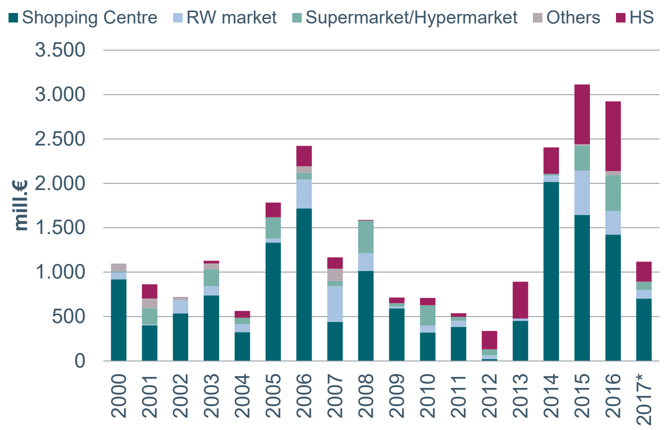
Market Report
Spain Retail

March 2017

GRAPH 1

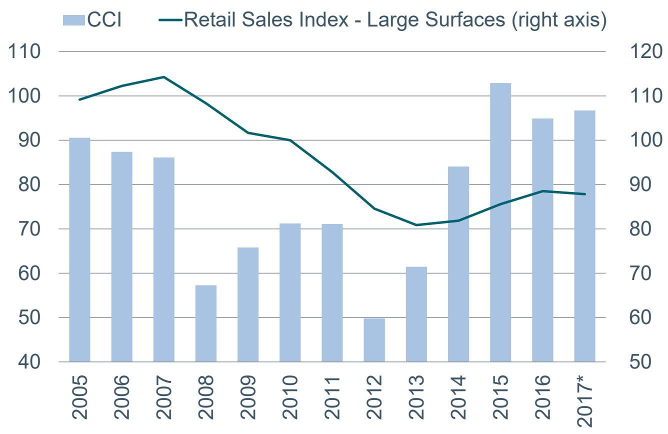
Investment Volume by Retail Segment **



source: Savills / *until March / ** excluding Bank Branches

GRAPH 2

Consumer Confidence Indicator vs. Retail Sales Index



Source: CIS / INE / *until February

SUMMARY

Investment volume already up 22% y-o-y in Q1 2017

■ Main retail market indicators are are showing a positive trend, in line with the Spanish economic recovery.

■ This recovery is putting up pressure both occupancy rates and rental prices for new leases signed in prime retail schemes and, although to a lesser degree, in consolidated secondary locations. However, the overall decline in incentives and rent-free periods are also helping to push up net rents.

■ Traditional retail space in Spain now exceeds 16 million sq m. This muted y-o-y increase of 1.5% further builds on the trend seen in average growth over recent years, caused by the overriding caution being exercised regarding new projects that has slowed development activity.

■ Retail density in Spain stands at 345 sq m per 1,000 inhabitants; 1.3% up on 2015's figure. This is in line with the growth in supply and due to both the slowdown in the delivery of new developments and the declining population, which has been gradually falling since 2013.

■ Over the next 24 months, almost 500,000 sq m is expected to come onto the retail market, nearly 200,000 sq m of which will be delivered in 2017.

■ The investment volume has in Q1 2017 already outstripped the figure recorded in Q1 2016. Retail product (excluding HS) accounted for almost 80% of the €1,100 million recorded in Q1 in the retail market. Xanadú, sold for over €500 million, drove this figure up considerably, but it was not the only mega deal (≥ €100 million) seen in the quarter.

■ Interest in retail assets and investor appetite continue to compress yields, although some products have greater room for manoeuvre, such as the retail warehouse segment.

> "Growth in the main retail indicators, driven by a favourable economic outlook, will lead to rental hikes in shopping centres" Gema de la Fuente, Savills Research

Economic Overview

After almost a year of caretaker government, and despite international political instability, the Spanish economy continues on the road to growth.

In Q4 2016, GDP stood at 3%, closing out the year with a 3.2% y-o-y variation, in line with the forecast by Focus Economics, the IMF and Eurostat.

GDP outlook remains upbeat, exceeding 2%, with a gradual slowdown favoured by the correction of some imbalances, such as private debt and by the fact that the country should once again become a competitive force in the export market.

The jobs market also continues to prosper. According to the latest figures published by the EPA (Labour Force Survey), the unemployment rate stood at 18.63% in 2016, more than 8 percentage points down on the peak of Q1 2013 (when an all-time high was recorded), whilst the number of unemployed fell by 25%.

Focus Economics forecasts suggest that this downward trend will continue over the coming years.

The retail index also ended the year on a positive note, with the y-o-y variation just creeping above 2015's figure, thereby consolidating the upward growth cycle started in 2014.

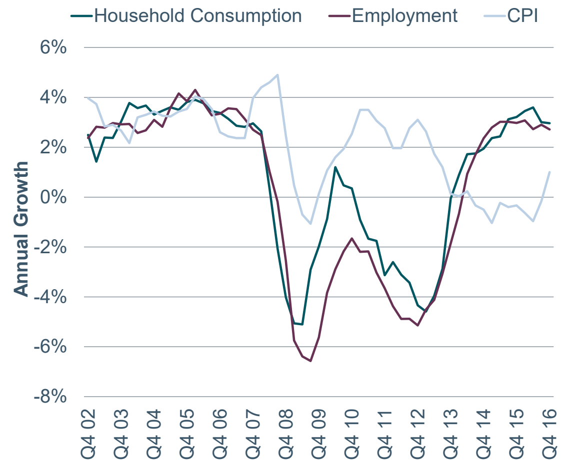
However, the recovery seen in key economic indicators was not mirrored by the consumer confidence index. Plagued by political uncertainty, 2016's performance was in stark contrast to that of 2015, when several record figures were registered. Nevertheless, the year's average figure came in at an above-average 30%.

