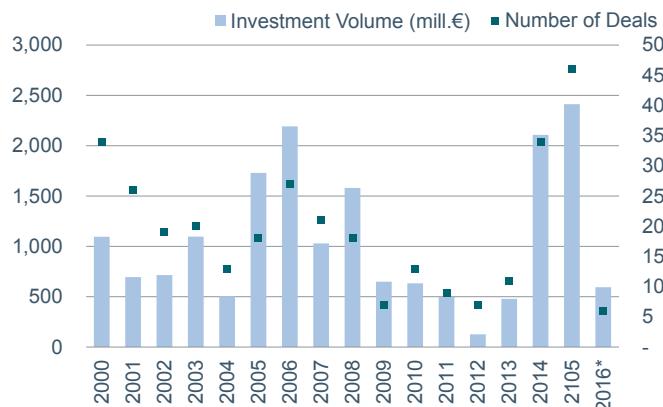


Market Report Spain Retail

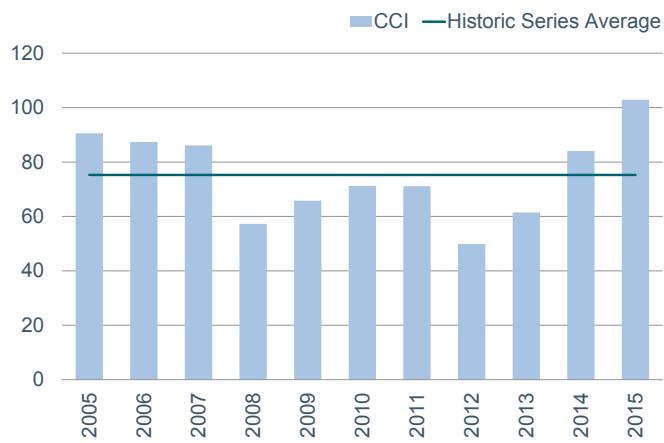
March 2016

GRAPH 1
Investment Volume and Number of Deals **



Source: Savills / *until March / ** excluding high street and bank branches units

GRAPH 2
Consumer Confidence Index



Source: CIS

SUMMARY

Record high investment volume

■ All retail market indicators, such as shopping centre footfall, sales volumes, textiles manufacturing, hospitality business figures and leisure spend are all rising driving investor demand in retail property.

■ Heightened levels of activity have resulted in the reduction and gradual phasing out of temporary rental discounts, which in turn has caused a net increase in rents.

■ Almost 145,000 sq m of new stock came onto the market in 2015. This amounts to 1% more GLA added to the total retail market stock, which now stands at over 15 million sq m.

■ Retail density grew very slightly on the previous year's figures, due not only to the moderate volume of new space that came on to the market, but also the continued fall in population since 2013.

■ Development of retail schemes appears to be picking up. Up to one million sq m of new-build space is expected up to 2018, some of which is yet to be marketed.

■ Last year's intense investor activity is reflected in the total investment volume transacted. The €2.4bn registered in traditional product (primarily shopping centres and retail parks) was an all-time record high.

■ The retail park market has also reached record levels, reaching just over €500m, approximately one third of the all-time record transacted.

■ Almost €3bn of potential future sales have been identified. Despite the increase in supply, the surplus of market liquidity and low interest rates are pushing yields down.

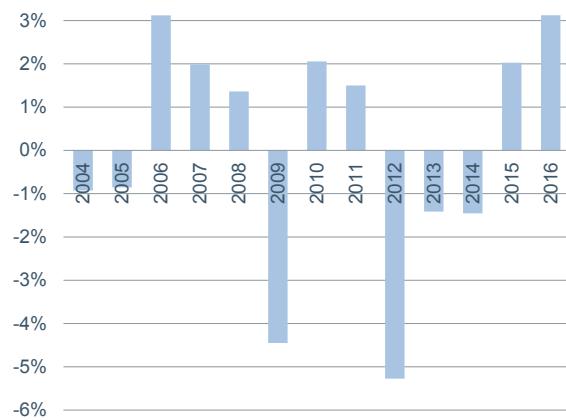
Economic Outlook

The Spanish economy has been in a growth cycle since the start of 2013, registering its eighth consecutive rise in Q4 2015, 3.5% according to the Spanish Statistical Office (INE). The 3.2% annual figure is above the 2.5% historical average for the period between 1971 and 2014 for the first time since the onset of the recession.

