

Spain Retail



“The retail sector is facing a hitherto unknown scenario. The challenge will be to demonstrate once again its ability to adapt to change”

Spain Retail

Despite COVID-19, 2020 traditional retail investment will exceed 2019 levels

The economy

The economic evolution of the first quarter of the year has been drastically conditioned by the worldwide spread of COVID-19 disease. The Q1 20 GDP figure for Spain shows a more pronounced impact than expected, recording the largest quarter-on-quarter decline in the historical series (-5.2%).

All forecasts are subject to extreme uncertainty and the economic consequences depend on factors that are difficult to predict, such as the course of the pandemic, the impact of drastically tougher conditions in the financial markets, the volatility of raw material prices, changes in spending patterns and the effects on consumer confidence.

Despite this, both the Banco de España and other entities agree that the magnitude of the impact of the pandemic in Spain will be very pronounced in the short term, but, even with the considerable uncertainties, it should be a transitory disruption.

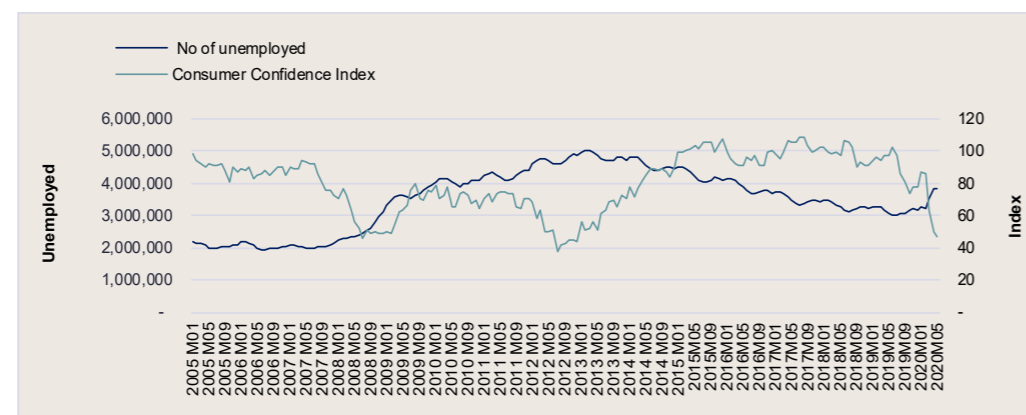
Although there are not yet any monthly frequency indicators to reflect this, the increased uncertainty could lead to a significant reduction in private consumption and a contraction in demand that could paralyse private investment decisions.

In the area of external trade, the impact of the spreading health crisis is expected to be particularly severe in the tourism sector.

On the price side, the fall in both demand and oil prices can be expected to lead to a reduction in inflation.

During the month of March, the number of people registered with social security was reduced by 876,000. The bulk of the impact has been concentrated on temporary workers, who account for 75% of the fall.

Graph 1: Economy



Source CIS (Centro de Investigaciones Sociológicas) / INE / * The figures do not take into account the increase in the Temporary Employment Regulation.

Conclusions

The health and economic crisis triggered by the COVID-19 has raised important questions about the future of retail.

The partial closure of shops had a serious impact on business.

Shopping centres are reacting adapting their concepts to the trends that are going to prevail in the market and implementing the maximum protocols, technologies and services that guarantee a safe environment.

Solidarity, sustainability and slow living lifestyle are the most important consumer values that are going to influence brand strategies.

Some retailers took advantage of the rise of e-commerce during the quarantine to invest in important areas of improvement that have been defected.

Delayed rent payments and the threat of a possible resurgence of COVID-19, have led to a near standstill in retail deals. Investment in the traditional segment (excluding high street) is expected to reach €2 billion by 2020. This figure exceeds that of 2019 due to the sale of Intu Asturias and Intu Puerto Venecia in the first months of the year, as well as the number of supermarket portfolios currently on the market.

As far as the high street market is concerned, activity was almost totally paralysed during the lock-down and activity is anticipated to be resumed during the second half of the year.

“Online sales have taken a step forward during the pandemic, but important supply chain problems have also been discovered that need to be addressed”

Footfall

During May, and as a result of the suspension of commercial activities considered non-essential, the ShopperTrack index stood at -82.5%, the second lowest in the entire history of the series after April (-89.0%).

