2013 SPANISH RETAIL PROPERTY FUNDAMENTALS:

A REPORT ON THE CURRENT MARKET CONDITIONS OF THE RETAIL PROPERTY SECTOR IN SPAIN

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Economic background

The extremely long period of difficult times for the Retail sector in Spain does not finish yet, and the current macroeconomic figures are not allowing to seeing a clear finish line. Despite positive legislative changes on the labor and taxation fields, the main indicators are on red: GDP growth is still on the negative side, public deficit resists to slowdown, unemployment rates are still astronomic, and consumer confidence is on its historical lows.

Even if the official recession period could be gone by the end of the year, the new creation of jobs looks really to be far from now. Just tourism indicators are positive, and, as a consequence, the coastal areas in the country show slight better expectations.

Final consumption indexes are maintaining the previous trend, without any change, and 2012 and the two first quarters of 2013 are ending with negative year-to-year figures. Global national retail sales indexes show average year-to-year variations around -7% every month for the 2013 first half, completing a long period of 36 months of continuous declining. The situation is not equal on every sector, for every format, or in every region across Spain, for sure, but the global figures are so striking that no one escapes the challenging situation.

Shopping Centers under operation

Around GLA 15 million sqm on some 525 shopping centers is the current size of the Retail Property sector in Spain. This represents GLA 320 sqm per 1000 inhabitants, well above the European average, but on line with the French and UK figures.

In 2012 the estimated sales on shopping centers, following research from **AECC**, the Spanish Shopping Centers Council, felt a -3.9% in reference to the previous year. On the same period, shopping centre affluences, according to the **Experian** index, showed a decrease of -3.2% on a year-to-year basis, and -1.3% has been the figure for the first six months of 2013.

Occupancy ratios continue to fall on secondary centers, and just special leasing conditions from the landlords are preventing the figures for a further decrease. On the contrary, on competitive and prime centers the occupancy is keeping high, but some negative impact can be seen on the global rent roll.

The rental levels on renewals and new leases are to decline on average, but the difference depending on the quality of the centre is increasingly high. There is also an impact coming from the higher average sizes the new demanding tenants are asking for. And the landlord investment on fitting out shops is becoming more common, following the difficult conditions under some new leases have to be negotiated.

Shopping Centre Development

Despite those though times, 2012 has seen the opening of 9 new centers in Spain, with some 520.000 sqm of new GLA. Those numbers are following average increases of 320.000 sqm/year happened on 2009, 2010, and 2011, but the current estimations for both 2014 and 2015 are much lower. The higher activity has been seen in 2008, with 30 new centers and 1,2 million sqm of new GLA, just that single year.

The numbers for 2012 include very large projects as **Puerto Venecia** with GLA 123,000 sqm in Zaragoza, with **BritishLand** on a JV with **Orion**, **La Zenia Boulevard** in Alicante, by Inmochan, with GLA 80,000 sqm, or **Rio Shopping** with GLA 75,000 sqm in Valladolid, by **Interikea**. But also includes large schemes as **Faro de Guadiana** with GLA 56.000 sqm in Badajoz, by **Unibail Rodamco**, **Gran Plaza 2** in Madrid with GLA 58.000 sqm, or **As Cancelas** with GLA 50,000 sqm in Santiago.

These surprising high numbers come after seven years of economic downturn, and cannot just be explained by the long period the shopping centre developments use to take. The large size of each of them could be behind: those large centers are entering the local markets on a much better conditions for competition than most of the mid-sized pre-existing ones, and will probably pull some of them off the pitch. In fact is very instructive to see the high occupation rates they showed on opening, and the general positive comments on its initial average operation figures.

The Investment Market

The investment market in Spain is at its lower level of activity. Just as throughout the entire period of recession, the high premium risk interests, and the lack of financing are playing the same direction that the uncertainty raised from the continuous slowdown in consumption, sales, and rents. And this happens when, with the euribor at its historical low, the spread between the market prime yields and the German bonds continues to increase. But these theoretically good circumstances are not enough to be translated into real transactions.

In fact, the number of investment deals closed last year was just 5, reaching a mere € 300 million, when in 2011 the figure was € 650 million, already a real low number when compared with the € 2,700 million that were traded in 2006, the historical high. And no one relevant transaction took place on the first quarter of 2013.

With a so reduced activity it is not easy to establish market yields, but it is commonly acknowledged that, for first class products, the prime figures continue on the 6.5% to 7.0% range, with a slight tendency to rise, and the figures for competitive non prime centers would go from the 8,5% to 9,5%, and entering on double digits for secondary centers.

The international investment funds that were taking as much as the 92% of the market in 2006 are now almost inactive, with family offices or smaller national funds taking, on another dimension, the relay.

Looking at the future, the current months of 2013 are showing a potential change of attitude, and some signs of revamped interest appear on the horizon. A potential change of cycle and the current low prices could be behind this interest, but the real recovery of the investment market will not arrive until changes happen on the credit restriction and on the risk-averse positions with regard to Spain maintained by the main foreign funds until now.

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