

280 (€/sq. m/month)
Prime Rent Madrid



285 (€/sq. m/month)
Prime Rent Barcelona



3.5%
Prime Net Initial Yield



SPAIN ECONOMIC INDICATORS Q2 2020 (YoY var.)



Source: Oxford Economics

The healthy trend driving space demand

Within the current context of the New Normal, the adaptation and adjustment of stores is proving key to keep on attracting the public to stores. Our recent retail survey in Spain (with more than 2,000 participants) shows that high street shoppers accord great value to high hygiene standards. At the same time, shoppers give priority to proximity retail and convenience stores.

Since the end of the severe lockdown measures, space demand has moved towards some particular business sectors such as health & beauty, services and sports. The latter is actually representing current preferences in the fashion sector. In addition, food related activities and stores have seen a spike in activity due to the permission they had during the lockdown to remain open.

E-commerce in Spain has evolved rapidly over the past four months, enhancing its reliability and penetration. This is also propelling the swift adaptation of retailers to the omni-channel strategy, meaning they distribute their goods and services via physical and online stores whilst mixing these two channels with click-and-collect services inside their premises.

The *rightsizing* of Retailers' portfolios is likely to be carried out according to the situation. This change may entail an increase in the market supply (available space), especially in secondary areas. With existing restrictions and reticence to travel, reduced tourism is expected on high streets in the short term. As a consequence, prime streets will shrink and secondary locations will begin to have alternative uses. Tenants will start betting on store viability and on strategic locations.

Super-prime locations have maintained rental values

Our reference for prime rents in high street retail remained stable during the first semester of 2020. Nevertheless, an increase in the market supply will put downward pressure on rents. Rental values remain at high historical levels in the country's best locations. The post-pandemic stage will drive adjustments in formats and there will be rationalization of locations. Therefore, rents will be impacted.

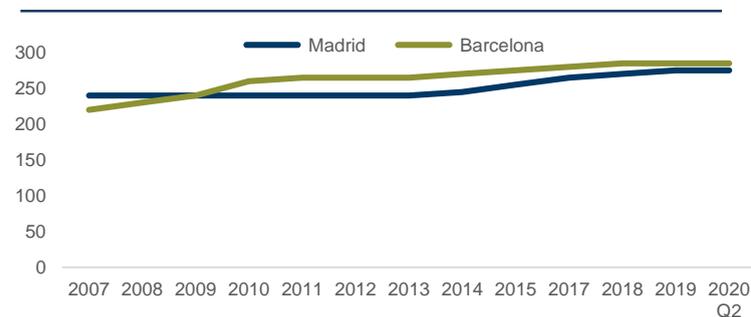
New formulas of rent collection could be incorporated, such as a mix of fixed and variable rent to help soften the impact.

Investment in High street

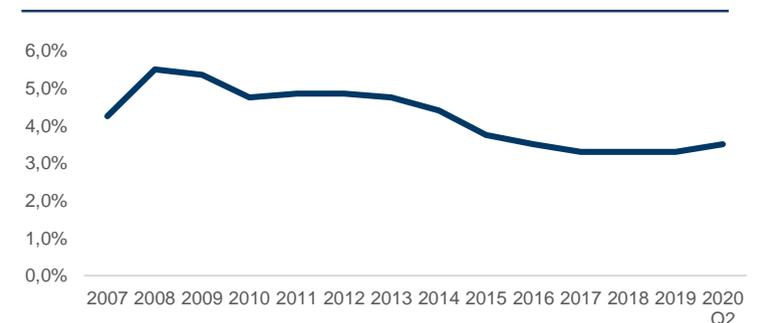
Investment in prime areas in major cities maintained momentum during the first semester of 2020. Prime yields remained at historical lows but have grown slightly this quarter, reaching 3.50%. During the first half of the year a total of €230m was recorded. Domestic investors remain active, while specialised / international investors are in a wait-and-see mode. Investors will tend to look at smaller volumes, where the ability to replace the retailer seems greater.

Investors have a long-term vision and will focus on assets that offer secure income and stability such as: Sale & Leaseback and Prime High Street units.

PRIME RENT MADRID & BARCELONA



PRIME NET INITIAL YIELD SPAIN



Retail situation

With shopping centres and retail parks open again to the public, footfall has steadily increased since the last week of June. As of the second week of July, footfall stands at 80% of the corresponding week in 2019. This measure varies between centres depending on their exposure to tourism and retail mix. In other words, centres with a tenant mix skewed towards leisure, movie theatres and F&B have a lower footfall than those with a more traditional mix. Nevertheless, current shopping centres and retail park visitors are more prone to converting their visit into actual purchases. This gives a double reading of footfall as a more accurate indicator of sales and that buyers, for the moment, are visiting retail schemes more for reasons of acquiring products than services.

The outlook for the year end in the real estate market is positive as many activities such as gyms, cinemas and F&B will have adapted their business to the new mindset and health protocol

Future Supply

The Spanish shopping centre sector being a mature market, most of the new supply has been via extensions and refurbishments. As a result of the pandemic, most of the shopping centres and retail parks in the 2020 pipeline are expected to be open by the end of the year. For 2020-2021 we expect 150,000 sqm GLA of new shopping centre space and 230,000 sqm of retail parks to come to the market. This comprises 11 schemes with more than 400,000 sqm GLA in two years as well as extensions of existing schemes with more than 70,000 sqm GLA.

