Vacancy rate (%)



A vibrant, sunlit pedestrian street in Barcelona, Spain. The street is paved with light-colored stone tiles and is filled with people walking. Large, mature trees with green and yellowing leaves line the street, casting shadows on the pavement. In the background, multi-story buildings with balconies and windows are visible. A sign for "HOTEL LU" is prominent on one of the buildings. The overall atmosphere is lively and urban.

Rambla

Cataluña

BARCELONA

5. Calle Rambla Cataluña

Rambla de Cataluña features 239 retail units, boasting the largest supply of all the high streets studied, accounting for circa 25% of the total supply analysed. The retail stretch analysed runs from Avenida Diagonal to Ronda Universitat.

When looking at the size of the street's retail units, those occupying less than 200 sqm account for 61% of the total stock, making this the prevailing category on this street. Fashion and Accessories account for the lion's share of business activity on this street, accounting for 44% of total stock. Other is the second most prolific, representing 29%. Rents have been rising for the last 7 years and currently stand at €100 per sqm/month (for a standard street level retail unit of less than 200 sqm).

At the time of writing this report, 6% of total stock of retail units was vacant. Although the vacancy rate has edged up slightly, retailers remain extremely interested in this street, due to its proximity to the city's two most important high streets - Paseo de Gracia and Portal del Ángel - and its competitive rents compared to other high streets.

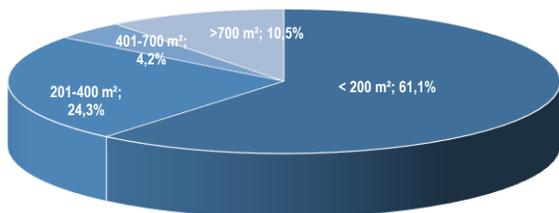
The 11 new lettings signed are testament to the Rambla Cataluña's retail draw during the last year. Nine of these 11 were let by brands dedicated to Fashion and Accessories.

These include Italian brand **Benetton**, the French footwear brand **TheArche**, the Italian clothing designer **Solo Io**, the Brazilian sportswear brand **La Bella Mafia** and Spanish companies **Dr. Bloom**, **Desigual**, **Merkal Calzados** (belonging to the French group **Vivarte**) and **Vialis** amongst other.

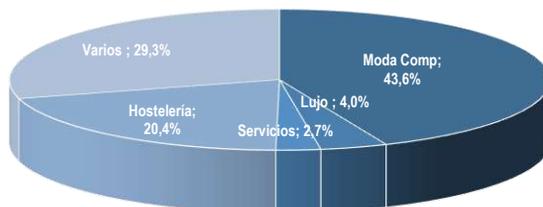
The store openings by international brands **Yves Rocher** and **Bobbi Brown** further establish this as a go-to hub for the cosmetics sector, adding to the other retailers from this sector already present such as **Rituals**, **MAC** and **Lush** amongst others. We would highlight that the French brand **Yves Rocher** is continuing to roll out its expansion plans, whilst the US brand **Bobbi Brown** has strengthened its presence in Spain with this new opening.

In terms of the investment market, we would highlight the acquisition of the unit located at **Rambla de Cataluña 114** by a family office.

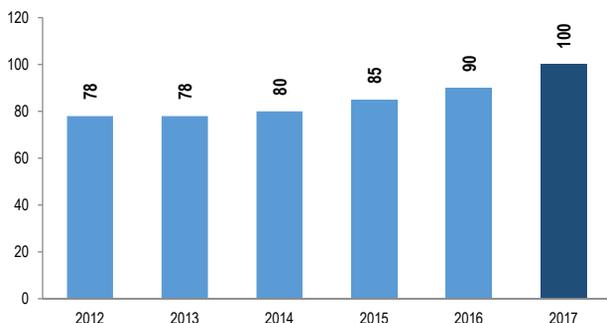
Distribution by size of unit (%)



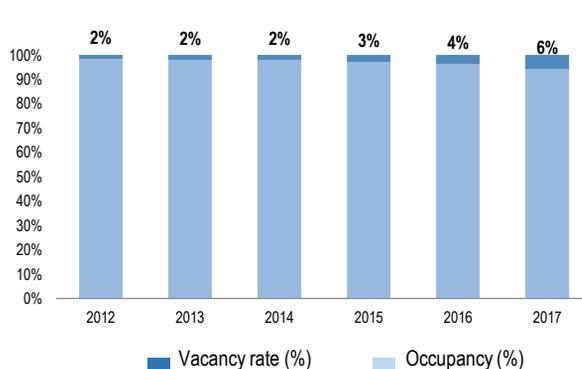
Distribution by business sectors (%)



Rental Prices (€/sqm/month)



Vacancy rate (%)



Calle

Pelayo

BARCELONA



5. Calle Pelayo

The study of Calle Pelayo includes all 70 retail units on this street, stretching from Plaza Universidad to Plaza Cataluña. Circa 45% of all the retail units are less than 200 sqm. Fashion and Accessories is the most prolific business activity on this street, accounting for over half of the occupied units (51%), followed by the Other sector (24%).

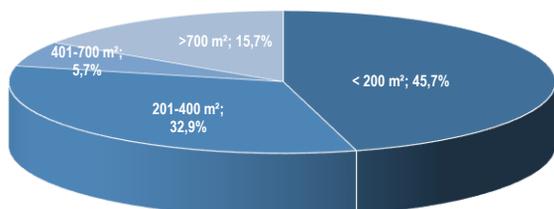
The heightened demand for this high-street, as demonstrated by the 8 lettings completed and the low vacancy rate, has meant that rental prices have now reached €135 per sqm/month. This means that rents have significantly increased, after remaining flat in recent years.