Analysing another index also elaborated by ShopperTrack, and which monitors the evolution of footfall in both shopping centres and street shops in various countries, we observe that in all of them there is a high correlation between the penetration of the virus (understood as the number of cases per 100,000 inhabitants) and the index, so that the greater the penetration, the greater the negative impact on footfall.

To this correlation we must also add other factors such as the different closing dates of the retail units in each country and the contagion advance.

In Spain, during the first week of March, footfall was reduced by -7.9% and after the state of emergency (14 March) the number of visitors fell by -49% to almost a drop of -100% during the last weeks of the month.

Despite the fact that there is no breakdown by type of asset, it can be seen that these falls were less pronounced in urban shopping centres with hypermarkets and in retail parks, the latter not only because they have large food areas, but also because they enjoy more open spaces that encourage social distancing.

E-commerce

During the first half of 2019 (latest available data), the National Commission for Markets and Competition (CNMC) reported €35,461 million of transactions in the online market in Spain, 25% more than the same period last year. Of the total number of transactions, €9,758 million correspond to retail activities, up 22% from last year.

The decrease in consumption capacity, travel limitations and social distancing could lead to a reduction in online sales in the second half of the year in some sectors such as travel, flights and entertainment, which currently represent 31% of total electronic transactions.

This decline, according to Minsait, could range from -30% to -50% online sales in 2020 for these activities.

In addition to these factors, the collapse of some food operators' online ordering platforms during the pandemic, high last-mile costs and customer return rates have absorbed much of the margins, making this type of channel less profitable.

However, other sectors such as food, sports, women's personal care and school supplies, which have grown by 80 to 200 per

cent during the crisis, will be strengthened.

The following factors must be added:

- The emergence of new users: over 60 years old, who will break the barrier of digitization.
- The loyalty of those who are already online shoppers.
- The social value that this channel has acquired by being the only means of purchasing some products during the quarantine period.

According to a survey carried out by Kantar of 30,000 consumers in more than 30 countries, 1 in 2 Spaniards declare that they have bought less in physical stores and 16% have bought more online (almost twice as much as worldwide).

However, the future intention to buy online is lower in our country compared to the global average (18% compared to 32%) and most Spaniards (51%) think that during the next month their level of online purchase will remain as it is now.

The collapse of websites, stock-outs and the consequent delay in product delivery during the lock-down period have been some of the reasons for this attitude.

In order to face this new scenario, the online sector will define action points oriented to explore the opportunities in retail and mass consumption.

To this end, Savills Aguirre Newman expect the following developments to emerge:

1. More versatile e-commerce platforms.
2. Own distribution channels.
3. "Last mile" logistics models.
4. Reinforcement and extension of the distribution models.
5. Redefinition of store to store logistics and mixed distribution models.
6. Consolidation of Flagship models.
7. Extensive use of big data to explore new opportunities.

Taking into account that, according to Kantar's survey, 18% of online shoppers will increase their spending level by 50%, and that the rest of the shoppers will maintain their current spending, we obtain that the market share of online commerce, as opposed to the physical channel, will vary in 2020 from 7% to 8%, which implies an increase in sales of 27% with respect to 2019.

It is worthwhile to continue exploring the two points of connection between the different purchase channels and those that generate the so-called "halo effect": the collection or return of the product purchased online in the shop, or the so-called BOPIS (Buy online Pick In Store) where the product purchased online is bought in the shop.

The implementation within the shopping centre of common click & collect stands for all tenants, in which the centre acts as the last

mile, and in which the experience plays an important role with rest areas, TV screens, draws, specific offers can be elements present in these spaces for collecting products bought online.

What is going on in the sector?

The best reflection: The Chinese market

The lack of a precedent-setting situation makes China a market with which to predict the evolution of the retail sector in Europe.