Rents & Yields

Prime rent for Shopping centre and Retail Parks remained stable during the second quarter of the year and, due to the supply increase, many will face downward pressure. Nevertheless, during the coming months much depends on how quickly consumer spending picks up and what operating and financial condition retailers are in.

For major prime dominant shopping centres in Spain, we consider the yield for Q2 to be at 5.15%. For prime retail Parks our view until recently was that prime yields were at 6%.

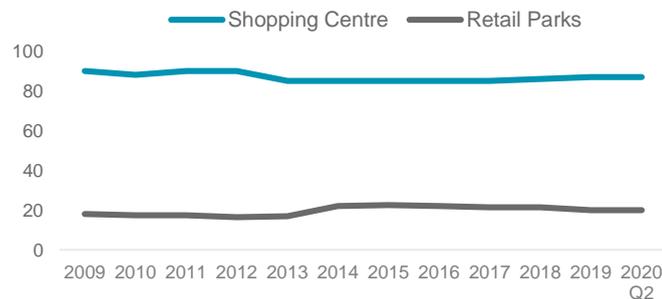
There has been a significant slowdown in activity in all retail transactions in 2019 compared to previous years. Even "pre-coronavirus", there was already a change in investor sentiment towards retail and shopping centre investments, much of this driven by events in the US and UK (very different markets to Spain), the increase in internet retail and its implications on physical stores and investors' misunderstanding of the retail business for omni-channel sales where the physical store is of equal importance to the online business. Notwithstanding this, there remain 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, until recent events, were continuing to achieve growth in revenue and visitor numbers. In conclusion, we see the current pause in investor activity as temporary, with every likelihood that there will be a number of retail shopping centre transactions closed towards the end of 2020 or early in 2021.

SPAIN ECONOMIC INDICATORS Q2 2020 (YoY var.)

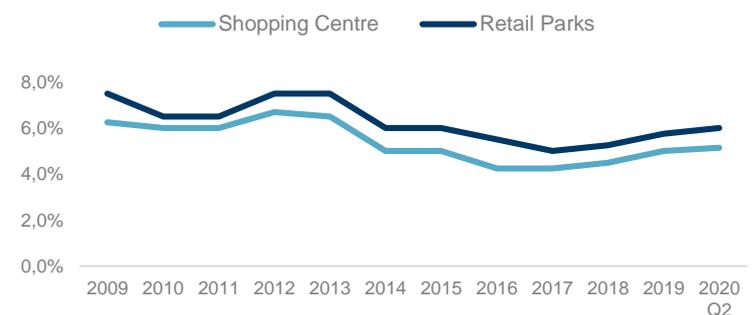


Source: Cushman & Wakefield, INE and Shoppertrack

PRIME RENTS



PRIME YIELDS



KEY SALES TRANSACTIONS YTD 2020 Q2

PROPERTY	TYPE	SUB-MARKET	SELLER	BUYER	SIZE (sq. m)	PRICE (€M)
Puerto Venecia	Shopping Centre	Zaragoza	Axis Generali + Union Investment	Intu (50%)+CPPIB (50%)	118,703	475
Intú P.Principado	Shopping Centre	Asturias	Intu (50%)+CPPIB (50%)	ECE	74,696	291
P. de Gràcia, 109	High Street	Barcelona	KKH Capital Property	Nortia	3,884	127
Rambla Catalunya, 67	High Street	Barcelona	Zara	-	670	8,8
Provença, 282	High Street	Barcelona	Miguel Torres Canarias, S.L., Sociedad Unipersonal	Asistencia Sanitaria Colegial, S.A Seguros	1,341	8,5
La Rambla, 124	High Street	Barcelona	KKH Capital Property	Real I.S.	4,093	Confidential

KEY CONSTRUCTION PIPELINE 2020

LOCATION	NAME	TYPE	AREA (sq. m)	OWNER / DEVELOPER
Almería	El Canario	Retail Park	65,000	Cemar
Sevilla	Way Sevilla	Retail Park	48,600	Kronos
Madrid	Alcora Plaza	Retail Park	20,000	Goldman Sachs
Zaragoza	Torre Village	Retail Park	35,000	Iber
Cantabria	Bahía Real	Retail Park	19,820	Citygrove
Madrid	Caleido (5º Tower)	Shopping Centre	12,000	Grupo Villar Mir
Madrid	Galería Canalejas	Shopping Centre	16,000	Grupo Villar Mir
Madrid	Open Sky	Shopping Centre	75,000	Compagnie de Phalsbour

KEY CONSTRUCTION PIPELINE 2021

LOCATION	NAME	TYPE	AREA (sq. m)	OWNER / DEVELOPER
Jaén	Jaén Plaza (extension)	Shopping Centre	46,000	Alvares
Galicia	Vialia Estación de Vigo	Shopping Centre	43,080	Ceetrus
Donostia	Garbera (extension)	Shopping Centre	25,000	Unibail-Rodamco
León	Reino de León	Retail Park	26,141	Bogaris Retail
Orense	Way Ourense	Retail Park	18,000	Kronos

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