

DECEMBER 2022

A RESEARCH & INSIGHT SPAIN PUBLICATION

TRAIN SPAIN CENTRES

SHOPPING CENTRES
Spain

“Happiness is not in money but in shopping.”

Marilyn Monroe

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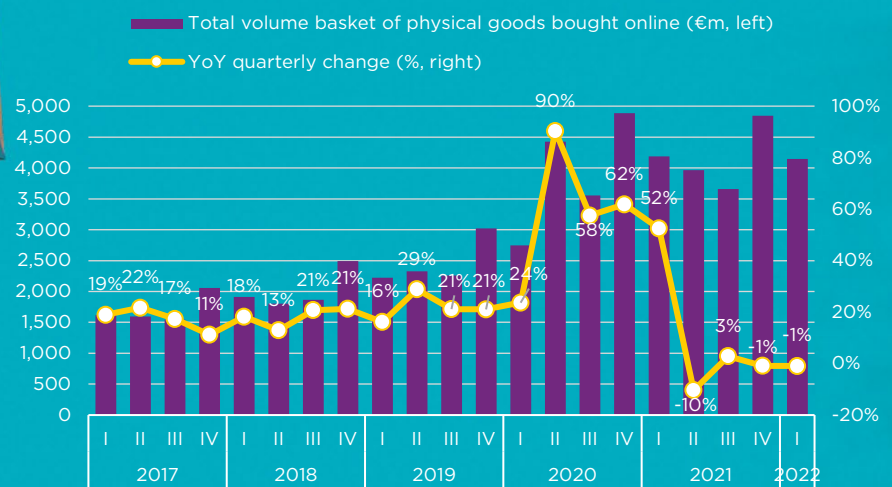
/ E-COMMERCE AND FOOTFALL

Two and half years since the beginning of the pandemic, it is possible to analyse the impact of what may be seen as the most extraordinary experiment in the modern era of retailing. The perfect setting for e-commerce was created: bricks and mortar retail was closed and the only way to shop was online.

In C&W's Research & Insight Department we have broken down the products bought by shoppers online and put together the basket of goods acquired in order to track trends since the outbreak of the pandemic.

Using the latest published data (first quarter of 2022), it seems that the e-commerce basket size has stabilised, slight falls even being recorded:

- The final quarter of 2021 recorded a fall of 1% in comparison with the same period in 2020
- The first quarter of 2022 recorded a fall of 1% in comparison with the same period in 2021



Source: CNMC

The fall in online shopping is not explained by the drop in retail volumes in general.

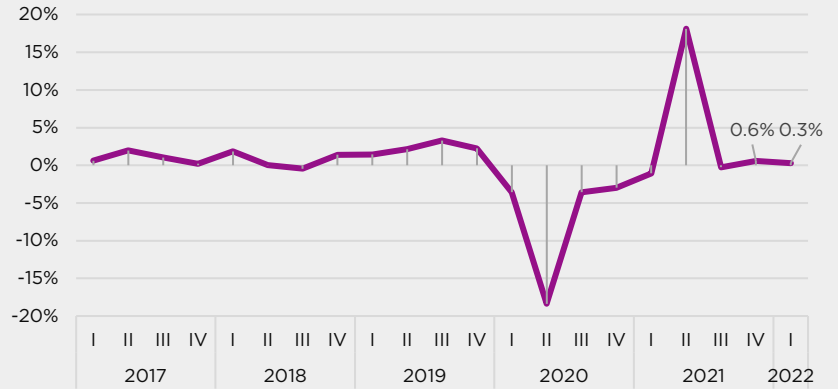
As can be seen from the retail trend for Spain, the latter grew in the fourth quarter of 2021 and the first quarter of 2022.

The drop in online shopping is due to consumers going back to bricks and mortar retail.

The retail ecosystem is evolving and the barriers between physical and online stores are becoming blurred: **bricks and mortar retail** offers enormous benefits beyond sales in themselves.



Year-on-year quarterly change in retail in Spain



Source: National Statistics Institute

As part of the “new normal”, with online sales volumes at an increased level, physical retailing has proved resilient.

The impact of e-commerce on bricks and mortar stores has had a smaller impact than predicted. This constraint on e-commerce’s ability to compete with physical retailing is down to the inability of the virtual environment to reproduce the sensorial shopping experience of physical stores.

Within this new market paradigm, Shopping Centres have maintained their performance, with footfall data showing that the hybrid model bringing together traditional and online sales is now a reality.