With regards to the job market, the unemployment rate has continued to trend downwards since the end of 2013, adjusting since then at around 20% and according to the national census (EPA), reached 20.9% in Q4 2014.

GRAPH 3

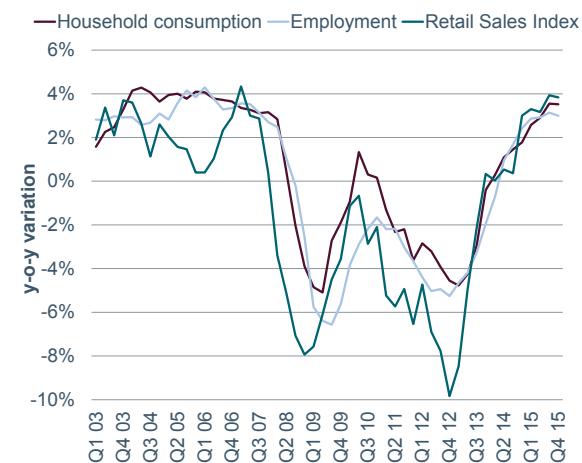
Footfall index y-o-y variation (January - February)



Source: Experian

GRAPH 4

Economic Indicators



Source: INE

"The recovery of the main socioeconomic indicators has helped to bolster improvements seen in the retail sector"

Gema de la Fuente, Savills Research

Domestic demand continues to be the main economic growth driver. The continuing fall in prices – as a result of the drop in oil prices – along with an increase in employment levels (3.0% in Q4 2015, the sixth consecutive increase) have resulted in an increase in household spending power and final consumption.

According to the INE, consumer spending grew by 3.5% in Q4 2015, the highest increase in the past eight years.

Retail trade figures are also encouraging, with the close of 2015 marking the second consecutive year of growth. Despite this, business figures are still well off reaching pre-crisis levels.

To date, the economic climate has gone hand-in-hand with a rise in consumer confidence. At the end of 2013, the indicator began to rise and has continued to surpass all records to date.

In December 2015 the index closed out the year at 107, while the year's average was above 100, which suggests that consumers are by and large positive about the economy. However, the uncertain political situation in which the country currently finds itself, coupled with the current world economic outlook have caused a drop in these values in January and February after two years of continuous growth.

Footfall and shopping centre activity

Following three consecutive years of declines in shopping centre footfall, 2015 saw a return to growth. According to the latest Footfall Index published by Experian, the y-o-y variation registered a very slight increase, barely 1.5%, though it is worth noting that this represents the first increase since the start of the crisis.

January's index backs this upwards trend, showing a 3% y-o-y increase. The increase in footfall has had a positive effect on retailer sales figures. The Spanish Association of Shopping Centres (Asociacion Espanola de Centros Comerciales - AECC) reported a 6.1% growth in sales compared to 2014.

A number of retail associations and confederations also expect this figure to continue to rise. According to Acotex – the main fashion and textile trade association – the clothing sector, the main shopping centre driver, registered an increase in turnover of almost 5% to October, almost one point above the previous year's figure.

For its part, the industrial manufacturing index (IPI) for the textile industry confirms the market's growth trend. According to the INE, 2015 closed with an average y-o-y variation for manufacturing of 5.3%, more than twice that of 2014. Furthermore, the textile industry surpassed the overall figure for Spanish industry, with an average of 3.2%.

We would also particularly note the discrepancy between the prices of fashion and footwear with regards to inflation, they have consistently been above the CPI each month.

E-commerce

The online world continues to grow. More and more retailers are choosing to offer online sales alongside – not instead of – store sales.

The expansion of new technologies means that more homes than ever before are now online, with an increasing number of people choosing to buy online, though it is true that in this respect Spain still lags well behind the average for the rest of Europe.

