Spain Retail – September 2022

SPOTLIGHT
Savills Research

Retail in Spain

savills

Global Macro-economic Situation

During the fourth quarter of 2021, the Spanish economy seemed to overcome the difficult international situation arising from problems in supply chains, the new variants of the coronavirus and the rise in energy prices.

However, the war in Ukraine and international geopolitical tensions are changing the global economic outlook, bringing worldwide instability, and impacting transport costs and prices of raw materials, intermediate goods, and equipment. New problems have been added to this situation, such as the gas supply and European dependence on Russian imports.

The Spanish Economy

After months of rising, the annual CPI change rate shot up to 10.5% in August, the highest level since April 1985, due to a rise in the prices of transport, energy, food, leisure, hotels and restaurants, and housing (INE, September 2022). According to the August Focus Economics forecasts, the CPI will end 2022 with an increase of 8.2% and it is expected to decrease to 3.4% by the end of 2023. However, this data will be readjusted considering the macro evolution.

Focus Economics (September 2022) reduces its 2022 GDP forecast from the beginning of the year to 4.1%. However, the labor market continues to follow a downward trend. According to INE, the unemployment rate decreased to 12.48% during the second quarter of 2022, and it is expected to decline further by the end of the year and beyond.

The June 2022 Consumer Confidence Index (CCI) dropped to 65.8 points, -32.51% from the previous month and decreased another 40% in July achieving 55.5 points. Furthermore, the July Retail Sales Index decreased by 0.5% compared with the same month of previous year. In contrast, the Household Consumption showed an increase of 3.23% during the second quarter of 2022.

According to provisional data from the bank of Spain, the family deposits interannual rate grew by 5.8% in July, chaining 11 consecutive months of increases. This data sheds some light on the uncertainty generated by the war and the rise in gas prices.

Retail in Spain

Challenges of the retail market

Digital Commerce | E-commerce and Physical shopping

Shopping centres and high street shopping remain the preferred shopping channels for Spanish consumers (18% of retail sales are made in shopping centres, 71% in high street shops and the rest, 10%, through the e-commerce) due to the lifestyle of Mediterranean countries. Therefore, the online market shares of Spain sits below the rest of European nations and, specifically, in 13th place after countries such as the UK, Germany and France.

However, according to Eurostat, the penetration rate of internet users in Spain reached 95% in 2021, an increase of 17 pp over 2014, narrowing the gap between the United Kingdom (98%) and France (95%), and ahead of Germany (94%), Portugal (84%), and Greece (80%).

According to the National Markets and Competition Commission (CNMC), electronic transactions during 2021 exceeded a volume of €57.7 billion, 11.7% more than the previous year. This very positive growth was, however, lower than those recorded before the pandemic, when it reached 24.4% in 2019.

Entertainment ("artistic, sporting and recreational performances") was the biggest growth driver in 2021 with a 39% increase. However, leisure (toys, gifts, books, etc.) dropped by 4% due to post-pandemic changes in consumer habits.

The retail categories with the largest increase in turnover in 2021 compared to 2020 were "other specialized food retail" (250%) and "arts, sports and entertainment" (122%), while on the other side, and with the largest decreases, "gardening services" decreased by 42% while "records, books, newspapers and stationery" and "giftware" decreased by 14% respectively.

As a share of total retail sales, the market share of e-commerce transactions in 2021 was 10%, two percentage points lower than Forrester Analytics' forecast, which estimated a higher volume of online business.

According to the CNMC, the share of retail categories in total e-commerce has been increasing from 38% in 2020 to 40% by 2021.

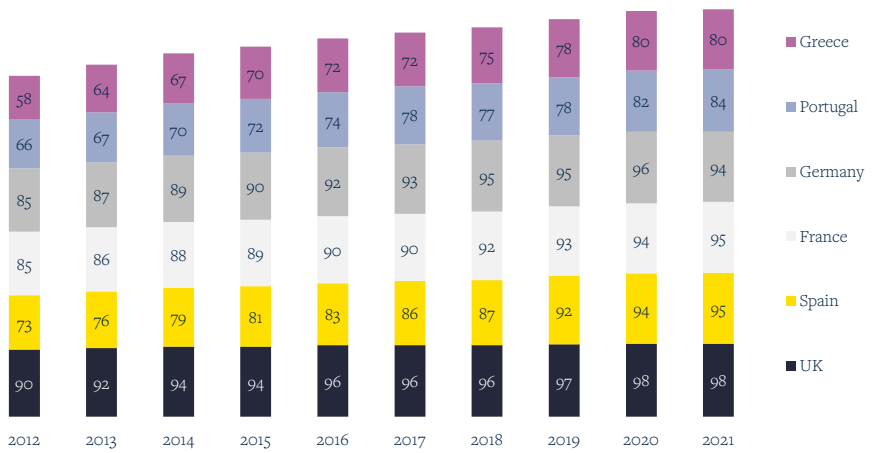
The fashion sector ("clothing") had the largest share of total online turnover in 2021, at 8.1%, followed by other non-retail categories such as "travel agencies and operators" (4.8%) and "gambling and betting" (4.6%). "Hypermarkets, supermarkets, and groceries" accounted for 3.7% of the total volume.

Throughout the second half of 2021, almost half of Spaniards (48%) shopped online, with the majority (90.3%) receiving their parcels at home (CNMC). However, returning to normality slowed the increase in the online sector growth rates in line with global e-commerce revenues balancing the shopping channels towards a hybrid model.

According to a survey by eLogia (Adevinta,

Internet penetration rate*

By country (%)



Source: Eurostat *People who have ever used internet

“The rise in interest rates, the inflationary environment and its impact on consumption are the main variables to monitor during the last part of the year, although we can state with some certainty that the effect of the pandemic on the shopping centre operation has been greatly mitigated”

IABSpain, April-May 2022), 62% of people surveyed do their shop through both online and in-store channels and they expect this proportion to rise to 80% in the near future. The client profile is evolving, looking for the best of each online and offline world.

In the purchasing process, the internet still plays a fundamental role in the search for information about the product and the recommendations and reviews published. When it comes to choosing this channel to make a purchase, some of the essential factors that consumers consider are price comparisons and promotions and delivery times, especially those of less than 24 hours and free delivery.

