

Spain Retail



In what ways have we changed?

Developers

- Invest in the experience value of their assets to turn them into meeting points and places of convenience.
- Assume the need for greater flexibility in the negotiation of leases.
- Take advantage of existing vacancies to propose alternative uses to retail (logistics, co-working, clinics, etc.).
- Invest intensively in technology and COVID-19 safety measures.

Tenants

- Integrate all shopping channels in the store.
- Invest in store design and concept to create unique and distinct experiences versus online.
- Consider the online channel essential to ensure the survival and growth of their business.

Investors

- Are very cautious and analyse their investments much more, influenced by the global economic slowdown.
- Continue to be very interested in the supermarket segment as an investment vehicle.
- Show renewed interest in retail parks, as well as retail warehouses.
- Do not consider investment in shopping centres as a priority.

Consumers

- Their shopping process integrates all channels and starts before they enter the store or buy a product online.
- Plan their purchases more.
- Are more prepared for any shortcomings, by detecting the brands that offer the best value for money.

Spain Retail

Economic growth in the second quarter boosted retail market activity, although it remains far from 2019 levels

The economy

Current improvement in economic indicators and the labour market show a considerably more dynamic economy.

Consumption power will increase in line with the gradual recovery of the labour market and, as a result, of household incomes.

In addition, the steady decline in uncertainty regarding the health and economic situation, would in turn favour a downturn in cautious savings and provide an additional boost to household spending.

As a result, consumption is anticipated to rise by 7.1% in 2021; in 2022, the rate will still be high (5.7%), due to the positive carry-over effect stemming from the strong growth expected between the second and fourth quarter of this year. Consumption is set to reach its pre-pandemic level in early 2023.

The central scenario of the Bank of Spain's most recent projections envisages GDP growth of 6.2% and 5.8% in 2021 and 2022, respectively. The lower incidence of the pandemic, against the backdrop of the vaccine roll-out, and the implementation of projects under the European funds from the Next Generation EU (NGEU) programme is expected to lead to high growth in activity in the second half of this year, which should also have a positive impact on GDP growth in 2022 on average.

However, there is still a high level of uncertainty regarding the full recovery from the health crisis, which heavily influences the economic outlook for the rest of the year.

Inflation in recent months has picked up significantly. Much of the increase stems from the rise in energy-related prices and although this is seen

as a transitory effect due to supply-side pressures, some agencies have adjusted their values upwards for 2021 (Focus economics forecasts 2%, up from 0.6% at the beginning of the year), and stabilisation for 2022 (1.4%).

Shopping Centres Footfall and Sales

After the historic drop in footfall in 2020 (33.7% according to ShopperTrack data), 2021 began with data that reflected the third wave of infections and the Filomena storm.

It was not until March when clear signs of recovery appeared, with an index even 5% above 2019, closing the four-month period with an increase of 6.9% compared to 2020, far from 2019, where footfall was 29% higher.

Considering the accumulated data to August, footfall in shopping centres grew by 16.5% compared to 2020 and is still 28.1% below the figure of two years ago.

The second quarter of the year has been particularly positive in terms of shopping centre sales, with an increase of 76.4%, larger than the decline in sales in 2020 (-51.7%).

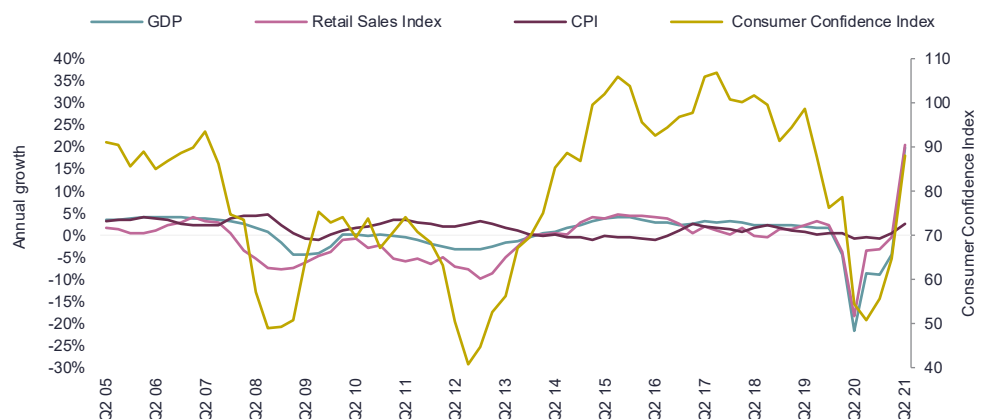
E-commerce

E-commerce set a new record, exceeding €51.6bn in Spain in 2020, 5.8% more than the previous year.