In the section relating to the number of homes with internet access, Spain stands close to the European average of 83%, with 79% of homes now online, although this figure is some way off Luxembourg's, which heads up the list with 97%.

In terms of people who made online purchases in the last three months, the difference is still wide. The online sales rate for Spain was at 32% compared to 43% for EU28 and 75% for the UK, which has the highest level in Europe.

Focusing on Spain, the circa €9.5bn transacted in the first half of 2015 represented a 25% y-o-y growth, with travel agencies and air travel accounting for the lion's share of turnover, followed by clothing, which bolstered its position as one of the busiest segments.

We would also highlight the year-on-year increase registered by the electrical appliance and audio-visual sector in Q2, which at almost 77% almost doubled the figures registered in 2014.

Online vs offline

The line between online and offline is ever more interlinked and not only are traditional high-street retailers moving into online business, but digital businesses that started out online are now opening physical stores to showcase their brand and product to consumers.

Multi-channelling is a key factor

which helps to gain access to information, improves communication, strengthens brand image and has a direct effect on sales, both in-store and online.

In mid-November Amazon Books opened its first physical store in Seattle, where customers can buy books and try out Amazon branded gadgets, as well as receive advice from the company's expert personnel.

Amazon's business is growing in Spain. The online commerce giant recently announced that it would be doubling the size of its logistics center in San Fernando de Henares (Madrid) from 32,000 m² to 75,000 m².

Furthermore, Madrid was chosen to have a tech centre that will support their business in Europe

Nice & Crazy is the brand name of the physical stores of the online discount store Ofertix in Barcelona, following in the footsteps of Showroom Privee, which since 2012 has had an 800 sq m store in Paris called Showroom30.

Other leading brand shopping clubs offering heavily discounted goods have opted for the pop-up store format, in which they create a temporary space that customers can visit and shop at. This type of one-off event has been favoured by online small retailers, who welcome

the opportunity to showcase and sell their product in an offline environment.

Expansion Plans

Retailers continue to have active expansion plans, particularly in light of the signs of a rise in consumption, although they appear to be sticking to very clear guidelines in order to ensure profitable growth. New-build developments are the natural solution to these expansion plans, though, as has been observed these last few years, not every type and location of centre are suitable.

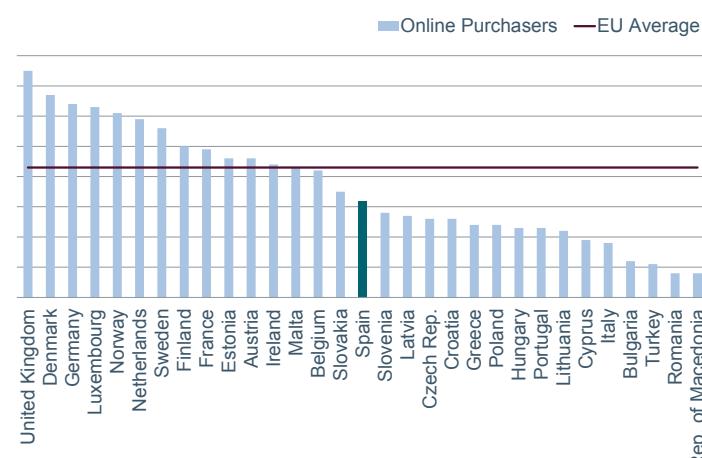
In terms of pre-existing centres, the lack of available space in prime properties means that retailers are having to redirect their expansion into consolidated shopping centres in secondary cities that dominate their direct catchment area. As a result, the occupancy rate in secondary product continues to grow.

Fashion, hospitality and health and sports are the most active sectors and continue to open new stores in shopping centres.

H&M, Shana, Mango, Sfera, Amichi and Fifty Factory are the fashion brands that have opened the most new stores. Despite the fact that Primark, Zara and the Inditex Group, who are key drivers of the sector, do not feature on this list, they continue to expand. However they extend their retail networks in a highly selective manner, often by just extending the size of their existing stores in the centres already located.

In other fashion segments, such as accessories, footwear and lingerie, Parfois, Havaianas, Day a Day and Intimissimi are the brands that have clocked up the most store openings.