Companies previously focused on the online channel have started moving into the offline channel. Following Amazon’s footsteps, which after experiences with pop-up stores finally opened its first shop in Los Angeles,

- Shein opened some pop-up stores in central Madrid and Barcelona,
- ASOS allied with Nordstrom to have a physical presence for the first time in the world.
- Aliexpress, the Chinese giant, continues its expansion in Spain by opening its eighth physical store.

Other companies with an exclusively physical presence, such as Primark, have evolved in the opposite direction to combat the growth of giants such as Inditex or Shein. However, due to the impact of costs on prices, formats other than in-store collection via click & collect have been ruled out for the time being.

To reduce the impact on the company’s profit and loss account, companies such as Inditex, Zalando and Uniqlo are changing their return policies.

From summer 2022, Oysho and Pull&Bear will charge for returned goods from home, while the Japanese group Fast Retailing applies a fee for online returns and does not offer the possibility of changing channels. Since before the pandemic, Zalando has been applying a concept called MOV (Minimum Order Value) in Spain for free purchases, i.e. only above a minimum value are shipments free of charge. This policy is currently being exported to 15 other countries.

In the short to medium term, the impact of inflation on prices and logistics costs, the growing rate of returns in the online channel, charges for returns and the exit or suspension of activity in Russia will have to be considered in the evolution of digital commerce.

Companies such as ASOS and Zalando have seen how these economic aspects have affected their income statements in the first months of the year or their forecasts for 2022, while those specializing in online luxury are analyzing the evolution of restrictions in mainland China due to its 0-Covid policy: A large part of the clients of retailers such as MyTheresa, Farfetch, Net A Porter, Vestaire Collective or SSense are located in major Chinese cities, so the strict confinements in cities such as Shanghai and the threat in Beijing are being followed with concern as they reduce sales of luxury product.

Retail sales in Spain by sales channel (2021)

Source: Forrester Analytics

Shopping centre clients | Footfall and sales

During the first months of 2022, footfall levels in Europe differed substantially between countries (Sensormatic IQ, Q1 2022). In some countries, such as Spain, the United Kingdom, and the United Arab Emirates, the high street footfall index was more positive than the shopping centre footfall benchmark, while in others the opposite was true.

In Spain, the high vaccination rate contributed to very positive shopping centre footfall. According to Shoppertrack, the months of January and February 2022 were exceptionally good, with an annual change of 35.5% and 37.4% respectively. However, the economic slowdown, international uncertainties, and the rise in the CPI after the fifth month of the year, reduced the annual change to 16.2% in May, 14% in June and 15% in July.

In July 2022, footfall in shopping centres grew by 4.1% compared to the previous month (ShopperTrack August 2022), resulting in an interannual rate of 20.2%, which is -14% compared to the same period in 2019.

Sales in shopping centres and retail parks in Spain continue to recover with an increase of 32.6% during the first quarter of 2022, 5.1% lower than in 2019. Many centres in Spain are already reporting similar or higher sales figures and footfalls than those recorded in 2019. Thus, the AECC expects a generalized recovery throughout the year to reach pre-pandemic figures.

Current Situation and Future Perspectives | Shopping Centres

Since 2021, more than 270,000 sq.m. of shopping centres (traditional, leisure and outlets, and retail warehouse parks and hypermarkets with shopping arcades) have opened, of which 24,800 sq.m. correspond to the first half of 2022.

In September 2022, the centres and parks stock in Spain reached more than 17.6 M sq.m. and a commercial density of 373 sq.m. per 1,000 inhabitants.

During the next four to five years, the stock could exceed 18.7 M sq.m. which would increase the density to 396 sq.m. per 1,000 inhabitants.

The latest trends in leisure and consumer behavior are both represented and integrated in the recently inaugurated projects.

Oasiz, the 91,600 sq.m. shopping centre opened by Compagnie de Phalsbourg in Torrejón de Ardoz in December 2021, includes in its offer differentiating leisure proposals, such as zip lines, go-karting, diggers or 2,500 sq.m. of coworking, virtual reality or an area next to the lake that recreates the beach atmosphere, a 6,000 sq.m. beach club.

In 2022, the 9,800 sq.m. Mirasierra Gallery retail park opened its doors. It is an innovative concept developed by Ten Brinke, which fuses retail with healthcare by means of a veterinary centre (Clinicanimal), a clinic (Clínica Cemtro) and a pharmacy, which coexist with Aldi and Ahorramás supermarkets, an AltaFit gym and shops such as The Entertainer toy store, Levadura Madre bakery and a Pabletes children's hairdresser.

Galería Canalejas, developed by OHL, Inmobiliaria Espacio and Mohari Limited and inaugurated in 2022, is another of the flagship projects for the city of Madrid. With 15,000 sq.m., it combines boutiques such as Aquazzura, Valentino or Saint Laurent, Natura Bissé or Cartier, with a Food Hall area inaugurated previously, and where coexist major restaurants, such as the Michelín-starred restaurant 19.86 by Ruben Arnanz, St.James or Salvaje, with a more casual area, Mad Gourmets, in line with the modern food markets. Canalejas is part of the Centro Canalejas Madrid (CCM) project, which unites seven historic buildings adjacent to the Puerta del Sol. Built in 1887, it was the headquarters of important banks until 2012 when OHL acquired the building. In addition to the retail space, it lives next to the first Four Seasons hotel in Spain, 22 luxury residences that benefit from the hotel's services and a new car park with more than 400 parking spaces.

The WOW project, which opened on 12 March, is halfway between a commercial building and a flagship store. With more than 5,500 sq.m., it seeks "a pleasurable sensory journey, in which shopping is a secondary element" (https://wowconcept.com) and a phygital environment. Located in the historic Gran Vía 18, 500 metres from Puerta del Sol, the aim of WOW is to connect people with both emerging and traditional brands, such as Sargadelos, Razer, Kiehls, Grover, Archive and Rassa.

By fall 2022, Inmobiliaria Espacio's Caleido project is to be completed. Located next to the Cuatro Torres Business Area complex, is part of the "blue architecture" architectural trend, or sustainable architecture for people. The commercial area of the tower, with more than 16,000 sq.m. of open space, will offer national and international restaurants, technology, fashion and sports shops.

By the end of the year, it is anticipated that around 161,000 sq.m. of shopping centres and retail parks will be completed.