Further afield, the Spanish economy's performance outstripped the Eurozone average and even the countries considered to be Europe's powerhouses. European economic growth forecasts for the coming years remain upbeat although, as in Spain, the growth rate is expected to be more moderate.

Despite the normalisation in the economy, the ECB believes that the growth and inflation of the Eurozone are still very weak and plans to hold interest rates at the all-time low of 0%. Any change in this stance will be determined by the outcome of the elections in Germany and France (which represent around two third of the European economy).

GRAPH 3

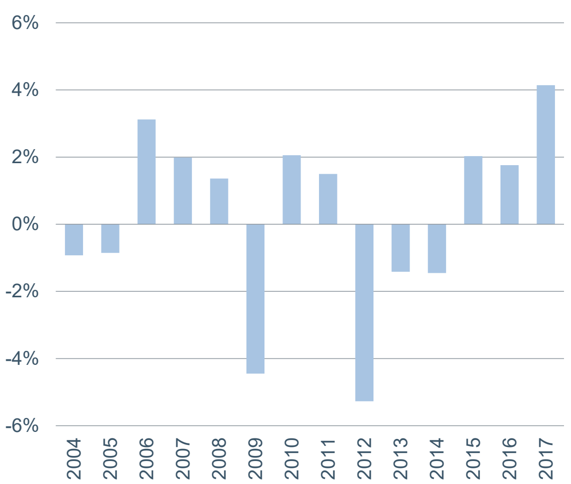
Economic Indicators



Source: INE

GRAPH 4

ShopperTrak Index y-o-y Variation (January-February)



Source: ShopperTrak

Footfall and Shopping Centre Activity

According to the ShopperTrak index, footfall in shopping centres has increased for the second year in a row. Footfall for 2016 was up almost 1% y-o-y, maintaining the growth trend already in place, albeit at a slightly more moderate rate than in 2015. The reason behind the more moderate increase was the figure posted in December, which came in almost 3% down on 2015. This was likely due to the calendar impact caused by the Christmas bank holidays falling on a weekend, the days when shopping centres register their peak sales activity.

However, the dip in the index in December was offset by the extremely healthy figure recorded in January, which was up 5.5%, one of the best-ever figures recorded. February's figure, which came in 2.3% up y-o-y, places the ytd average at just over 4%.

According to data released by the AECC (Spanish Shopping Centre Association), shopping centre sales volumes also continue to rise. With a total volume of €42,464 million, sales have grown 3.6% y-o-y.

Digital Society

The online channel continues to rise, and Internet use is unstoppable. According to Wearesocial, Spain has 35.7 million active web users, which is a 6% y-o-y increase. Eurostat's digital society study unveils some interesting findings, such as the fact that 82% of Spanish households have an internet connection and 81% of people aged between 16 and 74 have gone on the internet at least once in the last 13 months, of which 76% are frequent internet users (using it at least once a week).

The democratisation of technology has grown exponentially as far as smart phone usage is concerned. With more than 49 million registered lines, this equates to more than one line per person. In fact, Spain is one of the countries with the highest number of smart phones in the world. With 88% of people owning a mobile phone, it is number two in the world ranking, only topped by Singapore, according to the Deloitte report on mobile consumption in Spain.

Immediate Internet access via mobile devices, especially smartphones, has not only changed the way people both communicate and access information, but it has also changed what they do with their leisure time and their consumer habits.

E-commerce

According to the latest figures published by the National Commission of Markets and Competition (C*omisión Nacional de los Mercados y la Competencia - CNMC*), during H1 2016, turnover from e-commerce exceeded €11,350 million, a y-o-y increase of almost 21%.

However, despite the rapid progression of e-commerce, areas related to travel agencies, tour operators and airlines continue to have the heaviest weighting, accounting for 28% of the total market share, followed by clothing, with 6%.

In terms of the retail categories that are also carried out in shopping centres, the total online transacted volume across all retail categories stood at just over €3,000 million, 27% of the total for H1 2016.

In terms of full year comparisons (2015 versus 2014), the percentage of online activity in these categories held firm at 28%, with business growing 25% y-o-y while total volume increased by 26%.

Regarding shopping centre's traditional retail categories, with 27%, the fashion segment accounts for the largest share of online turnover. The y-o-y sales variation for 2015 rose by 32%.

The food and beverage sector is at the other end of the spectrum, accounting for just 2% of the total. However, we would particularly highlight the 82% y-o-y jump seen in this sector, driven by home-delivery companies that generally manage orders via an app.

Although more and more people are starting to opt for the online shopping option offered by supermarket chains, online sales only currently represent 7% of turnover, registering 18% y-o-y growth, the second lowest increase, just behind the entertainment category, which rose 17%.