The Italian bag brand O Bag has also opened its own store in the Gran Vía 2 shopping centre (Barcelona). To date, it had only sold its products via multi-brand stores, but it has now launched a subsidiary in Spain in order to develop its own retail network.



Source: Eurostat

Restaurants have become increasingly important over the last few years and as a result many shopping centre food courts have been renovated. Choosing the right food offering, as well as the layout of spaces has a direct knock-on effect on the amount of time people spend in shopping centres, hence the upturn in food court operators.

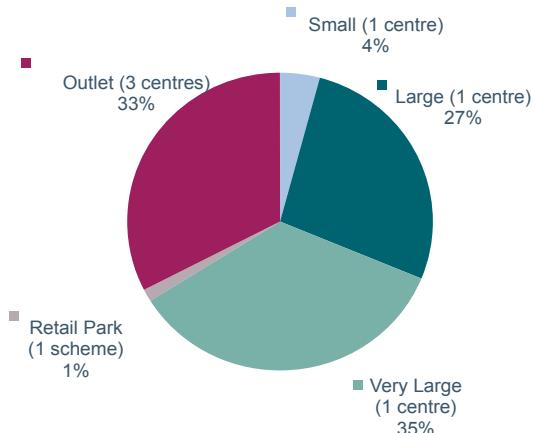
In this regard, the latest Out of Home report prepared by Kantar Workpanel indicates a recovery in the amount of drinks and snacks consumed outside of home in 2015, thanks in part to the drive by Horeca (Hotels, Restaurants and Cafeterias). The Spanish Hospitality Association (FEHR) confirms this trend with its recently published sales figures for the sector, which registered a total 5.6% y-o-y increase in November and a 5.1% increase in bars and restaurants.

In terms of cosmetics and personal care products, Kiko Milano has established itself as the fastest growing brand, although we would particularly note the appearance of brands such as MAC, L'Oréal and Revlon in shopping centres, which until now had only previously been on the high street. Druni and Primor are among the multi-brand stores of note, along with specialist nail care stores.

Other business activities which were non-existent in shopping centres

GRAPH 6

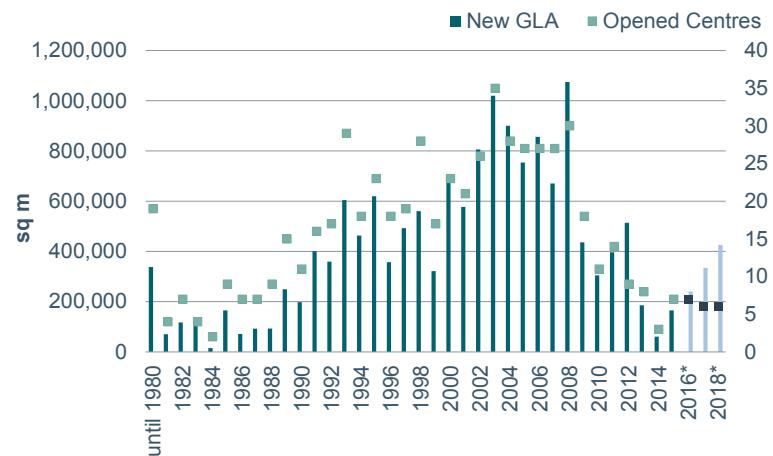
GLA by Type of Product (New Developments 2016*)



Source: Savills / *forecasts

GRAPH 7

Openings by Year (GLA and Num. of Centres)



Source: AECC / Savills / *forecasts

just a few years ago, such as dental clinics, beauty centres and gyms, are now found in many centres. For example, Dentix, Centros Únicos and McFit.

It is also worth noting that the last Spanish cultural customs and behaviours survey (2014-2015), conducted by the Ministry of Education, showed that cinema remains the favoured entertainment type and is also the activity that has seen the biggest increase, 4.9% compared to 2011 figures. On the other hand, the average family leisure spend fell progressively in recent years, until it finally began to recover in 2014.

The latest cinema attendance figures published by the SGAE in 2014 show an increase in attendance of around 2%, with a 4.4% increase in sales.