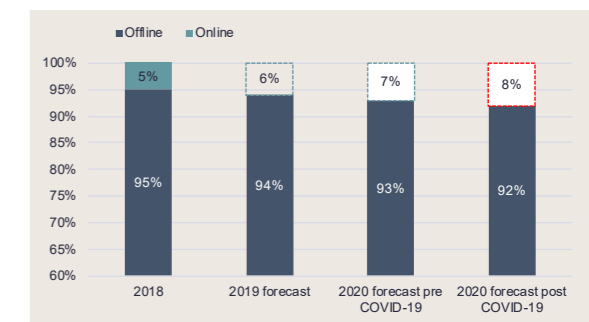
Although this comparison is not entirely equivalent, among other reasons, because of the lower number of inhabitants and the more progressive closure of shops in China, what is happening after the health crisis is an important mirror in which to reflect part of the future behaviour of the retail market in Spain.

1. Recovery of physical retail is being slow. After the peak of contagion, consumption is 21% below that experienced before the crisis. Consumption in convenience stores and drug-stores/pharmacies has increased by 8% and 12% over the pre-covid consumption and consumption in department stores and fashion stores has decreased by 59% and 57%.

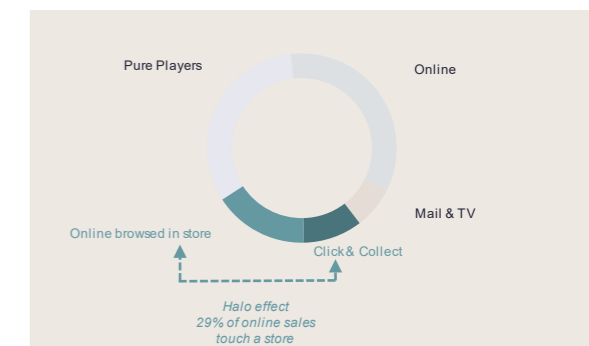
2. The number of visits has decreased, but the average shopping basket increased.

This is happening both in the activities more resilient to the crisis (food and drug-store/pharmacy) and in food services at home.

Graph 2: Retail sales distribution by channel: current situation and forecast



Graph 3 Share of online touching "store" and "Halo effect"



Source Savills Aguirre Newman / Savills London

3. Purchases during the weekend are not recovered and spending at times of greater footfall drops in greater proportion to the rest of the week.

4. The epicentre of the crisis (Wuhan) is recovering more slowly than the rest. Cities with larger populations are increasing their consumption in convenience stores and in the rest of the cities consumption in drug-stores/pharmacies and specialized food is also increasing.

5. Online food purchases are growing. The fear of contagion continues to make consumers want to avoid crowds of people and increase the level of spending and frequency of online purchases.

6. Health and exercise are here to stay. The pandemic has highlighted the importance of health, changing certain habits, such as buying vegetables, which is growing by 25% to 30% compared to the period before the crisis.

7. The consumer has tried new brands. 14% say they intend not to return to their usual stores.

Spain

Tenants, landlords and investors alike are facing major challenges arising from the economic impact of the business slowdown, new health safety measures and changes in consumer habits in the aftermath of the crisis.

On April 21, the Council of Ministers approved a law on extraordinary measures for the payment of rent by the self-employed, professionals and SMEs, which allows for the possibility of instalment payments within two years.

For their part, the owners of shopping centres and retail units have adopted various measures with which they propose to “share” the negative effects of the standstill in activity, by means of different formulas.

Thus, Merlin Properties decided to cancel the rent payments during the alarm period for all the businesses that occupy their assets that had to close, and other landlords have made discounts with which they try to avoid vacancies in their centres.

The recovery of the sector will depend to a great extent on the financial soundness of the companies, on the effectiveness of public subsidies and, on the capacity of businesses to adapt to the new scenario as well as the speed with which they do so.

Reduction of employees, adoption of the sale & leaseback format to face the need for capital, redefinition of businesses, commitment to digital spaces and the last mile, are some of the formulas that entrepreneurs will adopt to face this new situation.

The fashion industry

During the month of May, sales in the fashion sector fell by -72.6%, with the year-to-date figure falling by -44.7% compared to 2019.

According to Acotex online sales have been residual because consumers are not in the mood to buy clothes that they will not be able to wear.

According to a study by EY in collaboration with Boston Consulting Group, the impact of Covid-19 could threaten a third of employment, and between -35% and -40% of income in the fashion sector by 2020.