At the time of writing this report, 3 retail units were vacant, equating to 4% of the total stock. Despite the slight increase in vacancy, retailers continue to opt for this street thanks to its location, the prestigious brands that are already located here and the attractive rents compared with other retail high streets.

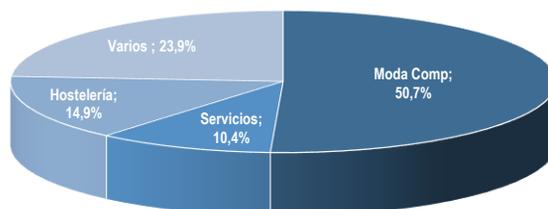
During the period studied, 8 letting deals were signed, two more than during the last year, further confirmation of the Calle Pelayo's upbeat performance. In line with their plans to continue expanding in the Spanish market, the international brands **NYX**, **Parfois** and **Clarks** have also taken space on this street. While, **Bershka**, **Multiópticas**, **Natura**, **RoyalQueen** and **Diva Pro** are the national brands that have recently opened on this high street.

Finally Calle Pelayo, features two main retail drivers, the **EI Triangle Shopping Centre** and the strong presence of **Grupo Inditex** brands such as **Zara**, **Pull&Bear**, **Oysho**, **Lefties** and **Massimo Dutti**.

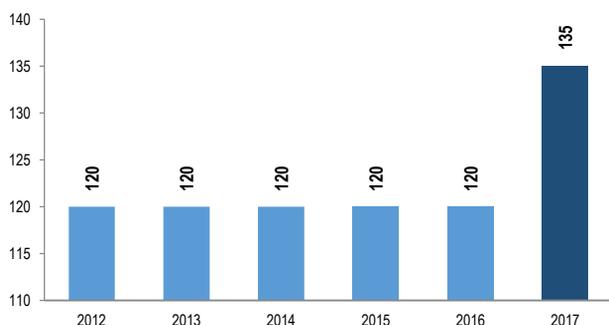
Distribution by size of unit (%)



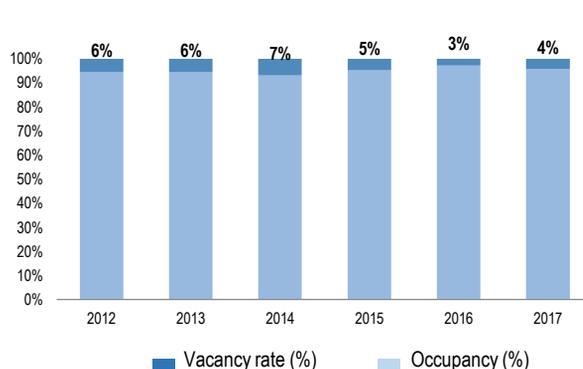
Distribution by business sectors (%)



Rental Prices (€/sqm/month)



Variation in Vacancy rate (%)





Rambla

Canaletas

BARCELONA

5. Calle Rambla Canaletas

Calle Rambla de Canaletas stretches between Port Vell-Moll de Fusta and Plaza de Cataluña and comprises a total of 199 retail units. Almost half of the street is occupied by retail units smaller than 200 sqm, followed by retail units of between 201 - 400 sqm, which account for 30% of the total. As the majority of retail units are below 200 sqm, some landlords have had to join retail units to offer larger spaces.

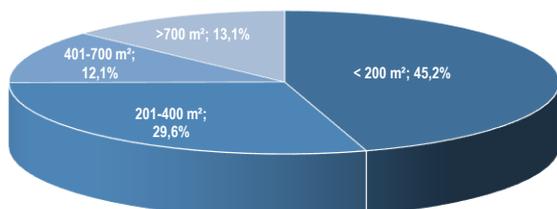
The main business activity is referred to as "various" and accounts for 53% of retail stock. There is also a high concentration of restaurant activity, aimed at the tourism sector. We should also highlight the interest from several brands in opening their flagship store on this street, in units over 700 sqm, as is the case for **Mango**, **Nike** and **Oysho**.

Rents on this street hit record highs this year, up to €130 per sqm/month, which is a y-o-y increase of 15%. The number of vacant units has increased slightly, accounting for 7.5% of the total.

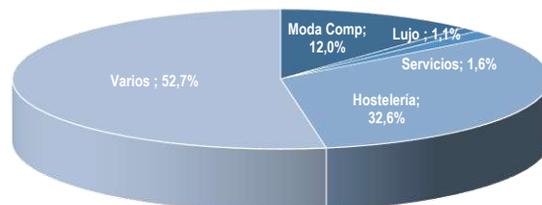
A total of 7 lettings were signed over the last year, confirming the healthy condition of this street, which is buoyed by growing tourist numbers. Practically all of the new units are focused on the restaurant sector; examples of this include the openings of **Gran Rambla 1840**, **Itapa** and **Cuines**.

In spite of this, we should emphasise that in recent months, La Rambla has seen some changes, with fashion brands replacing local commerce and even restaurants, as seen in the case of the arrival of **Oysho**, in the unit previously occupied by **Pizza Emporio**. This change goes hand in hand with the opening of a large store by **Mango**, and the **DoubleAgent** boutique, which opened last year.