In this regard, and in response to the first signs of economic recovery, some leisure industry firms have resumed their expansion plans. Beyond cinemas, there are other new activities that appeal to consumers, such as the wind tunnel that Sambil plans to install at its complex in Leganés (Madrid), which will be the largest in Europe.

New retailers

Spain is on international retailers' radars.

Uniqlo has finally chosen to launch in Barcelona, following five years

of being on the list of new retailers wanting to expand into Spain. Its first store will be located on Paseo de Gracia, in the retail unit formerly occupied by Levi Strauss.

GAP, which for a long time was a candidate, finally decided to launch by taking up space in a number of El Corte Inglés stores and various airport retail spaces.

In both cases, it seems that taking space in shopping centres could come at a later stage, through the growth via different retail formats, an expansion strategy that several retailers are currently implementing.

Other brands which until now were only sold in multi-brand stores are planning to expand to their own stores, as is the case of WAU, Mustang and Snipes by Deichman.

A number of retailers have emerged as spin-offs from their parent company. As is the case with Kiko Womo, Kiko Milano's men's line, which is expected to open its first store in Madrid in 2016. Menswear retailers are finally arriving in the main retail areas. As Mango did with H.E., Inditex has announced that it will launch Stradivarius for men in 2017. This will likely result in menswear specific stores, as is the case with the group's other brands.

JD Sports expects to open 15 new stores in Spain in 2016, although the big news is that it will also expand with its sister sneakers brand Size.

The booming numbers of people doing sports has spurred sports and casual wear brands on to capitalise on this business opportunity.

Among Spain's new arrivals, is Vivobarefoot, which already has three stores in shopping centres in Barcelona and is planning to open stores in other key retail areas across the country, and Lululemon Atlética, which as yet has no bricks and mortar outlet, but has started to search for space in order to launch their first store at some point in 2016 or 2017.

Current stock and commercial density

Retail stock in Spain currently exceeds 15 million sq m. This figure includes shopping centres, outlet centres, leisure centres and retail parks, excluding high street retail units and retail warehouses that are generally constructed around a retail area in out-of-town locations.

Seven centres opened in 2015, accounting for barely 145,000 sq m of new space, increasing total retail stock by just 1%. Of particular note was the opening of La Fira in Reus (Tarragona), following four years of works being put on hold.

Madrid, Andalusia and the Community of Valencia (Comunidad Valenciana) remain the regions with the most retail space, accounting for 50% of total space. Madrid leads the retail density ranking, with

almost 490 sq m per one thousand inhabitants, well above the average figure for Spain, which stands at 322 sq m.

This is a slight increase on last year's figures and is not due to the modest increase in new-build space coming onto the market, but rather to the continued decline in population registered since 2013.

Future Developments

A total of slightly more than 250,000 sq m of GLA is in the pipeline for 2016, of which 97% will be new schemes and the remaining 3% extensions to existing complexes. These are just ballpark figures, as letting rates continue to directly affect the progress and pace at which works are being completed at some complexes.

The largest project is located in Granada. Parque Nevada will complete in 2016, although Leroy Merlin brought it's opening forward in order to coincide with the Christmas campaign.

It is important to note that retail parks are taking on an ever more significant role in the market. If we look 36 months further ahead, one can see that 20% of new GLA, and almost 40% of new centres, are retail parks.

It is also worth noting the importance that pricing strategies have taken on since the onset of the

GRAPH 9

Average Rents in Shopping Centres



Source: Savills

economic crisis. Not only has there been a proliferation of low cost firms in all areas, but the extension of sales periods has facilitated the on-going launch of promotions and special prices. Today's lifestyle is not only about low prices, but also about smart shopping.

Hence, factory outlet centres are taking on an ever more dominant role in the retail market. Two complexes are expected to complete in 2016, one of which is in Viladecans (Barcelona), constructed by Neinver, a specialist firm in this market segment, and the other is Sambil's reconversion of the former Avenida M-40 shopping centre.