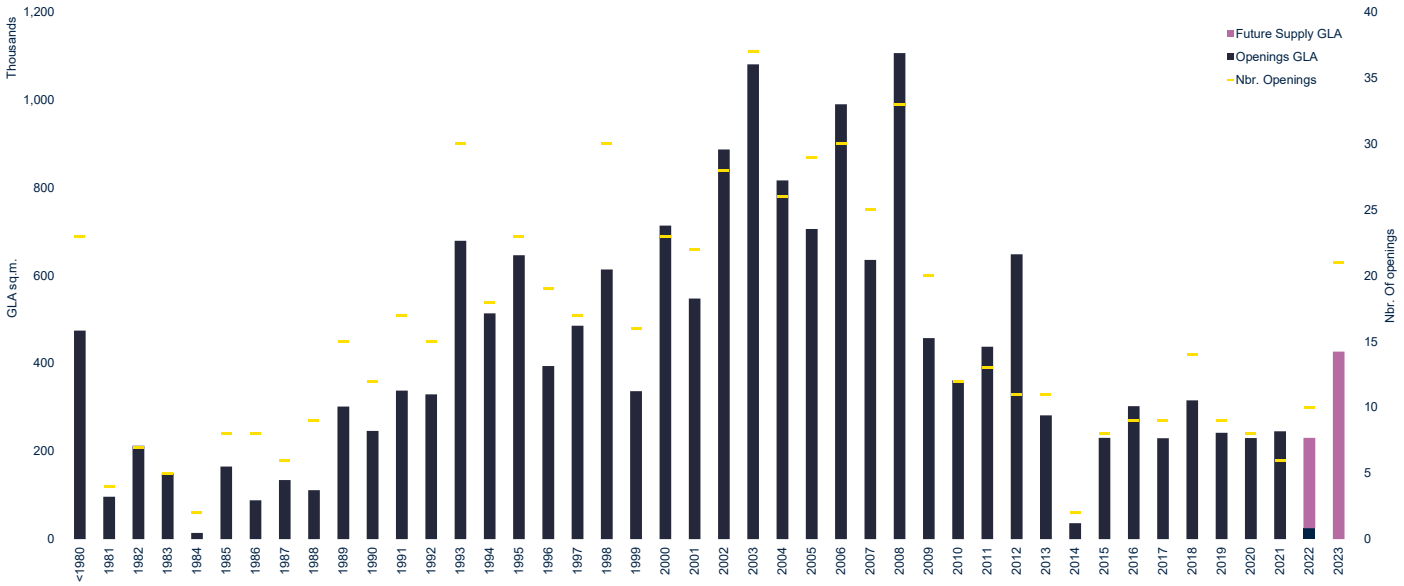
Throughout 2023, around 150,000 sq.m. of retail parks could be completed which, added to the almost 270,000 sq.m. of shopping centres, would add almost 430,000 sq.m. to the stock. Some of the most important retail parks are the 26,000 sq.m. Way Cáceres project in Cáceres, or Nexum Retail Park in Fuenlabrada, Madrid, with another 26,000 sq.m. Among the shopping centres expected to be completed this year, the 10,000 sq.m. La Finca Grand Café stands out.

However, the uncertainties arising from the geopolitical situation and economic tensions mean that some of the projects are likely to be delayed or even paralyzed.

More than 85% of the current park is more than 10 years old, so many owners are considering the repositioning of the centre, with a new commercial focus or including different complementary uses to traditional retail.

The future Galician retail park, Breogan Park, which will be completed in 2023, was once the 26,000 sq.m. GLA Dolce Vita shopping centre. The 2008 crisis and the growing competition in the surrounding area had a serious impact on the centre in A Coruña, which closed its doors in 2014, five years after its opening. Years later, the project has been redefined by Pelayo Capital into a 60,000 sqm retail park with space for everything from classic stores, cinemas and gyms to dark-kitchens, coworking spaces and self-storage.

Retail openings



Source: Savills, AECC (Asociación Española de Centros Comerciales)

“During the first half of the year, the shopping centre market followed a very positive trend in all aspects: sales evolution, footfall, operator demand, investment activity and very moderate growth in on-line commerce.”

Shopping centers and retail parks opened and future supply (2022)

Province	City	Name	Developer	Category	GLA in sq.m.
Madrid	Madrid	La Galería de Canalejas	OHL, Inmobiliaria Espacio y Mohari Limited	Small SC	15,000
		Mirasierra Gallery	Ten Brinke	Retail Park	9,800
Opened					24,800
Barcelona	Vila nova I la Geltru	Nova Center	Titan Properties	Medium Shopping Center	23,000
		Vilanova Retail Park	Cel Urba	Retail Park	32,000
Madrid	Madrid	Espacio Caleido	Inmobiliaria Espacio / Espacio Caleido	Small Shopping Center	15,000
Palmas, Las	Arrecife (Lanzarote)	Open Mall Lanzarote	Parque Islas Canarias	Medium Shopping Center	35,100
	San Cristobal de la Laguna	San Cristobal de la Laguna Retail Park	Leroy Merlin	Retail Park	23,000
Pontevedra	Nigrán	Nasas Nigrán Retail Park	LR21 (López Real Inversiones 2021)	Retail Park	27,238
Salamanca	Salamanca	Atalaya del Tormes Retail Park	Mazabi	Retail Park	5,761
Total Future					161,099
Total GLA					185,899

Source: Savills, AECC

WHAT HAS CHANGED IN THE RETAIL SECTOR?

Uncertainty regarding the evolution of the global economy creates new challenges for the retail sector, and requires all players to step up their commitment to innovative and "out of the box" projects.

Developers

1. They seek to reduce vacancy by incorporating new uses with a twofold objective: to improve income and to integrate the shopping centre into the resident's day-to-day life.
2. They rethink the original concept by repositioning all or part of the shopping centre; the changes come from leisure, catering, and mixed uses.
3. The surprise factor is sought, especially with new leisure and open spaces for the whole family. The shopping centre opens to its surroundings.

Occupiers

1. Most of the major operators have not slowed down their expansion processes, although they now see more clearly in which shopping centres they want to be located.
2. Small operators are very concerned about price increases and are very cautious in their choice of locations, negotiating contracts that include clauses to reduce CPI increases.
3. They are increasingly concerned about sustainability and the environment.

