

# Deloitte.

## The Shopping Centre Handbook

Investment and Financing Keys

Spain 2016

EXECUTIVE SUMMARY

10 November 2016

Financial Advisory | Real Estate



# 1

## Market Overview



### Consolidation of the recovery in most macro-economic fundamentals 2014 vs 2015-16

- ▶ GDP growth: **+3.2% 2015**
- ▶ Unemployment rate decreasing by **-5.5% (CAGR)** since 2013.
- ▶ Exports growth: **+4.5% 2015**
- ▶ Household expenditure: **+1.4% 2015**
- ▶ Slight decrease in Consumer Confidence Index due to political uncertainty: **107.4 Dec-15 vs 96.3 Jun-16**
- ▶ Footfall Index: **+1.4%** y-o-y average growth 2015-16

# 2

## Supply & Demand



- ▶ Commercial Density in Spain is at 334 sqm/1000 inhab. (2016YTD) with **8 recent openings in 2015-16.**
- ▶ **10 out of the 32 new projects** until 2019 are expected to be **feasible.**
- ▶ Most shopping centres nowadays aim to become a **Macro-Project**, through:
  - Impressive building design.*
  - Connection to target public and deep understanding of the millennial mind-set.*
  - Becoming a category killer within the catchment area.*
- ▶ Average **Rents, Sales and Effort rates are experiencing a positive trend** thanks to favourable macro-economic context.

# 3

## Shopping Centres Investment Market



- ▶ **EMEA** region concentrates **29%** of the total Retail Investment volume (shopping centres + high street). **Spain represents 8%** of this amount.
- ▶ In Spain, Shopping Centres Investment volume (**€3,028m 2016YTD**) represents **34%** of total non-residential investment.
- ▶ **Deloitte took part in 50%** of total S.C. transactions in Spain during 2015, and **50%** during 2016YTD.
- ▶ Shopping Centres Transaction **Pipeline for next years** amounts to more than **€4.000m**

# 4

## Key Investment and Financing Drivers

- ▶ Average S.C. Yields trend in **Spain shows a higher volatility** compared to other European countries.
- ▶ Current **yields compression** context turns into **"Core"** investor profile as the main player during 2016YTD in Spain.
- ▶ **Increasing financing appetite** for yielding assets: more competitive conditions and return of the traditional lenders for development loans.

# 5

## Key Factors



### Full Due Diligence necessary to perform the optimum deal analysis:

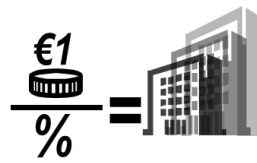
- ▶ **Financial Factors:** *NOI reconciliation*
- ▶ **Business Performance:** *Income sustainability analysis*
- ▶ **Legal Factors:** *All intervenient contracts analysis. Urban and legal risks analysis.*
- ▶ **Tax Factors:** *Tax impact on results analysis*
- ▶ **Technical Factors:** *Structural or technical defects identifying and compliance with regulations analysis. (\*) IMPORTANCE OF BREEAM CERTIFICATION.*

### EXECUTIVE SUMMARY

Drivers of the cross-border investment increase:

- 1 > Accessibility to credit and more attractive financing conditions
- 2 > Yielding Assets are more attractive than Investment Grade
- 3 > Dollar strength (For American investors) and Euro weakness
- 4 > Political and financial uncertainty in certain regions