The outlet format is a good way to breathe new life into a shopping centre. This has certainly been the case for 'The Street', the new name for the former Plaza Imperial (Zaragoza), which is moving towards this form of concept. However, many shopping centres already have outlet stores, where goods from previous seasons are sold, proving that it is not essential that the entire shopping centre be focused on outlet stores.

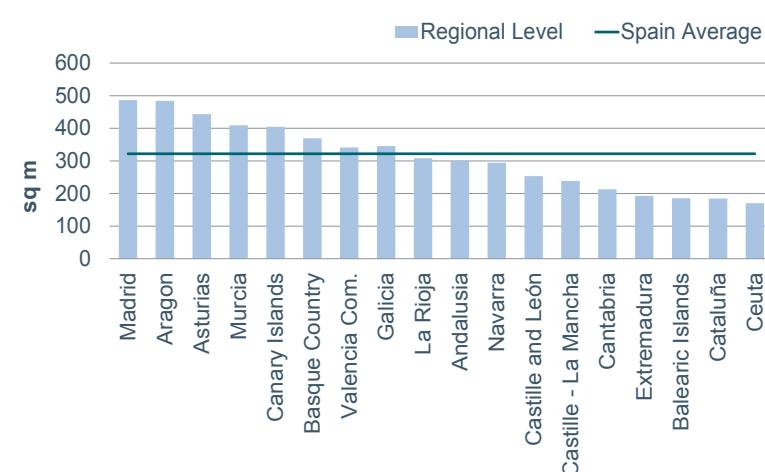
Modernising existing centres

The turn of the century brought with it a huge wave of retail schemes, which now account for 60% of all existing GLA.

In a scenario in which older and new-build centres compete

GRAPH 8

Commercial Density by Region (sq m/1,000 inhab.)



Source: Savills

"In locations with high levels of liquidity and reasonable supply levels, in which prices per sq m continue to remain low and retail market indicators are improving (number of sales, footfall, etc.), one can expect activity to hold throughout 2016" Salvador González, Retail Investment

directly with each other, more and more shopping centre owners are looking to revitalise and renovate their schemes, not just by simply changing some decorative aspects, but also by improving their facilities. Some centres have made the most of the opportunity to add free recreation areas, primarily children's parks and playgrounds.

In some cases, these changes equate to a full refurbishment, as was the case with the Caprabo hypermarket in Sant Feliú de Llobregat (Barcelona), which will be turned into a retail warehouse complex.

Rents

The recovery of consumer figures, household spending and shopping centre footfall has facilitated the rise in turnover for the main retailers (as widely reported in the media). The immediate effect has been the steady decline in temporary rental discounts, which were being implemented almost as standard in recent years. As a result, net rental growth has been achieved.

With regard to new contracts signed, one can only really talk about growth in prime centres, although the lack of available retail units makes it difficult to quantify average growth, as very few retailers have moved in to these centres.

The vacancy rate in established secondary centres that dominate their immediate catchment area is slowly falling, which has been reflected in a slight increase in rents.

On the other hand, there is a number of schemes with extremely low occupancy rates in which rental adjustments serve to target potential occupiers.

According to Savills' database, rents for the 2012-2015 period adjusted by -19% compared to rents over the 2008-2011 period. If we just consider new leases, they have decreased by -38%.

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

In Europe, rents are highest in the UK, at €755 per sq m/month, followed by Ireland, at over €217 per sq m/month. The average achievable rent for prime properties in Europe stands at around €100 per sq m/month, which is 11% above the figure for Spain.

Investment Market

The commercial property market closed 2015 at €8.3bn, which equates to 8% y-o-y growth. One should bear in mind that this does not include corporate transactions, such as Merlin's acquisition of Testa or Carlos Slim's stake in

Realia. Nor does it take into account the acquisition of owner-occupier properties such as the Macsa headquarters in Barcelona or those of Bankinter, Reale, Abanca and ING, to name but a few in Madrid. The logistics sector registered more than 20 sales, but 2015 was a particularly busy year for the hotel sector, with a number of chains adding properties that they used to operate to their portfolio.

With regard to the retail sector, the market reached €3.1bn of investment, including high street product that accounted for almost 25% of the total.