No general increase in vacancies has been noted in prime centres over the past 2 years, with footfall and sales gradually returning to pre-Covid-19 levels.

Shopping Centres have weathered the most significant stress test of their entire history in Spain: namely the impact of the pandemic and its lockdowns, restrictions on freedom of movement and respective quarantines.



Published figures for the total volume of e-commerce sales during the second quarter of 2020 (the first three-month period impacted by the pandemic and a severe lockdown) showed growth of +0.2% in comparison with the same period in 2019. Although this difference is scarcely significant in itself, what mattered was the **structural change** in the online purchasing of goods and services by consumers. Prior to Covid-19, the leisure sector encompassed almost 40% of online sales (travel agencies, tour operators, transport, accommodation, activities, etc.). These services practically disappeared with the outbreak of the pandemic.

In contrast, other products such as furniture, household goods, electronics and appliances, sporting goods, clothing, footwear etc. have performed very differently, with significant increases when comparing quarters pre- and post-Covid-19.

The basket of these goods in volume terms (Euros) increased by some **90%** in comparison with the same quarter in 2019. Over the subsequent quarters (Q3 2020 to Q1 2022) the proportion increased to around **60%** in comparison with the quarters prior to Covid-19. Consumers were already shopping more online prior to the pandemic, though to a lesser extent: prior to the

outbreak of the pandemic, quarterly increases in the basket of online goods amounted to around approximately 22%.

In terms of penetration, the National Statistics Institute (INE) calculated a figure of some 32.9 million Internet users of between 16 and 74 years of age in Spain in 2020. The National Technology and Society Observatory likewise estimates that the number of persons shopping online over the same year amounted to some 26.2 million in Spain.

This represented an increase of 7.7% in comparison with 2019.

In addition to this, in 2020 some 1.8 million people in Spain shopped online for the first time.

According to the National Technology and Society Observatory, 81% of Internet shoppers go online for convenience. Other reasons driving consumers to shop online include speed and avoiding crowds.

/ CURRENT STOCK AND FUTURE OFFERINGS

The stock of floor area classified as Shopping Centre amounts to 11.5 million square metres nationally, divided up into 410 assets (each with a GLA exceeding 5,000 sq m).

Overall density at a national level amounts to 242 sq m per 1,000 inhabitants, far below the figures for other countries such as the UK (261 sq m) and France (299 sq m). The density figure for Western Europe stands at 260 sq m per 1,000 inhabitants. This means that the Spanish market still has considerable room for growth in terms of Shopping Centre floor area.

Over the 5 years preceding Covid-19, new floor area coming onto the market hovered between 110,000 and 200,000 sq m annually. Understandably given the extraordinary situation experienced by the sector, no new Shopping Centre openings were recorded during 2020.

Two new centres opened their doors to the public in 2021, adding around 134,000 sq m of new retail floorspace: Oasiz (Torrejón de Ardoz) and Vialia (Vigo).

Over the year to date, three new centres have opened, two of these being Madrid Plaza Canalejas and Caleido. The Open Mall centre in Lanzarote opened its doors in November, offering a total of 63,000 sq m of new retail floorspace.

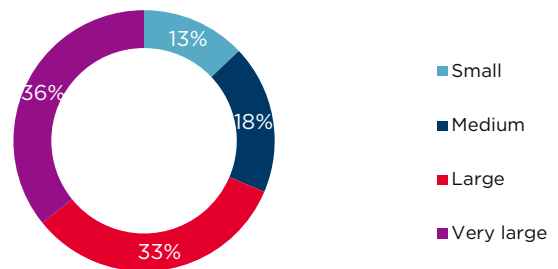
It is anticipated that another 100,000 sq m will be added in 2023 as a result of the openings of: Terra Village (Benidorm), Marbella Plaza (Marbella) and La Finca Gran Café (Pozuelo de Alarcón).

The regions with the highest shopping centre densities are Madrid, Asturias and Aragón, with an average density of 345 sq m/1,000 inhabitants.

In contrast, the density in Catalonia amounts to solely 142 sq m/1,000, demonstrating the room for growth in floorspace assigned to shopping centres in this region.