In view of this situation, the sector demands urgent measures, such as rent abatements, the possibility of processing a new ERTE (Temporary Employment Regulation File), tax exemptions or flexible opening schedules.

On the other hand, operators have begun to act, with brands such as Inditex that have lowered their prices on a range of products available online, or Adolfo Domínguez who has segmented the collections by increasing promotions.

The aim could also be to return to cheaper products and basics for an initial period, and to adapt to the new economic situation of the

population, but bearing in mind the values related to solidarity and commitment to the environment.

Projects 2020

Before the outbreak of the health crisis, there were seven projects and four extensions for 2020. To date, only the first phase of Designer Outlet Málaga has been opened. This is the first project of the developer Mc Arthur Glenn in Spain, one of the biggest specialists in the development of outlets in Europe.

Designer Outlet Málaga is located next to the Plaza Mayor shopping centre and has 70 shops, including Adidas, Adolfo Domínguez, Birkenstock, Brooks Brothers, Calvin Klein and Camper.

There is great uncertainty about the opening of all other projects, and probably those that cannot be inaugurated before September will move to the first quarter of 2021.

Graph 4: Spanish fashion sales: evolution and forecast

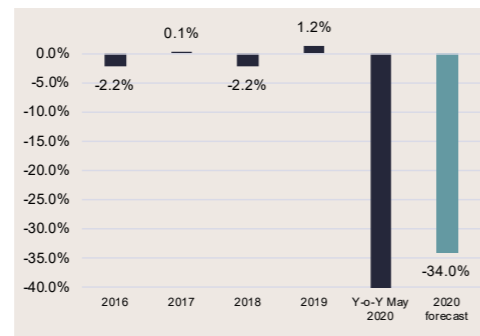
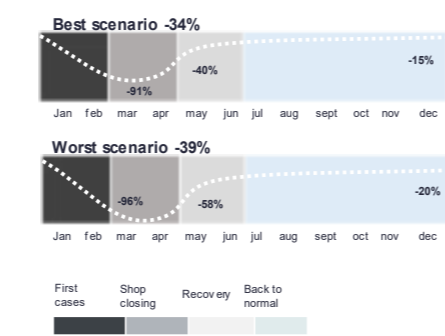
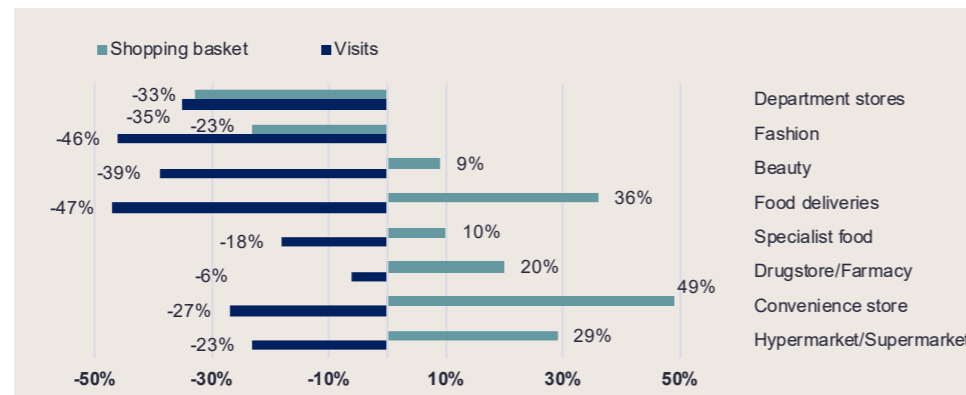


Image 1: COVID-19 impact on fashion sales



Source Acotex / EY

Graph 5: Chinese consumers new habits: Traffic and shopping basket behaviour after COVID-19



Source McKinsey & Company

Retail parks and Factory Outlets

The retail park format is showing great resilience to the health crisis and is expected to gain prominence in the next years.

The main reasons have been the location of hypermarkets and other activities with possibility of opening, the offer in most of them of outdoor parking (which psychologically transmits greater safety against contagion), their usual location on the outskirts of cities and the greater area of their spaces.

This sector should take advantage of this gained prominence to position itself in the same way as the more mature European markets. To this end, professional management of these assets is becoming increasingly necessary.