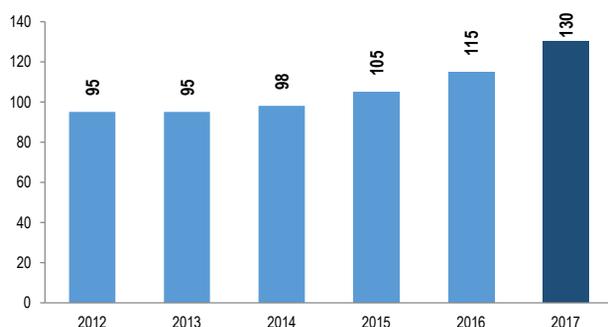
Distribution by size of unit (%)



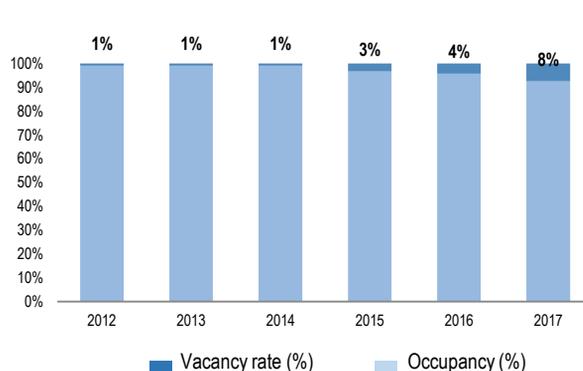
Distribution by business sectors (%)



Rental Prices (€/sqm/month)



Variation in Vacancy rate (%)



Avenida

Diagonal

BARCELONA



5. Avenida Diagonal

The market study of Avenida Diagonal is based on a total of 151 retail units located between Paseo de Gracia and Plaza Francesc Maciá.

The main size of retail unit in this stretch of Avenida Diagonal is between 200-400 sqm, which account for 46%. This size of space meets the majority of the requirements of new brands taking space on this street, such as **Rituals**, **Sarkany**, etc.

The leading activity on this high street is "Fashion and Accessories", accounting for 35% of the retail units. This is 3% less than last year, which has moved to the restaurant sector. The increase in restaurant sector is thanks to the widening of the pavements, thereby increasing space for pedestrians and leisure.

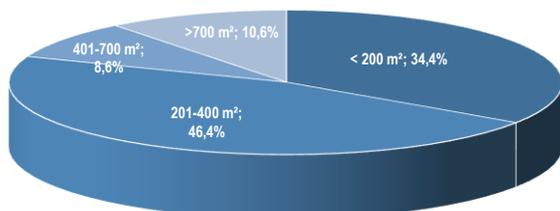
The Avenida Diagonal's transformation in recent years and retail traders' backing it, has caused a clear upturn in rental prices, which now stand at €75 per sqm/month. Rental prices have therefore recovered their pre-crisis levels, although they have not yet passed the figure achieved in 2007 (€79 per sqm/month).

The retail unit vacancy rate in the stretch analysed has increased slightly compared to the previous year and now stands at 8%.

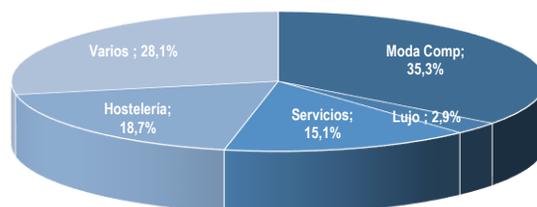
In recent months 17 lettings were completed on this high street in the past few months, of which we would note 4 new restaurants Balfegó, Puerto Chico, Il Pomodoro and **El Racó**, the openings of the **MediaMarkt** and **Oysho** macro stores, the openings of the international brands **Parfois**, **Rituals** and the first store in Spain for the Argentinean footwear brand **Sarkany**.

The finance sector is represented by **La Caixa** with its 2 new bank branches and the **Banca March** and **Banif** openings. **Natura**, **Cottet**, **Viajes Barceló** and **VanityFair** complete the list of new openings.

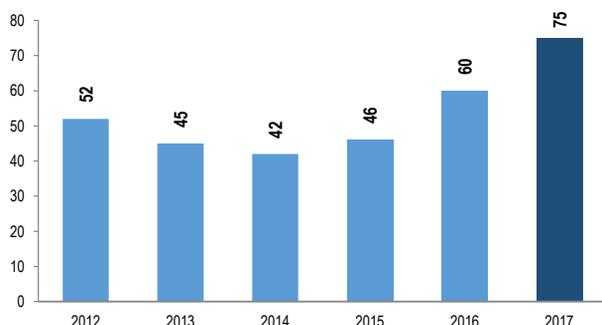
Distribution by size of unit (%)



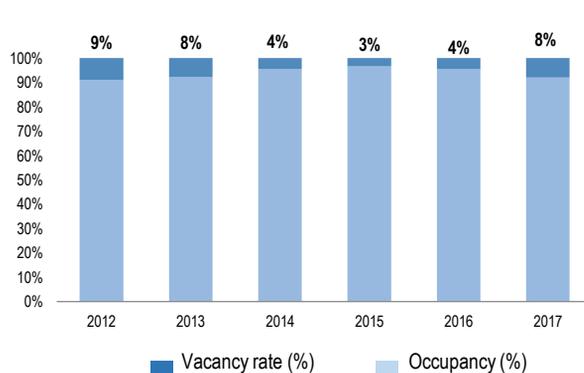
Distribution by business sectors (%)



Rental Prices (€/sqm/month)



Variation in Vacancy rate (%)



Malaga Market





6. Retail market: Malaga



AREAS AND METHODOLOGY

The city's best retail areas have been classified as three high streets, based on the different types of consumers that visit the areas.