Compared with Europe, Spain still has plenty of growth potential. In 2016, just 35% of people aged between 16 and 74 completed at least one online purchase, placing Spain 15th in the ranking of the 28 EU member countries, well off the European average of 45% and 43 percentage points below the country heading up the list: the UK, with 78%.

The maturity of the UK market can also be seen from its total online turnover, which came in at €157,000 million in 2015, almost eight times the figure registered in Spain. In addition, the average online spend in the UK stood at €91 versus €67 in Spain and the e-commerce market share stands at 17% in the UK compared with 4% in Spain.

Another sign that the UK market is more advanced than the Spanish is the slowdown in the y-o-y growth rate for online sales volumes; 16% in 2015, versus the 26% recorded in Spain.

Online + offline

The boundaries between the physical and digital world are becoming increasingly blurred, which has forced some retailers to change their business models and their customer relations strategy. What was considered a threat years ago is now treated as an asset. All the main chains and retailers are now investing in new technology as a tool to optimise time spent on helping, personalising the customer shopping experience.

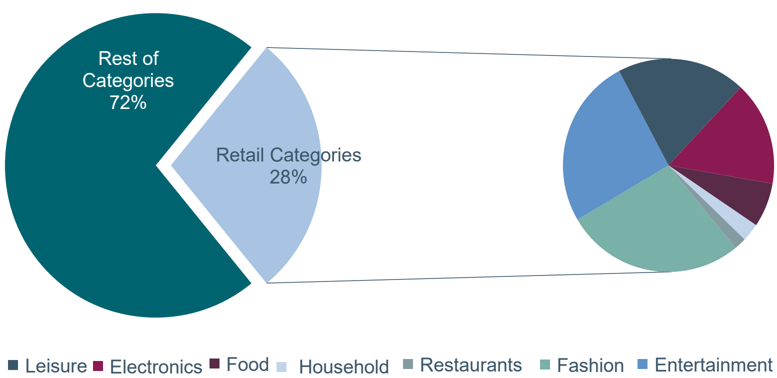
Knowing customers' habits and personalising their shopping experience through online option already a reality. The next step is to connect with customers when they are in-store.

Smartphones have been a catalyst in joining these two worlds together, favouring in-store purchases after viewing a product or looking up its information online. In fact, 60% of online purchases are collected in-store, the epicentre of the omni-channel strategy; a platform from which a retailer can showcase its products and bring them that one step closer to their customers, convey their brand culture and offer expert advice.

The digital channel is not yet able to provide the ultimate end-to-end experience, thus brick-and-mortar stores must form the meeting point for online and offline shopping.

GRAPH 5

Trade Volume Share in E-commerce by Category - 2015



Source: CNMC

Some retailers are opting to fit-out and extend their retail spaces in order to convert their stores into eye-catching showrooms, continually adapting to new consumer habits in order to achieve and go above and beyond what customers are looking for and attain that ever-so sought-after WOW factor.

Another trend in the sector is creating in-store leisure spaces that aim to marry the worlds of retail and entertainment, already referred to in the industry as retailtainment. This is yet another incentive to draw customers into the store.

For example, the H&M's store on Barcelona's Paseo de Gracia is the chain's first store in the world to house a cafe.

These new trends are seen more in retail units on the main high streets of large cities, but with time they always feed through to smaller traditional retail formats.

Regular e-commerce users champion this channel's speed and the time it saves when it comes to making a purchase, its flexibility in terms of "opening hours", as well as the better prices and offers that can be found thanks to price comparisons available on several websites.

People with a more sceptical attitude towards this channel refer to their concerns about security of online purchasing processes, the uncertainty in terms of what a product really looks like (size, colour, texture, etc.), as well as a clear preference for dealing with a person instead of a machine.

Impact on other property segments

The speed in which products bought online can be delivered is a factor that is affecting other real estate segments.

The continual progression of e-commerce has had a clear impact on the logistics sector given the fundamental role of product storage and distribution. Distribution points are moving ever closer to the city centre, to the extent that logistics operators and retailers are also starting to operate from spaces located in urban areas of major cities that can guarantee delivery times of just hours.

This race to reach all of the corners of the map and achieve rapid delivery times brings with it high infrastructure costs, and considerably reduces some retailers' profit margins, however, offering the online option is non-negotiable if retailers want to satisfy their customers.

Renovation and Redistribution of Shopping Centre Space

85% of retail schemes in Spain, which account for almost 80% of all Gross Lettable Area (GLA), are more than 10 years old. This clearly demonstrates how outdated the retail stock is and how much room there is for improvement through modernisation, not just in terms of updating the installations, but also in terms of rejigging the entire shopping centre model that worked for years.

Shopping centre owners are also looking to create unique and sensational experiences for customers to draw them in. The main difference with the traditional concept is the importance that the new model gives to the customers' well-being, and how this is used to attract and retain visitors as well as to stand out from the competition.

One of the most significant changes carried out by many centres, is the reduction in the amount of space devoted to shopping and the increase in the amount of space occupied by the entertainment/leisure and dining components. These have risen from 10% to almost 20% in just a few years, increasing the GLA by almost 15% (according to internal figures).

In order to make better use of visitors' free time, multi-purpose spaces offering cultural and leisure activities have been interspersed with retail and dining areas, as well as break-out areas.