Before the start of the crisis, four new retail parks were to be developed and three were to be extended. These projects would add 105,500 sq m to the stock of retail warehouses, 36% of the total GLA planned for 2020.

Of all of them, Way Dos Hermanas is the largest (48,646 sq m). This project, which was intended to be inaugurated in September and has been developed by Kronos Properties, is adapted to new market trends, since in addition to an area of big box retailers, it incorporates restaurants and a cinema complex.

On the other hand, the factory format could also play an important role, especially in releasing the surplus stock accumulated during the closing period, and certain unusual brands could have pop-up spaces to release their products.

The reopening

With a view to the recovery of the activity, all the owners have drawn up health safety guides with guidelines and good practices that will be complemented by those that each operator or business will draw up in their specific plans.

These measures cover both specific health and hygiene action plans for employees' and visitors' facilities as well as case detection and strategic communication.

The measures that will be carried out both prior to decontamination and during the first weeks of opening of shopping centres and retail units is crucial to restore customer confidence and must prepare their assets for this new situation.

What will the new normal look like?

The health crisis has come at a time of great change in the sector. In recent years many shopping centres have begun to give greater prominence to leisure and restaurants by including differentiating elements that increase dwell time.

Now, developers and brands are questioning whether the new orientation of their assets, towards formats more associated with socialising are the most appropriate formulas.

While it is true that what has happened will involve a process of disrupting our previous lifestyle and habits, the results of a qualitative study recently carried out by *Análisis e Investigación** confirm that consumers do not expect substantial changes in their habits and once a certain time has passed, they expect a return to the same behaviour as before, with some alterations depending on the economic impact that the crisis had on their purchasing power.

Table 1: 2020 forecast openings

Location	Name	GLA (sq m)	Category	Developer
Torrejón de Ardoz	Open Sky	91,600	Very Large	Compagnie de Phalsbourg
Zaragoza	Torre Village (1st fase)	60,000	Very Large	Ibereco
Dos Hermanas	Way Dos Hermanas	48,646	Retail Park	Kronos Properties
Burgos	Burgos Este	19,000	Retail Park	Inbisa, Activ group
Málaga	Plaza Mayor Designer Outlet (1st fase)	17,500	Factory Outlet	Sonae Sierra, McArthurGlenn
Vilagarcía de Arousa	Polígono O Vao	15,141	Retail Park	Inmobiliaria Ponteno
Córdoba	Los Patios de Azahara	10,308	Retail Park	Mistika
TOTAL	7	262,195		

Source Savills Aguirre Newman

RETAIL SAFETY MEASURES

General measures

- Capacity limitation.
- Compulsory use of gloves, masks and disinfectant gel among workers.
- Monitoring to ensure that safety distance is kept between customers who are queuing.
- Single payment by card or mobile phone.

Retail schemes

- Limited opening hours.
- Capacity limitation for lifts.
- Temperature meters.
- Possible temporary closure of some of the accesses.
- Masks, gloves and hydro-alcoholic gel dispensers.
- Frequent cleaning and disinfection of risk points (handles, lifts, vending machines, touch screens, toilets).

Restaurants

- Safety distance between diners and tables
- Fit-out of exterior terraces.
- Implementation of separation partitioning.
- Fitting of exterior bars.
- Creation of our own brand to reinforce the delivery service.

Cinemas

- Cinema rooms below this capacity will remain active but will reduce their available seats to a third of the total.
- On a voluntary basis, the length of the breaks between sessions will be increased, as well as the distance between the spectators inside the room.
- The possibility of including open-air cinemas will be worked on.

Fashion shops

- Disinfection of imported products.
- Control and limitation in the use of fitting rooms.
- Promotion of the virtual fitting rooms.
- Quarantine of 48 hours of tested garments or ironing at 70 degrees.
- Improvement of the experience of the Click & Collect areas.

👉 Developers will consider including new alternative uses that will reduce unemployment and generate additional footfall 👉

Nor do they foresee major changes in the choice of purchasing channel, and although initially customers intend to buy more in small businesses for solidarity reasons, in the future most intend to return to buying in the areas they used to frequent.