The y-o-y comparison showed market growth of 31%, bolstered by an increase in retail high street investment, that doubled that of 2014, due in large part to Pontegadea's acquisition of the Prisa Group headquarters, 80% of which is used as retail space, as the new Primark store and H&M and Lefties.

One should keep in mind that a number of mega-deals (>€100m) accounted for 42% of the year's total.

Another important point to note is that 2015 marked the top of the retail market in terms of volume transacted, both in traditional product, retail high street units and number of traditional product transactions completed.

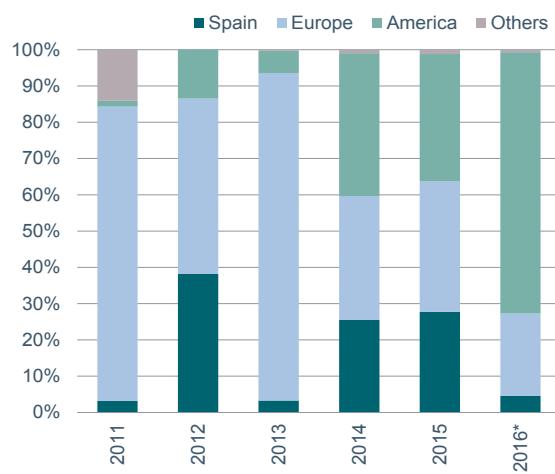
Activity in the Traditional Market

In terms of the traditional market, total annual investment stood at slightly over €2.4bn, 14% above that of 2014 and 10% more than the previous all-time high recorded in 2006. With regard to the number of transactions, the 46 agreements registered indicate a y-o-y increase of 35%.

Retail Warehouses

The most detailed study in terms of type of product shows strong growth in the retail park market. The slightly more than €500m invested in this segment represents almost seven times more than in 2014. While Megapark made-up a third of this figure, even if we exclude this transaction, the vitality of this sector is more than evident.

GRAPH 10
Investment by Purchaser Origin



Source: Savills / *until March

The upside potential of this newly developing sector is of particular interest in a scenario in which consumption is recovering.

Cross Border Investment

In a market in which international players traditionally dominate, the arrival of SOCIMIs on to the scene in 2014 has levelled the playing field somewhat for domestic investors, as they are classified as national firms, despite the fact that some of their shareholders are international.

Among cross-border investors, American funds entered the market strongly in 2014, eclipsing European fund activity, which until then had been breathing new life into the market. The devaluation of the euro against the dollar has given them a competitive edge, which has been strengthened further still by the drop in interest rates.

Asset Rotation

When it comes to vendors, international vendors remain the all out leaders. Some players, such as private equity and opportunistic funds, are divesting before leaving the market, having bought at the bottom of the market, while others have reached the natural moment for asset rotation, while making the most of the signs of market recovery to obtain capital gains.

Banks are starting to lend

The recovery in the investment market has been due in part to banks starting to lend again.

Lending for new developments is determined by the viability of the project, based on letting rates and retailer confidence in the product, but cash is now flowing in order to finance new developments.

Perhaps the most interesting change is the arrival of national institutions on the scene. The professional retail market was, for some time dominated by international institutions, not just on the buy-side and sell-side, but also as lenders.

In contrast, over the last few months, the upturn in the main socio-economic indicators and

confidence in forecasts anticipating that economic growth will continue to consolidate appear to have encouraged national banks to take part in large-scale property transactions.

The change of strategy is more than evident as retail business had been focused primarily on retail banking clients.

Yields

In 2015 Spain became one of the most appealing countries to invest in, which underpinned significantly demand.

