

SPANISH RETAIL MARKET SET FOR

RECORD

YEAR

Spain is on track for record investments into retail real estate this year as the sector exceeds all expectations

BY ISOBEL LEE

Spain's retail property sector is on course for an all-time investment record this year in an extraordinary vote of confidence for the country's economy, consumer trends and retail outlook, according to Savills' Luis Espadas, director of capital markets for Spain.

'It's quite likely that this year – depending on what happens in the last quarter – retail investment volumes will exceed the other sectors for the first time ever. This after record deals were achieved in the last two successive years,' says Espadas. 'It's a very good sign.'

Key to the record figures has been continued interest from foreign investors, who represent 62% of the total, according to Savills, and invest both directly or through Socimis, the local REITs.

Global investment giants including the Canada Pension Plan Investment Board, LaSalle Investment Management, TH Real Estate, AXA, Intu and Hines have all been active so far this year, as well as AEW, Redevco Iberian Ventures and MDSR, the latter of which says it has moved from a 'value add' to a medium to long-term position.

'In retail, the majority of the buyers are international and institutional in origin,' adds Espadas. 'Domestic Spanish investors have shifted their focus to hotels and residential assets as well as re-

maining committed to the office sector.

'So the barriers for international investors are not so much domestic competition as issues of supply, and building permits for those pursuing a development strategy. It's also worth saying that for investors who are aiming at significant investment volumes in Spain, retail is the only real choice, as most of the big-ticket investments are in this sector.'

In the first half of the year, 44% of all commercial deals in Spain involved retail real estate. 'Normally we'd expect offices to dominate dealmaking,' notes Alejandro Sánchez-Marco, a director in Savills capital markets team in Spain. 'Retail has always been behind offices in investment volume in former years but that's no longer the case.'

A TALE OF TWO TRENDS

Two key trends are shaping the retail sector in Spain, according to Gonzalo Senra, national director of retail for CBRE Spain. 'Firstly, sustained economic growth is driving retail sales and attracting new international brands to Spain,' he says. 'Secondly, the digital revolution is altering traditional retail concepts, forcing all players to either adapt to this new digital world or risk getting left behind.'

While Spain's consumers haven't been at the forefront of the digital revolution in comparison with some of their northern European peers, e-commerce sales are growing 20% per annum, according to



REDEVELOPMENT
OF LES GLORIES
IN BARCELONA

CBRE. Around €24 bn of sales took place digitally last year, although this still only represents 4% of total retail volumes. This is considerably lower than levels seen in other countries and suggests that the growth trend will continue long-term.

'Consumers increasingly distinguish less between online and offline channels, and their new habits are driving retailers to focus on both channels at the same time, thereby creating a new "phygital" order,' says Senra. While bricks-and-mortar stores remain consumers' favourite shopping format, it is increasingly difficult to draw people away from the comfort of their homes. 'Retailers are therefore opening large flagships stores to entice people in. These are stores that are focused on the shopping experience, increasing the range of services on offer and installing new technology such as OSS, Locatus and Geoblink, the latter also allowing them to personalise their marketing strategies,' Senra adds.

Spain's economy expanded again in the second quarter of this year, growing a seasonally-adjusted 0.9% compared to the previous three months, with GDP topping the country's pre-crisis levels.

Year-on-year, GDP grew 3.1% in the second quarter, a figure marginally above the 3% increase observed in the previous quarter, with healthy domestic demand and high tourism flows contributing to the result. Spain's Central Bank expects the economy to grow 2.8% in 2017 and predicts a 2.3% expansion in 2018. ■



SOURCE: SAVILLS

RETAIL INVESTMENT SURGE

Retail investment volumes are on course to top €3 bn in Spain this year, up from €2.4 bn in 2016. The increase reflects strong interest from international buyers, who represent 62% of the investor total.