- In return, consumers:
- They will demand greater joint liability from brands.
 - They will incorporate a certain “Slow living”, a “more relaxed lifestyle” that will be reinforced by the loss of purchasing power of some groups due to the crisis.
 - Segments will appear that will defend a more conscious lifestyle and awareness of the environment and sustainability.

Covid-19, The accelerator of change

One of the positive factors that the current crisis will bring is the implementation of trends that until now were only seeing the light of day, and the period of isolation has given them a leading role.

These trends can be summarised in five:

1. Increased health awareness. Brands will offer more advice and support in this regard. This new attitude towards health and well-being will also have an impact on sustainability.
2. The period of lock-down has familiarised many customers with online shopping.
3. Contact-less payments. There will be an increase in the use of mobile payments and through systems where it is not necessary to interact.
4. Free retail check-out. Autonomous purchase applications will be developed where it will not be necessary to wait in queues or interact with sellers.
5. BOPIS (buy online, pickup in store). Companies will reserve more space for the collection of the purchase that has been made online.
6. Domatics. The introduction of these new

technologies in the market opens a wide range of business possibilities.

To do so, innovative concepts must be developed that reduce the risk and limit the impact of this crisis, through flexible spaces that provide service to the community and that also integrate all the purchase channels.

It will be interesting to explore the combination of uses in which retail plays a major role, but which incorporates other uses that add value and make spaces that could be vacant or underused profitable.

In this sense, there are already companies working on including co-working, co-living or even “last mile” spaces in shopping centres.

To this end, it is anticipated that public organizations will speed up the urban planning processes that allow for changes in use, given that this will result in an improvement in the economy and an increase in employment, two of the fundamental factors for overcoming the current crisis.

Retail investment market

The increase in sales and visitors to shopping centres reported by the shopping centre association during 2019 was not reflected in the investment in retail products which amounted to €1,356 million, 61% below the investment recorded in 2018.

The delay in the signing of the sale of the shopping centers Intu Puerto Venecia and Intu Asturias, which were scheduled for 2019, but due to regulatory problems were transacted this year, was one of the reasons, but it is also true that the geopolitical situation and the progress of e-commerce were reasons that also slowed the progress of retail investment.

But despite this, during 2019 and the first quarter of 2020 a change in trend was observed, and investors began to increase their appetite for the Spanish retail product mainly due to the adjustment in prices, the

lower impact of both e-commerce and the department store segment compared to other European countries, as well as the rise in the price of logistics and office products.

At the beginning of 2020, the growth rates of the Spanish economy (above the euro zone) predicted a year of greater dynamism and recovery of part of the investment levels, and this happened during the first months: at the end of the first quarter, 15 retail operations had already been transacted for a value of just over 1.1 billion euros, and although it is true that Intu had a lot to do with this rise, the general vision for 2020 was positive.

The sale of Intu's two centres in Zaragoza and Asturias added nearly €770 million to the investment volume for 2020.

Intu Puerto Venecia was acquired by the joint venture between Generali and Union investment for €475 million and Intu Asturias was bought by ECE for €290 million.

Also noteworthy were two important supermarket portfolios totalling more than €183 million, one of which corresponds to the Family cash chain, a sale and lease back transaction, a very appropriate financial operation in periods of need for liquidity.

In high street, the sale by the American fund KKH to Nortia de Paseo de Gracia, 109 (Barcelona), for nearly €100 million and the purchase by Santander of the retail unit of Popular in Marqués de Larios, 12 (Málaga) were noteworthy.

The healthcare crisis had a strong impact on the real estate sector, especially in the retail sector. The closure of shopping centres and the uncertainty in the recovery of consumption are once again raising the alarm of investors who are now focusing on resilient products, which are taking shape in retail parks, core centres and supermarket portfolios.

In addition, there is also a trend towards finding neighbourhood centres where there

👉 Supermarket portfolios worth almost 500 million euros have been identified in the market and are likely to be transacted this year 👉

is the possibility of including mixed uses that diversify risk and bring visitors to the shopping area.

During 2020 it is anticipated that the volume of investment will reach €2,000 million in traditional products (excluding high street), exceeding the value of 2019.