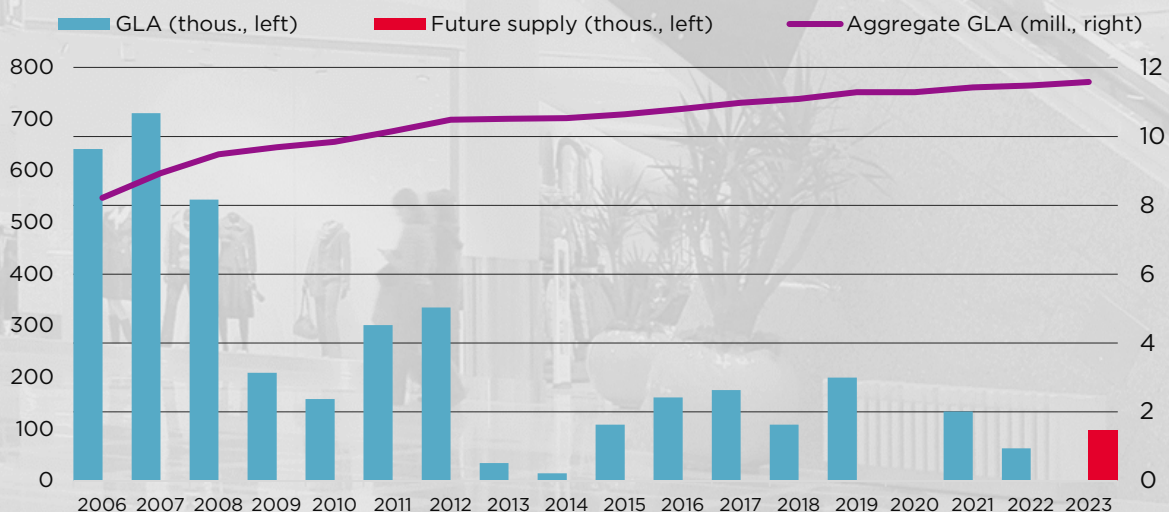


Classification of Shopping Centres by size (sq m) in Spain



Source: Cushman & Wakefield, AECC

Total floor area of Shopping Centres in Spain (sq m)



Source: Cushman & Wakefield, AECC



/ INVESTMENT

Shopping Centre investment amounted to around 270 million Euro in 2019, far removed from the figures recorded over the past 5 years where the yearly average was around 1.8 billion Euro.

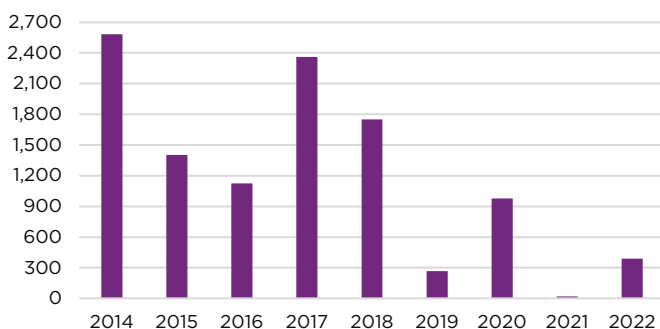
The following year (2020) saw two sales (Puerto Venecia €475m and Intu Parque Principado €291m) driven by the complex financial circumstances experienced by the owner, thus taking investment to almost 1 billion Euro. 2020 was followed by a year in which investment activity in this sector was almost non-existent. Investment figures recorded for shopping centres in 2021 were minimal as a result of the degree

of uncertainty and caution on the part of leading investment groups.

Even so, specialised investment funds have closely followed trends regarding quality Shopping Centres during the Covid-19 pandemic and subsequent recovery.

Investment activity bounced back during 2022 with a number of significant deals: Torrecárdenas S.C., Finestrelles S.C., Ribera del Xúquer S.C., La Rosaleda S.C., etc.

Shopping Centre investment volumes in Spain (€ million)



Source: Cushman & Wakefield

Whilst there remain available sources of financing to provide liquidity for this market segment, the current volatility in financial markets and rise in interest rates is translating into ever more cautious demand focused on high quality investment products. In general terms, buyers consider stable revenue and the net value of capital expenditure for new investments and assets already under their ownership.



It is anticipated that the impact of the slowdown in consumer spending at the close of 2022 and first half of 2023 will be tempered in the case of retail operators in shopping centres and retail parks.

A slight increase in yields is also expected over the coming quarters, this varying according to the prime or secondary location of assets.



/ FLEXIBLE SPACES & BRAND EVENTS

In addition to the ordinary revenue of a shopping centre, it is noted that the owners of these assets are paying greater attention to extraordinary income.

This additional revenue comes from the activation of common areas and flexible leasing. These items provide leverage for the retail mix and a multitude of synergies that can be created with the marketing department of each management team.