A. HIGH STREET/PRIME: People who live and work in the area, people from all over the city and both domestic and overseas tourists. This high street is comprised of two streets: Calle Marqués de Larios and Plaza de la Constitución.

B. HIGH STREETS: Primarily those living and working in the area, although they could also attract users from the rest of the city. A sub-division is made within the High Street Area:

- Central Retail Area: The streets that comprise this area are: Plaza de Felix Sáenz, C/ Nueva, C/ Martínez, Alameda Principal, C/ Antonio Baena Gomez, C/ Felipe Sánchez de la Cuesta, C/ Alarcón Luján, C/ Esparteros, C/Liborio Garcia, C/ Granada, C/ Bolsa, C/ Strachan, C/ Puerta del Mar and Alameda de Colón.

(In the past year the retail area known as SOHO has been added to the CENTRAL RETAIL AREA comprised of C/ Tomás Heredia. Other streets will be added in the future, as and when the area consolidates and pedestrianisation of the area is completed).

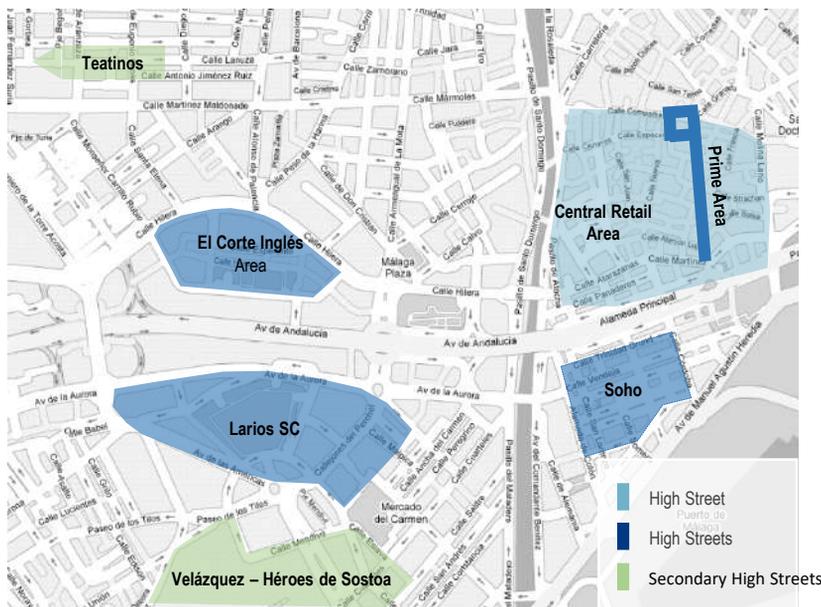
- Corte Ingles Area-Larios SC: The streets that comprise this area are: Armengual de la Mota, C/ Hilera, C/ Compositor Lehmborg, Avda. de Andalucía, Callejones del Perchel, C/ Cuarteles, Avda. de la Aurora, C/ Mauricio Moro Pareto,

Plza. de la Solidaridad, Avda. de las Américas and C/ Explanada de la Estación.

- C. SECONDARY HIGH STREETS:** These are streets frequented by almost only people who live in the area. The streets that comprise this area are: Avda. de Velázquez, C/ Héroe de Sostoa, Avda. de Jorge Luis Borges, Plza. Frank Capra and Avda. Louis Pasteur. The businesses with stores in these areas are aimed at the local residents.

The business sectors that the study has been broken into are as follows:

- Fashion and Accessories: Retail units that sell men's or women's clothing or both and accessories, including costume jewellery, leather goods, footwear, etc.
- Services: These retail units offer services to their customers, such as telephone companies, laundrettes, hair salons, pharmacies, etc.
- Banking and Insurance: This type of business includes retail units providing financial services to the public. Examples: Bank branches, accountants, insurance companies.
- Restaurants and Bars: Cafeterias, restaurants.
- Other: Retail units that do not fit into any of the above categories. Examples: Stationery shops, tobacconists, home improvement stores.
- Food: Retail units or stores used to sell food and other products (supermarkets, bakeries, fruit shops, etc.).
- Homeware: Retail units or stores used to sell furniture, kitchens and/or interior decoration products.



6. Retail market: Malaga



PRICES AND VACANCY

In this section we analyse the rents of the city's main retail stretches. Given the huge disparity existing across all high streets, as a result of the sheer amount of retail units and their differing characteristics, the values detailed in the previous table must be considered maximum comparable prices for 200 sqm units.

Rental prices in the Malaga market have followed the same line over the past 12 months, with rental prices increasing slightly by an average of 5% on all of the streets analysed.

The highest prices are in the PRIME area, which is comprised of the area including Calle Marqués de Larios and Plza. de la Constitución. This street is the most prestigious retail and tourist area in the city and rental prices are similar to those on some of the most exclusive streets in Madrid and Barcelona. The highest rents in the city stand at circa €260 per sqm/month.