Investors

1. During the first half of the year, they have shown great activity, which has been reflected in the market with transactions of all types.
2. There is still investor appetite for retail product, although given the current economic situation, they are in "wait and see" mode, waiting for a price downturn to be financed in the coming months.
3. The supermarket and retail park format continues to be the investment focus.
4. After two years with hardly any activity, their interest in the shopping centre segment has re-emerged strongly, with five deals closed in 2022 and others in the pipeline.

Consumers

1. The first months of the year have reactivated consumption, especially in leisure and free time activities.
2. But the depletion of savings and the uncertainty of the economy are forcing people to delay major purchases.
3. Despite this, they are more prepared for emergencies and plan their purchases by searching on-line and off-line for the best price.

Operators in Expansion | New Store Openings

The analysis of openings throughout 2021 showed positive figures, although below those recorded in 2019. Retailers restarted their expansion processes and strengthened their on-line channels. This trend has continued throughout 2022, in all segments.

In this line, food retail space grew by 0.72% during the first six months of the year and compared to the end of 2021 (ASEDAS), while fashion brands continue to open large flagship stores. In April, Inditex opened its largest shop in the world for its Zara and Stradivarius brands in Madrid's Plaza de España. Throughout its 7,700 sq.m., the physical and digital experience is combined, seeking a greater connection with the customer.

As for Mango, it is committed to the teenage market with the launch of Mango Teen as a new concept store exclusively for young people. With several pop-up openings in cities such as Madrid, Barcelona and Seville, the brand has taken another step forward with the world's first permanent physical shop in the Westfield La Maquinista shopping centre in Barcelona (opened in June 2022).

Shopping centres continue to attract the interest of operators. In the first six months of the year, around 200 new stores have been signed in shopping centres, the same number as in the whole of 2020. Despite this, brands are analyzing locations in depth and marketing processes are slowing down.

More than 80% of the new stores opened in shopping centres, with Oasiz in Torrejón de Ardoz standing out. This centre alone accounted for 9% of the total number of contracts signed during the first six months of the year, with brands such as Nike, Pull&Bear, Desigual and Mayoral. In second place, Parque Corredor, refurbished in 2020, has attracted 5.5% of the brands in centres including Ikea and Rituals, among others.

Via Sabadell, Parque Oeste Alcorcón and Parque Comercial Nasas Nigrán are some of the warehouse retail parks that are attracting the attention of brands such as Kiabi, Jysk and Tedi, accounting for a total of 8% of the openings in the first half of the year.

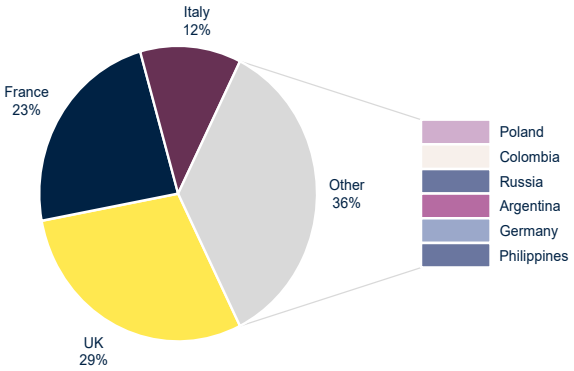
Factory outlets, specifically Viladecans The Style Outlets and La Torre Outlet Zaragoza, account for 7.5% of new shops. Beauty brands, such as Druni or Primor, or fashion brands such as Double Agent, Jack&Jones or Clarks continue their expansion in these specialised centres.

Pepco, with 13 openings in Tres Aguas (Alcorcón) and La Vega (Alcobendas) among others, and JD Sports, with another 9 in Rosaleda (Málaga), Marineda City (A Coruña) or Airesur (Seville), are the brands that currently lead the ranking of openings in centres.

By cities, Madrid and Barcelona, with 35% and 15% respectively, have been the favorite destination for operators, with Pepco standing out, with openings in four shopping centres and a park in Madrid, and another opening in Barcelona. Brands such as Mayoral, Misako, Aromas Especiales and Lefties have also opened in these two cities. Other cities, such as Seville, Malaga, Murcia and Alicante, account for another 18% of the new openings, where JD Sports, TiendAnimal, Boston and Kiwoko, among others, have opened.

Some new entrants | Spain 2021-2022

New entrants by country origin



Source: Savills

18 - 19 €/sq.m./month
Average rent

32 €/sq.m./month
Prime shopping center rent

14 €/sq.m./month
Secondary shopping center rent

Rents

Distribution bottlenecks, rising energy prices and inflation have impacted the retail sector, extending construction periods and increasing rent negotiations, especially in non-dominant shopping centres.

The issues that are requiring increased negotiation efforts are varied, and include, among others:

1 **New lease negotiations.** Market uncertainty is leading to longer negotiation periods, cap expenses and clauses that provide for discounts during the first operating months of the retail units.

2 **Rent Review**. In the year 2022, renegotiation of leases includes the CPI increase, although, generally, and to reduce the uncertainty of potential large increases, limits are established for the indexation.

3 **Covid clauses.** As a rule, negotiations include that if the autonomous community or state regulations impose a suspension of the activity, the MGR (Minimum Guaranteed Rent) will be suspended, and they have to continue paying the service charges.

In some cases, potential capacity limitations are also reflected in the leases, with a reduction in rent being agreed in proportion to the area that is closed. And to a lesser extent, some operators are trying to agree, if the activity is suspended for a certain number of months, to terminate the contract.

4 **E-commerce clauses.** This is one of the most controversial negotiation points, because of the complexity involved in the traceability of products sold online and because, in most cases, the e-commerce companies are different from the tenants of the retail units.

It is being determined that any purchases made in-store via an online unit terminal or delivered from an e-commerce purchase, will be included in the rent accounting. The final wording of these clauses will, of course, depend on the operator and the landlord.

5 **Environmental clauses.** Over the last few years, provisions have been included reflecting the operator's willingness to contribute to environmental care in line with the guidelines of the centre or park in which it is located.

Throughout the first half of 2022, the agreed rents remained at the same levels as in previous years and their evolution will depend on the centre or park, the type of retail unit and the operator.

The average rent for shopping centres is between 18 and 19 €/sq m/month. This level is much higher in prime centres, with an average of 32 €/sq m/month, while secondary centres average 14 €/sq m/month.