Investing in creating a unique and cutting-edge leisure component is also key for any centre looking to renovate and modernise. In this regard, Parques Reunidos will soon add a leisure component involving Nickelodeon characters into its centres in Thader (Murcia) and in Xanadú (Arroyomolinos, Madrid), where it is also planning to build an aquarium to house exhibition tanks that will showcase a variety of marine flora and fauna.

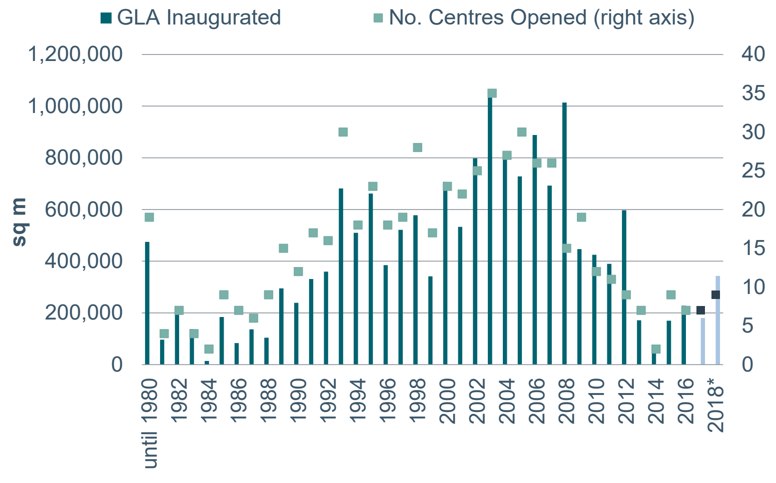
Expansion Plans

The recovery of the economy and the job market are reflected in improved shopping centre spending, sales and footfall figures, further spurring on the expansion plans of the main players in the sector.

Fashion and accessories retailers, including shoe shops and jewellers', accounted for 44% of new openings in 2016 and 45% of new shops due to open in 2017.

GRAPH 6

Openings by Year (GLA and No. of Centres)



Source: AECC / Savills / *forecasts

"Bricks and mortar stores remain customers' preferred choice. The challenge now lies in increasing the visit/purchase conversion rate, by incorporating new concepts and making the online world just another part of the shopping process"
Alicia Corrales, Retail Research

The food and beverage sector has moved up to second place in the ranking for 2017 in terms of number of openings. The sector accounts for 25% and confirms both the interest of retail schemes in expanding the areas dedicated to eateries and the interest of food retailers in consolidated shopping centres or new-build centres with clear potential.

In 2016, the food and beverage sector held third place, beaten to second by personal care, which reversed in the 2017 rankings. It seems that following several years of austerity enforced by the economic crisis, people are spending more on cosmetics, sports and their appearance. Today, businesses such as beauty and dental practices, which would have been difficult to feature on a shopping centre's directory a few years ago, are also starting to thrive.

The fourth fastest growing group, which is expanding at a considerable rate, also deserves a special mention. Housing sales have had a major impact on retailers related to homeware, home design and DIY, and they continue to expand their sales networks.

When analysing the retailers that have opened the most stores over 2016 and 2017, the results largely coincide with the aforementioned business sectors.

The German footwear chain Deichmann is continuing to open stores in Spain, as is Skechers, another casual footwear and sports shoe chain. In fashion, Mango heads up the ranking, ahead of H&M and Sfera, which do not feature in the top ten by number of stores opened. Time Road is another fashion retailer, in the jewellery and accessories subsector, which has also been one of the most active in terms of openings.

Inditex has reduced the number of new store openings, focusing its expansion plan on its new developments and also on the expansion and refurbishment of certain brands in some centres. The same can be seen among brands considered shopping centre anchors, such as Primark, which is now focusing on growing its retail presence in the main high streets of Spain's main cities.

No restaurant retailer can be found in the top 10, highlighting that although many chains have opened new spaces, the openings have not made an impact on the retail rankings. The Good Burger and Burger King were the most active, closely followed by 100 Montaditos, Chelinda, Tagliatela and Udon.

Even though Five Guys only features on the list with one new restaurant, given the fact that it plans to open in the new centre being developed by Grupo LSGIE on the banks of the Manzanares River, and the phenomenal success of the unit opened on Gran Vía, we are likely to see more openings of Obama's favourite burger chain.

Centros Ideal heads up the personal care sector, whilst the sportswear chain Décimas is the leader in its sector and the DIY chain AKI is the number one in terms of homewares. Amongst the most active retailers, we would highlight WOW, which is following on from the success of the Danish brand Tiger and the Dutch brand Hema. However, whilst the Danish and Dutch brands have focused their expansion plans on high street units, WOW's entire sales network is shopping centre-based.

New Retailers

80% of new stores opened by retailers expanding in the sector have opened in shopping centres. Outlets attracted 10% of new stores thanks to the boost provided by the Sambil Outlet M-40 and the Viladecans Design Outlet.

More designer-based complexes continue to attract masstige brands. These brands are looking to position themselves alongside the outlet stores of high-end brands, that have found a way to expand with their own stores, generally after occupying spaces in multi-brand stores or department store corners.

Thirdly, big box retail parks and standalone units accounted for 9% of the total. In this segment, new fashion brands are gradually joining the traditional big box retailers. Fifty Factory, the Cortefiel group's outlet brand, has opened stores in La Marina and Vistahermosa (both in Alicante), whilst the Italian group Globo Moda will take 2,750 sq m in the new Terrassa Plaza development (Barcelona), and has also confirmed that it will occupy the last remaining large plot of land in Alfafar Parc. Alfafar Parc will also be the launch pad for the low cost French firm Chaussea.