In terms of Calle Marqués de Larios, rental prices have continued to rise over the past few months, due to heightened interest from the main retailers and the lack of available retail units. The lack of available retail units on "prime high streets", is forcing retailers to move to more standard high streets. These streets, which in many cases are adjacent to the "prime" area, have also registered a rise in prices over the past 12 months.

We would also note that at the date of carrying out this study, the lowest rent per sqm for secondary high streets stood at €6.00 per sqm/month. Rental levels on the two streets analysed in this study in the secondary high street category, also serve as good examples for prices on other secondary streets in the city. In terms of new developments, in the past few months we have noticed a slight increase in rental prices on secondary high streets.

Below we detail the current average rental prices on the streets analysed.

EVOLUCIÓN PRECIOS (€/m ² /mes)			2012	2013	2014	2015	2016	2017	
HIGH STREET	Zona Prime	C/Marqués de Larios	107,50	127,50	172,50	180,00	180,00	190,00	
		Plaza de la Constitución	90,15	106,00	106,00	110,00	110,00	110,00	
EJES COMERCIALES	Zona Casco Antiguo	Alameda Principal	43,30	26,50	26,50	28,00	28,00	30,00	
		Alameda de Colón	25,16	26,00	24,50	24,50	24,50	25,00	
		Calle Nueva	50,26	52,75	62,00	65,00	65,00	70,00	
		Pza.Félix Sáenz	58,15	52,00	70,50	70,50	70,50	72,00	
		Puerta del Mar	39,85	78,00	70,50	70,50	70,50	71,00	
		Martínez	47,25	80,00	72,50	90,00	90,00	90,00	
		Alarcón Luján		55,50	52,00	52,00	52,00	52,00	
		Bolsa	34,15	46,00	41,00	45,00	45,00	50,00	
		Molina Larios		31,78	31,78	36,00	36,00	38,00	
		Strachan	39,85	51,75	47,50	50,00	55,00	55,00	
		C/Granada	60,74	90,50	90,50	95,00	100,00	100,00	
		Zona Soho	Tomas Heredia				16,50	16,50	18,00
	Zona El Corte Inglés	C/Armengual de la Mota	14,65	26,00	28,50	25,00	25,00	25,00	
		C/ Hilera	18,15	13,30	18,30	20,00	20,00	22,00	
		C/Compositor Lehmborg	10,10	9,15	8,15	8,00	9,00	9,50	
		Avda.de Andalucía	31,86	14,65	14,65	15,00	18,00	18,50	
		Zona CC Larios	Callejones del Perchel	21,23	9,81	11,00	14,00	12,00	15,00
			C/Cuarteles	17,26	16,50	15,00	15,00	15,00	15,00
			Avda.de la Aurora	17,25	15,50	12,50	13,00	13,00	13,00
			Mauricio Moro Pareto		16,25	10,00	15,28	13,00	13,00
Plza. de la Solidaridad	21,50		17,50	17,50	16,50	16,50	17,00		
Avda. de las Américas	17,25		15,50	14,50	15,00	15,00	18,00		
C/Explanada de la Estación	22,50	16,50	14,50	15,00	15,00	18,00			
EJES SECUNDARIOS	Zona Teatinos-Velázquez	Teatinos	15,50	10,75	10,75	11,00	11,00	12,00	
		Avda. Velázquez	9,85	5,25	5,25	5,50	5,50	6,00	
		C/Heroe de Sostba	13,22	7,23	7,00	7,75	7,75	8,00	



PRICES AND VACANCY

Below, we analyse the vacancy rate by street (including the total number of units and the number of units that were vacant at the start of 2017). Vacancy has increased in some of the best-positioned streets as a result of natural rotation by operators, which is usual in the market, and also due to the difficulties in letting some of the vacant units at the current high asking rents.

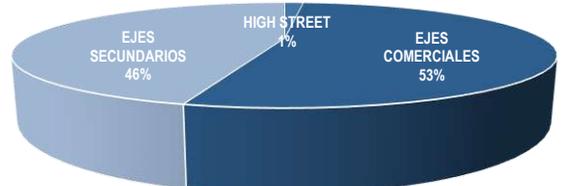
On the other hand, the closure of bank branches on some of the streets analysed have led to increased vacancy in recent months.

The vacancy rate is practically flat in the prime area, despite the fact that it has nudged up to 5.7% recently. There are only 4 vacant units in this area, with a number of interested parties currently vying for the units.

Change in the vacancy rate by high streets (%)



Total availability. Vacancy by areas (%)





PRICES AND VACANCY

Disponibilidad			Total Locales 2017	% Disponibilidad 16	% Disponibilidad 17
HIGH STREET	Zona Prime	C/Marqués de Larios	53	2%	8%
		Plaza de la Constitución	17	0%	0%
EJES COMERCIALES	Zona Casco Antiguo	Alameda Principal	62	24%	23%
		Alameda de Colón	44	13%	16%
		Calle Nueva	46	9%	4%
		Pza.Félix Sáenz	11	0%	0%
		Puerta del Mar	21	5%	5%
		Martínez	23	14%	4%
		Alarcón Luján	14	27%	7%
		Bolsa	36	15%	47%
		Strachan	21	4%	14%
	Zona Soho	C/Granada	101	2%	6%
		Tomas Heredia	38	14%	16%
		Zona El Corte Inglés	C/Amengual de la Mota	58	11%
	C/ Hilerá		41	17%	15%
	C/Compositor Lehmborg		34	17%	21%
	Avda.de Andalucía		83	14%	24%
	Zona CC Larios	Callejones del Perchel	31	29%	19%
		C/Cuarteles	79	11%	14%
		Avda.de la Aurora	69	12%	17%
Mauricio Moro Pareto		17	7%	18%	
Plza. de la Solidaridad		22	6%	5%	
Avda. de las Américas		21	10%	24%	
EJES SECUNDARIOS	Zona Tetainos-Velázquez	C/Explanada de la Estación	15	26%	0%
		Teatinos	145	45%	24%
		Avda. Velázquez	159	16%	16%
		C/Heroe de Sostoa	190	29%	32%

