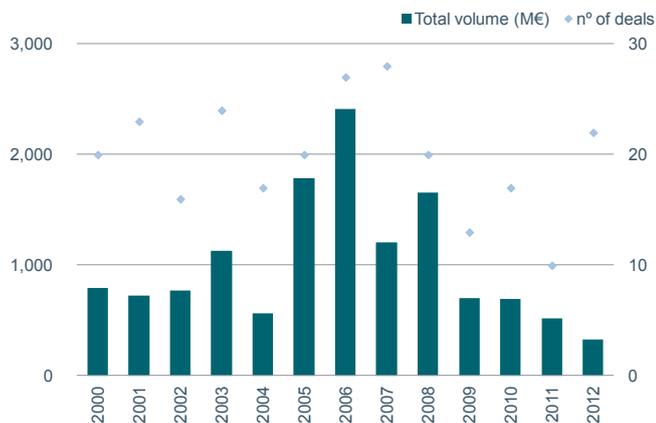


Market report Spain Retail

February 2013

GRAPH 1
Retail investment volume and number of deals *



Source: Savills / * excluding bank branches

GRAPH 2
GLA accumulated and growth rate



Source: AECC / Savills / * forecasts

SUMMARY

Overview

■ Just over 460,000 sq m of GLA came onto the market in 2012, which was 20% more than in 2011. 90% of this new space related to six shopping centres that are classified as either “Large” or “Very large”, and this caused the average figure for new space to shoot up.

■ The amount of new space in the pipeline over the next two years stands at just over 600,000 sq m. These are just initial estimates, as the number of new projects that will come on to the market will depend on changes in the economic climate and the availability of finance.

■ The main retail operators in the market are continuing with their expansion plans; however, in recent years it has been commonplace for firms to carry out an in-depth analysis when deciding where to set up new stores, as this enables them to optimise their investment and ensure success.

■ In this respect, owners know how beneficial it is to have certain brands in their shopping centres, and they encourage these brands to take space in their centres by providing financing, help with fit-out costs, temporary rental discounts or stepped rents.

■ For the second year in a row, the investment market has hit an all time record low. The uncertainty in the economic climate has severely dented international investor confidence and, because of this, investors have left the market to watch from the sidelines how the economic indicators are going to pan out. Investor activity was largely dependent on domestic private investors, who have little need for financing, but limited investment capacity. The star product of the year was high street retail units in the main cities prime axis.

Economic situation

We are currently experiencing a double dip recession, which has come right after a period of no growth, that followed Spain's economic downturn in 2009. The recent debt crises in the peripheral countries and Greece, Ireland and Portugal receiving economic bailouts, as well as the resultant austerity policies, has drawn out the economic slowdown on the continent as a whole. Spain was in the eye of the storm due to the uncertainty of an economic bailout that would extend to more than just a financial bailout; however, the support of Europe and markets within the EU has restored some calm. Even though it is an eerie calm and we are unsure as to how long it will last, it is true that the country does not need a bailout as much as it did a year ago.

With the first three quarters of the year registering negative year-on-year GDP growth, GDP continues to decline, and private consumption figures are falling to levels similar to those seen in the second half of 2009. Consumer confidence has hit record lows in recent months (at around 40 points), which is a far cry from the levels achieved in 2010 and 2011 (in both years, consumer confidence was in the region of an average of 70 points). Sales have also fallen considerably after picking up slightly in 2010.

We should also highlight that prices have increased, largely as a result of a rise in indirect taxes on consumption.

"Consumption remains at record lows in this adverse economic climate, and it is not expected to improve in the short-term"

Gema de la Fuente, Savills Research

General price hikes, together with a subdued economic climate, and consumers' poor outlook of the current and future economic situation means that we cannot be optimistic about an upturn in demand. In the short-term, only the tourism sector and export demand will be able to drive the Spanish economy.

Footfall

The latest footfall index published by Experian is a clear indicator that footfall in shopping centres remains weak. There was a 3.95% year-on-year decline in the accumulated footfall figure for 2012, which is the second highest decline since records began.

Since the beginning of the year, monthly indexes have remained below 2011 figures, with the greatest decline taking place in June (over 7%). The lowest declines were in July and August, at -1.7% and -0.1% respectively, which was precisely when consumers decided to make purchases before September when the VAT rate increased.

