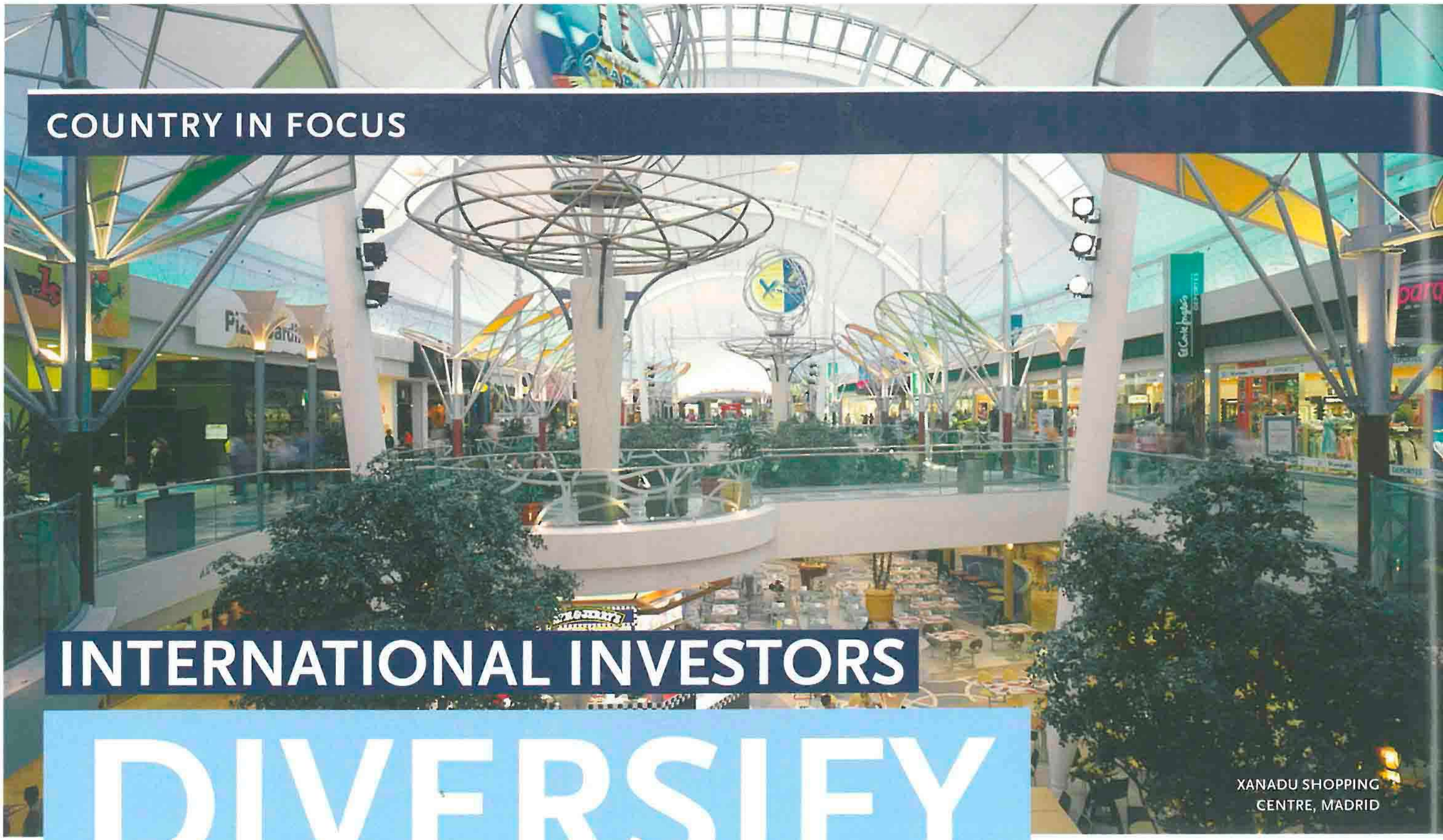


XANADU SHOPPING CENTRE, MADRID

INTERNATIONAL INVESTORS DIVERSIFY IN SPANISH RETAIL

Overseas investors are demonstrating a significant appetite for a range of asset types and retail investments as they deepen their commitment to the Spanish retail market

Significant transactions this year have included some major shopping centre deals, including UK shopping centre REIT Intu's acquisition of Ivanhoé Cambridge's Xanadú mall in Madrid for €529 mln – and its subsequent sale of 50% of the asset to TH Real Estate. Klépierre purchased Nueva Condomina, the leading shopping mall in Murcia, for €233 mln. And AXA and Sonae Sierra invested €110 mln in Area Sur. However, mixed-use assets, retail parks and even food markets have also come under the spotlight.