The activity sectors with the highest volume of transactions were clothing, with 8.4% of total turnover, travel agencies and tour retailers, with 5.4%, and gambling and betting, in third place, with 4.3%.

However, the COVID-19 pandemic had a very

Graph 1: Economy



Source: Savills Aguirre Newman

👉 During the first half of the year, shopping centre activity ranged between 22% to 28% below 2019 levels. 👈

uneven impact on the different branches of activity.

Amusement/theme parks (-62%), travel agencies and tour retailers (-62%), artistic, sporting and leisure events (-61%), air transport (-57%) and libraries, museums and cultural heritage (-55%) were the most affected categories, with significant drops in turnover at the end of 2020.

On the opposite side are: building materials and sanitary appliances (175%), florists (164%), restaurants (155%), beverages (132%), and furniture, lighting and home (116%).

The total volume of online business in retail activities with respect to total e-commerce at the end of 2020 stands at 38%, much higher than the volume of 2019 (29%), especially in restaurants and food, with increases of 155% and 99% respectively.

A greater adoption of the internet in households and changing habits have caused the share of online sales in total retail sales to increase from 6% in 2019 to almost 10% in 2020. COVID-19 has anticipated the growth of this share, and by 2021 Forrester Analytics estimates that this figure will reach 11.6% in 2021 and 13.4% in 2022.

Despite this, Spain is still far behind countries such as the United Kingdom (29.9%) and France (18.8%), as well as the European average (18%); its climate, together with its lower internet use and a different consumer behaviour in Spain, suggests that these figures will probably not be reached in the short/medium term.

Current stock and forecasted openings

Current stock of retail space in traditional retail product in Spain now exceeds 17.3 million square metres. This figure includes shopping centres, outlets, leisure centres, retail parks and hypermarkets with shopping arcades.

The year-on-year comparison shows a slight increase of just 1.1%, below the average annual growth rate of the last ten years (1.7%).

2020

During 2020, six retail complexes were incorporated, adding more than 186,000 sq m of gross leasable area (GLA) to the market; of these, four are retail parks.

The Outlet Tower was the largest (61,500 sq m), inaugurated in the Aragonese capital in the midst of the pandemic. This project not only incorporates a factory outlet with 60 brands, but also a cinema complex with eight screens and a 30,000 sq m mid-market area where the usual brands (Bauhaus, Jysk, Muebles Boom, Verdecora) are joined by a Sould Park leisure park, a Climbat climbing wall and several restaurants.

2021

By 2021, ten retail developments are anticipated to open, some of which were scheduled to open in 2020 but were delayed due to the health crisis. Four of them will be developed under the shopping centre format and six as retail parks.

The shopping centre Oasiz Madrid

(originally called Open Sky), will be developed by the French developer Compaigne de Phalsbourg and is the most ambitious project. It will be inaugurated on 27 October and will have a GLA of 90,600 sq m, 110 retail units, a 6,000 sq m beach club area with a lake and various restaurants, 11 cinemas, a 2,500 sq m co-working space that will operate under the name Elcowork, as well as a car park with a capacity for 4,000 vehicles and more than 250,000 sq m of outdoor space. Among the companies and brands that have already confirmed their presence are Muy Mucho, Aeropostale, Cinesa, Fnac and Mango.

Additionally, the developer of this centre is planning a second phase in which it intends to develop an outlet to be located opposite the shopping complex and which will cover 22,000 sq m. The first phase will comprise 17,000 sq m with 80 stores, and 5,000 sq m in the second phase with 35 additional stores.

