

SPAIN

High Street Retail Q2 2022

225 (€/sq m/month)
Prime Rent Madrid

YoY change



12-month forecast



230 (€/sq m/month)
Prime Rent Barcelona



3.50%
Initial Prime Yield



ECONOMIC INDICATORS - SPAIN Q1 2022 (YoY change)

6.28%
Q1 2022 GDP



13.65%
Unemployment rate - Spain



11.85%
Unemployment rate – C. Madrid



10.23%
Unemployment rate - Catalonia



Source: National Statistics Institute

Madrid, vacancy levels precovid19

If we analyse premises located in the Prime and SuperPrime areas of Madrid, in June of 2022 closed with a vacancy rate of 4.3%. This is lower than the level seen during the first quarter of 2020; in other words, below the rate existing prior to Covid-19, when the vacancy rate for the same area was 5.1%.

Of the almost 300,000 sq m of retail floorspace on the Prime and SuperPrime stretches of the 6 main high streets in Madrid, only around 12,000 sq m is vacant, in 24 units.

By streets, there has been a general decrease in vacancy floorspace, except in Gran Vía, where 2 new stores have become vacant.

The prime area of Goya and Fuencarral maintain pre-Covid levels in terms of vacancy units and vacant floorspace.

Preciados is fully occupied, Ortega y Gasset slightly changed respect to the previous quarter.

In Prime area of Goya there are only 3 vacant stores.

Barcelona, decrease the vacancy rate

The fast return to normality has activated the return of foreign tourists. In the city of Barcelona, during the month of June 2022 have been reached 90% of foreign tourists compared to the same month of 2019. This volume shows the fast recovery of international tourism and is expected to maintain the dynamism in the arrival of foreign visitors until the end of the year. Luxury is one of the sectors that is recovering the fastest with the arrival of tourists and there is a high unsatisfied demand that does not find the stores with the desired requirements in the most touristic cities (Madrid, Barcelona, Puerto Banus, Palma, Ibiza).

Considering high street market in the city of Barcelona, Prime and SuperPrime areas have shown a decrease in the vacancy rate. After 12 consecutive months between March 2021 and March 2022, with a vacancy rate of the 9.00%, the second quarter of 2022 has seen a significant decrease to 8.3%. By number of units, the vacancy rate has dropped from 9.8% in Q1 2022 to 7.8% in the end of June 2022. Although both rates are still above pre-covid19 levels, the downward trend is expected to continue.

Of the almost 360,000 sq m of retail floorspace on the Prime and SuperPrime areas of the 6 main high streets in Barcelona, only around 30,000 sq m is vacant, in 45 premises.

By streets, Passeig de Gràcia and Portaferrisa is where the largest number of new openings of vacant premises have been registered.

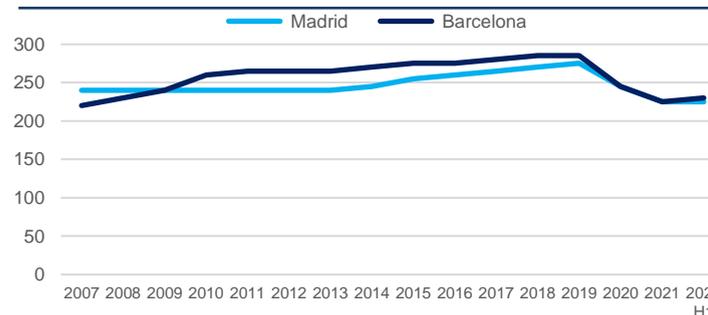
Dynamism in terms of lease deals

In terms of lease deal activity, the high dynamism recorded in 2021 was maintained in both Madrid and Barcelona. A total of 31 lease deals were struck in the two cities during the second quarter of 2022 (12 in Madrid and 19 in Barcelona), representing a space absorption of 8,070 sq m.

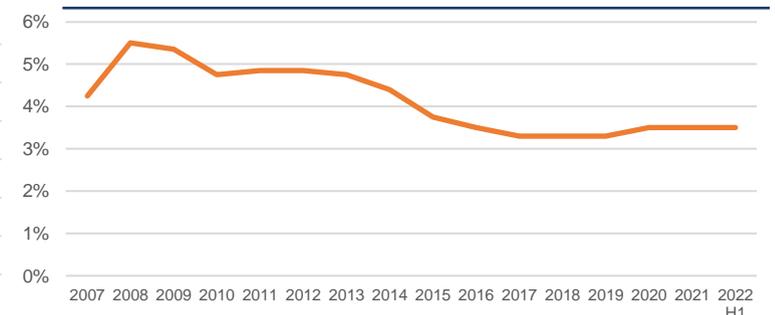
The aggregate for the past 12 months (Q3 2021 – Q2 2022) shows a total of 121 deals, which represents an increase of 55% compared to the same time period prior to Covid-19 (Q2 2019 – Q1 2020). Some 36,955 sq m of retail floorspace have been absorbed, representing an increase of 12% if we apply the same comparison.