In March, Hines and Universal-Investment deployed €190 mln in two high-street property transactions in Spain on behalf of their €1.3 bn mandate from German pension investor BVK. The two high-street retail assets with associated office space are located in Madrid and Barcelona, and will be significantly redeveloped to create flagship retail stores and grade A offices.

AEW, which opened its Madrid office headed by Carsten Czarnetzki in January of this year, purchased another prime high street retail asset in the capital for €50 mln in August. 45 Calle de Fuencarral is one of six assets acquired by AEW over the last two years in Spain on behalf of various mandates, and brings its assets under management in the Spanish market to €406 mln.

Savills advised fund MDSR Investments on the acquisition of its second portfolio of hypermarkets in Spain, for a total value of almost €150 mln. Sold by Tristan Capital, this deal represented the largest transaction of hypermarkets and commercial galleries in the country this year. 'This transaction emphasises our strong belief in the economic growth fundamentals of the Spanish market,' said Annalaura Benedetti, head of MDSR in Spain. The deal raises the value of MDSR's Spanish assets to around €300 mln.

Redevco Iberian Ventures, the joint venture between pan-European retail real estate investment management company Redevco and funds managed by global alternative asset manager Ares Management, acquired Madrid's iconic Mercado San Miguel, the renowned covered gastronomic market, for €70 mln. As a magnet for foodies and a fixture on Madrid's tourist trail, the property has no vacancies and a long waiting list of prospective tenants. Ares and Redevco announced the creation of Redevco Iberian Ventures in September 2015, targeting

€500 mln of value-add and opportunistic investments. The San Miguel deal followed Redevco's divestment of nine retail parks across Spain to South Africa's Vukile Property.

RETAILERS BULLISH ON SPAIN

Cushman & Wakefield notes that retail sales in Spain have improved continuously since 2013, with 2017 continuing the growth trajectory. Retail space demand is affecting rents in near-prime and secondary locations, particularly for fashion and food & beverage (F&B) spaces. According to CBRE, F&B sales rose 6.2% last year, spurred by new formats and market entrants, while accessories, sportswear and cosmetics sales are also in growth mode. 2016 saw around 30 new international entrants to Spain's retail market, and 2017 has seen the trend continue.

'Brands are currently expanding in Spain in mass-market fashion retailing,' says Savills capital markets director Alejandro Sánchez-Marco. 'Uniqlo recently opened its first store in Spain, choosing a high-street location in Barcelona, and has agreed to open another store in Madrid after circling around for a couple of years without finding the right space. Primark and Inditex's secondary brands are also expanding. A few retailers are contracting – such as C&A, which has been in the Spanish market for a long time, but has lost the wind in its sails. However, we see that mass market fashion is in general expanding.'

The other – luxury – end of the market is also in growth mode, but most luxury brands are not looking beyond Madrid and Barcelona. Sánchez-Marco: 'It's also difficult for them to find the right units because they are looking for very specific locations, but they are definitely on the hunt. If you compare Madrid and Barcelona's high streets with other major European cities, you'll see that they're still lacking several very well-known brands.'

HIGH STREET OR SHOPPING CENTRE?

In the high street, demand for units remains strong, with supply-side issues proving the main limiting factor for retailer growth after considerable activity in recent years. The number of out-of-town retailers opening stores in the city centre is nevertheless increasing, with brands including Kiabi, Media Markt, Leroy Merlin and IKEA experimenting with downtown formats to battle the e-commerce trend.

Sánchez-Marco: 'Decathlon also recently opened three stores in prime high-street locations in Madrid, in the streets of Ortega y Gasset, Fuencarral and Orense, making them one of the key players in the out-of-town-retailer invasion.'