The second project of the year in terms of size is Vialia Vigo. The shopping centre, designed by architect Thom Mayne, will house an intermodal train and bus station, a public square of more than 30,000 sq m, an entertainment and restaurant area and a 43,000 sq m shopping centre with more than 120 stores, including Fnac, H&M, Alcampo, C&A, Primark and Yelmo Cines, among others.

New shop openings

Many retailers are in the process of redefining their concepts and

resizing their shop network.

Although the number of new store openings in shopping centres in the first nine months of 2021 have not kept the same rhythm as during the first nine months of 2019, a certain dynamism has been observed in the market, with some brands resuming their expansion processes, albeit in a more contained manner, and others reducing their number of stores and strengthening their online channel.

Retailers see opportunities for growth in large projects that are underway and have the potential to succeed, but they are analysing in detail the opportunities in operating centres; this slows down the remarketing process.

During the first nine months of the year, 270 openings have been identified, 44% of them in the new Oasiz shopping centre, (Torrejón de Ardoz, Madrid) and Vialia Vigo. In addition, it is important to highlight the expansion that Value Retail has carried out in La Roca Village (La Roca del Vallès, Barcelona) where 18 new brands have been added as well as 850 underground parking spaces; among the most important brands are Gap, Adidas, Lindt, Pronovias, Rituals and American Vintage.

Last March, the Westfield La Maquinista shopping centre (Barcelona) opened a new space dubbed La Citi, which combines a F&B offering with a cultural and leisure agenda. In addition, Uniqlo, Urban Outfitters, Abercrombie & Fitch, JD Sports, Dyson and L'Occitane are among the new firms that have landed in the shopping centre.

Temprano Capital has refurbished the La Farga de L'Hospitalet de Llobregat (Barcelona) and has expanded its offering with a street food market with restaurants such as La Capricciosa, PadThaiWok y Sushisom, Anubis Lounge Coffee cocktail bar, as well as Mango (500 sq m), Sould Park (600 sq m), Querol and Nice Nails.

At the end of 2000, Redevo Iverian Ventures inaugurated the refurbishment of Parque Corredor in Torrejón de Ardoz (Madrid), which comprised of remodelling the façade and access points, widening the corridors and increasing floor

Table 1: 2021 forecast openings

Location	Name	GLA (Sq m.)	Category	Developer
Torrejón de Ardoz	Oasiz Madrid	91,600	Very Large	Compaigne de Phalsbourg
Vigo	Vialia Vigo*	43,080	Large	N-hood
León	Reino de León	23,945	Retail Park	Bogaris
Coslada	Plaza Coslada*	23,587	Retail Park	Inverlin
Vil. de Arousa	Pol. O Vao	16,500	Retail Park	Inmob. Ponteno (G. Nogar)
Adeje	Barranco Las Torres	15,500	Retail Park	Leroy Merlin and Tropicana
Madrid	Galería de Canalejas	15,000	Small	OHL, In. Espacio, Mohari L.
Córdoba	Patios de Azahara*	10,606	Retail Park	Mitiska
Madrid	Mirasierra	9,800	Retail Park	Ten Brinke
TOTAL	9	249,618		

Source: Savills Aguirre Newman. * Already inaugurated

“ An asset repurposing process has begun, with alternative uses being considered in those cases where retail no longer makes sense ”

to ceiling height, as well as improving the lighting and distribution of the retail units. In addition, the centre now incorporates a large 3,800 sq m store occupied by Zara.

In terms of activity, fashion accounted for 28% of shop openings, with El Ganso (5 openings) and Mango (5 openings) being the most active brands so far this year. F&B is the activity with the second highest number of openings, with Poke House opening stores in La Maquinista (Barcelona), Príncipe Pío (Madrid), Plenilunio (Madrid) and La Gavia (Madrid).

The brand with the highest number of openings was JD Sport with a total of seven new stores, in Centro Oeste (Alcorcón, Madrid), La Maquinista (Barcelona), L'Epcentre (Sagunto, Valencia), Gran Vía 2 (Hospitalet de Llobregat, Barcelona), La Fira (Reus, Tarragona) and Vialia Vigo.

In addition to these openings, we have to highlight the intense activity in the supermarket sector and flagships such as Aldi, BM and Spar have shown their intention to continue to grow their store network.