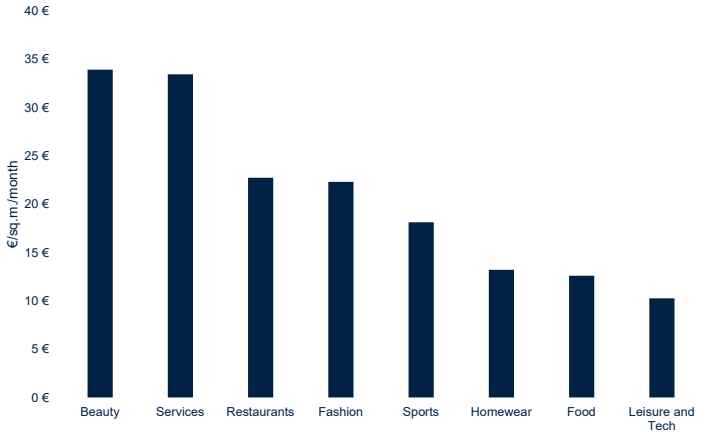
The activities that, on average, achieve the highest rents are services and beauty shops, with more than 33 €/sq m/month. Restaurants and fashion exceed 21 €/sq m/month for food and below that, home with 13 €/sq m/month, food with 12 €/sq m/month and leisure, technology, and multimedia with 10 €/sq m/month.

However, other specific variables such as the operator, the size of the retail unit or the location of the retail unit in the shopping centre would come into play when establishing the rental value of a particular outlet.

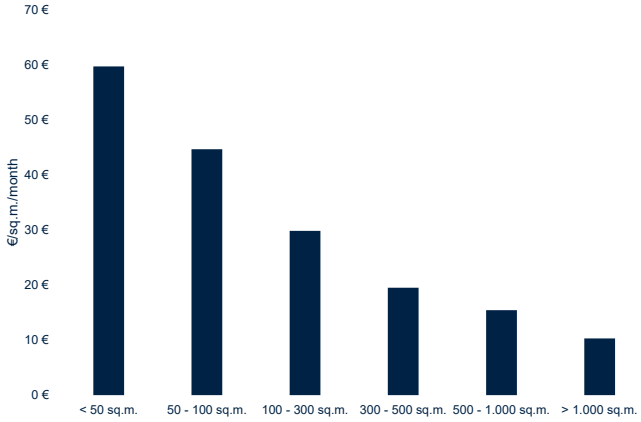
The decline in footfall and tourism figures and the boom in on-line shopping have had an impact on the rents of high street retail premises in the prime areas of the main Spanish cities (High Street Retail in Spain, Savills 2022).

Rents on the main shopping streets continue adjusting, albeit more gently than in 2020. Preciados remains the street with the highest rent in Madrid, at €250/ sq m/month, followed by Serrano (€228/ sq m/month) and Gran Vía (€222/ sq m/month) while, in Barcelona, Portal del Ángel and Plaza Cataluña remain the two most expensive streets, at €265/ sq m/month and €240/ sq m/month respectively. Avda Diagonal is the only street to grow (2.7% year-on-year).

Spanish shopping centers av. rent €/sq.m./month by activity



Spanish shopping centers av. rent €/sq.m./month by size



Savils: Savills

Main investment transactions

Type	Name	City	GLA Sq.m.	Vendor	Purchaser
Shopping Center	Torrecárdenas Shopping Center*	Almería	61,590	Bogaris	Lighthouse
	Finestrelles Shopping Center	Esplugues de Llobregat	39,250	Equilis	Frey Invest
	Rosaleda Shopping Center*	Málaga	46,755	Hispania Retail Properties	Carmila
	Abella Shopping Center	Lugo	31,000	Blackstone	Family Cash
Supermarket	Pradera Portfolio	various	30,000	ICG	Pradera
	Carrefour Portfolio	various	16,200	Barings RE	MDSR
	Picasso Portfolio*	various	70,100	AEW	various
Retail Park	Parque Mediterráneo Retail Park	Cartagena	66,000	Soc. Ind. Cartagenera de Desarrollo	Frey Invest
	Bahía Real Retail Park	Camargo	20,000	City Grove & Burlington	Savills IM
	Alcora Plaza Retail Park*	Alcorcón	16,800	Goldman Sachs	AEW

Source: Savills | *Advised by Savills

Activity and caution | Investment volumes

Compared to the recent boom years, 2021 was difficult for retail investment due to the standstill or delay of some transactions, which led to a reduction in the total volume to €995m, slightly higher than in 2013, one of years with the lowest values in the historical series.

However, 2022 started with very good prospects: excess liquidity, strong investor demand and a focus on retail warehouse parks due to their excellent post-pandemic performance. The total retail investment volume, including high street, between January and August 2022 was €1.16 billion, which is almost 10% higher than in the whole of the previous year. However, the difficult international situation has led to a generalized price increase. During the summer months investors have been cautiously observing the inflation rise and are starting to discount the interest rate hike.

While supermarkets were the absolute protagonists in 2021, with more than 45% of total retail investment, during the first 6 months of 2022 volumes are distributed among the different segments. Shopping centres and supermarkets account for 58% of total investment volume, high street for more than 23% and the rest, almost 19%, in retail warehouses.

Foreign buyers have been very active throughout the first half of 2022. Excluding high street transactions, of which 88% of buyers are nationals, the rest of Europeans account for 55% of the total volume invested in retail and more than 41% are buyers from other countries. Funds account for more than 70% of purchases, followed by RE (Real Estate) companies, which account for 25% of the total volume purchased.

From the sellers' point of view, Spaniards sit on the second position with 30% of the total disinvested, while the rest of the Europeans accumulated almost 57% of the total. Like the buyers, funds and RE (Real Estate) companies have sold most, with 90% of the value of the assets transacted.

Surpassing the €100m barrier, the South African fund Lighthouse Properties bought the Torrecárdenas shopping centre in Almería in the first quarter of the year, while the French real estate fund Frey Invest acquired Finestrelles in Esplugues de Llobregat.