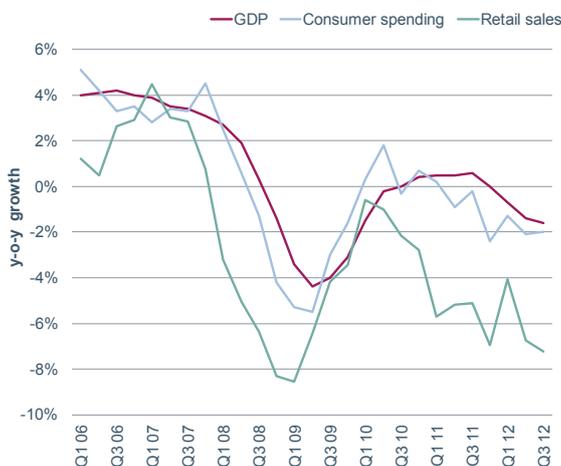
New measures

After summer time we saw several measures which had been passed by the Government during the summer months last year.

At the beginning of July, and in a bid to improve the quality of service and provide traders with greater flexibility in their retail strategies, as well as breathing new life into the economy and encouraging consumption, the Secretary of State for Trade announced the extension of opening hours and trading days on national bank holidays. Studies undertaken by the Spanish Retail Administration (Administración Comercial Española) show that autonomous communities with greater retail freedom have higher turnover and create more jobs in the retail sector.

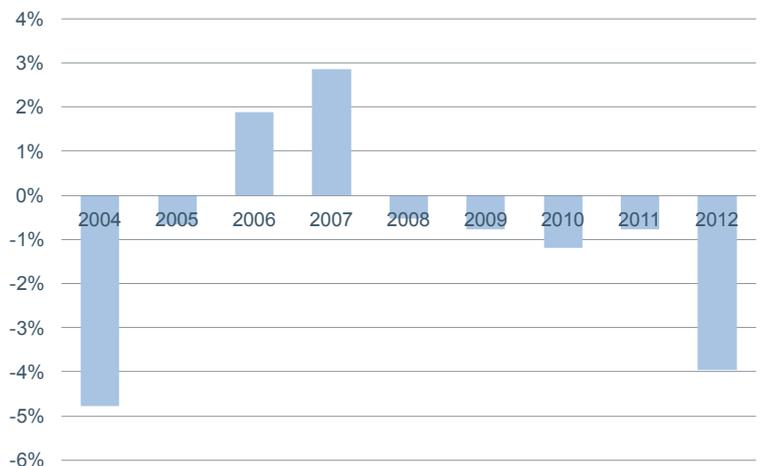
In this respect, and several months after the new legislation was put in place, shopping centre owners and managers have confirmed that footfall has increased in shopping centres, with figures on Sundays being similar to Fridays. However, sales, which usually take place on Fridays, Saturdays and Sundays, have barely increased.

GRAPH 3 Economic indicators



Source: INE

GRAPH 4 Footfall index - y-o-y variation



Source: Experian

A few days after the extension of opening hours and trading days on bank holidays was approved, the Council of Ministers (Consejo de Ministros) passed a law that gave retailers the freedom to choose when they can hold promotional days or discount periods in order to “deregulate and deseasonalise” these sales campaigns, so that “traders are free to set the periods and duration of their own sales periods”.

To date, few changes have been seen compared to how things were prior to the change in regulation. Retail operators are continuing with their special discount periods, whilst explicitly avoiding the use of the word “sales”.

Finally, many firms have reduced their margins due to the VAT increase, in order to prevent consumer prices from increasing accordingly. However, small and medium-sized companies, which are already struggling with dwindling margins, will be the most affected. They are concerned that sales will drop even further when they are faced with the difficulties of competing on price with the larger market players.

Sales and turnover

According to the latest figures published by the European statistics office, Eurostat, retail sales volumes fell by 2.6% year-on-year in the Eurozone and by 1.3% in the European Union as a whole in November. Spain experienced the sharpest declines (9.6%).

The fall in retail sales has also affected the shopping centre segment. According to the 2012 analysis elaborated by the AECC (Asociación Española de Centros Comerciales - Spanish Shopping Centre Association) the retail sales fell 2.2% with regard to the amount registered in 2011.