Trends

Over the coming months we will not only see a consolidation of the trends observed during the pandemic, but we will also see multi-purposing become the attribute that retailers and shopping centres alike will be looking for.

Retailers will include new product ranges trying to capture new targets and include new commercial lines that do not belong to their core business, convert the store into experiential destinations with the latest contact-less shopping technologies and integrate the online channel with specific spaces for shopping or picking up orders.

On the other hand, shopping centres will accompany the retailer in the modernisation of shopping processes and will modify or expand their offering to include uses that were not common until now.

The aim is to turn the shopping centre into a multi-purpose space where you can not only shop, but also satisfy all your daily needs. Medical clinics, offices, co-workings, consultancies, and academies are services that are commonly found, and which will become a general trend.

Adaptation to change and repositioning

The retail sector's impressive dynamism and capacity to adapt are being reflected in the market. Shopping centres are undergoing a transition from the traditional model to multifunctional models that are more integrated into urban cities.

The health crisis has resulted in significant levels of vacancy that will have economic implications for certain assets. Many developers see this situation as an opportunity to integrate alternative uses where commercial use no longer makes sense.

The repurposing of models include the incorporation of alternative and complementary uses alongside the existing current offering, as well as the total repositioning of the shopping centre and replacement of the current offering with a different use.

In the first case, it is important to carry out a prior diagnosis, in which the developer must analyse urban planning regulations, its compatibility with the current offering and the potential demand for retailers. If the new use is correctly defined, its implementation will add footfall and improve the shopping centre's prestige and its acceptance within the community.

Some examples of this type can be found in the Muelle Uno shopping centre (Málaga), which plans to open a 1,600 sq m co-working space with 13 offices and capacity for 200 people, and the future retail park that Ten Brinke is developing in Mirasierra (Madrid) which, in addition to retail

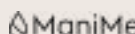
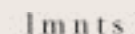
retailers, is also planning an office area.

In the second case, cooperation of public entities is essential if a change of use is necessary. To this end, initiatives must go hand in hand with convincing projects of the space recovery (which is underused due to its vacancy) and the consequent benefits for the city (employment generation, services or facilities in demand, etc.).

Abroad, one of the most emblematic projects is a five-floor building that Squire and Partners has developed in Brixton (London) and which is adjacent to the building that was historically occupied by the Bon Marche department store.

Both buildings have now been converted into flexible workspaces with facilities adapted to all needs (including a restaurant and a projection room).

Table 2: 2021 consumer trends

LET'S GO BACK TO NORMALITY BUT IMPROVING	Will be more concerned with social and environmental issues.	→ 	App which helps consumers to reduce their carbon footprint.
FROM IMPULSE BUYING TO PLANNED EXPERIENCES	Will plan shopping online or offline depending on the most convenient channel	→ 	3D printing system for manicure at home.
OPEN AIR GIVES US A BREAK	Will try to move previously indoor activities to outdoor spaces.	→ 	The brand has developed 50 individual geodesic domes for outdoor yoga.
PHYGITAL REALITY	Will look for spaces where one can simultaneously live, work, shop and play both physically and online.	→ 	It offers runners the opportunity to win prizes by downloading their race results.
FLEXIBILITY TIMES	Will break barriers between work and personal worlds, will travel less and spend more time with family.	→ 	It has launched a new line of decorative items, stationery, fragrances and games.
OBSESSED WITH HEALTH MEASURES	Priority will be given to non-massive locations and contact-less technology.	→ 	It has created a new in-store payment system in the United States using QR codes.
MORE PREPARED FOR EMERGENCIES	They will be better equipped to spot brands that will help them cope with future crises or changes in their daily lives.	→ 	It has fast-tracked its expansion process with 40 shops scheduled to open by 2021.

Source: Euromonitor /Savills Aguirre Newman

“We are witnessing a revolution in the food service sector: delivery and technology will be the main avenues for growth”

Brands rethink their formats

The pandemic arrived amid the retail market transformation process. Its consequences have accelerated a process leading to the closure of many retailers' businesses.

Euromonitor International estimates that around 5% of retail outlets in Western Europe and North America closed permanently in 2020. Many of these closures are due to both a change in brands' business strategies, and a fall in sales due to declining consumption and tourism.