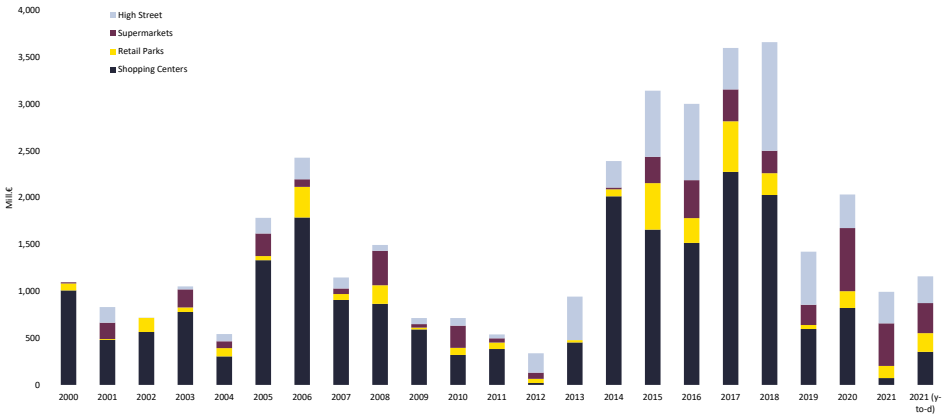
Below that figure, the same Frey Invest fund bought Parque Mediterráneo in the summer for €83m, while Citygrove and Burlington sold the Bahía Real Park in Maliaño to Savills IM, Carmila acquired the Rosaleda centre from Hispania, and AEW bought the Álcora Plaza Retail Park from Goldman Sachs for more than €50 Mill.

As a result of the recovered demand for investment in centres, large owners of prime properties, such as Islazul or Splau, have decided to put them up for sale. For buyers, this represents a good opportunity to acquire assets that do not normally come on the market at very attractive prices, due to the lower NOI level and more attractive yields.

The economic slowdown in 2020 led to a change in the divestment strategy of large landlords with products for sale, mainly institutional and large players in the sector such as URW. They were targeting the period 20-21 and had to postpone it to 21-22.

Foreign investors such as MDSR, Pradera, Lighthouse, AEW or Frey Invest are already materializing their purchases. Specifically, the attention of German and French buyers is mainly focused on retail parks, while REITs with extensive experience in the retail sector, such as Castellana Properties and Grupo Lar, continue to scan the market for shopping centres and retail parks in search of good opportunities. Supermarkets are the assets present in all searches.

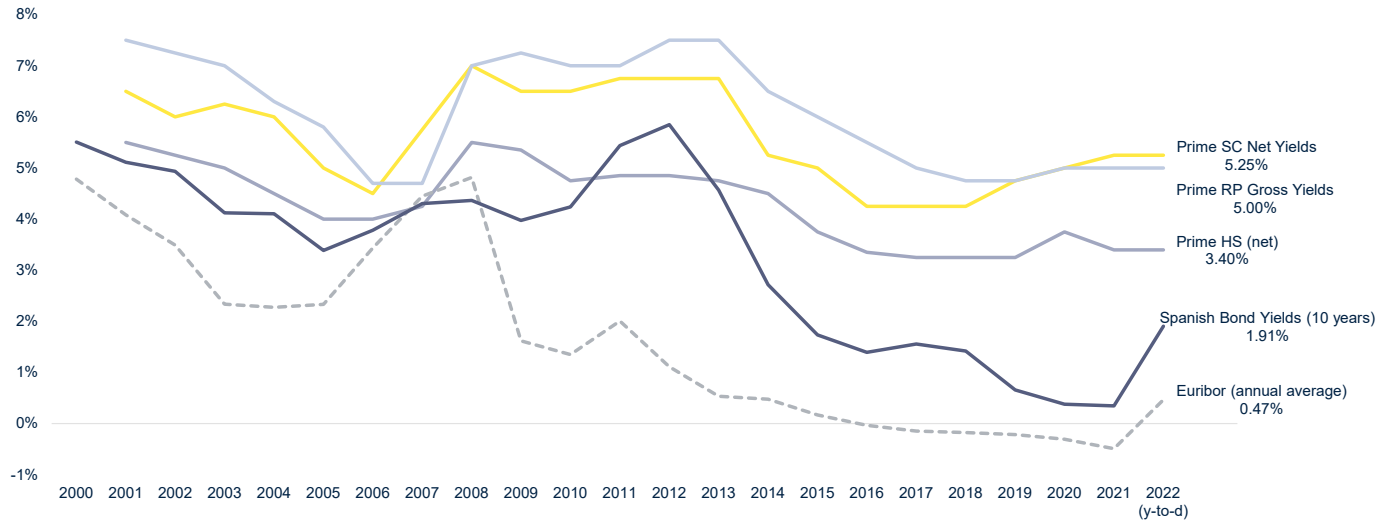
Investment market by type of asset



Source: Savills | Note: Excluding bank branches

“The retail sector offers many opportunities to increase value through active management. This, coupled with higher yields compared to other types of real estate investments, will offer many levers for investors to continue to achieve their target returns”

Yields



Source: Savills

By mid-2022, more than €1.25 billion is being offered in retail products, of which more than 65% of the total is the shopping centre segment, due to the more than €500 million expected to be paid for Islazul and Splau. Supermarkets, the star assets of the last two years, account for around 24% of the total.

Depending on the evolution of the international situation, the last quarter of the year could be very active. It is anticipated that between 50 and 80% of the volume offered will be signed, so that the final figure for the year could exceed the volume of 2019 and even be close to that of 2020. However, it is still too early to make an estimate as it will largely depend on the evolution of consumption.

Stability or Upturn | Yields

The lack of investor demand and the discounts demanded after the pandemic slowed down the sales of certain assets whose owners were unwilling to raise yields. Thus, during the second quarter of 2022, yields remained at the same levels as at the beginning of the year.

Prime shopping centres stood at 5.25%, retail parks at 5%, supermarkets at 4.5% and high street retail at 3.4%. However, due to the rise in interest rates, these yields could change in the short term.

Since 2021, prime yields for retail warehousing parks sit below the shopping centers levels. This demonstrates the attractiveness of this type of product for investors interested in the retail market.

Due to the rise in capital costs, it is likely that, by the end of the year, yields will increase in most of the retail sectors, so as investors maintain the promised return to stockholders. However, the stability of rents, the proven resilience of the sector and the shopping center yield level compared to other assets, currently are and will continue to be very attractive elements for potential investors.

The real estate market is a clear safe heaven sector for investors in the face of rising CPI and, in particular, the retail sector offers the highest returns and many levers to increase asset value through good management or repositioning.

