The Shopping Centre Handbook 4.0
The Future of Shopping Centres
Spain 2019

February 2019
Financial Advisory I Real Estate
Global disruptive trends are changing the way companies are conceived. Technological innovations, global connectivity, and robotics implementation, are reshaping the future for most industries, and specially for retail.

Forecast for 2019 indicate that the main retail KPIs will follow a positive trend, although consumption is expected to move towards a more moderate phase, in line with the general trend for the economy in Spain.

The Shopping Centre market in Spain shows signs of consolidation and maturity. Nevertheless, there are still investment or repositioning opportunities in some locations. There are also alternative typologies with growth potential.

Since December 2017, 10 new shopping centres were opened, and 2 existing centres were repositioned. Many of these projects embrace the new shopping concept towards open spaces, green areas, and enhanced customer experience. 1.4m sqm of new GLA is expected to open by 2021.

The High Street and Retail Park markets are still part of the Core of most operator’s expansion plan. Both categories are being redefined and are undergoing some relevant concept changes. Investors are showing an increasing interest on the High Street market. The investment volume for this segment experienced an increase of 134% over the last year.

Global disruptive trends are impacting the way companies are positioning their business for the incoming years, and Retail industry is also being re-shaped by these changes. Now the question is: how are global trends changing the future of shopping centres?
Global disruptive trends are changing the way companies are conceived. Technological innovations, global connectivity, and robotics implementation, are reshaping the future for most industries, and specially for retail.
i) Global Disruptive Trends
A constantly changing world

Deep changes are being observed in social habits, consumption trends, and people’s lifestyle. Technological innovations, global connectivity, and robotics implementing, are reshaping the future for most industries, driving them from a physical world to a phygital ecosystem.
ii) Disruptive Trends’ impact on Global Economy

Top 5 Publicly Traded Companies (by Market Cap)

2001

#1 GE
#2 Microsoft
#3 Exxon
#4 Citi
#5 Walmart

Top Companies moving from traditional business to phygital ecosystem

2019

#1 Amazon
#2 Microsoft
#3 Alphabet
#4 Apple
#5 Facebook
v) Conclusions

Retail industry changing drastically:

- From physical world to **phygital ecosystem**.
- **E-commerce** and **Omni-channel** strategy.
- Fast **delivery** and easy **return** system.
- **Immediacy**: customers demand agility and fast response to their needs
- **Big Data**: anticipation to client’s needs
- **Curation**: customization of the client’s experience.

Technological disruption is widening the distance between services and goods:

- Many digital companies become “intermediary” between goods and users: **the possession is not as relevant as the “access”** to goods.
- Examples: Uber owns no cars, AirBnb owns no houses, Amazon sells third party products, and Glovo has no restaurants.

All is about community:

- **Users are the driver** for these companies to success (i.e. Cabify could enlarge their car fleet because the number of users increased).
Forecast for 2019 indicate that the main retail KPI will follow a positive trend, although consumption is expected to move towards a more moderate phase, in line with the general trend for the economy in Spain.
ii) Spanish Economic Fundamentals

GDP growth and unemployment rate

The Spanish economy growth has experienced a gradual slowdown. After three years of GPD growing above 3%, the economy is entering a less expansive phase in the economic cycle. Nevertheless, international community keeps placing Spain as one of the leading economies within EU.

Spain’s unemployment rate has shrunk to 14.6% in 2018. Reaching for the first time after 10 year a figure under 15%.

Source: INE, TradingEconomics, and IMF
iv) Consumption Indicators

Consumer Confidence Index, and Shopping Centres Footfall & Sales

Consumer Confidence Index
Annual Average (basis 100 in 2005) // Source: CIS

Shopping Centres Footfall & Prime SC Sales
Footfall Index Y-o-Y var(%) and Sales €/sqm/year
Source: ShopperTrack & Deloitte

Consumer Confidence Index has experienced significant fluctuations during the last two years, explained by the Catalonian political and social crisis, the international instability generated by the Brexit, and the current political uncertainty in the consolidation of the Spanish Government.

During the last twelve months footfall index has decreased slightly (0.2% on average) in accordance with the uncertainty expressed by the Consumer Confidence Index. Nevertheless, the accumulated growth since 2012 is close to 4%. In addition, average unitary prime shopping centres sales have kept the upward trend initiated in 2012, with an increase of 3% between 2017-2018.
Shopping Centres market in Spain shows signs of **consolidation and maturity.** Nevertheless, there are still investment or repositioning opportunities in some locations. There are also alternative typologies with growth potential.
ii) Shopping Centres Density Analysis

Spanish shopping centres quality assessment

Commercial density levels in Spain continue growing: From 2018 to 2019, 10 new shopping centres have been added to the Spanish total supply, increasing the Shopping Centres Density in 9 provinces.

In spite of the high density levels observed in some regions, a relevant share of total supply is considered low quality or obsolete.