Swarovski has taken advantage of the lock-down to redefine its brand image towards a more socio-economic profile positioning; to this end, it inaugurated its Instant wonder shop concept with spaces characterised by metal sculptures and innovative materials.

Grocery Neighbour is a new supermarket concept created for people who don't want to shop online, telecommute and are reluctant to visit the physical shop. Launched in spring 2021 in Canada, it is a truck with a wide range of fresh and canned goods that travels around the city's neighbourhoods. Customers receive a notice each time the mobile supermarket arrives, letting them know when they can do their shopping. Inside the supermarket, customers can select their products and pay for them independently.

The physical shop as a vehicle to optimise sales

Many retailers have taken advantage of the online retail boom to use their physical shops as warehouses or collection centres for products purchased online.

These measures make oversized spaces profitable, and save logistics costs. Most of the time, they are located in densely populated cities, although this is not always the case.

In Spain, one example is El Corte Inglés, which converted its Bricor shop in Alcalá de Henares (Madrid) into a ghost warehouse where online orders were stored, prepared and shipped.

It did so in the middle of a lock-down in April 2020 to reduce delivery times to its customers and has kept it that way until now; in this case, it was not a ghost warehouse, but what is called a micro fulfillment centre: a logistics centre equipped with the necessary technology for grocery distribution.

Although such warehouses require considerable investment, they can reduce the cost of an order by around two thirds compared to a store.

Dia is the chain that has made most use of this model in Spain and has converted 14 of its branches into this type of store. Meanwhile, Mercadona has three such centres, which they call beehives: in Valencia, Barcelona and Madrid.

Businesses integrate Online Shopping processes

Booking systems, online ticketing, QR codes for menus and payments are some of the technologies created to minimise physical contact.

By activating the shop mode in the Inditex app, you can locate a specific item in the shop, reserve a fitting room or place an online order in-store and pick it up within 30 minutes. In addition, the company has increased the space allocated to self-service checkout for payments

and has created logistics “mini-hubs” in areas with a high density of deliveries to gain efficiency, for which it has created heat maps that indicate where online demand is concentrated.

F&B: the sector that has most evolved after COVID-19

Terrace dining and food delivery, take away and drive thru business have helped the restaurant sector to survive during the health crisis and will be one of the main avenues for growth as a complement to restaurant visits.

Although in 2021 the sector could return to growth in terms of turnover, headcount and investment, such growth will not be enough to achieve a full recovery of the sector, which could take place in 2022.

Development of delivery and take-away, digitalisation at the sales point and innovation will be the key tools to boost the sector.

Fast casual

Fast food with healthier and less processed ingredients is one of the fastest growing formats. Faborit, Aloha Poke, Poke House, Juicy Avenue, and The Panther, are some of the brands that are gaining market share. These concepts bring together all the emerging trends in product quality, speed of preparation, sustainability awareness (reusable or low environmental impact bags) and the use of technology through Qr menus or contact less payments.

The Valencian gourmet burger chain The Fitzgerald opened its first outlet in Madrid in 2021 in the Gran Plaza 2 shopping centre (Majadahonda, Madrid), using a

SUMMARY

The retail sector is undergoing a phase in which major structural changes are rethinking the way we traditionally understand retail space.

In the context of COVID 19, we find ourselves facing a complex scenario in which we will observe economic consequences that will depend to a large extent on the quality, size and concept of each shopping centre.

Rather than having a negative aspect, the repositioning of shopping centres is a way of revitalising and updating offerings through an in-depth analysis of alternative uses that strengthen retail and turn the asset into the best destination for consumers.

In view of reduced investor appetite for retail product, implementation of alternative uses simply diversifies the risk and creates a product that is more attractive to investors, where synergies between uses can generate an increase in footfall and sales.

This type of initiative should be supported and approved by local authorities, as it contributes to an improved quality of life for citizens.