CBRE's shopping centre index shows that footfall in

SPANISH RETAILERS PURSUE GLOBAL EXPANSION

INDITEX – SALES GROWTH ACROSS ALL BRANDS Y-O-Y IN € MLN

NAME	H1 2017	H2 2016	2017/2016
Zara	7,737	6,957	11%
Pull&Bear	765	681	12%
Massimo Dutti	791	720	10%
Bershka	1,016	893	14%
Stradivarius	664	607	9%
Oysho	271	229	18%
Zara Home	383	343	12%
Uterqüe	45	36	27%
Total	11,671	10,465	11.5%

SOURCE: BOLSA DE MADRID

The Inditex stable of brands has continued its steady growth in Spain this year, whilst also pursuing an ambitious foreign expansion strategy. Like-for-like sales grew 6% in H1 2017 globally, reflecting improvements across all geographies. Inditex opened stores in 35 markets over the six-month period, bringing the total number of stores to 7,405 stores in 93 global markets.

But Inditex isn't the only Spanish ambassador in the retail space. A decade after its establishment, young fashion house Bimba y Lola announced global profit increases of 24% in H1 2017 as it opened a raft of new stores around the world. At present, the business has 225 stores in 13 countries, with plans to add another 20 in the coming months in markets including the UK, Portugal, Korea, Kuwait, Mexico, Chile, Columbia and France. The company also aims to grow further in Spain via concessions in department store El Corte Inglés as well as stand-alone units. Cult jewellery brand UNOde50 (literally meaning 'one of 50'), a label which has been producing limited-edition jewellery pieces for around 20 years, has also kickstarted an expansion programme, doubling global sales in the past five years and increasing its product line. Beyond its 20 or so Spanish bricks-and-mortar locations, it has another 30 shops in the US and a handful of stores in Europe's design capitals including Milan, London, Paris and Rome. Thomas Meyer's Desigual is expected to return to growth in 2017 after two years of declining sales, particularly in Europe. Expansion in Latin America – which now represents 10% of turnover – will lead to further store openings from 2018.

Spanish centres increased 2.5% in 2016 year-on-year while sales increased 1.5%. The average shopping centre occupancy rate rose to 93.5% in Q1 2017. 'The improving backdrop for shopping centres can be seen in the results presented by owners, with net revenue growing thanks to higher rents and occupancy rates, as well as less temporary rental discounts and other non-recoverable expenses,' says Gonzalo Senra, director of retail for CBRE Spain.

Although demand for shopping centre units fell during the crisis, as many retailers put their growth plans on hold, that is changing significantly, says Luis Espadas, director of capital markets for Spain at Savills. 'We're seeing rental increases in the best shopping centres, although Spain's more average centres are still waiting to catch up on that front. We're more in a phase of rent stabilisation, characterised by higher demand but rents have not yet moved upwards significantly.' As yields continue to tighten, many landlords are choosing the right moment to sell, Espadas adds. 'Those that bought during the lowest point of the cycle are capitalising on increased demand and rising prices for stock.'

> 'We're seeing rental increases in the best shopping centres, but there is room for more'
>
> LUIS ESPADAS, DIRECTOR CAPITAL MARKETS, SAVILLS SPAIN

DEVELOPMENT OFFERS BEST OPPORTUNITIES

Despite the booming interest in retail assets across the board, creating new schemes and repositioning others remains the most attractive investor strategy for Sánchez-Marco. 'In the core market there is little opportunity for proper returns, although there is some scope for rental growth. The best opportunities will come from development,' he says.

Major schemes already under way include Compagnie de Phalsbourg's Open Sky Shopping Center & The Village, which will bring 75,000 m² of GLA to the Torrejon de Ardoz area of the Spanish capital on its launch next year. LSGIE is developing Plaza Rio 2, a downtown shopping centre with 39,000 m² of space, while key regional shopping centre developments include Alisios in Gran Canaria's Las Palmas, an ambitious, 64,000 m² scheme. Torrecardenas will provide 60,000 m² to the catchment area of greater Almeria when Bogaris Retail's centre opens in 2019.

Grupo Sambil's Sambil Outlet Madrid opened earlier this year, providing 42,000 m² GLA in the town of Leganés near the Spanish capital. Both the retail park and the outlet centre trend continue, with Iberebro constructing the Torre Village in Zaragoza with 59,000 m² of space.

OUTLET CENTRES AND RETAIL PARKS

Meanwhile, Sonae Sierra and McArthurGlen are working on a new outlet scheme in Malaga comprising 30,000 m² of space. 'Representing an investment of €115 mln, this is a one-of-a-kind project on the Costa del Sol,' says Sonae Sierra CEO Fernando Guedes de Oliveira. 'Firstly, because there are no other designer outlets in Southern Spain and secondly, because it involves the entry of the McArthurGlen Group into the Spanish market.'