However, the fashion sector, one of the key elements in the retail offering of any shopping centre, may provide a glimmer of hope. Despite the fact that textiles trade declined significantly in 2011, which is apparent from the figures published in the eleventh edition of ACOTEX's (Textile and Accessories Trade Business Association - Asociación Empresarial de Comercio Textil y Complementos) report titled “Textile trade in numbers”, turnover for textiles and accessories

in shopping centres remained at around 40%, which is similar to the figure registered in 2010. Textiles and accessories turnover has been gradually increasing since 2003, when it accounted for just 26% of total turnover in this segment.

In any event, the future of retail in Spain is still very much dependent on increasingly limited household budgets. Economic uncertainty and an increase in unemployment are encouraging consumers to save; however the increases in direct and indirect taxes and salary cuts have stopped people from being able to do this. In addition, according to the latest figures published by INE, in Q3, the household savings rate was 7.6% of household income, which is a 2.6% year-on-year decline.

On the other hand, the latest figures published by INE on household budgets further highlight the fact that Spanish households are tightening their belts. Average household spend in 2011 stood at 1%, which is below the figure registered in 2010. The areas with the greatest declines were clothing and footwear (-4.6%), and leisure, performing arts and culture (-4.1%), both of which are very much linked to the stores that are present in retail complexes.

The CEC (Spanish Federation of Trade - Confederación Española de Comercio) has reported that trading figures from the last Christmas campaign have reflected a decrease of 10.2% with regards to the previous year, the worst record in the last 20 years. Consumers were less willing to make purchases because of some of the less popular measures undertaken by the Administration, such as the increase in VAT (effective since September), combined with the abolishment of bonus payments for civil servants.

Retail traders believe that they can make up for the drop in sales over the January sales period, although they are well aware of the increasingly smaller amounts of money that households have set aside to spend at the sales. The Federation of Independent Consumer-Users (FUCI - Federación de Usuarios-Consumidores Independientes) estimates that on average, Spaniards will spend €80, which is 11.1% below last year's figure.

ACOTEX forecasts that SME turnover will be in the region of €3.5 to 3.6 bn, which is a 0% to 4% year-on-year decline.

We should also remember that this is the first time the January sales have not been restricted to being held after January 6th, and this has enabled many retail firms to bring their promotional periods forward to January 2nd, although in a bid to encourage spending, most firms were already promoting special offers on certain products in December. Large chains, who remain faithful to tradition, started their January sales after 6th January.

Expansion plans

The main retail operators in the market are continuing with their expansion plans; however, in recent years it has been commonplace for firms to carry out an in-depth analysis when deciding where to set up new stores, which thereby enables them to optimise their investment and ensure success.

The regular brands in shopping centres have decided to open stores in large shopping centres that have opened throughout 2012. The six largest developments that have opened their doors in recent months (all around 50,000 sq m) have been almost 100% pre-let and in all cases over 95% pre-let. Considering the complex economic climate both nationally and internationally, only the most feasible projects are going ahead, which encourages firms that are already present in the retail segment and other small-scale retail traders to increase their network of stores in these complexes.

Zara and other firms within the Inditex Group, H&M and Primark are brands that keep popping up in almost all new shopping centres. Zara, Inditex and H&M are building on their dominant position in the market, and the Irish brand Primark is making headway in a complex consumption climate with its aggressive low price strategy.

Fashion is a key element in the marketing mix of any shopping centre, but it is not the only element. Retail operators in other business areas have been more selective when it comes to choosing a location in new retail complexes, and not one firm has decided to open two stores in the

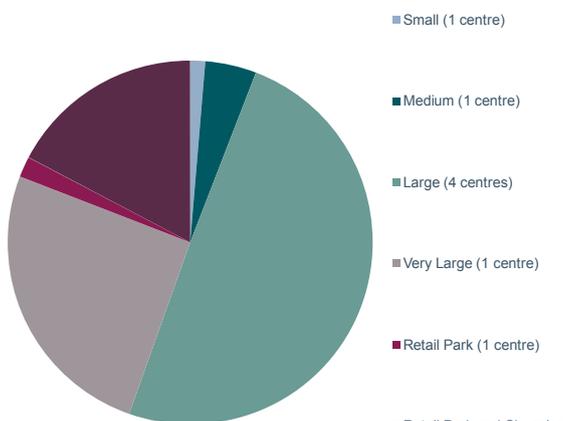
six largest shopping centres. Media Markt and Worten have been the most active in the electronics and electrical appliances sectors, both of which have stores in Zenia Boulevard. In the sports segment, SportZone has opened stores in four of the largest developments; however Adidas, Décimas, Deichman, Intersport and Decathlon have also opened new stores in the recently opened shopping centres.