Calle

Marqués de Larios

MALAGA



6. Calle Marqués de Larios

This analysis focuses on the stretch between Plaza de la Marina and Plaza de la Constitución, comprising the whole of Calle Marqués de Larios, with a total of 53 retail units. Over the last year, Calle **Marqués de Larios** has continued to be the most sought after and visited street in Malaga, and it remains one of the most exclusive streets and has some of the highest rents in Spain, making it comparable to some of the prime locations in Madrid and Barcelona.

The main feature of this street is that it is very short (only 300m long) and that there are virtually no retail units available to let. The investment market is practically non-existent, as the retail units belong to a very small number of families, who are not in a position to sell. Marqués de Larios shares similar characteristics with some of Spain's most expensive streets: they are pedestrianised streets with high levels of footfall, they start in a square that is very central, and their retail mix includes some of the main national and international traders.

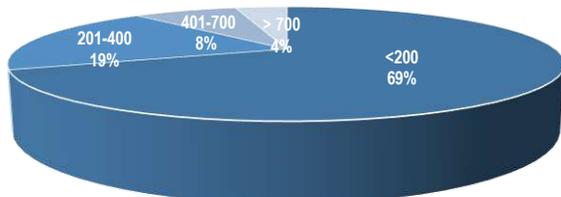
The recent arrival of international and national brands, such as NYX, Scalpers, Bimba y Lola and Victoria's Secret, among others, reaffirm the importance of this street for retailers that are aiming to open their flagship store. Around 35% of the units on this street are occupied by Grupo Inditex's various brands

(Massimo Dutti, Bershka, etc.), which endorses the relevance of this high-street.

In terms of the rental market, retail units of less than 100 sqm have been let for up to €265 per sqm. In any event, the average price on this street stands at €190 per sqm. There is virtually no vacant space on the high street, with only 4 retail units available at the date of preparing this report. These units are prompting a great deal of interest from certain retailers. However, the high rental expectations will likely turn retailers away to other areas nearby.

In terms of investment deals, none have been registered on this street, although there have been retail unit investment deals in neighbouring areas with yields of between 4.00% and 4.50%.

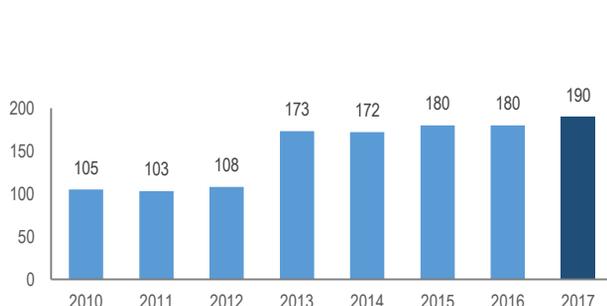
Distribution by size of unit (%)



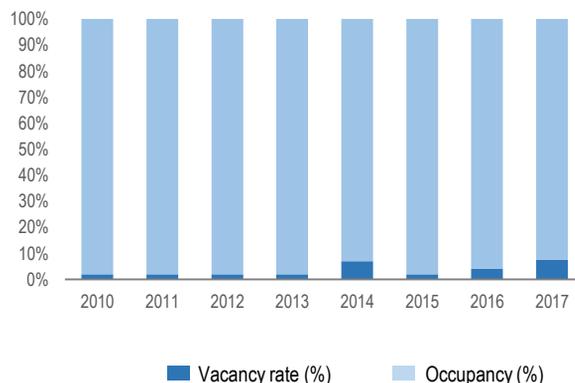
Distribution by business sectors (%)



Rental Prices (€/sqm/month)



Variation in Vacancy rate (%)



Plaza

de la Constitución

MÁLAGA



6. Plaza de la Constitución

Once again, in terms of exclusivity, the Plaza de la Constitución is the extension of the Calle Larios high street. The square is seen as the beating heart of the city, and is the square that some of the main retail high streets in Malaga branch off from (Marqués de Larios, Granada, Nueva). It is also a major tourist destination.

Plaza de la Constitución is a mixed-use area, including restaurants, fashion and accessories and services comprised of 17 retail units. Some of the main brands with a retail unit are Bennetton, El Ganso, Nespresso, Costa Coffee, El Corte Ingles, etc. The presence of restaurant tenants such as La Canasta, Café Central and Costa Coffee has driven the retail value of this stretch, making it a highly appealing area in the city centre, not just for workers and residents in the area, but also for the thousands of tourists that visit the city.

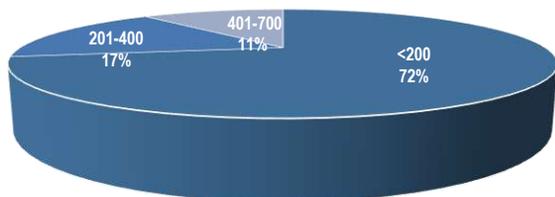
At the time of publishing this report, there are no vacant retail units, and it is almost impossible to find an empty unit because

there is such a fast rotation whenever a unit becomes available.

