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TRAIN SPARK ENERGY

RETAIL PARKS

Spain



CUSHMAN &
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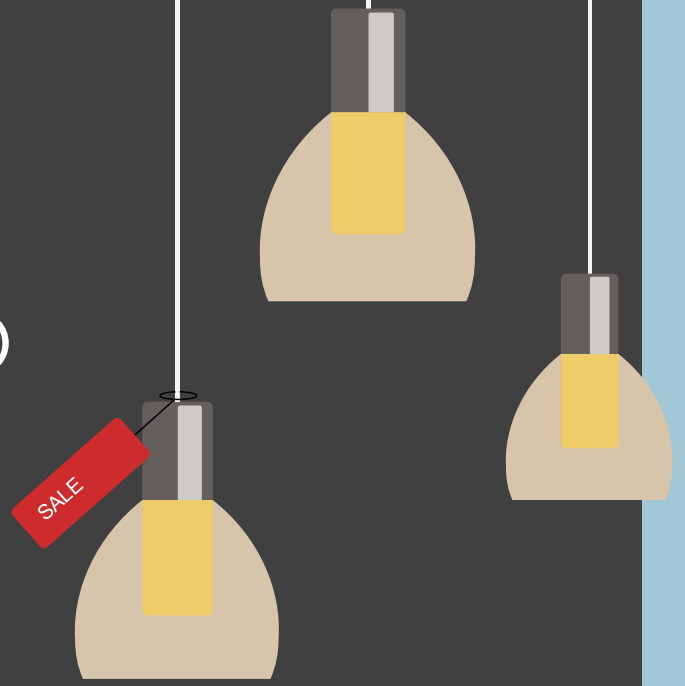


As a result of the pandemic, the transformation of the retail sector has accelerated at varying pace over the past 2 years.

For Retail Parks (including Retail Warehouses), the lockdowns and severe restrictions imposed during the early months of the pandemic had a lower impact in terms of footfall, meaning that many prospered and this trend has remained true up to the present.

What is more, the recovery of this segment has been conspicuously faster than other retail businesses, proving their resilience.

How have Retail Parks managed to adapt?



Strategic locations on the periphery of major cities and population centres that can consolidate as click and collect and click and delivery centres. This way merges the online and traditional store models, leveraging the sales of bricks & mortar stores due to the exposure of the product (standard behaviour: I saw it, I liked it, I bought it).

Rents **currently** being paid by tenants **remain stable** and have followed this trend over recent years.

Moderate competition between projects due to the lack of available land and the preference of operators to seek out locations in common, according to catchment area.

Even in times in which household spending is being squeezed by the general economic outlook, there is still some way to go in terms of growing the supply of parks as a result of active demand for floorspace on the part of operators.

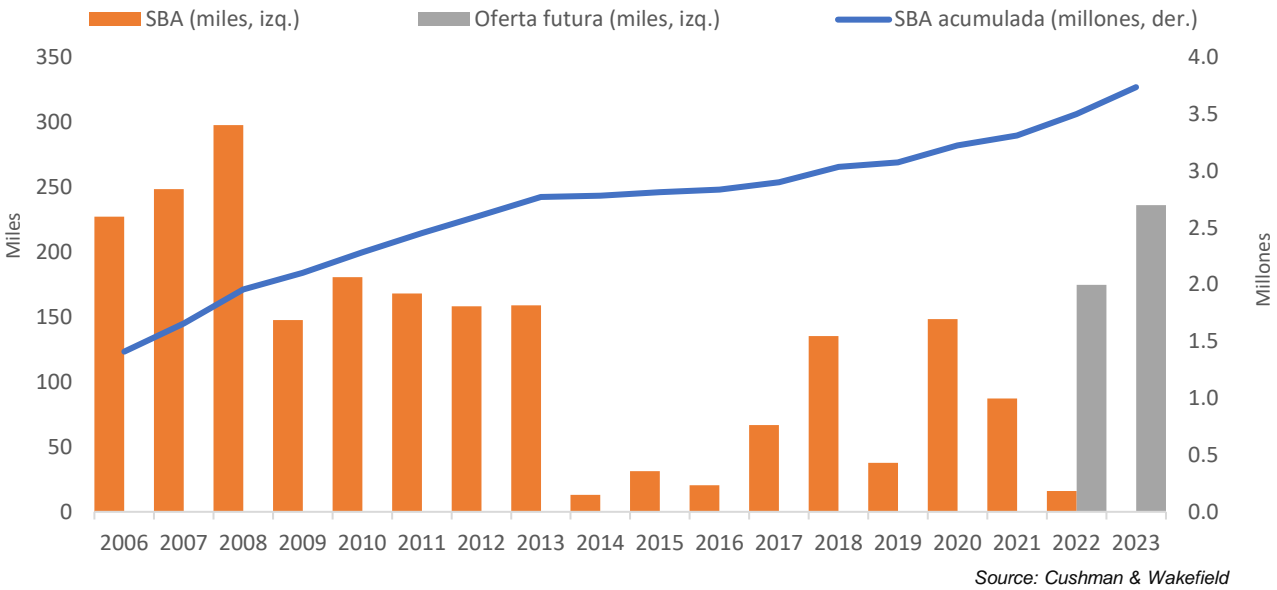
Vacancy **rates have remained stable** and the impact of Covid19 has proved minimal. The majority of the leading parks in Spain continue to enjoy very low vacancy rates, actually nearing 0% on the most important sites near major cities.