In any event, owners know how beneficial it is to have certain brands in their shopping centres, and they encourage these brands to take space in their centres by providing financing, help with fit-out costs, temporary rental discounts or stepped rents. Large firms with a lot of negotiating power are taking space in some shopping centres at very low rents, or variable rents.

Internationalisation

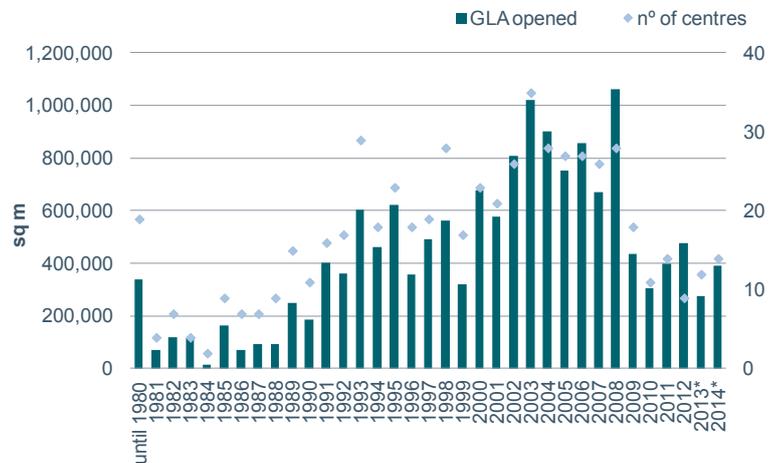
Spain's complicated economic climate and weak consumption has meant that many national fashion companies are focusing on expanding abroad, not just in countries in the Eurozone, but they are also keeping a close eye on emerging countries or countries that are considered to have a lot of development potential. According to the latest data published by the Spanish Intertextiles Council (Consejo Intertextil Español), the increase in Q3 (10.6%) made up for the lower growth figure in Q2 (6%), with a total of 8.6% in the first three quarters of 2012. If the current trend continues, by the end

GRAPH 5 **New GLA by type of scheme (2012)**



Source: Savills

GRAPH 6 **Openings (GLA and number of centres) by year**



Source: AECC / Savills / * forecasts

of the year there could be a record number of exports, reaching €10.3 bn, which would be a 7.8% year-on-year increase.

However, figures from the II Vente-privee-Moda.es Barometer Study, indicate that in 2011, on average 44% of top Spanish firms' sales came from sales in international markets, and around 49% of operators polled said that they believed that this year will be a good year for their international divisions.

Online retail

However, online channels are also an increasingly powerful alternative to accessing end users and it is an easy way of entering new markets. According to the latest e-commerce report published by the National Telecommunications Commission (Comisión Nacional de las Telecomunicaciones), sales generated via e-commerce in Q2 2012 amounted to €2.6408 bn, which is a 13.7% year-on-year increase. The clothing, electrical appliances, audiovisual and music download sectors are still some of the top ten strongest sectors, all of which have a physical presence in shopping centres.

On top of this, with regard to the fashion segment, according to the II Vente-privee-Moda.es Barometer Study, 65% of Spanish companies had their own online store in 2011, and 78% of companies expected to have one in 2012. Internet stores are an important source of revenue, and the

growth trend in this area is undeniable. In 2010, online retail sales amounted to 5% of total turnover, and this increased to almost 8% in 2011.

However, retailers' presence in different retail channels does not just enable them to obtain clients in each area - it is also a means of obtaining feedback. The accessories firm Aïta believes this to be the case, as it has experienced an increase in sales in its physical stores since it launched its online store.

New operators

The downturn in the market is putting some new potential operators off undertaking any expansion plans they may have in mind. In 2010, GAP entered the Spanish market via a virtual store, and it was very clear that this was how it was going to test the Spanish market before it opened physical stores. However, nothing has changed to date. The Japanese firm Uniqlo was also interested in expanding its European network by opening up more stores in Spain, but just a few months ago, sources from the company confirmed that they were going to focus on expanding in the UK, thus postponing their arrival in Spain indefinitely.