The floor area assigned to these temporary activities is on the rise: where previously limited spaces within the retail mall were assigned to kiosks and promotional activities, today there is increased diversity, with options running from housing film sets, the establishment of a Christmas market in outdoor areas, temporary shops and even used car fairs.

Pop-Ups represent a well-known version of these temporary retail activities and can consist of various types:

- Digital brands that, on a temporary basis, wish to connect with their physical surroundings
- Advertising slogans: operators that wish to connect with consumers through their marketing and brand awareness
- Operators that already have bricks and mortar stores but wish to expand their sales points, either through freeing up stock, covering a particular season or examining the area prior to signing a long-term agreement.

Although it is still early days to understand the impact and % footfall and sales increases brought about by enabling spaces of these types, the experience up to now is positive and the acceptance of this may be measured by the success of participants in activities that represent an alternative to shopping.





/ SALES AND FOOTFALL ANALYSIS

Data from *C&W Retail Asset Services* has been used to measure performance by way of visitor influxes and the sales of Shopping Centres. Managing 35 centres and retail parks in Spain, the department looks after a total floor area exceeding 1.5 million square metres.

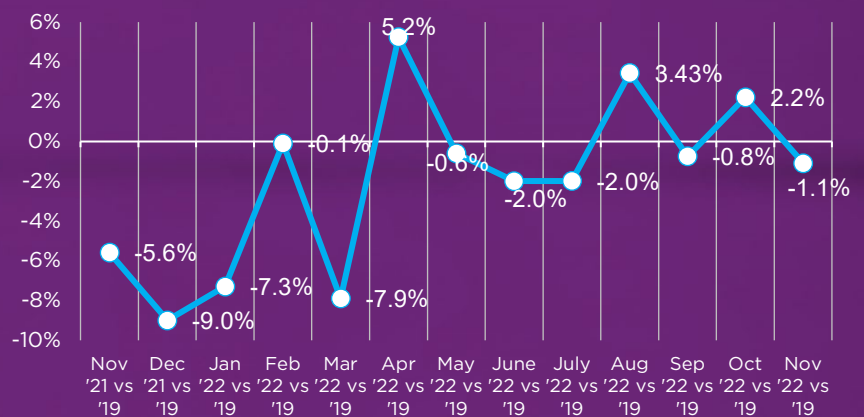
At the close of November 2022, the aggregate data for the portfolio under C&W's management shows increases of between 2% and 5%, both in terms of footfall and operator sales (annualised comparison with 2021).

In comparison with the pre-pandemic period (November 2019), the figures show that we are still some 8% down on footfall and some 1% down in terms of sales. Bearing in mind the current level of uncertainty as a consequence of high inflation and consumer wariness, these figures for the sector are considered to be rather favourable.

Some sectors are enjoying strong performance: Fashion and Accessories are at their highest point for the past 12 months.

By region, Madrid is the closest to achieving the levels seen prior to the pandemic.

Sales volume index - C&W portfolio

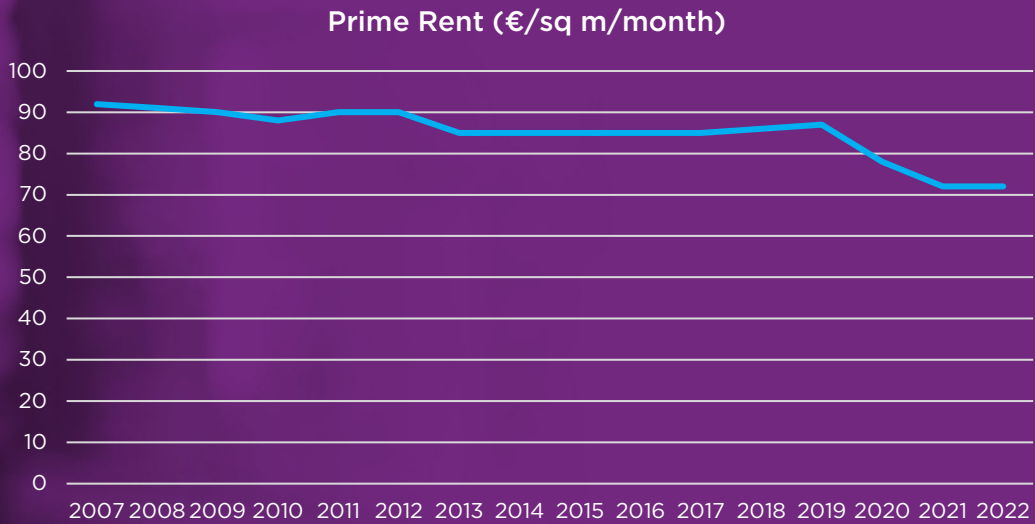


Source: Cushman & Wakefield

/ RENTS

In terms of rents, and taking prime Shopping Centre rent as a benchmark, a fall was seen during the quarters subsequent to the outbreak of the pandemic.