There will be a certain compression of yields in prime food portfolios in Madrid and Barcelona and although there are still no references, given that the beginning of the state of alarm paralyzed the operations in progress and put investors on hold, if there is an intention to sell, it is foreseeable that we will see an adjustment in prices.

As for the high-street market, the activity was almost totally paralyzed during the pandemic, and it is currently foreseeable that activity may resume during the second half of the year.

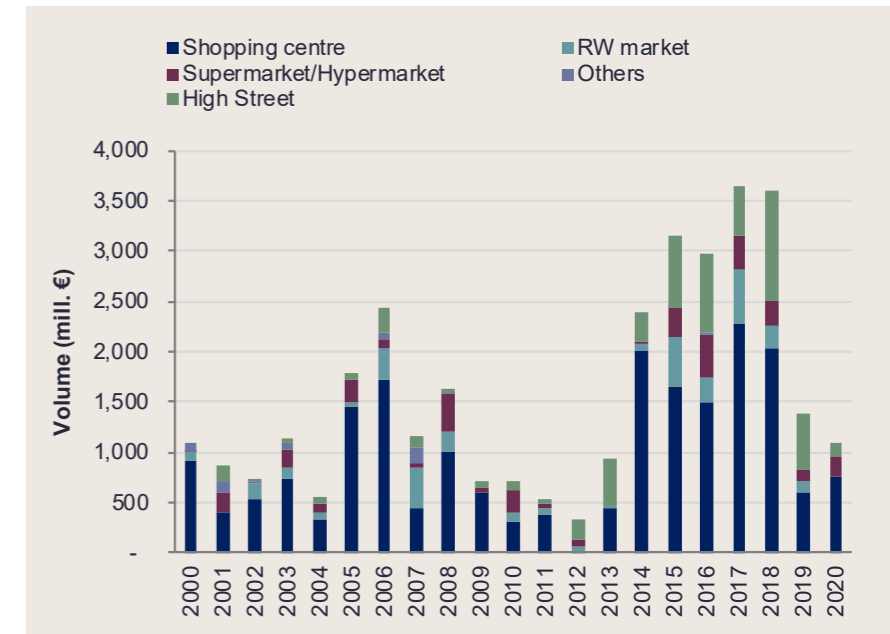
The rent moratoriums are causing many investors to move cautiously, due to the possibility of a second outbreak of the virus and the possible need by the tenant for greater moratoriums or even renegotiations of rent.

In addition, there are other factors directly affecting the high-street market, such as restrictions on the movement of people, and the consequent impact on tourism and on many operators, especially those located in the centre of large cities.

As for the type of investor, interest is being shown by national investors, especially private, social and insurance companies. The prime product is preferred by international institutional investors.

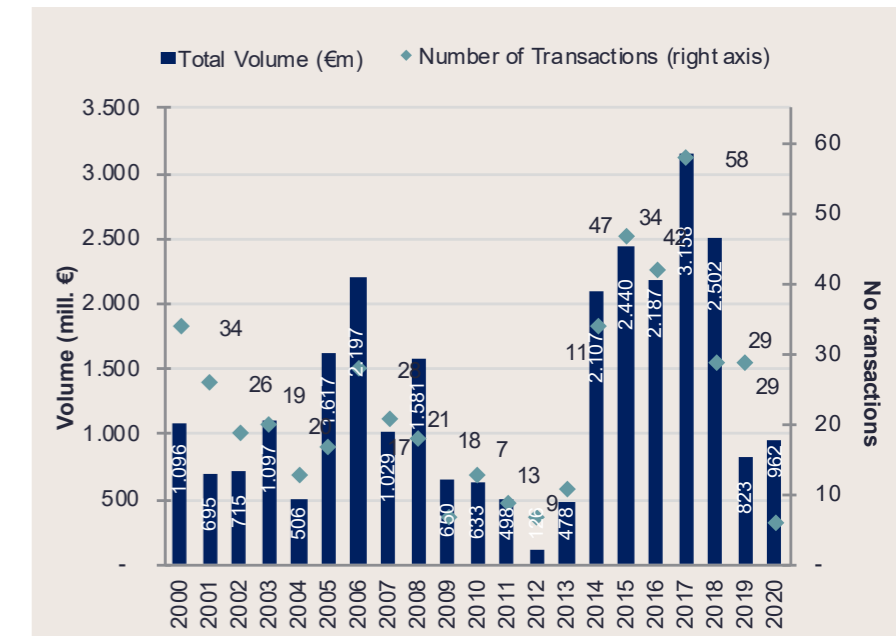
Even though there have been no transactions that show the evolution of the market, it is foreseeable that the lack of demand will make a certain adjustment in prices possible.