New retail developments accounted for over 26% of the new openings analysed between 2016 and 2017, which usually form the natural growth path for retailers, especially those that are consolidated in the sector.

Shopping centres still maintain their appeal given that they are meeting places that guarantee high footfall and some brands consider them the best springboard from which to launch an expansion plan. Since 2016, several international brands have debuted in the Spanish market, such as the globally renowned lingerie brand Victoria's Secret in Maremagnum (Barcelona) and Funky Budha, which opened the Greek fast fashion firm's flagship at Gran Vía 2 (Barcelona).

The Italian brand Alcott is also stepping up its expansion plans for Spain. After pulling out of the deal it reached a few years ago with Shana to enter the market, it is now embarking on an aggressive expansion plan. The Capri group, Alcott's parent company, is also set to launch its Gutteridge brand, with both of the company's businesses taking space in Parque Nevada.

The Teddy group will bring more Italian fashion to Spain. Terranova has opened its flagship store on Barcelona's Paseo de Gracia and plans to roll out 60 more stores over the next four years. Para Calliope, another of the group's brands, is undertaking a more reserved expansion plan: five stores before the end of 2018.

Other fashion and cosmetics brands are currently looking for space in various formats, although with the multi-channel option in mind, as having various formats reduces the time taken to transport products from one place to the other.

Current Stock

At year-end 2016, traditional retail space in Spain exceeded 16 million sq m. This figure only includes shopping centres, outlet complexes, leisure centres, retail parks and hypermarkets with shopping arcades (with a total GLA over 5,000 sq m).

This represents a minor y-o-y increase of barely 1.5%, in line with the average annual growth rate registered since 2013. A far cry from the years of frenetic development activity in the 2000s, which was driven by the favourable economic environment and financing terms and conditions.

In 2016, seven retail complexes came onto the market, adding a Gross Lettable Area (GLA) of almost 210,000 sq m to the retail stock, and a further 8,500 sq m were added by the extension of the La Sierra shopping centre in Córdoba.

Of these seven complexes, we would highlight Parque Nevada (Armilla, Granada) for its volume (85,000 sq m GLA), but also because of the number of years that have passed since the project was first put on paper (just over twenty years) due to the administrative red tape and legal disputes that had to be taken to court.

The Fan Mallorca Shopping centre also deserves a special mention, developed by Carrefour Property and situated next to the Carrefour hypermarket in the Playa de Palma district of Palma. This is the second-largest complex (almost 66,000 sq m GLA), but is also particularly noteworthy due to the fact that it is the first new opening that Mallorca has seen for ten years.

The last developments delivered in Mallorca (Ocimax and Festival Park) were built at the start of 2000s. Since then, changes have been made to the region's business regulations, which now prohibit the development of any large retail stores on the island.

Another noteworthy factor is that owners are looking to strike a chord with their visitors' emotions via 360º marketing package, including their very own smells and sounds, as well as the potential to actively interact with the customers via the LED digital circuit spread throughout the property.

Madrid, Andalusia and the Comunidad Valenciana continue to lead the regional GLA rankings. Between the three of them, they account for 50% of all retail space in Spain. There have not been any changes at the other end of the spectrum either. Cantabria, La Rioja and Ceuta hardly combine a total of 1,000,000 sq m and do not even account for 1.5% of the total. Melilla, which currently does not have a shopping centre, will gain a foothold on the sector ranking from 2018 onwards, when the 34,000 sq m Parque Melilla is scheduled to open. As has already been the case with Parque Ceuta in Ceuta, it will not only be a draw for the city itself, but also for other towns in Northern Africa that are close to the border.

Retail Density

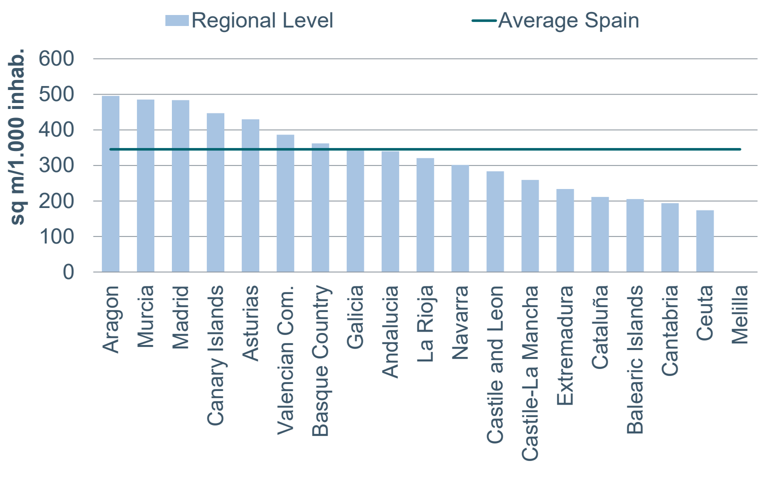
The national figure stands at 345 sq m per 1,000 inhabitants, just 1.3% above last year's figure. The slowdown in the rate of new asset developments, together with the population decline that first started to emerge in 2013 has even caused the y-o-y retail density figure to lag retail market growth.