Spain has a total of 114 Retail Parks with floorspace exceeding 10,000 sq m (this being the figure as of which parks begin to include integrated management), amounting to a total of around 3.2 million square metres GLA (gross lettable area). Density at a national level amounts to 67 sq m per 1,000 inhabitants, far below the figures for other countries, such as the UK (158) and France (120). In Eastern Europe, the density amounts to 81 sq m for every 1,000 inhabitants. This means that the Spanish market still has considerable room for growth in terms of Retail Park floor area.



Total Retail Park floor area in Spain (sq m)



In terms of narrowing this gap, Retail Park floorspace will grow by some 12.5% up to 2023 as a result of 14 new openings spread throughout Spain. All developments have ploughed ahead despite the pandemic. Some 8 Retail Parks opened their doors during 2020 and 2021, these amounting to around 236,000 sq m of new, high quality floorspace. Some 16,000 sq m of retail park floorspace has already been delivered during the first few months of 2022,

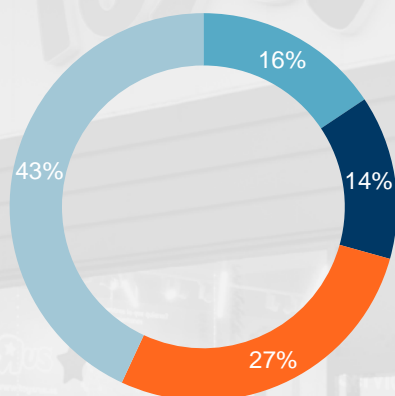
with another 169,100 sq m (shared between 5 projects) anticipated by the close of year. As a result, 2022 will close with a total of some 3,360,600 sq m GLA. With these new openings up to the close of 2023, the GLA corresponding to retail parks will rise by approximately 411,225 sq m. This will take density up to 76 sq m per 1,000 inhabitants, a figure still far below those of France and the UK.



The most heavily populated regions have the highest floor area dedicated to Retail Parks: **Andalucía, Madrid** and **Valencia**, with an average density of 96 sq m. **Catalonia** is the exception to this, with a density of just 27 sq m/1,000 inhabitants. This makes it the region with the best prospects for new developments in the future. In terms of the current offering of Retail Parks, there is considerable potential for the renovation and updating of concepts in that 70% of the GLA is more than 10 years old and 42% exceeds 15 years. These assets could improve their positioning through comprehensive or partial refurbishment, and also by transforming their retail mix by integrating new concepts involving leisure/hostelry, as well as retailers committed to sustainability with concepts such as circular fashion, the reuse of household products, etc. seen in other parts of Europe.