The consolidation of the H&M Group in the country is unquestionable, but in addition to its flagship brand, it also has other retail brands. COS opened its first store in Madrid in January 2011, and other brands, Cheap Monday, Weekday and Monkey, have focused their growth strategy

on Northern Europe, Germany and the UK. In Spring 2013, the group's new company, & Other Stories, will begin by opening six stores in different European cities, one of which is Barcelona, albeit in the form of a high street unit.

Rents

The general decline in sales has increased operators' rent cover ratio once again, and is favouring further rental adjustments in existing contracts, mainly via rent reviews and temporary rental discounts.

Generally speaking, owners are very receptive, and they want to avoid increasing vacancy rates in their shopping centres, but rental adjustments will once again depend on different factors, such as the centre's specific circumstances or the operator's relationship with the owner. In other words, if an operator has stores in several of the owner's shopping centres.

According to Savilla data, the average rental price in contracts signed in 2012 for prime shopping centres remained unchanged. Values will vary depending on the size of the retail unit and the business activity, between €260 per sq m/month for spaces comprising 15 sq m, up to around €30 per sq m/month for a restaurant unit comprising just over 500 sq m. If we use retail units of between 100 and 200 sq m as a benchmark to analyse prime rents, the average rent

"The arrival of new operators is therefore dependent on an upturn in the economic climate and the job market, which in turn will improve consumer confidence and increase consumption levels and sales" Gema de la Fuente, Savills Research

for new contracts remains in the region of €85 per sq m/month. A low vacancy rate and the attractiveness of entering a shopping centre which is dominant in its direct catchment area, are some of the reasons why rents are stable in the best shopping centres.

Prime rents in shopping centres in Spain are 35% below the European average, where the maximum rent was registered in the UK, at around €650 per sq m/month. The national retail parks figure is in line with the European average, at around €16 per sq m/month, with the UK once again registering the highest figure, at almost €33 per sq m/month.

Current stock and developments in 2012

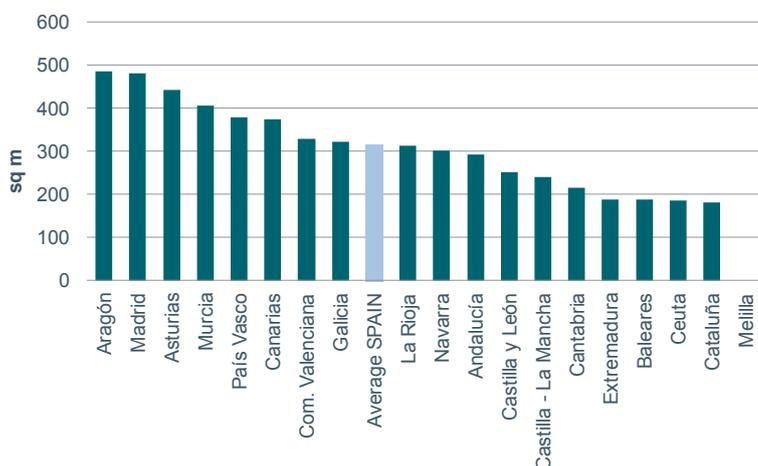
At the end of 2012, there was around 14.6 m sq m of stock in the retail market (including shopping centres, outlets, leisure centres and retail parks), which places the retail density figure at 316 sq m per 1,000 inhabitants.

Just over 460,000 sq m of gross

lettable area (GLA) came onto the market over the year, in nine retail complexes, which caused the average space per project figure to shoot up. And in an uncertain economic climate with little, if any, cause for optimism in terms of sales and consumption, developers are not taking risks and they are taking care when choosing the developments they want to go ahead with. In this case, the law of the survival of the fittest, or in this case the biggest, came in to play and six of the nine new developments that came onto the market were classified as either large or very large schemes.