By regions, Madrid once again ranks as one of the highest, with 484 sq m, behind Aragón and Murcia, where the figure comes in at 495 and 485 respectively, these two having switched positions following the opening of Pinatar Park in Murcia. Retail density in the country's remaining regions remains largely unchanged, only highlighting the opening of Fan Mallorca that has pushed the Balearic Islands up the rankings by two places. In 2015, it ranked 18th with 145 sq m, whilst it has now edged up to 16th with 205 sq m, representing a 40% increase.

More movement has been seen at the provincial level. Thanks to Nevada Shopping, Granada's retail density has risen 4% to 306 sq m, climbing up the rankings to 12th

GRAPH 7

Retail Density by Region



Source: Savills

position. Although Ávila, with Parque Las Moruchas, has only edged up two places, the province's retail density has increased by 20% to 124 sq m. The opening of El Galeón outlet village on the south coast of Tenerife has brought Santa Cruz de Tenerife forward four places, with a retail density of 7%.

Future Developments

Economic growth in recent years, the continued fall in the unemployment rate, increased household spending and hence the increase in retail sales, as well as the optimistic outlook for the coming years, continues to spur on the development of new retail schemes. Only those that demonstrate a high feasibility rate will manage to gain financing, which continues to be the key to developing projects.

Over the next 24 months, almost 500,000 sq m is expected to come onto the retail market, nearly 200,000 sq m of which will be delivered in 2017. At 1.6%, the average y-o-y growth rate of this period slightly exceeds the rate seen in recent years, but demonstrates the overriding caution being exercised by the sector in terms of development.

If all of the project deadlines currently underway are met, retail density could reach almost 350 sq m by year-end 2017 and 357 sq m by year-end 2018.

The leasing pace will be one of the key factors that will determine the development completion rate, whilst the feasibility of each project will also be scrutinised once again by retailers evaluating which projects will form part of their expansion plans.

Of all the projects set to open their doors to the public for the first time over the coming months, we would highlight Sambil Outlet. This is the largest retail scheme set to open and one of the most promising projects. It will be Sambil's (Venezuela) first asset in Spain, with the company opting for the major success and drive of the outlet formats to turnaround the ill-fated Avenida M-40.

Its opening is planned for the end of March; five years after the company acquired the closed shopping centre. 80% of its 42,000 sq m has already been pre-let. Fashion will form the core theme of the centre, but it will also house the region's largest Simply supermarket, an area assigned to restaurant retailers, a leisure area featuring a 12-screen cinema and the first wind tunnel in a retail complex.

Plaza Río 2 is expected to open in the autumn, LSGIE's city shopping centre located next to the Matadero Madrid cultural centre and the Madrid Río area, very close to the new Operación Calderón residential development. It will feature 150 retail units arranged over 39,000 sq m, and the food court will be particularly important given that it has been designed around the River Vantage Point, where visitors will be able to enjoy 3,000 sq m of terrace on the banks of the Manzanares river, looking out over the city.

Looking further ahead, Intu is working on a shopping resort in Torremolinos. This model, already present in Puerto Venecia, as well as the traditional retail component, aims to offer an innovative leisure component designed for all the family and centred around one main theme. This Torremolinos (Malaga) resort will comprise 200,000 sq m of GLA and will include several entertainment areas, such as an artificial surfing lake and an artificial ski slope, allowing people to enjoy winter sports right in the middle of the Costa del Sol.

Rents

The rising consumption and sales figures registered by shopping centres have increased their net revenues thanks to the reduction of incentives and the rise in turnover-based rents. A slight increase in the minimum guaranteed rent for prime shopping centres is expected on the

TABLE 1

New GLA expected in 2017

Scheme	Location	GLA (sq m)	Category	Developer
Sambil Outlet M-40	Madrid	42,000	Outlet C	Sambil
Plaza Río 2	Madrid	39,000	Med. SC.	LSGIE
Terrassa Plaça	Terrassa / Barcelona	30,535	Retail Park	City Grove
Torre Sevilla	Sevilla	24,625	Med. SC.	Puerto Triana
Glòries	Barcelona	14,000	Extension	Unibail-Rodamco
Parque Guiomar	Segovia	11,900	Retail Park	SIGLA
Parque Finestrat	Benidorm / Alicante	10,500	Retail Park	Activ-Group
Parque Alcorcón	Alcorcón / Madrid	8,000	Retail Park	Corpfin Capital RE
		180,560		

Source: AECC / Savills

back of the interest being shown by retailers in these types of locations. In addition, the higher occupancy forecast, will reduce vacancy costs.

However, in order to compete with new projects and e-commerce, owners will have to start injecting more money into their centres in order to create shopping experiences that stand out above the rest.

With regards to new contracts signed, growth is currently only being seen in prime centres, although the lack of available retail units makes it difficult to quantify average growth as very few retailers have been added to directories.

The vacancy rate for units in established secondary centres that are dominant in their catchment areas is slowly falling, which is demonstrated by the increase in revenues.

On the other hand, there are a number of complexes with extremely low occupancy rates, in which rental adjustments help to source potential occupiers.

According to Savills' database, shopping centre rents for the 2012-2016 period increased by 24% compared to rents between 2008-2011. If we just consider new leases, they have decreased by -36%.