Table 3: New entrants 2020 / 2021

Brand	Activity	Location	Country of origin	Brand	Activity	Location	Country of origin
Tennis Point	Tennis goods	Castellana, 144	Germany	Weekday	Fashion	Paseo de Gracia, 33	Sweden
Haidilao	Restaurant	Gran Vía, 52	China	Dr. Martens	Shoe shop	Carrer de la Cucurulla, 2	UK
Mere	Supermarket	Parla (Madrid)	Russia	Hubsidestore	Technology	Diagonal Mar SC	France
Forte Forte	Fashion	Claudio Coello, 72	Italy	Dyson	Technology	Maquinista SC	UK
Sessún	Fashion	Fernando VI, 13	France	Bareilly	Fashion	Lilla SC	Italy
Seiko	Watches	Ayala, 15	Japan	Messika	Fashion	Paseo de Gracia, 66	France
Pure Electric	Electric bicycles	Ríos Rosas, 56	UK				
Discountera	Fashion	Sambil SC	Poland				

Source: Savills Aguirre Newman

☞ Due to changes in the sector, it is necessary to rethink some lease clauses, in order to reflect the new consumer behaviour ☹

modern format. Udon Asian Food, which with 70 restaurants has recently opened three new branches in Vitoria, Lleida and Barcelona, aims to reach 100 by 2024.

Madrid and Malaga were the cities chosen by the Aragonese group *La Mafia se sienta a la mesa* to continue growing with its most disruptive concept, Ditaly, based on the gourmet Neapolitan pizza and cellar beer.

Ghost Kitchens

This is an emerging concept in Spain, but it is well established in countries with a delivery tradition such as the United States, where companies such as Zuul Kitchens and Kitchen United are already successful.

Their main advantages lie in the cost efficiency gained from the location of these kitchens in secondary locations, their lower staffing and cleaning costs and the possibility of different brands to share ingredients, kitchenware and employees.

In Spain, the start-ups Foodcraft and Cuyuna (which already has 20 kitchens and aims to close 2021 with 7 locations) are some examples of this concept. They already have several locations in Madrid that house between eight and 11 kitchens of different specialities (pizzas, burgers, gyoza, etc.) whose menus are ordered online and delivered by delivery Cooklane, a company linked to the founder of Uber; it already has large-scale ghost kitchens, with the largest one located in Madrid's

Prosperidad neighbourhood (it includes 38 kitchens in a space of 1,500 sq m).

Rents

The exceptional situation of the past year has changed the legal and lease situation of the retail sector. As a result, landlords and tenants have been forced to reach agreements in order to minimise the negative impact of closures and capacity restrictions for both parties.

During 2021, some landlords, who have seen the vacancy in their shopping centres increasing, have opted to extend until the end of the year rents negotiated during 2020.

Meanwhile, others have dropped these conditions, as they have found that the performance of their centres already justified the rental levels of 2019.

New leases signed in prime shopping centres have recovered rental levels to a greater extent than in secondary centres or those located in tourist areas, where there have been sharp declines in footfall.

In general, tenants are demanding new lease clauses to mitigate in some way the risk of having a flat rent in unforeseen downturns, proposing to give greater importance to variable rent or even pure variable rent, with the consequent risk for the owner, due to the impossibility of defining a stable income plan over time; turnover based on online sales, the footfall of the retail units or the centre, or calculations based on a stable income plan over time are

some of the formulas that are already being considered in Europe.

The landlord demands greater transparency with online sales and clauses including the benefit of the physical shop for the tenant, who uses the store as a showroom, where orders can be collected, returned or even placed online.

Customer geo-referencing systems or online sales volume reporting are some of the formulas requested by landlords that try to monitor sales made through this channel.

The average rent for shopping centres in Spain stands at €18.64/sq m/month. This figure does not reflect the impact of COVID-19 which will be noted from 2021 onwards where there will already be some adjustments due to the renegotiation of rents and new leases.

Over the last twelve years, the rent has shown a downward trend, reaching a minimum value in 2015 (€15.73), after which it began to grow at an average of 4% per year.

In Barcelona, where restrictions on new openings are greater and therefore availability is lower, the rent is €25.32/sq m/month, while in Madrid it is €21.71/sq m/month and in the rest of the Spanish regions it is €17.04/sq m/month.

By size, retail units of less than 50 sq m are the most expensive (€61/sq m/month), while those with an area of more than 1,000 sq m are the cheapest, with an average of €11/sq m/month.