The quality of the existing GLA must be taken into account to obtain a correct overview over the Spanish market. The analysis conducted by Deloitte concludes that only 66% of the total GLA is considered quality supply (including only shopping centres, and excluding other retail typologies).
ii) Shopping Centres Density Analysis
Spanish shopping centres quality assessment

Many of the shopping centres classified as “low quality” are outdated, and have high vacancy rates.

The Density Breakdown analysis identifies **6 provinces with room for development of quality GLA or refurbishments**.

These provinces have a low quality supply, a population higher than 300k inhabitants, and metro areas above 140k inhabitants.

Source: AECC, Deloitte analysis
iv) Key Performance Indicators

Average Prime Rents Trend

Average prime rents have grown in a regular basis since 2014. The rental increase accentuated in 2015 and 2016, when the Spanish economy showed consolidated signs of recovery. Nevertheless, after several years of relevant increases, the last 12 months growth shows signs of a more moderated trend.

Source: Deloitte.

(*) Average prime rents have been calculated only taking into consideration contracts signed each year.
Sample size of 3,380 contracts.
iv) Key Performance Indicators

Average Prime Sales Trend

Average Prime Sales

Average prime sales have increased by 3.2% in 2018.

This increase, moderated compared to previous years’ trend, is coherent with the Retail Sales Index trend and other retail market indicators, which show a generalized deceleration, characteristic of mature markets.

Source: Deloitte.
As retailers improved their average sales, effort rates have decreased progressively, since the effect of the average MGR growth is not sufficient to offset the good sales performance.

The increase in retailer’s turnover has surpassed in relative terms the increase in Minimum Guaranteed Rent (MGR).

(*) Average effort rates have been calculated taking into consideration sales reported on a yearly bases and each retailer minimum guaranteed rent (including SC and Tax expenses invoiced).
Sample size of 3,571 contracts.
Worldwide Commercial Real Estate investment volume has decreased by 3% in 2018. In Spain, the CRE investment volume has increased by 40% during the same period. That increase is due to the Corporate deals.
iii) Retail Investment Volume in Spain

Retail Investment share of total non-residential investment volume

Non-residential Real Estate investment volume increased by 40% over the last year. Corporate Deals returned in 2018.

Retail investment volume (Shopping Centres & High Street) has increased during 2018 by 12%.

Despite shopping centres investment volume decreased by 13% during 2018, High Street typology has experienced an increase of 134%.

Source: Deloitte
iv) Capitalisation Rates

Yields Trend In Spain

Average yields in Spain reached their minimum values in 2017, after five years of continuous compression.

Nevertheless, during the last twelve months, yields values have kept stable, forecasting the beginning of a new investment cycle.
### i) Shopping Centres Financing Market

Average Financing Terms (prime shopping centres)

<table>
<thead>
<tr>
<th></th>
<th>2013-14</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Framework</strong></td>
<td>Credit Access Constraints</td>
<td>Financing Upturn</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Upfront Fee</strong></td>
<td>200-250pbs</td>
<td>50-150pbs</td>
<td>50-150pbs</td>
<td>50-100pbs</td>
<td>75-125pbs</td>
</tr>
<tr>
<td><strong>Spread</strong></td>
<td>325-500pbs</td>
<td>150-275pbs</td>
<td>120-225pbs</td>
<td>150-200pbs</td>
<td>150-200pbs</td>
</tr>
<tr>
<td><strong>LTV</strong></td>
<td>40%-50%</td>
<td>50%-60%</td>
<td>50%-60%</td>
<td>40%-50%</td>
<td>40%-65%</td>
</tr>
<tr>
<td><strong>Balloon</strong></td>
<td>60%</td>
<td>65%-100%</td>
<td>65%-100%</td>
<td>75%-100%</td>
<td>60%-100%</td>
</tr>
</tbody>
</table>

Source: Deloitte

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Most of the financing activity has been focused on portfolios and secondary shopping centres due to the lack of “prime” opportunities.

Financing conditions have remained stable if compared with those available in 2018.
Since December 2017, 10 new shopping centres were opened, and 2 existing centres were repositioned. Many of these projects embrace the new shopping concept towards open spaces, green areas, and enhanced customer experience.
Most Recent Developments

367,469sqm of new GLA has been added since December 2017 and 2018, taking into account new openings and extensions.
Next Openings Pipeline:
Planned projects and potential developing areas.