In other words, both the number of deals and space occupancy continue to exceed pre-pandemic levels.

PRIME RENT MADRID AND BARCELONA



INITIAL PRIME YIELD - SPAIN



SPAIN

Shopping Centres and Retail Parks - Q2 2022

YoY change 12-month forecast

72.0 (€/sq m/month) Shopping Centre Prime Rent



19.00 (€/sq m/month) Retail Park Prime Rent



ECONOMIC INDICATORS SPAIN

April 2022 (YoY change)

YoY change 12-month forecast

+31% Retail Sales Growth 12 month change



+32% Shoppertrack footfall 12 month change



Market context

The key to the Shopping Centre investment market is how major retail, restaurant and leisure operators will evolve post Covid19. It's expected that retailers will continue to focus on strategic locations for their physical stores across the country and continue to look for operational efficiencies in managing viable costs/rents.

In many ways the pandemic has accelerated a process that was already underway, with retailers having made decisions to close less profitable stores, whilst maintaining their presence in strategic locations and continuing to invest in new flagship/experience stores. Much of this change has already taken place.

Investment activity

There was limited deal activity during 2021, predominantly due to the effects of the pandemic, although also due to changing investor sentiment towards "physical retail" given the growth in online sales, although much of this sentiment driven by the US and UK markets, which are very different to the Spanish market. There are many investors who mis-understand the implications on the physical store and the important role it plays in the evolution of omnichannel sales. Nevertheless, there are a number of retail specialist funds focused on good quality Shopping Centres, attracted by strong fundamentals in respect of those schemes that dominate their catchment area, play an important role in their community and which, are able to achieve growth in revenue and visitor numbers.

For 2022 we are seeing a significant resurgence in capital targeting retail. During the course of the pandemic there was both a pricing mismatch between vendors and purchasers and also a degree of uncertainty in respect of retailer/operator performance. In a climate of increased consumer spending and retailer recovery there is now improved visibility on trading levels and income, with improving investor sentiment which appears to support a stabilization in yield levels.

As trading levels gradually stabilize and rental income is perceived as more secure, investors are returning, in a context of record-low yields in other segments of the real estate market.

For prime Shopping Centres in Spain we consider the yield for Q2 2022 to be at 5.50%.

In conclusion, the recent period of reduced investor activity in Shopping Centres has come to an end in 2022 with various important transactions either now closed or proceeding towards completion.

In respect of Retail Parks, it is important to differentiate between retail schemes and Retail Warehouse units that form part of a broader retail offer. There is an increasing number of investors either looking for small, urban convenience Retail Parks (with a good supermarket anchor) or dominant edge of town schemes.

The fact that Retail Warehouse operators have generally performed well during the pandemic and are seen as formats more resistant to the threat of online retailing, has resulted in greatly improved sentiment in this area, hence our view on prime yield is aligned with prime centres at 5.50%. In respect of good quality investment product there remain sources of finance available which lends certain liquidity to this segment of the market, however, generally both purchasers and lenders are acting with caution, considering what is stabilized sustainable income and considering value net of capital expenditure for business plan initiatives and ongoing investment during the holding period.

PRIME RENTS - SPAIN (€/sq m/month)



PRIME YIELDS - SPAIN



Source: Cushman & Wakefield, INE and Shoppertrack

MAIN ACQUISITION DEALS – 2021-2022 H1

PROPERTY	TYPE	SUB-MARKET	VENDOR	BUYER	AREA (sq m)	PRICE (€m)
	Portfolio	Various	Merlin Properties	BBVA	662 unidades	1,987.0
	Supermarkets	Various	Carrefour	MDSR Investments	9 unidades	159.0
Finestrelles	Shopping Centre	Barcelona	Equilis	Frey	39,249	127.5
C. de Preciados, 4	High Street	Madrid	Patrizia	Mutualidad de la Abogacía	2,560	88.56
Bahía Real	Retail Park	Santander	Citygrove y Burlington	Savills IM	20,000	60.0
Alcora Plaza	Retail Park	Alcorcón	Goldman Sachs	AEW	22,000	49.8
Ribera del Xúquer	Shopping Centre	Valencia	CBRE Investors	Global Armórica	21,915	45.0
	Supermarkets	Vitoria y Leioa	Confidencial	Pradera European Retail Fund	30,000	35.0
	Supermarkets	Various	Barings	MDSR Investment	16,000	27.9

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