■ Menos de 5 años ■ 5 a 10 años ■ 10 a 15 años ■ más de 15 años



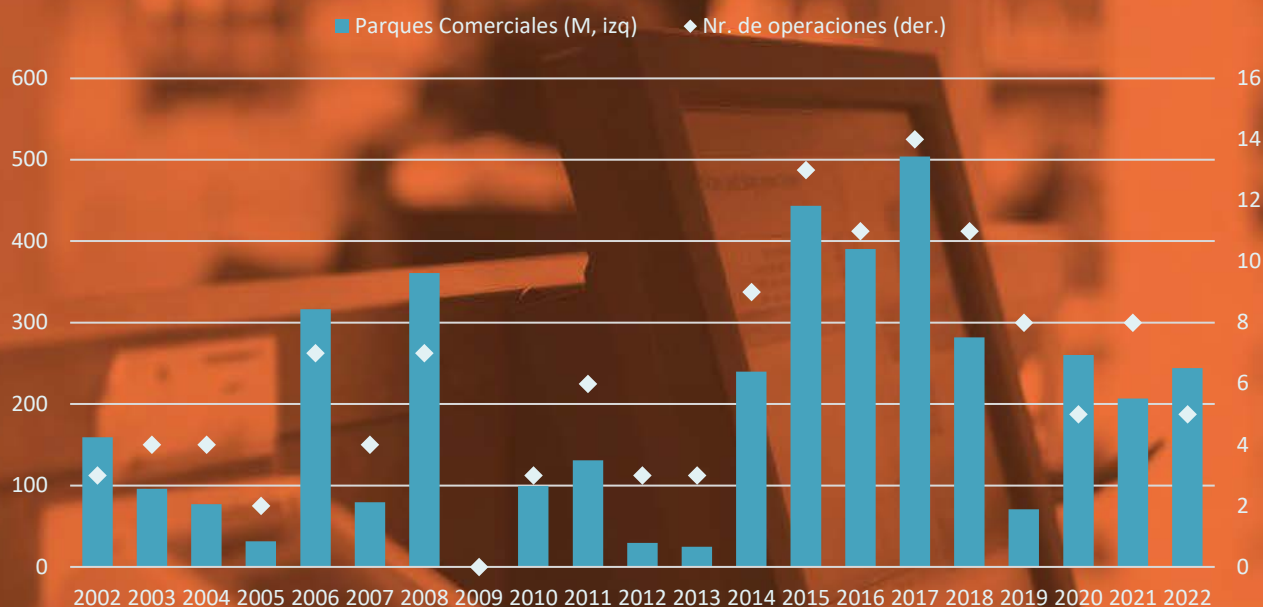
Source: Cushman & Wakefield

INVESTMENT

Since the beginning of the pandemic, the resilience of retail parks has energised investor interest in the acquisition of these types of assets, although patience has been exercised in terms of decision-making. As uncertainty waned and the threat of Covid19 became increasingly smaller, studies for new acquisitions of Retail Parks flourished.

A number of acquisitions of major projects have come to fruition over the first half of 2022, these including Parque Mediterráneo (Murcia), Bahía Real (Cantabria) and Álcora Plaza (Madrid). New investment deals are being forged in this sector and will bear fruit at the close of this year.

Investment in Retail and Retail Warehouse Parks



Source: Cushman & Wakefield

Why are Retail Parks attractive for investors?



Sturdy demand for floorspace on the part of 'winning' retailers during the pandemic (household, DIY, sporting goods, electronics).



Long-term rental income and the solvency of major national and international operators.



Lower tenant turnover and lower servicing costs for operators.



Less exposure to e-commerce due to the types of products (furniture, DIY, appliances, etc) offered by Retail Parks. The rise in e-commerce has likewise had rather little negative impact on Retail Park expansion plans.



Simplified asset management with easier control by virtue of having a lower number of operators.

NEW OPERATORS

A number of operators have opened new stores and it is particularly important to point out the recent expansion of “low-cost” pricing concepts:

- **Action**, a Dutch non-food retailer with more than 2,000 stores in Europe, opened its first establishments in the Spanish market in February 2022, inaugurating a total of 4 stores up to April with a total floor area of 3,672 sq m.
- **Mr. DIY**, an Asian brand specialising in hardware, entered the European market with a number of openings in Spain at the beginning of 2022. It opened 9 stores between January and May, 2022, each of which occupies a floor area of around 900 sq m.

- **Tao Kids**: a French children’s fashion chain inaugurated its first store in Spain in mid-April 2022.
- **Pepco**: a Polish low-cost fashion and household goods chain opened its first store in Spain in April 2021, occupying a floorspace of 660 sq m. It currently has 47 establishments spread throughout the country.