Investment

The general economic slowdown has affected the different areas of the real estate sector, albeit to varying degrees.

Retail has been particularly affected and this has been reflected in investment levels, which in the first nine months of the year were at their lowest in nine years.

The great challenge for investors wishing to enter the Spanish retail market is not to have liquidity, but to find the right product, given that they remain very cautious about the evolution of rents, defaults, vacancies and the progress of e-commerce.

During 2021, the general position of the retail investor is the same as in 2020, opting for food retail as the main outlet for their investments.

This sector has been the real driver of investment activity; during the first three quarters of the year, with €166.5m, record volumes have been recorded for the entire historical series, tripling the volume of 2019.

In 2021, four large supermarket portfolios were transacted, one of them being the largest of the year, a portfolio of 27 Mercadona supermarkets purchased by the Israeli fund MDSR Investments for more than €100m, in which the retailer will continue in the supermarkets.

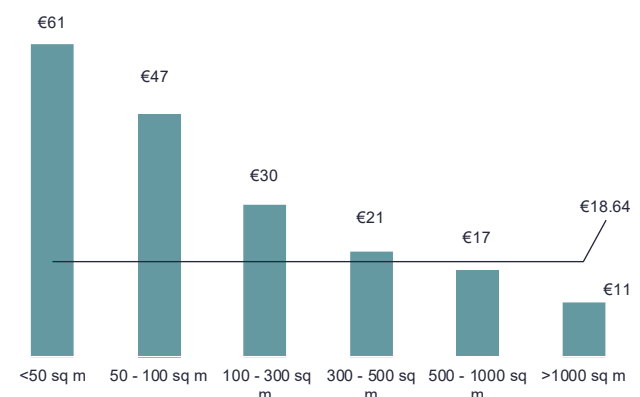
Shopping centres are the segment that have been hit hardest by the fall in investment, registering up to September €42.4m. This contrasts with the €534m in 2019 (€1,326m if we include the sale of Puerto Venecia

Graph 2: Average rent sq m per activity



Source: Savills Aguirre Newman

Graph 3: Average rent sq m by size unit



Source: Savills Aguirre Newman

“ As a result of the uncertain shopping centre format, investors continue to focus on supermarkets and are increasingly considering retail parks ”

and Parque Principado, which went to 2020 due to administrative issues) and with the €2bn registered in 2017, a year in which there was a record investment figure.

The trend of 2020 is repeated with opportunistic transactions with a very low volume of impact, in which the investor intends to reposition the centre or change its use. The largest volume purchase was that of the El Parque shopping centre in Ciudad Real for €17m by a private equity company.

The retail warehouse sector has recovered after 2020, which only saw the sale of the On Plaza retail park and the purchase of the Leroy Merlin and Bricomart retail warehouse portfolio by Batipart. During the first nine months of the year, five assets of this type were transacted with a total volume of close to €92m.

Of the above, two are retail parks (Bahía Azul y Myo) and three are retail warehouses, two of them occupied by Toys R Us in Basauri (Vizcaya) and Los Barrios (Cádiz) and another by IKEA in Palma de Mallorca.

On the high street, investment volume to date in this segment was €180.8m, down 42% year-on-year compared to 2019, largely attributed to the impact of COVID-19. Investors continued to focus on Barcelona and Madrid, which accounted for 86% of total transactions.

Despite the above, investor interest in acquiring retail units continues and there is a high level of liquidity in the market. However, the failure of purchasers and vendors to reach an agreement on price makes it difficult to close deals. Interest is mainly focused on the prime area, with secondary areas being penalised by their lower degree of resilience.

Yields

Since the beginning of 2021, we are observing a trend in Europe of an upward correction of prime shopping centre yields. In Spain, and although there is still no data to prove it, the yield would stand at 5.25%, the highest since 2013 and 50 percentage points higher than in 2019.