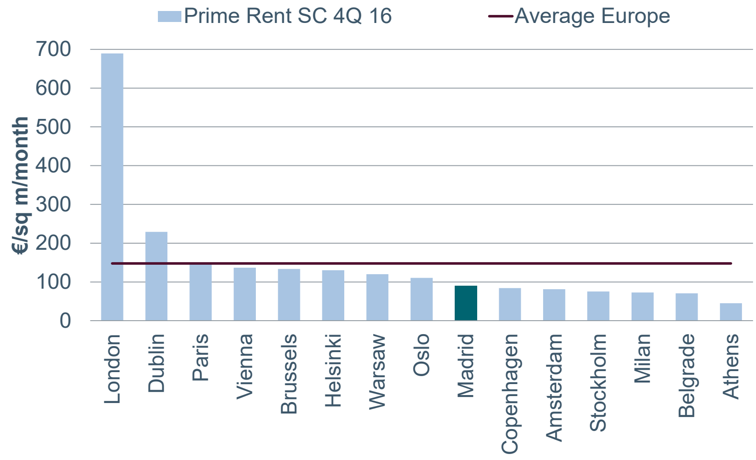
Fashion accounts for 54% of total rental income generated in a shopping centre, followed by dining (12%), services (10%) and entertainment (9%).

If we use retail units of between 100 and 200 sq m as a benchmark to analyse achievable rents in prime shopping centres, the average rent for new leases stands at €90 per sq m/month.

In Europe, rents are highest in the UK, at almost €700 per sq m/month, followed by Ireland, at €230 per sq m/month. The average achievable rent for prime properties in Europe stands at circa €150 per sq m/month, which is 65% above the figure for Spain.

GRAPH 8

Prime Shopping Centres Rents in Europe



Source: Savills

Investment Market

The commercial property market closed 2016 at slightly more than €8,200 million, which represents a slight 2% y-o-y decrease. We should note that this figure does not include corporate deals, debt, land or owner-occupier acquisitions. The dip in investor activity was primarily due to the lack of good quality properties on the market. The number of transactions fell by 18%.

Despite the fact that there is a general lack of supply, the most affected sector was offices (-15%) and retail (-7%), while the industrial/logistics sectors and hotels registered a marked increase in volume, up 47% and 83% respectively.

The retail market registered investment of slightly more than €2,900 million, which represents almost 36% of all commercial property investment, much higher than the all-time average.

An analysis of volume invested by submarket highlights that the so-called traditional product (mainly shopping centres, big box retail parks and supermarkets/hypermarkets) posted a 12% decline, which was offset by the 17% growth booked in retail high street.

In recent years high street, which was once a safe haven only for domestic private capital, has entered the radar of international players, mostly investment funds. The largest-volume deal in this segment was completed by the developer Monthisa, with its €150 million acquisition of the El Corte Inglés building located at Paseo de la Castellana, 83-85.

Although this was the only mega-deal (>€100 million) closed in the high street category, with eight retail mega-deals million signed in 2016, this doubled the number closed in 2015 and represented a 25% increase in terms of volume, thus offsetting the overall drop in the final total transacted volume.

Activity in the Traditional Market

Looking more closely at the traditional market, despite the y-o-y decline, 2016 posted the second highest figure since the end of the economic crisis, behind the peak of €2,450 million registered in 2015, and in line with the €2,110 million closed in 2014.

It must also be remembered that in recent years several of the market's super prime assets have been bought and sold, all with a ticket of between €300 and €500 million. According to the average rotation analysis, they will take about four years to come back onto the market as an investment opportunity, something which will undoubtedly affect 2017's year-end volume.

Xanadú, recently acquired by Intu for €530 million, is one of these super prime centres. Its acquisition has considerably boosted the retail market's share of the Q1 2017 total commercial property investment volume, easily accounting for more than 50%.

There are other complexes with similar volumes and specifications that could come onto the market, however, at this point in time, their respective owners do not seem ready to rotate them.

Retail Warehouse Segment

The retail warehouse market remains firmly fixed on investors' radar. In 2016 the transacted volume of this property type reached slightly more than €265 million, accounting for 41% of total investment in traditional retail product. Redevco carried out the largest deal, acquiring a portfolio of six retail parks from Bogaris for €95 million, which were located in various locations in Andalusia and Extremadura.

The y-o-y comparison highlights a decline of almost 50% in the investment volume, however, it must be remembered that 2015's figures were heavily skewed by the Megapark deal. Discounting the Megapark deal, the retail warehouse segment mirrors the situation seen in the rest of the retail market, i.e. dipping volumes mainly due to the lack of product that meets investors' requirements. In fact, the market share of the retail warehouse segment versus traditional retail stands at 14% for the first quarter, the same level that was registered in 2016.

The sector still has plenty of growth potential in terms of GLA and new operators entering the market, which will mean that it will not only be of interest to the usual players, but also to new specialist companies interested in breaking into the market.

Cross Border Investment

Since 2014, national investors have gained more market share in the traditional retail investment market, accounting for almost 25% of the total versus the circa 15% of the last ten years. This change can be attributed to Socimis, which have accounted for just over 80% of the volume invested.

"The only reason the total retail investment volume figure did not break the €3,000 million barrier, was the delay in signing some deals, which were pushed back to 2017" Salvador González, Retail Investment

By regions, European investors still head up the ranking, representing over 50% of total cross-border investment, followed by US investors who account for almost 45%, and who took advantage of the appreciation of the dollar against the euro to acquire assets in Europe. In terms of Europe we would highlight Germany, which accounted for 60% of the total volume invested by other EU member countries, as a result of the almost €500 million invested by Deutsche Bank in Diagonal Mar (Barcelona).