Other brands, such as the German firms KIK and Müller, have also committed to expansion within Spain.



LAST MILE

With the rise in e-commerce, operators have intensified their search for efficiency savings in their logistics network.

Last mile **logistics** (the final stage in delivering an order to the end customer) plays a crucial role in modern e-commerce and omnichannel supply chains. It meanwhile places a series of challenges at the feet of logistic operators and, as a result, there is a search for the best solutions to minimise its impact on distribution costs.

The purchase of physical goods has increased since the beginning of the pandemic and operators are considering alternatives to logistics warehouses for last mile deliveries, these possibly including retail parks.

This distribution model has already been noted in the United Kingdom and the question is being asked as to whether this could also be applicable in Spain. At the beginning of 2020 , Prologis acquired Ravenside Retail Park in Edmonton (North London) in order to transform it into an online distribution point, whilst Amazon did the same with another retail park located very close to London, namely Pentavia.



There is no evidence that this model is being put into practice currently in Spain. Logistics areas close to major Spanish cities continue to handle last mile goods and package delivery.

In addition, there is a differential between rents paid for logistics warehouses and those on retail parks. As a benchmark, for retail parks in secondary locations in **Madrid** and **Barcelona** rents of around €10/sq m/month are paid, whereas logistics warehouses considered as an option would charge between €5.50 and €6.25/ sq m/month for Madrid and €6.00 and €6.50 €/ sq m/month in Barcelona.



SUSTAINABILITY

Retail Parks have managed to adapt to new spending habits, adopting this transformation as part of the evolution of the sector itself. The resistance to the crisis shown by the sector has translated into a clear commitment to improving shopper experiences, adding family friendly spaces, restaurant and leisure facilities.

Regardless of the date of construction of the park, a commitment to sustainability is key in the sense that all of them are rolling out sustainability policies involving renewable energy generation for in-house consumption, waste reduction, carbon footprint reduction, recycling, electric vehicle charging, etc.

The sustainability trends in the sector are in response to changes in consumer habits. Energy efficiency has become a key element, where user perceptions and the experience of managers come together as crucial items when potential investors are analysing risk factors.





Although growing in number day by day, we already have examples in Spain of retail and retail warehouse parks with BREEAM sustainability certification, whilst others are in the process of obtaining this.

Given that the current trend is to ensure the certification of common spaces, these assets face different challenges and complexities in terms of the certification process.

In general terms, Retail Parks have limited floor area assigned to common spaces and, very often, these are neither heated nor air-conditioned (one of the prerequisites for BREEAM certification, for example).



The sector is focusing on introducing innovations that orient retail parks towards the concept of open shopping centres combining medium-sized stores, premises, restaurants and facilities associated with leisure and free time activities, all with the focus placed on sustainability and energy efficiency. One of the challenges faced by Retail Parks is the production of renewable energy and in-house consumption on the part of operators.

Any failure to subscribe to these changes and initiatives will hinder the alignment of these properties with net neutrality goals for 2050 and with the majority of international investors.



RETAIL PARKS COMMITMENT TO THE FUTURE

As a segment, retail parks do currently attract the highest degree of interest

They are, however, a successful format that will continue to develop over the coming years. It remains a fledgeling market that is currently growing at 8-10% annually.

There is growing demand on the part of national and international operators seeking retail synergies by grouping together around major population centres in strategic locations. In particular, activities are focused around household and sporting goods and food retailing, whilst not forgetting new restaurant and leisure formats that complement the retail offering, whether freestanding or integrated within retail.

It is important to point out the entry of new low-cost multiproduct international operators who, together with uses involving healthcare, services and social responsibility, are beginning to set up within this

format in line with the trend in countries such as France, Sweden, the UK and Germany.

From an investor's point of view, Retail Parks represent a safe bet in that they bring together major operators, long-term lease agreements, rent stability, low turnover and simpler management.

The attractiveness for both consumers and investors stems from the fact that this format has evolved in recent years, particularly during and after the pandemic. Due to a format consisting of easily accessible open spaces with car parking, there is lower exposure to e-commerce in the sense that it enables experience based shopping and perfectly integrates Omnichannel features, Click&Collect and Delivery .

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