Plaza de la Constitución is the second most expensive area in the city after Calle Larios, and average rents stand at €110 per sqm/month for the third year running.

Finally, we would note that Calle Granada is helping to expand this retail area and is a follow on from the square, at least in terms of rents in the first stretch of the street.

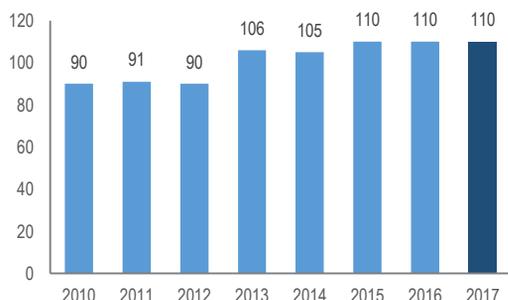
Distribution by size of unit (%)



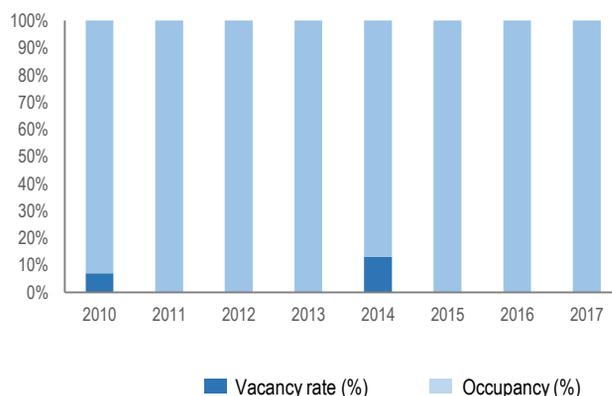
Distribution by business sectors (%)



Rental Prices (€/sqm/month)



Variation in Vacancy rate (%)



Investment Market



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15.21%

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7. Investment market

Investment Volume 2016: approx **€550 million**
Investment Volume 2017 (june): approx **€400 million**

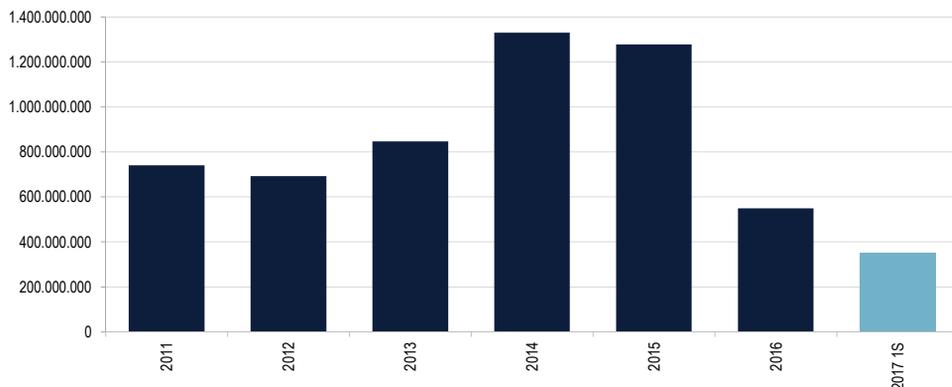
Investment volume in retail units fell dramatically between 2015 and 2016, as a result of the lack of product for sale on the market. Traditional investors for this type of property were highly active in the search for opportunities during this period, but they were unable to satisfy their investment needs due to the lack of product, or due to vendor expectations. There was an uptick in investment volume at the start of 2017, which rose to €400 million after the first six months. 35% of that investment was centred on just 3 deals: Preciados 9, Preciados 13 and Puerta del Sol 5.

The lack of income-producing property in the prime market is stirring up interest in properties located in this area, although these properties require active management given their tenancy situations, or the use of the property at the time of purchase. One example of this was American fund Thor Equities' purchase of several units in Puerta del Sol, which are currently vacant, or AXA Real Estate's acquisition of the property on Gran Vía that

was occupied by Cine REX until 2008, which they plan to transform for hotel and retail use. There is also interest in acquiring retail units in areas alongside some of the prime hubs, in an attempt to expand those retail areas.

As has become customary in recent years, we are once again seeing more bank branch and supermarket portfolio acquisitions. These transactions are partial divestments carried out by the original buyers of large retail portfolios under sale and leaseback agreements, which took place during the recession.

Investment volume (2011 - H1 2017)



Deals of over €20 million are primarily being carried out by institutional investors and, to a lesser extent, private investors who, given their investment capacity, could almost be considered institutional investors themselves. They are looking for units located in and around prime areas, and do not rule out acquiring units that require management.

There are only opportunities to acquire retail units for over €20 million in a handful of cities, with Madrid, Barcelona, Valencia, Bilbao, Malaga and Seville the only ones receiving interest from investors.

On the other hand, the institutional market continues to be active, with purchases of income-producing bank branches and supermarkets.

7. Investment market

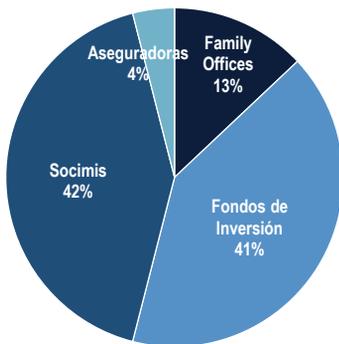


INVESTOR PROFILES AND YIELD

Investment funds and Socimis were the main players in the market during 2016 and the first half of 2017. In terms of location, over the past year 56% of investment volume was registered in Madrid, whilst 22% was invested in Barcelona.