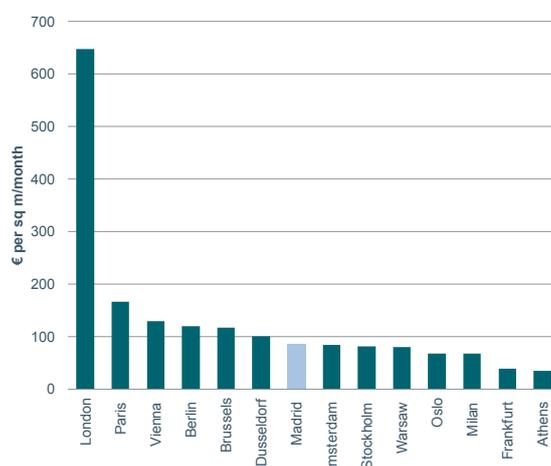
The most important complex of the year in terms of volume was the second phase of Puerto Venecia, which comprises 118,000 sq m. The retail arcade was the final phase to be added to existing 83,000 sq m retail park, and has turned it into the largest retail complex in the whole of Spain and Europe. As a result, Aragon's retail density (485 sq m) has moved from fourth place up to first place in the national ranking.

GRAPH 7 Commercial density by region (sq m/1,000 inhab.)



Source: Savills

GRAPH 8 Prime shopping rents in Europe



Source: Savills

Extremadura is not lagging behind as much as it was, although it is still one of the five autonomous communities with the lowest retail offering. However, the opening of El Faro by the French-Dutch group Unibail-Rodamco strengthened its position, allowing it to overtake Catalonia and the Balearic Islands, which still have rigid legislation protecting small traders, which makes it difficult for large stores to enter the market.

In terms of provinces, Zaragoza is the out and out leader, with 641 sq m of retail density, which far exceeds the average figure for Spain. The difference of almost 120 sq m compared to the second province with the highest level of retail offering, Alava, is almost the same as the figure for retail space in Ciudad Real (122 sq m) or Huesca (115 sq m).

No retail parks were opened in 2012. The first phase of Camino Real in San Fernando de Henares was included in the forecasts at the beginning of the year, but in the end this has been postponed until Q1 2013. The project is now 75% pre-let.

Future developments

The floor area of new schemes in the pipeline over the next two years stands at just over 600,000 sq m. These are just initial estimates, as the number of deals signed will very much depend on changes in the economic climate and the availability of finance.

The average amount of new space peaked in 2012, with over 50,000 sq m coming onto the market, this was due to the fact that several large or very large developments were delivered at the same time. Excluding this figure, the average since records began, stands at just over 27,000 sq m, which is very close to the average size of projects in the pipeline between 2013 and 2014.

The largest project is S'Estada, owned by Carrefour Property. 65,000 sq m will be added onto Carrefour's current hypermarket in the district of Es Coll d'en Rabassa in Palma de Mallorca, which is expected to be completed in 2014. At the end of 2012, the distribution company's subsidiary applied for a building permit from the Palma City Hall, and if they meet all the deadlines, works could begin in Q1 2013.

The instability that is rife in Spain has put international developers off starting projects in Spain. Carrefour Property is the only developer to have several developments in the pipeline, all of which, just like the Palma de Mallorca development, are linked to existing hypermarkets. In spite of this, 20% of new space coming onto the market relates to their developments.

The alternative for foreign players is investing in improving their properties, which will better their image, not just for visitors and consumers, but also should they decide to disinvest.

Several national developers have popped up on the list of projects in the

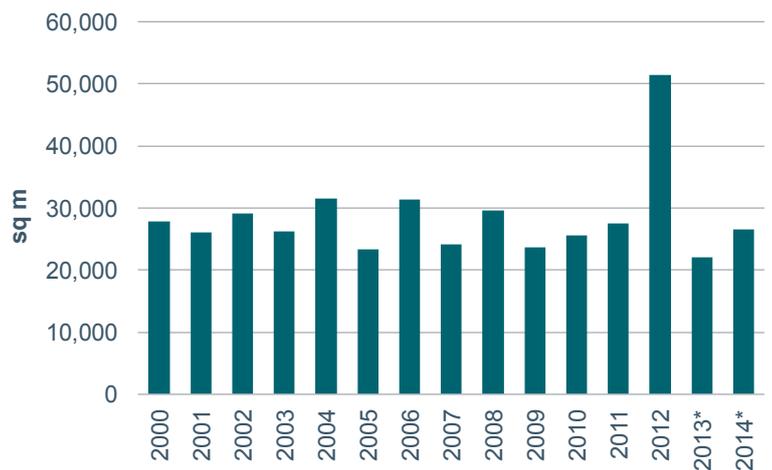
pipeline, some of which are regulars in the sector, such as Bogaris, Eroski and Chelverton, and lots of small companies; however the likelihood of them developing any project will mainly depend on the liquidity of the real estate firms.