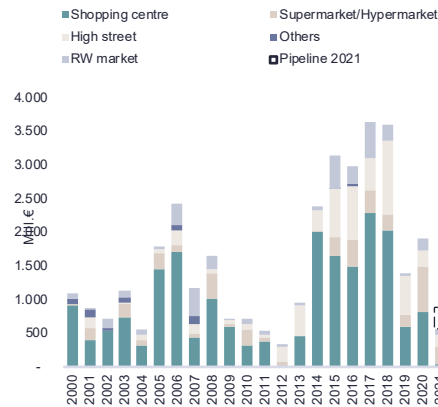
In the case of prime retail parks, it would be around 5.50% and the

upward adjustment would also be 50 percentage points.

Although supermarket product yields are closely linked to the asset and its location, during the first half of the year, existing transactions show a certain contraction in yields that may continue over time and as long as there is no increase in investor appetite for the rest of the retail segments.

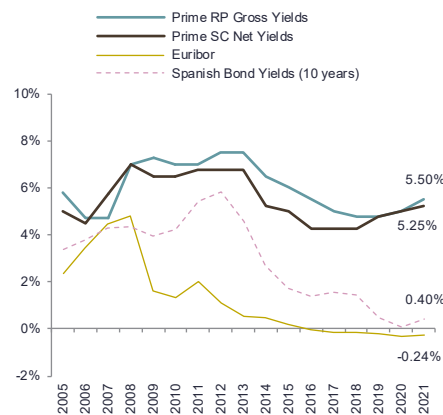
An urban supermarket with good lease conditions and a prestigious retailer can achieve a yield of close to 4.5% (100 percentage points higher than in 2019).

Graph 4: Retail investment market by type of product



Source: Savills Aguirre Newman

Graph 5: Prime yield evolution



Source: Savills Aguirre Newman

RETAIL SALES IN SPAIN

9%

Online

15%

In shopping centres

76%

On high street



In 2021, online could reach 11.6%

👉 In 2021 investment in retail will amount to approximately 900 million euros👈

Graph 7: 2021 main deals



Mercadona Portfolio*

Price:	€100 M
GLA:	76,000 sq m
Yield:	Confidential
Seller:	Mercadona
Purchaser:	MDSR Investments



Carrefour Portfolio I*

Price:	€93M
GLA:	100,600 sq m
Yield:	Confidential
Seller:	Carrefour
Purchaser:	Realty Income Corporation



Carrefour Portfolio II*

Price:	€64M
GLA:	32,000 sq m
Yield:	Confidential
Seller:	Confidential
Purchaser:	Realty Income Corporation



Madrid Sur*

Price:	Confidential
GLA:	24,000 sq m
Yield:	Confidential
Seller:	Hispania Retail Properties
Purchaser:	Onix Capital

Source: Savills Aguirre Newman
*Deals advised by Savills Aguirre Newman

Forecast 2021

- Economic recovery, together with a consumption increase, will have a positive effect on footfalls and sales in the retail sector, which will maintain their growth trend between now and the end of the year.
- Consolidation of online shopping habits will lead to an increase in the share of this channel in total retail sales, which could reach 11.6% in 2021.
- Oasis Madrid (90,600 sq m) and Vialia Vigo (43,000 sq m) are the two major projects for the year. Five new openings are planned for the end of the year.
- There are currently increased openings of new retail units, which will continue, albeit in a more contained and moderate manner.
- Multi-purposing will be the objective of both retailers and shopping centres. Retailers will

intensify investment in technology, and developers will look for alternative uses to be included in the retail offering.

- The average rent for shopping centres in Spain stands at €18.64€/sq m/month. This figure does not reflect the impact of COVID-19 which will be evident from 2021 onwards, as there will be some rent renegotiations, adjustments and new leases.
- A continued trend in the investment market is anticipated, due to supermarket portfolio transactions being closed. The level of retail investment in 2021 is expected to amount to around 1,000 million euros.
- The shortage of supermarket portfolios in the market may lead investors to divert their capital towards the retail warehouses or retail parks

format.

- The market sentiment is that we could be close to the peak of the market for this cycle. However, yields could continue to rise in certain centres where retail use is no longer feasible, and which provide the possibility of implementing new uses.
- Recovery of the economy and consumption suggests a more optimistic scenario and a relaxation of yields in prime and more resilient assets. This may lead to a polarisation between prime and secondary locations. However, we do not think that yields will recover as quickly as in the previous cycle.



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.

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