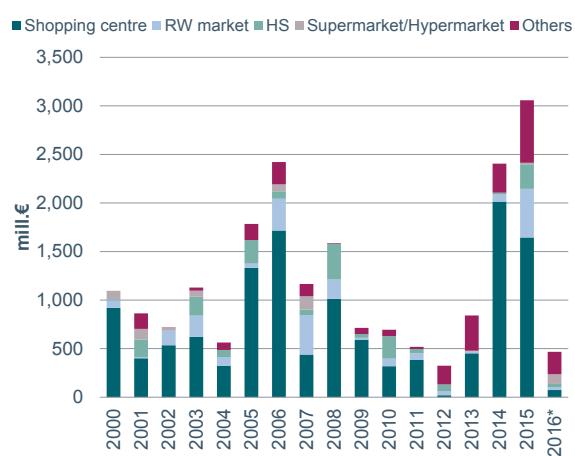
The excess of players looking to invest and the liquidity of the market drove yields to compress further, with the prime shopping centre yield standing at 5%.

Puerto Venecia and Plenilunio hit this mark at the start of the year, although if it were for another prime property to have appeared on the market, no doubt it would have achieved an even lower yield, gradually moving yields towards the lowest yield on record.

Given the lack of prime properties for sale, investors have switched their sights towards established secondary centres that are dominant in their catchment area, which in recent months have improved business results and increased occupancy, sales volumes and footfall, reaching yields of between 5-6%.

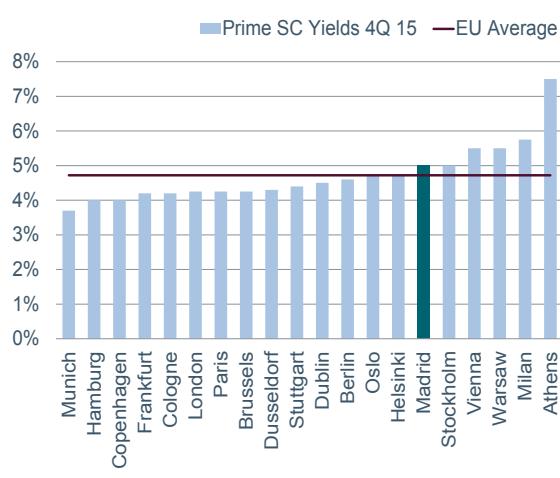
In the retail park segment, the sale of Megapark, which completed at a 6.25% blended yield (including the outlet area), circa 5.75% for just the retail park, set the benchmark for prime properties. This product still has good value uplift potential, as at the previous market peak, the gap between the best centres and the best parks was not even 25 basis points. ■

GRAPH 11
Investment by Type of Product



Source: Savills / *until March

GRAPH 12
Prime Shopping Centres Yields in Europe



Source: Savills

TABLE 1

Main Deals 2015

Asset	Investment Volume. (mill.€)	Purchaser	Vendor
Puerto Venecia	451	INTU	Orion Capital Management
Plenilunio	375	Klepiere	Orion Capital Management
Megapark Barakaldo	170	La España Socimi	OCM
El Rosal	87.5	Lar España Socimi	Doughty Hanson
Airesur	75	CBRE GI	Grupo Lar
Moraleja Green	72.5	Kennedy Wilson	ING
Zielo	71.5	UBS	Hines
As Termas	67	Lar España Socimi	ADIA
Bilbondo	58	Lasalle Investment	CBRE GI
Parque Rivas	53	CS	Lone Star
Ribera del Xúquer *	Confidential	CBRE GI	UBS
Zubiarte *	Confidential	JV Activum / Milligan	JV Sonae Sierra / CBRE GI

Source: Savills / *advised by Savills

OUTLOOK

2016

- The slowdown in the Chinese and US economies, two of the world's main economic hubs, has affected global business activity, and consequently stock markets have weakened.
- Investors are looking into Europe because property market fundamentals are still healthy and interest rates low, keeping an eye at the same time on socioeconomic indicators and geopolitical conditions.
- Within the European real estate market, the three main economic drivers, the United Kingdom, Germany and France, have traditionally made up the lion's share of investment activity, as they are considered to be more secure.
- The recovery in Spain has meant that the focus is now on the country, as it is also seen as a good alternative, with prices per sq m that are still low and good potential rental uplift.
- €3bn of potential transactions have been identified in the short/medium term. Despite the amount of product currently on the market, or expected to come on to the market in the coming months, it is still insufficient to satiate voracious investor appetite, who aside from having large amounts of capital, also have the advantage of low interest rates on their side.

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