Investment market

As was expected, for the second year running, investment activity hit rock bottom. The €325 m accounted for just over 60% of the retail transaction volume in 2011, and it is a far cry from the average for the past three years (51%) and the total annual figure registered in 2008 (20%).

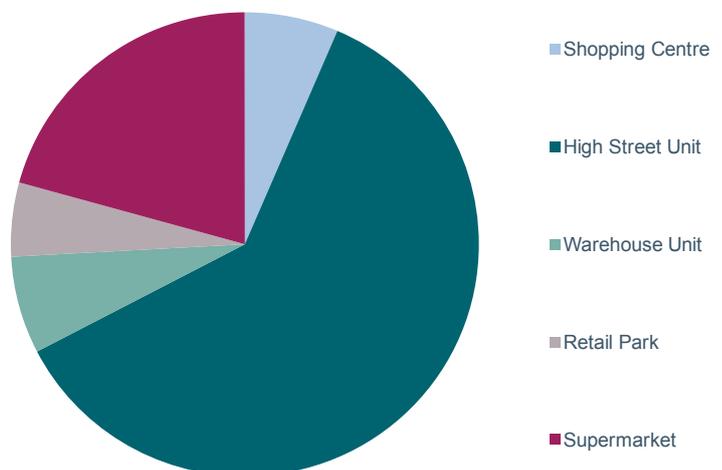
We must also point out that bank

GRAPH 9 Average floor area of new schemes by year



Source: Savills / * forecasts

GRAPH 10 Investment volume by product (2012)*



Source: Savills / * excluding bank branches

branch deals are not included in the figure for 2012, nor have they been included any other year. This means that Carlos Slim's (who is considered to be the richest man in the world by Forbes magazine) purchase of 439 CaixaBank branches for €428.2 m, is excluded from this analysis.

The investment market is a clear reflection of the bizarre situation that the country currently finds itself in. International funds that are specialised in retail properties and that traditionally dominated the market in the past, are now waiting in the sidelines in the hope that new events will change the political and economic outlook. The increasing perception of risk has kept them out of the market, which means that they have given properties that may be of interest to them a wide berth. Just 12% of the volume transacted in 2012 (a meagre €40 m) related to shopping centres and retail parks. The Bahia Mar shopping centre, in Jerez de la Frontera, Cadiz, was sold at the beginning of this year to Grupo Soluciones. The transaction had a clear opportunistic feel to it. The final sales figure was not disclosed, but we estimate that it was in the region of €5 m. In April it was announced that Arambol, a retail park which was opened a year ago in Palencia, was sold by the Dutch group Ten Brinke. The buyer was Retail Property Fund, which is a fund made up of several family offices that are specialised in income-producing retail properties. With just a few days to go before the end of the year, it was announced that

"Spain is ranked second in the investment destinations recommended by an American financial institution, which is a considerable vote of confidence for the efforts made over the past few months. However, access to finance remains the crux of the situation" Luis Espadas, Capital Markets

the Venezuelan property firm Sambil had purchased Avenida M-40. Sambil specialises in building and managing shopping centres in South America. After being closed for two years, the new owner is trying to reopen the M-40 as a factory outlet centre, probably at the end of 2013.

The retail high street unit has been 2012's star product, both in terms of units and portfolios. It is a safe haven asset, which is of particular value in times of crisis as it is a tangible asset, which can be acquired at lower prices than in previous years. As a result, it is expected to increase in value over time, and be able to be sold quicker. Just over 61% of the total retail investment figure comes under this category, and one of the largest transactions registered was in this segment.

One of the transactions signed in 2012 by Pontegadea - Amancio Ortega's real estate arm - was Apple's flagship store on Paseo de Gracia. It was bought for €80 mill., and as a result,

many consider it to be the best retail unit in Barcelona. Its excellent location, quality tenant and a long-term lease captured the interest of those who were looking for a sure fire risk-free investment.

The next significant transaction relates to the retail area of a mixed-use complex in La Moraleja, (Alcobendas, Madrid). LSGIE acquired both the offices and retail units, which are mainly restaurant units, for €70 m, 55 m of which was for the retail area.