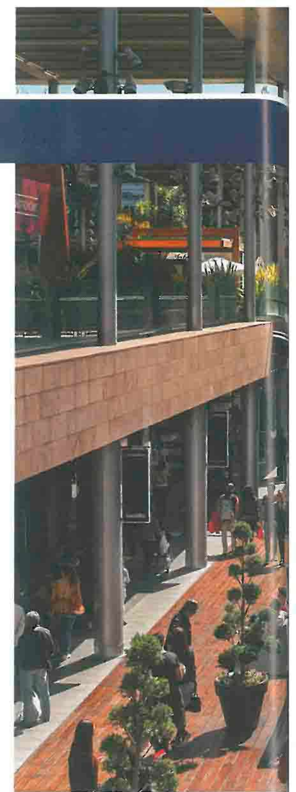
The retail park sector is also growing fast, according to Espadas. 'While there's a very high commercial density of shopping centres, for retail parks there are many opportunities. Spain is still behind the average density in Europe for retail parks, so there are many local developers and regional developers undertaking new retail park projects in Spain at the moment.'

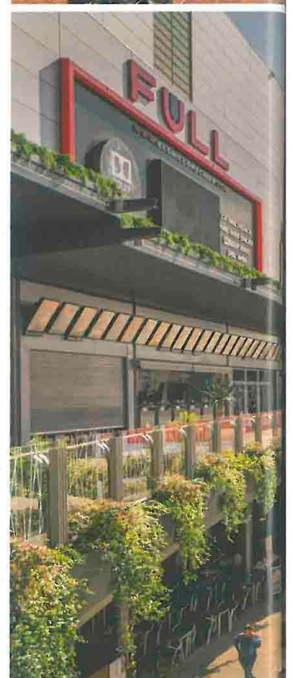
'Retailers still want to focus on Madrid and Barcelona, which have the highest commercial density, but there are other areas of interest,' adds Espadas. 'Catalonia in general is certainly interesting, as the commercial density there is pretty low. Development is already happening in the Balearic Islands but that is also an area of potential. We'll see more schemes opening there in the next three years.'

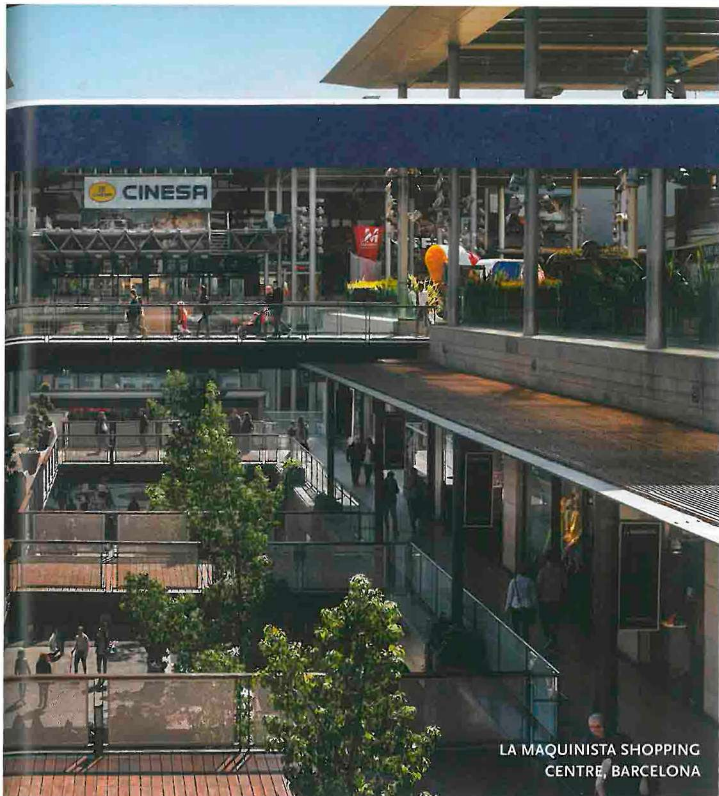
'The only note of caution would be that in both Catalonia and the Balearic Islands, local and regional governments have been quite protective of small and local retailers, and have issued very few building permits for large schemes, which hasn't been the case, for example, in Madrid,' notes Sánchez-Marco. 'That's why Catalonia – despite having all the right macros – has a relatively low density of shopping centres per inhabitant. There are opportunities here, but they depend on policies.'