However, there was a significant amount of investor activity in other big cities.

INVESTOR PROFILE. 2016



INVESTMENT VOLUME BY LOCATION (%). 2016



Yields in prime areas have remained close to 3.25% in Madrid and Barcelona and between 4.00% and 4.50% in Spain's main cities. Heightened levels of liquidity in the market, low interest rates offered by more conservative alternative investments (sovereign or corporate fixed income) and demand that is outpacing supply, have all led to the aforementioned initial yield. Other key factors causing this yield growth are the strong performance of the main macroeconomic indicators, especially the recovery in consumption, and interest from operators looking to set up across the city's main high streets. Both factors have helped to decrease the perception of risk in the market.

In the table below, one can see both minimum and maximum yields in the different areas analysed. One can see that in both prime areas, as well as standard high streets, the market is paying the lowest yield seen in the last ten years. If we expand this period of information, one can see that the market is at record low yield rates.

Yields	2008		2009		2010		2011		2012		2013		2014		2015		2016		2017	
	Min	Max																		
Prime	4.50%	5.00%	5.50%	6.00%	5.50%	5.75%	5.50%	6.25%	5.25%	6.25%	5.00%	5.75%	4.20%	5.20%	3.80%	4.50%	3.75%	4.50%	3.25%	4.25%
High Streets	5.00%	5.50%	6.00%	6.50%	6.00%	6.25%	6.25%	7.00%	6.50%	7.00%	6.00%	6.75%	5.25%	6.25%	4.50%	5.50%	4.25%	5.50%	4.25%	5.50%
Secondary High Streets	5.50%	6.00%	6.50%	7.00%	6.50%	6.75%	6.75%	7.50%	7.00%	8.00%	7.00%	8.00%	6.50%	7.50%	5.70%	7.00%	5.50%	7.00%	5.50%	7.00%

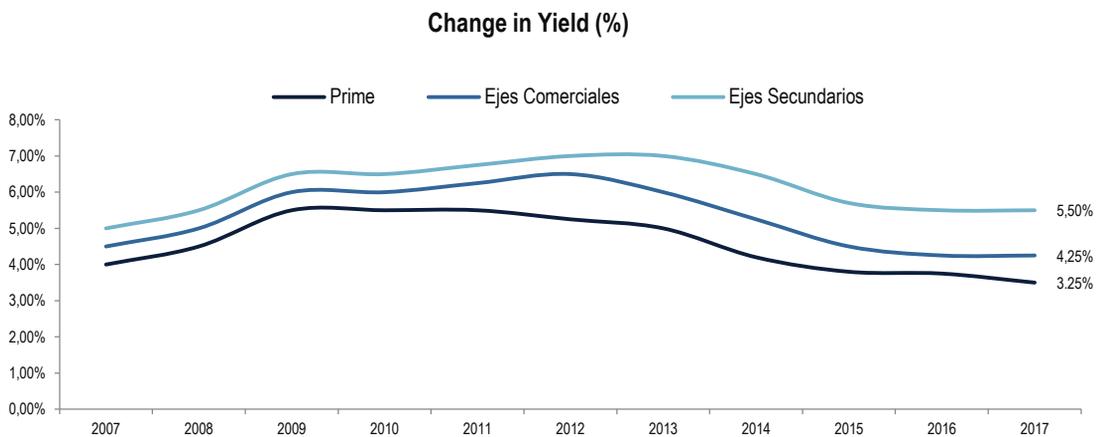
7. Investment market



YIELD AND CAPITAL VALUE

The graph below indicates the historic change in the initial yield required. One can see that initial yields are now at all-time lows for prime high streets and standard high streets.

The slight increase in rental prices registered in recent months, coupled with the hardening of yields, has meant that capital values are at all-time highs.



Capital Value. Madrid

PRICE CHANGES (€/sqm)	(€/sqm)					
	2012	2013	2014	2015	2016	2017
Serrano	42,222	42,222	47,040	66,418	73,200	78,000
Goya	32,667	32,000	32,604	42,666	45,209	47,500
Preciados	55,111	54,222	58,800	73,400	79,024	81,000
José Ortega y Gasset	41,556	40,444	41,040	49,333	56,100	59,200
Fuencarral	26,667	26,667	27,055	34,213	41,023	44,000
Gran Vía	31,556	33,556	39,600	56,000	69,000	74,000
Puerta del Sol	31,556	33,556	39,600	62,000	62,462	65,600

Capital Value. Barcelona

PRICE CHANGES (€/sqm)	(€/sqm)					
	2012	2013	2014	2015	2016	2017
Portal de l'Angel	42,545	51,273	58,800	78,000	81,000	84,000
Portaferrisa	34,909	31,636	34,800	34,800	36,000	37,800
Pº de Gracia	33,818	37,091	44,400	52,000	68,571	70,000
Rambla Cataluña	17,018	17,018	19,200	22,666	25,412	27,000
Pelai	26,182	26,182	28,800	30,315	32,000	35,500
Rambla Canaletas	20,727	20,727	23,520	25,200	27,600	27,600
Avenida Diagonal	11,345	9,818	9,600	11,621	14,000	15,000

Market Report

High Street Retail

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