07 New projects
216,000 sqm
of potential GLA

+ 13 New projects
525,122 sqm
of potential GLA

+ 10 New projects
654,670 sqm
of potential GLA

RETAIL DENSITY WOULD BE INCREASED UP TO

355 Sqm/1000inhab
SHORT-TERM DEVELOPMENT

366 Sqm/1000inhab
MEDIUM-TERM DEVELOPMENT

381 Sqm/1000inhab
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Investors are showing an increasing interest on the High Street market. The investment volume for this segment experienced an increase of 134% during the last year.
**Other Retail Typologies**

**Retail High Street: High Street Investment Volume**

**Spanish Retail High Street Investment Volume by Year (€m):**

- 2010: 1,467
- 2011: 591
- 2012: 571
- 2013: 751
- 2014: 2,242
- 2015: 1,283
- 2016: 669
- 2017: 651
- 2018: 1,524

**Spanish Retail High Street Market Yield Trend (%):**

- 2008: 2.50%
- 2009: 3.75%
- 2010: 4.75%
- 2011: 6.25%
- 2012: 6.25%
- 2013: 6.25%
- 2014: 7.00%
- 2015: 6.25%
- 2016: 6.25%
- 2017: 6.25%
- 2018: 6.25%

**Main Players in 2018:**

- **CORPFIN CAPITAL Real Estate**
- **BBVA**

**Other Players:**

- **Union Investment**
- **Thor Equities**

**High Street Investment Market:**

- High Street Typology accumulated 42 Deals in 2018, 4 of them included in portfolios. The total investment volume reached €1,525m, the second highest figure historically recorded.
- High Street accounts for 10% of the total Investment Volume. This share is 4% higher than the previous year.
Other Retail Typologies
Retail Parks: Investment Market

Investment Distribution:

- Shopping Centres: 82%
- Retail Parks: 18%

Retail Parks €490m in 2018

Retail Park Yield Trend:

- 2006: 5.00%
- 2016: 6.50%
- 2018: 5.00%

RETAIL PARKS MARKET TRENDS IN 2018-2019:

- Portfolio creation and consolidation.
- Sub-market specialization, and owner-managed disposal of non-strategic assets.
- Tenant uncertainty.
- More vulnerable to e-commerce on the long-term?

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Global disruptive trends are impacting on the way companies are positioning their business for the incoming years, and Retail industry is also being re-shaped by these changes. **Now the question is: how are global trends changing the future of shopping centres?**
Global Disruptive Trends’ Effect on Shopping Centres and other retail typologies.
How are global trends changing the future of shopping centres?

“
We have been told there is no future for shopping centres. It is false. Shopping centres do have a great future, but future shopping centres will be closer to “Walt Disney” than to “Walmart”.
LAUREANO TURIENZO.
RETAIL INSTITUTE SPAIN & LATAM.
ESIC: BUSINESS & MARKETING SCHOOL. FLORIDA INTERNATIONAL UNIVERSITY - COLLEGE OF BUSINESS.

Mixed-Use Resorts

- Shopping centres will become places to enjoy and connect with brands. Also places where people can buy a physical item, but considering this task a secondary priority.
- Shopping centres will become micro cities, with hotels, co-working spaces, luxury residential areas, and many other uses and facilities.
- Shopping centres will innovate with spaces focused 100% on a specific population niche (such as kids, seniors, vegans, sporties...)
- Some sport facilities will be placed within this kind of shopping resorts, (such as football stadiums, beisball stadiums, etc).
Global Disruptive Trends’ Effect on Shopping Centres and other retail typologies.

How are global trends changing the future of shopping centres?

"If you want people to know who you are you have to do something different, and that's not cheap."

ALMIRA CUIZON
VICE PRESIDENT OF RETAIL OPERATIONS AT ROOTS

Nike Brings Innovative Nike+ Basketball Trial Zone to New Soho Store, offering digitally-powered trials. The immersive experiences provide one-of-a-kind opportunities to showcase product benefits that answer each consumer’s individual sport needs, with the help of in-store certified athletes.

L’Occitane also opened its latest concept store last summer along New York City’s famed Fifth Avenue. Given that the store is signing up three times more new customers than any other boutique (among other reasons New York retail is often more eccentric), the store is worth investing time and money into differentiating.
Global Disruptive Trends’ Effect on Shopping Centres and other retail typologies.  
How are global trends changing the future of shopping centres?

Stores are closing as retail spending moves online at a meteoric pace […]. The US saw a record number of store closings in 2017, with 6,885 stores having shut their doors. 

DELOITTE  
Global Powers of Retailing 2018

In recent years, retailers and shopping centre landlords have been developing multiple online and physical touchpoints to engage with shoppers.

This has made the path to purchase more convenient for shoppers, although more complex for retailers: the growth of online product returns in-store have made it more difficult to evaluate the role and contribution of the physical shop.

In the same way online sales are increasing, landlords and tenants are noting the need of adapting the traditional lease structures. Sales-based rent must be reconsidered, and new metrics would need to be defined (i.e. number of in-store visitors)
Global Disruptive Trends’ Effect on Shopping Centres and other retail typologies.

High Street Trends: Urban Big Boxes

**Urban Big-box Retailers**

- Big-box retailers want to get closer to clients: the overall tendency includes, less cars and more convenience.

- There are some strategic difficulties to these formats:
  - High rents for big-box tenants
  - Limited parking provision & challenging logistics
  - Secondary locations, in some cases not very transited

- Growing tendency, presenting numerous opportunities in the future.