Due to this issue, many property owners are turning to refurbishments and extensions to generate a new lease of life for their built assets. 'It's worth noting that in most of the Spanish regions there are opportunities available in terms of differentiation,' observes Espadas. 'Many shopping centres look tired and resemble the competition, so this has become crucial.'

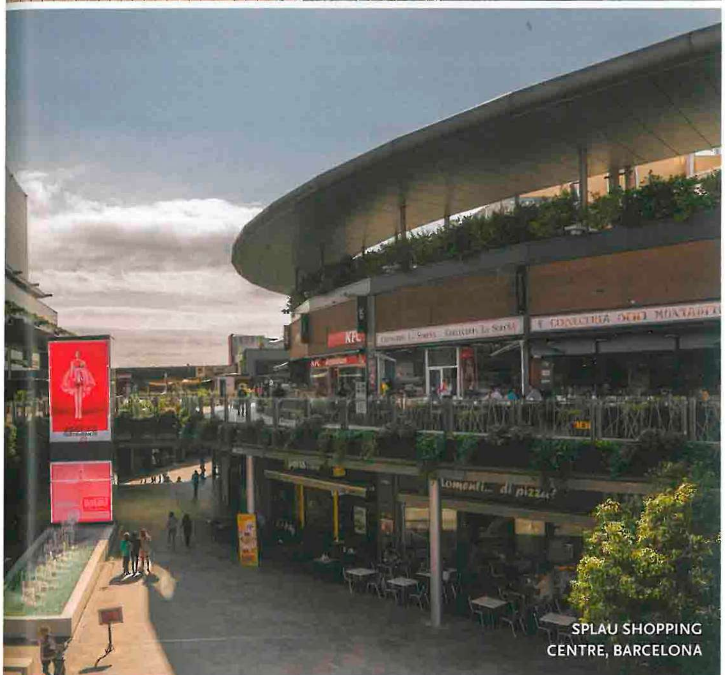
Sonae Sierra, for example, has commenced major interior refurbishments at its GranCasa (Zaragoza), Max Center (Bilbao) and Valle Real (Santander) assets. In Barcelona, Unibail-Rodamco unveiled its extended and refurbished Glories shopping centre in early November. ■







LA MAQUINISTA SHOPPING CENTRE, BARCELONA



SPLAU SHOPPING CENTRE, BARCELONA

BARNASUD SHOPPING CENTRE IN GAVÀ NEAR BARCELONA

SPAIN'S FIRST PETROL STATION REIT DEBUTS

Kingbook inversiones Socimi, Spain's first-ever petrol station real estate investment trust, became the 36th REIT to list in Spain this summer. Kingbook began trading on Madrid's Mercado Alternativo Bursátil (MAB), a submarket of the Spanish stock exchange and its alternative listing venue, in July.

The company specialises in the acquisition and leasing of assets for use in the retail fuel distribution business. Up until now, Kingbook has been trading as a limited company.

At present, Kingbook has 57 petrol stations, a hotel in Miranda de Ebro and an industrial unit in Jaén. It has an agreement with the operator of petrol stations, Petrocorner, and other companies of the Allocate Inversiones group.

Chaired by Antonio Eraso Campuzano, the company told Spanish media that despite starting out with a petrol station focus, it has a 'general profile', and 'does not rule out investing in other sectors in the future'.

Spain's REIT regime obliges companies to have at least 80% of their assets under management in real estate or related qualifying equity investments. They can be listed on either the main board of the Madrid Stock Exchange (XMAD) or on the MAB.

Merlin is the largest Spanish SOCIMI overall, and one of the eight biggest REITs in Europe, after taking over peer Metrovacesa in 2016 to create a company with €9.3 bn of real estate assets under management.

MAJOR SPANISH SOCIMIS

(IN ALPHABETICAL ORDER)

NAME	MARKET CAP IN € BN
Axiare Patrimonio	1.3
Bay Hotels & Leisure	0.5
GMP Property	0.8
Gral. De Galerias Comerciales	2.5
Hispania Activos Inmobiliaros	1.6
Inmobiliaria Colonial	3.1
Kingbook Inversiones	0.2
Lar España Real Estate	0.7
Merlin Properties	5.2

SOURCE: BOLSA DE MADRID