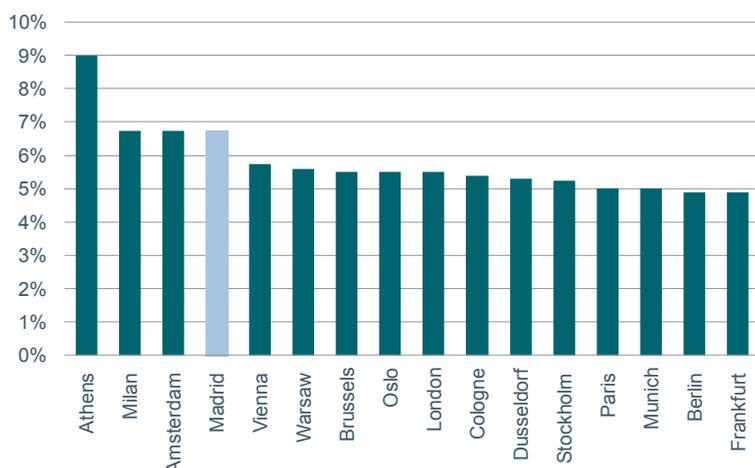
International presence was rounded off with Unibail-Rodamco acquiring the Eroski hypermarket in the Sant Cugat shopping centre at the beginning of the year. One could say that the Franco-Dutch company's acquisition was something of a strategic move, as if the shopping centre went up for sale, it would be in an advantageous position.

Yields

In a period of inactivity and a lack of deals, it is difficult to establish yields. As a result, the achievable yields for prime shopping centres are in the region of 6.75% and for prime retail parks at 7.50%. Shopping centres have increased by 25 basis points and retail parks by 50 basis points year-on-year. ■

GRAPH 11

Prime shopping centres yields in Europe

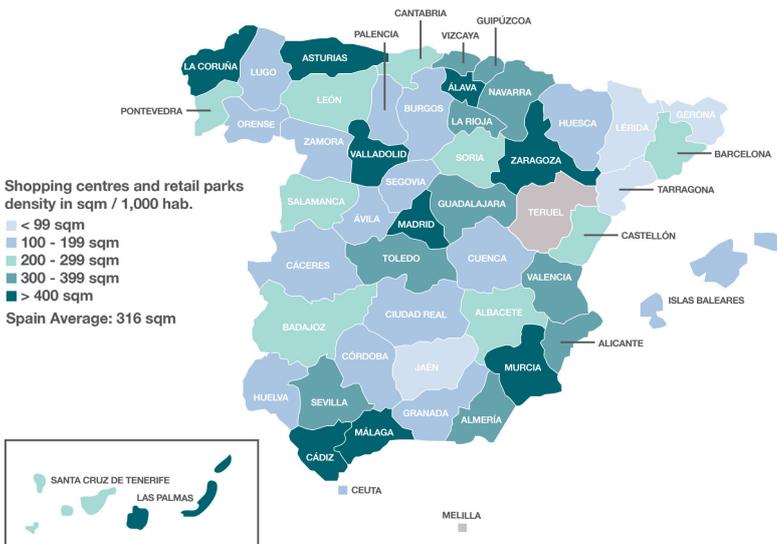


Source: Savills

MAP 1

Spanish retail market

Shopping centres, retail parks, outlet centres, leisure centres and hypermarkets



OUTLOOK

2013

- Large operators are continuing with their expansion plans; however, they are going through them with caution. They are analysing all growth options, in order to optimise their investment when it comes to expanding their retail networks. New firms are continuing to adopt a “wait and see” approach when it comes to entering the market, in the hope that Spain will show signs of economic recovery.
- Average rental prices continue to fall, but it appears that prime rents have already stabilised. On some specific occasions, some rental prices could be signed above the existing prime rent.
- Vacancy rates have increased slightly in areas that are not as consolidated or in secondary complexes, but they generally remain sound, although this comes at the price of substantial rental adjustments.
- Some investment funds which own large shopping centre portfolios admit that they could consider the disposal of less strategic assets, but they encounter an obstacle: the bid/ask spread remains too large. The result is that they avoid carrying out open sales processes which may affect sentiment towards schemes in their ownership.
- In addition we find a very polarised market. On the one hand there are core investors for best in class shopping centres (of which there are up to 20 assets in this category in Spain) and, on the other, there are opportunistic investors with double digit yield expectations. In such a restricted market, the number of deals will therefore be very low and as a consequence few changes are expected in yield levels over the short term.

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