Graph 6: Retail investment market by type of product



Source Savills Aguirre Newman

Graph 7: Investment volume and number of deals (excluding high street)



Source Savills Aguirre Newman

Consumer trends:



Joint liability

“Adaptability” to the situation is a requirement. The speed and quality of the response projects solidity.



Slow Mood

Valuing the physical, the analogue, the face-to-face. Set priorities









Waste Zero

Concern for the environment and sustainability

Source Savills Aguirre Newman / * Análisis e Investigación

Table 2: Main deals 2020

Shopping centres and supermarkets	High Street
 <p>Intu Puerto Venecia €475 M 120,000 sq m Yield: N/A Seller: Intu Properties PLC / Canada Pension Plan Purchaser: Unilmmo-Deutsch. / Generali</p>	 <p>Paseo de Gracia, 109. Barcelona €100 M 2,600 sq m Yield: N/A Seller: KKH Capital Group Purchaser: Nortia</p>
 <p>Intu Asturias €290 M 74,800 sq m Yield: N/A Seller: Intu Properties PLC / Canada Pension Plan Purchaser: ECE</p>	 <p>Marqués de Larios, 12. Málaga Confidential 964 sq m Yield: N/A Seller: Confidential Purchaser: Banco Santander</p>
 <p>Portfolio Family Cash €33 M 54,295 sq m Yield: 7.12% Seller: Family Cash Purchaser: Corum AM</p>	 <p>Santa Clara, 1. Zamora €2.9 M 1,130 sq m Yield: 7.12% Seller: N/D Purchaser: Optima Real Estate</p>

Investment Outlook 2020

1 The predominant optimism at the beginning of 2020 was affected by the health and economic crisis of COVID-19, paralysing investment and causing all players to be in wait and see mode.

2 Despite this, investment in traditional retail will exceed that of 2019, mainly due to the sale of Intu's shopping centres.

3 A pipeline of almost €500 million has been identified in supermarket portfolios, that will most likely be transacted this year.

4 The restriction of mobility has affected to a greater extent the investment in high street, which could gain momentum in the

second half of the year.

5 Investors will focus on products that are resilient to the crisis and that are concentrated in retail parks, core products, supermarket portfolios and urban shopping centres with the possibility of including alternative uses to retail.

6 There is a certain compression of yields in prime food portfolios in Madrid and Barcelona, and although there are still no references, if there is an intention to sell, it is foreseeable that we will see an adjustment in prices in this type of assets.

7 The slowdown in the marketing of projects will mean that some shopping centre openings planned for this year will be delayed until the first quarter of 2021.

8 Consumer trends will be marked by the three S's: Sustainability, Solidarity and Slow mood.

9 Developers will try to incorporate alternative uses in their assets that complement retail, reduce unemployment and generate additional footfall.



Savills Aguirre Newman Research

We carry out a thorough and objective analysis of the real estate market in order to provide our clients with accurate information on the current situation in each of the sectors, helping them make the right decisions at each moment.

Research

Alicia Corrales

Retail Research

+34 91 319 13 14

alicia.corrales@savills-aguirrenewman.es

Retail Area

Luis Espadas

Executive Director

+34 91 319 13 14

luis.espadas@savills-aguirrenewman.es

Salvador González

National Director

+34 91 319 13 14

salvador.gonzalez@savills-aguirrenewman.es

Patricia Matias

National Director Retail Services

+34 91 319 13 14

patricia.matias@savills-aguirrenewman.es

Carolina Ramos

Director Leasing Shopping Centres

+34 91 319 13 14

carolina.ramos@savills-aguirrenewman.es

Sofía Olavarria

Management Director Shopping Centres

+34 91 319 13 14

sofia.olavarria@savills-aguirrenewman.es