The softening of rents has stabilised since the fourth quarter of 2021, coinciding with the point at which almost 80% of the population had received two doses of the vaccine.



Source: Cushman & Wakefield



/ SUSTAINABILITY

The pandemic and its impact on our ways of working, living and shopping have led to permanent changes to the retail sector. Priorities have shifted and ESG criteria are now at the heart of asset management, becoming leading priorities. Long-standing international agreements, from the UN Global Compact to the European Green Deal*, are driving and encouraging analyses of economic activities, including real estate, from an ESG (environmental, social and governance) compliance perspective.

The creation of specific ESG plans for shopping centres is now a reality, with clear goals to be reached and which are aligned with the sustainability strategy of the owner and modernisation of assets.

The key to the continued advancement of shopping centres in terms of sustainability, social responsibility and innovation lies in owners and operators working hand-in-hand. ESG policies have an impact on asset values and one of the main requirements on the part of investors is data on the performance of the building in ESG terms. The fact that shopping centres adjust to and implement ESG criteria is key to their compliance with regulatory standards that may be analysed internationally, such as in the case of BREEAM. A clear example of this in Spain is that of Islazul (Madrid) which, since 2021, possesses a BREEAM certificate with a double Exceptional rating (the highest possible) for both facilities and management. Of the four Spanish centres nominated, Islazul was the only one to achieve an acknowledgement in the BREEAM Awards 2022 "Commercial Project in Use Award, Highly Commended". This distinction is granted by the members of the panel in exceptional circumstances where it is not possible to award two first prizes in the same category.

* the European Commission adopted a group of proposals to adapt the EU's policy regarding climate, energy, transport and taxation, with the goal of reducing net greenhouse gas emissions by at least 55% between now and 2030 (in comparison with 1990 levels)

The energy situation is speeding up the deployment of renewable resources (installation of photovoltaic panels on roofs and/or canopies, wind turbines, geothermal energy, etc).

Better management of water consumption is also being implemented (installation of efficient taps and sanitaryware, along with better management of green spaces through the deployment of drip feed irrigation and rainwater collection, or through the planting of native vegetation with lower water requirements).

Adaptation to new sustainable mobility needs is also being encouraged (electric vehicle recharging points, bicycles, scooters, etc).



VERY CLEAR GOALS:



To inspire and involve the local community and target audience with a global commitment.



Foster solidarity and environmental conservation



S FOR SOCIAL

Previously, when looking at ESG, the forgotten item was the S, i.e. the social part. This is no longer the case. COVID-19 and its consequences have emphasised the importance of the safety and comfort of workers and users of shopping centres in their daily activities, placing particular value on the creation of a community.

There are a number of actions to enable shopping centres and retail parks to contribute to the community by driving forward initiatives, such as increased energy efficiency, organising food bank collections, incentivising the local economy and encouraging waste reuse and recycling.

The increasing awareness of shopping centre users is driving the implementation of ESG policies, particularly those focused on producing major social impacts, such as the formulation of agreements with NGOs and the assignment of spaces to hold environmental, inclusivity, accessibility and solidarity-focused events etc.



I FOR INNOVATION

Within the framework of data and innovation, changes in shopping habits and the enjoyment of centres are driving numerous initiatives aimed at a deeper understanding of visitors.

Responsible management campaigns enable management with the capture of data resulting from connecting the shopper with the centre.

Smart Data tools are used to collect information that provides behavioural insights to enable the customisation of communications, spaces and strategies for each of the centres

This drives footfall and sales and improves engagement with customers.

- Single communications channel, customisation and bespoke services
- Digitalisation of services offered in the shopping centre
- Actions focused on the retailer with a clear goal of increasing the number of visits and their registration

The immediacy of data analysis performed by these types of bespoke applications translates into an increase in the average visitor stay within the centre and greater success with respect to cross-selling.

Shopping centres are part of the community and society in general. They represent the new “town square” and meeting point and have a responsibility to build value and meaning for the people that belong to the surrounding communities, whether customers or otherwise.

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