Yields

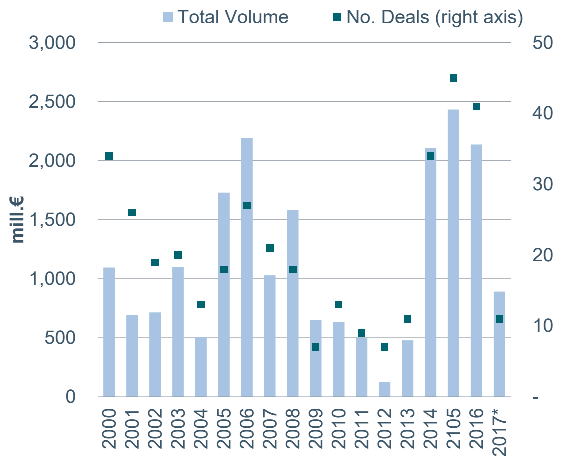
The current supply-demand imbalance in the market has been clearly reflected in the performance of retail yields over recent years. Since 2013, the turning point of the last market cycle, traditional retail product yields have tightened across the board, down by an average of 200 basis points. However, the yield for prime shopping centres, which currently stands at 4.25%, has hardened by 250 basis points.

The level at which the recent Xanadú deal was closed suggests that yields may have now stabilised. Given the current yield, 25 basis points below the market peak (registered in 2007), value uplift looks set to be achieved via rental increases.

Secondary shopping centres continue to be of interest to investors. Yields in this category stand at between 5.75% and 6.25%, similar to those registered in 2007.

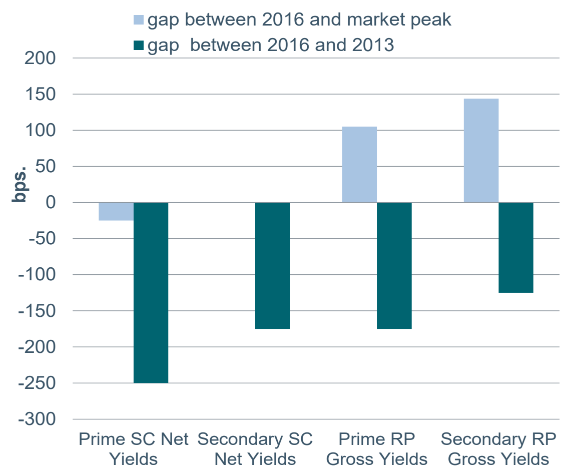
In terms of prime retail parks, which currently stand at 5.75%, the difference of just 100 basis points compared to the previous market high, make them the properties with the greatest potential value uplift in the traditional retail market and where there are still good opportunities. This is an achievable yield, as if this type of property were to come on to the market, a level of around 5% could be achieved. Secondary locations would register similar levels to those achieved by secondary shopping centre locations.

GRAPH 9
Investment Activity in the Traditional Retail Sector**



Source: Savills / *until March / ** excluding HS units and Bank Branches

GRAPH 10
Retail Yields



Source: Savills

TABLE 2

Main Deals 2016 - 2017 (until March)

Scheme	Inv. Vol (estim) (mill.€)	Purchaser	Vendor
Xanadú	530	Intu	Ivanhoe
Diagonal Mar	495	Deutsche Bank	Northwood
11 hiper Eroski *	358	Invesco	Eroski
Gran Vía de Vigo	145	Lar España Real Estate	Oaktree
Nassica	140	TH Real Estate / Neinver (JV)	KKR
L'Aljub	100	TPG Capital / Retail Property Found (JV)	TH Real Estate
Festival Park	100	Via Outlets	Värde
Alcalá Magna	100	Trajano Iberia	Incus
Luz del Tajo	80	CBRE GIP	Sonae
ABC Serrano	80	CBRE GIP	Zambal
Parque Abadía	63	Lar España Real Estate	Rockspring
Travesía de Vigo *	confidential	MDSR Investments	Pradera

Source: Savills Research / *advised by Savills

OUTLOOK

2017

■ The market is keeping a watchful eye on the international political status quo. The FED has increased interest rates for the third time in 15 months, while the ECB has kept them at 0%. Europe now has its sights firmly set on the outcome of the French and German elections.

■ Rental prices in prime shopping centres are on the up and have good uplift potential. Dominant secondary centres are now well on their way to consolidating, although the decline in incentives and temporary rental discounts has meant that there has been an increase in net rent.

■ Spain is on many international retailers' radars hailing from a wide variety of sectors and different product categories, from low-cost to luxury. The difficulty of finding spaces that meet their requirements, primarily in terms of high-street units, is holding back store openings.

■ The return of financing to the market supports developer and investor plans.

■ Investors are undoubtedly interested in the retail market. The volume registered in Q1 2017 is above that of the same period in 2016 and more than €1,500 million of retail properties could be transacted in the coming months, which would put the total annual figure for 2017 similar to that of 2016.

■ Generally speaking, available supply on the market does not satisfy existing demand, which is pushing yields down. It is particularly notable in the retail warehouse segment, which has more room for improvement than shopping centres.

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