Shopping centers are recovering numbers, similar to those of 2019, and much faster than many analysts predicted.

Shopping centers continue to be a safe and stable haven in the retail market.

New times call for constant modernization of shopping centers, especially in terms of new technologies and sustainability.

In the coming years, we will increasingly see the coexistence of alternative uses of retail, which will complement the commercial supply and guarantee more frequent visits by customers, who will be able to see all their immediate needs satisfied in the same space.

Trends and Guidelines | Phygital Purchase, Sustainability and Exclusivity

Stores reserved for VIP clients | The most exclusive luxury

The initial focus of the luxury brands is on Asia, a market with great potential for the future and where customers prioritize exclusivity in their purchases.

There are now spaces reserved for VIP clients in most luxury flagship stores. However, the pandemic need for exclusive experiences is favouring the evolution of this target .

In this line, Bruno Cucinelli opened an exclusive space in his New York shop. Decorated as if it were the designer's flat, you can buy everything on display.

Another of the luxury giants, Harrods, developed the experiential concept in its Residence in Shanghai, where customers can buy the latest designs or go to exclusive events.
To satisfy both occasional and loyal customers, Chanel limits the number of purchases of its most iconic items. In May 2022, it announced that, in 2023, it would open a series of exclusive boutiques for its best clients, around 1%, with the aim of reinforcing the Maison's exclusivity.

Second-hand sales or rooftop vegetable gardens | Supermarkets of the future

The supermarket of the future is not only about reducing store staff in favour of automated systems, but also about greater sustainability, digitisation, experience, efficiency, and omni-channelling. These are the keys to the future.

Initiatives are already being incorporated in the big brands, for example through greater interaction with nature through rooftop gardens, providing a more personalized customer service with a spice mixer to make curries, or integrating fresh produce and spaces for catering or events.

Some of the most innovative supermarkets are the Cologne-based German brand Rewe, which uses 100% green electricity and has a rooftop farm, the Finnish Citymarket, which has a brewery and a hydroponic herb greenhouse inside, Aldi Corner Store in Australia, with its dog-leashing area, or Sam's Club in Shanghai, with a dedicated space of toys that move and talk to children.

In Madrid, through the Alcampo.es collection points, you can purchase on-line and pick up the products within 2 hours of completion and up to 1 week later.

Another of the most recent projects is based on the collection of second-hand textile products to take a further step in the circular economy and waste reduction. Alcampo has an agreement with Moda Re-, one of the insertion companies of Cáritas Madrid, whereby it provides a corner in 10 of its hypermarkets for the sale of recycled clothes. It is planned that this initiative will continue to grow in other locations such as Irún or Oiartzun. On the other hand, Carrefour has an agreement with Patapam, a company specializing in second-hand clothing.

El Corte Inglés has decided to open supermarkets outside its department stores, as is the case of the Barcelona property on Diagonal with Francesc Macia, which will be the first of the thirty supermarkets it plans to open outside the group's department stores.

Consumer Experience | Technology, customization and sustainability

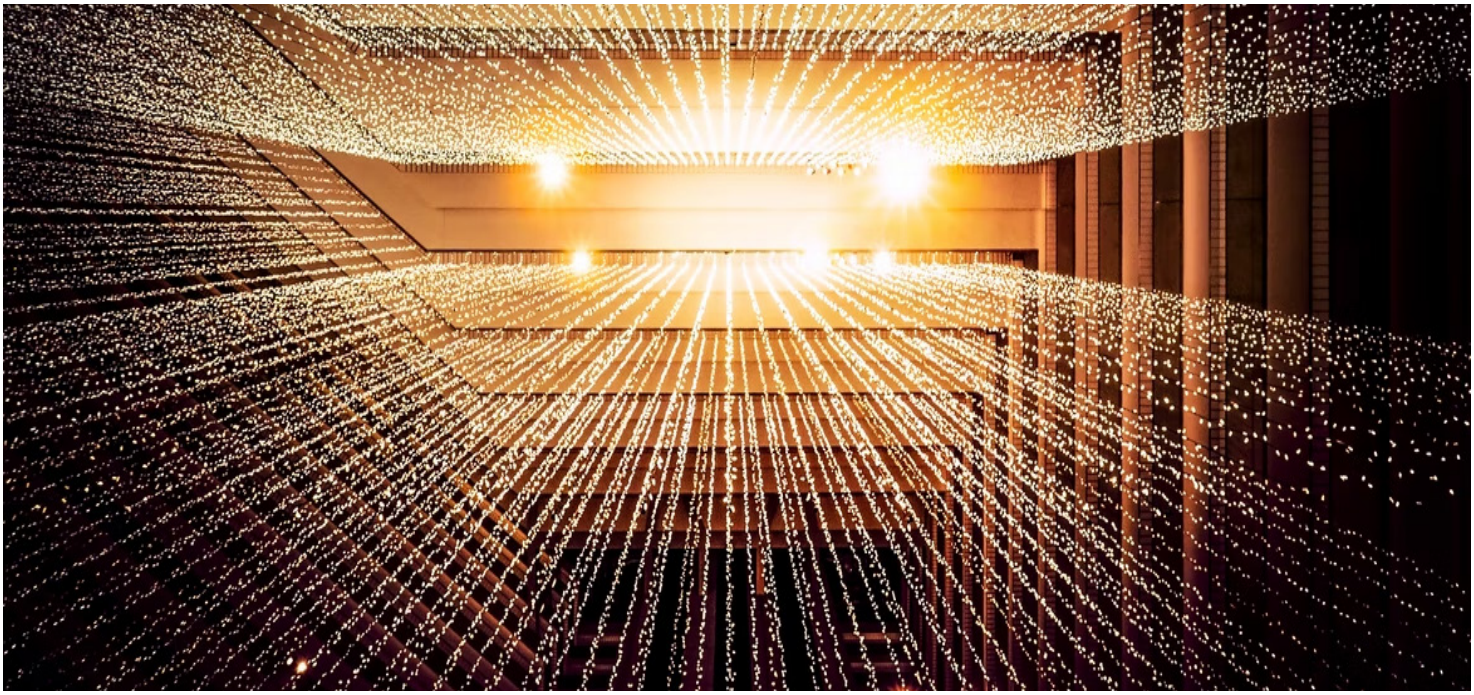
Understanding the consumer and providing the best service has become the main obsession of retail companies. Actions implemented over the last few years are narrowing the gap between consumer experience and marketers' perception.

New technologies contribute to the automation and personalization of services and have substantially changed the interactions between brands and customers. The pandemic has been the trigger to automate a multitude of processes and provide detailed information to consumers, who have increased their demands exponentially. Customers expect seamless omnichannel, AI-enabled (Artificial Intelligence) customer services, with no waiting, no repetition, and no delayed solutions.

In short, brands are taking advantage of technological innovations not only in their relationship with the customer, but also in personalized recommendations, and specifically beauty brands. They are using AI and AR (Augmented Reality) to identify the best skincare products and track them over time.

Another concern of consumers is sustainability. Major climate change and the pandemic have made consumers even more aware of environmental issues. According to the European Environment Agency (EEA), a shift towards circular patterns is essential to reduce the environmental impact of textiles. Extending the life of textiles and better collection, reuse and recycling of textile waste would reduce emissions.

- Circular economy is present in retail giants such as Alcampo and Zara in their collaboration with Caritas through Moda Re-, or the agreement between Carrefour and Patapam, collaborating with the reduction of textile waste. Shein, with its so-called clothing swap, also seeks to improve the perception of its customers.
- Landlords, aware of the importance of sustainability in the world around us, continue to work towards the integration, among others, of measures to reduce energy impact or the use of resources or



raw materials or improvements in the construction or refurbishment of their centres, which has been positively reflected in their profit and loss accounts. Thus, the AECC has awarded Marineda City (Merlin Properties) with the prize for the best Sustainability Action in a Shopping Centre for its "Zero Waste" waste management traceability system. For its part, the Moraleja Geen centre has a Breeam certificate that evaluates the sustainability levels of the building.

- A growing number of operators are focusing on tackling another major source of pollution, plastic packaging. According to the EEA, the pandemic has prompted the need to rethink the production, consumption, and disposal of single-use plastic packaging in Europe.

In addition, for many brands, AI and AR technology has eliminated the need for physical product samples, helping to reduce product waste.

According to a Sensormatic report "Greener Consumption: the new era of sustainable retailing", in addition to good waste management or recycling of clothes, energy efficiency and carbon reduction, ethical labour practices, support for sustainable charity programmes or foundations and ethical sourcing and production processes are also very important concepts for the European consumer.

Openings | Physical versus digital universe

Since the beginning of the pandemic, digitalization trends in the retail universe have exponentially gained momentum. Berskha's shop at 13 Preciados Street in Madrid opened in September 2021 incorporating a physical-digital mix through an integrated stock management system.

Moving forward in the union between the two universes, Zara has opened its world's largest flagship store in Plaza de España (Madrid). With 7,700 sq.m. of which 3,815 sq.m. are for sales, the store combines digital services (fitting room reservation, item location and the new Pay&Go function), with the physical shopping experience.

Up Madrid's Gran Vía, WOW physically presents brands only available on-line, seeking to create a differential hybrid environment.

Metaverse vs. Shopping centres | Sales synergies

Are virtual spaces designed for activities such as videogames, meetings, or virtual worlds here to stay?

Consumer companies, such as Coca-Cola and its Coca-Cola Zero Sugar Byte, leisure (Amnesia Ibiza), real estate, such as the game The Sandbox, financial companies, such as the Bankinter fund created in the summer that combines virtual and augmented reality with real experience, or the world's oldest auction house, Sotheby's, which auctions digital works in its digital replica of its London gallery, are already present in the metaverse.

In the fashion industry, brands can already open stores, offer customer services or sell their products using NFT (non-fungible tokens) and blockchain technology. Some fashion giants, such as Nike or Adidas or big luxury brands, such as Balenciaga, Gucci or Dolce & Gabanna, are exploring the infinite possibilities of these virtual worlds, as most luxury customers who have purchased fashion digital assets, have also purchased the same item in the real world.

In December 2021 Zara launched its first collection from Ader Error in the digital space, and in March 22 the company inaugurated solo. However, these openings have not been exclusively in this alternative universe, as it was also possible to purchase the garments in the points of sale at street level. For its part, in March Mango launched three NFT virtual artworks and, coinciding with the opening of its store on Fifth Avenue in New York, created other NFT works based on works by Antoni Tàpies, Miguel Barceló and Joan Miró.

Forecasts | 2022

1 Uncertainty about the evolution of the economy and the lack of financing has caused investors to stay in the "wait and see" mode.

2 Despite this, there is an appetite for retail product that energized the market during the first eight months of the year, with €1.16 billion transacted, almost 10% more than in the entire 2021.

3 In the pipeline there is product worth around €1.25 billion, although some assets will not be closed this year due to the lack of financing. Splau (Barcelona) and Islazul (Madrid) are the two largest projects in the pipeline.

4 Over the next three years, 38 future retail projects totalling more than 930,000 sqm are expected to be developed. Nine of them (GLA of 185,899 sq m) could be inaugurated this year.

5 Most of the future projects (27) belong to the retail park category, which continues to be the format that offers most opportunities, especially the urban medium-sized concept.

6 Rents for shopping centres continue to range between €18/sq m/month and €19/sq m/month, with no major variations expected, as inflation increases could compensate for the future adjustment of rents in certain shopping centres.

7 Tenants are expected to be extra cautious in choosing new locations in the coming months, especially until the current economic situation is unblocked.

8 Consumers will delay major purchases but continue to invest in experiences involving leisure, tourism, and outdoor activities.

9 Despite the big online boost, consumers will continue to return to pre-pandemic shopping habits and increase shopping frequency in the physical shop where they expect to find online shopping areas and innovative shops in terms of design.

Savills 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
Research Director
+34 91 319 13 14
alicia.corrales@savills.es

Olga Hornillos
Research Analyst
+34 91 319 13 14
olga.hornillos@savills.es

Retail
Luis Espadas
Executive Director
+34 91 319 13 14
luis.espadas@savills.es

Retail | Investment
Salvador González
National Director
+34 91 319 13 14
salvador.gonzalez@savills.es

Retail | Services
Patricia Matías
National Director
Retail Services Shopping Centres
+34 91 319 13 14
patricia.matias@savills.es

Carolina Ramos
National Director
Shopping Centres
+34 91 319 13 14
carolina.ramos@savills.es