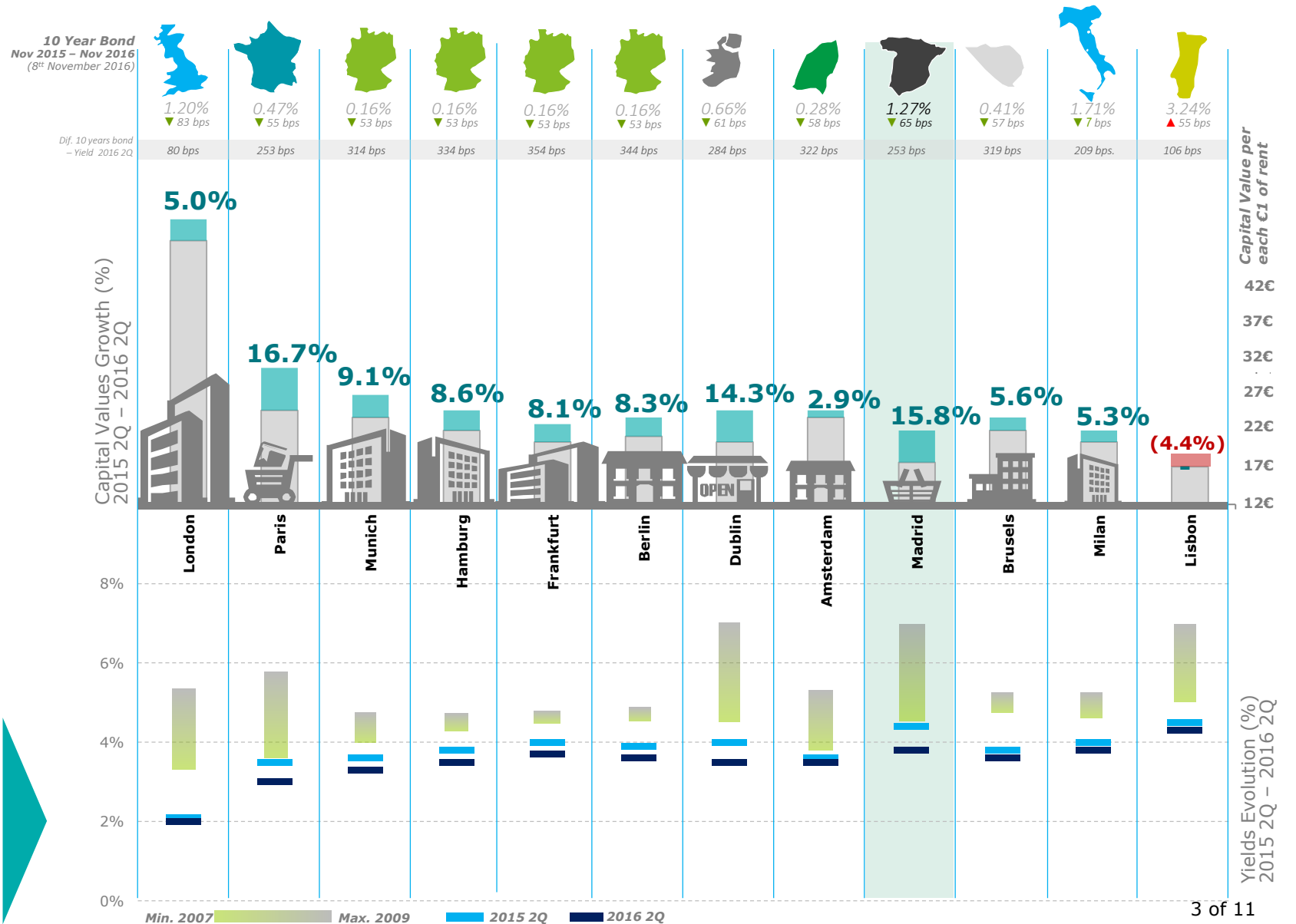
Between 2014 and 2015 Europe has suffered a **global yield compression**, which has produced important **increases in Capital Values**, apart from the effect that could have had other market factors such as the rent evolution.



# Retail Market:

## Capital Values analysis

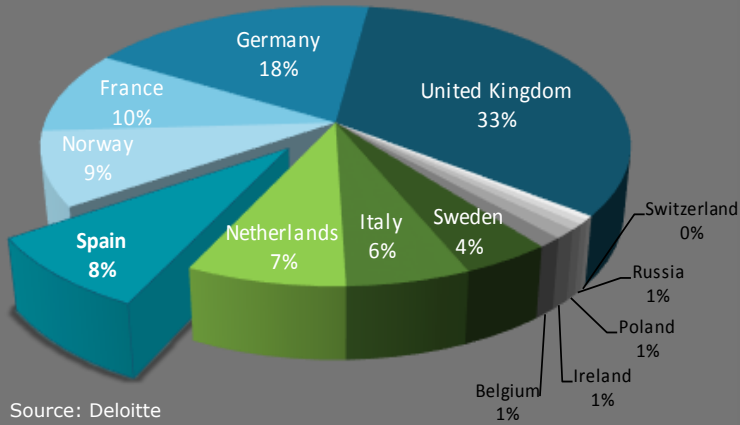
Source: Deloitte, Bloomberg



## EXECUTIVE SUMMARY

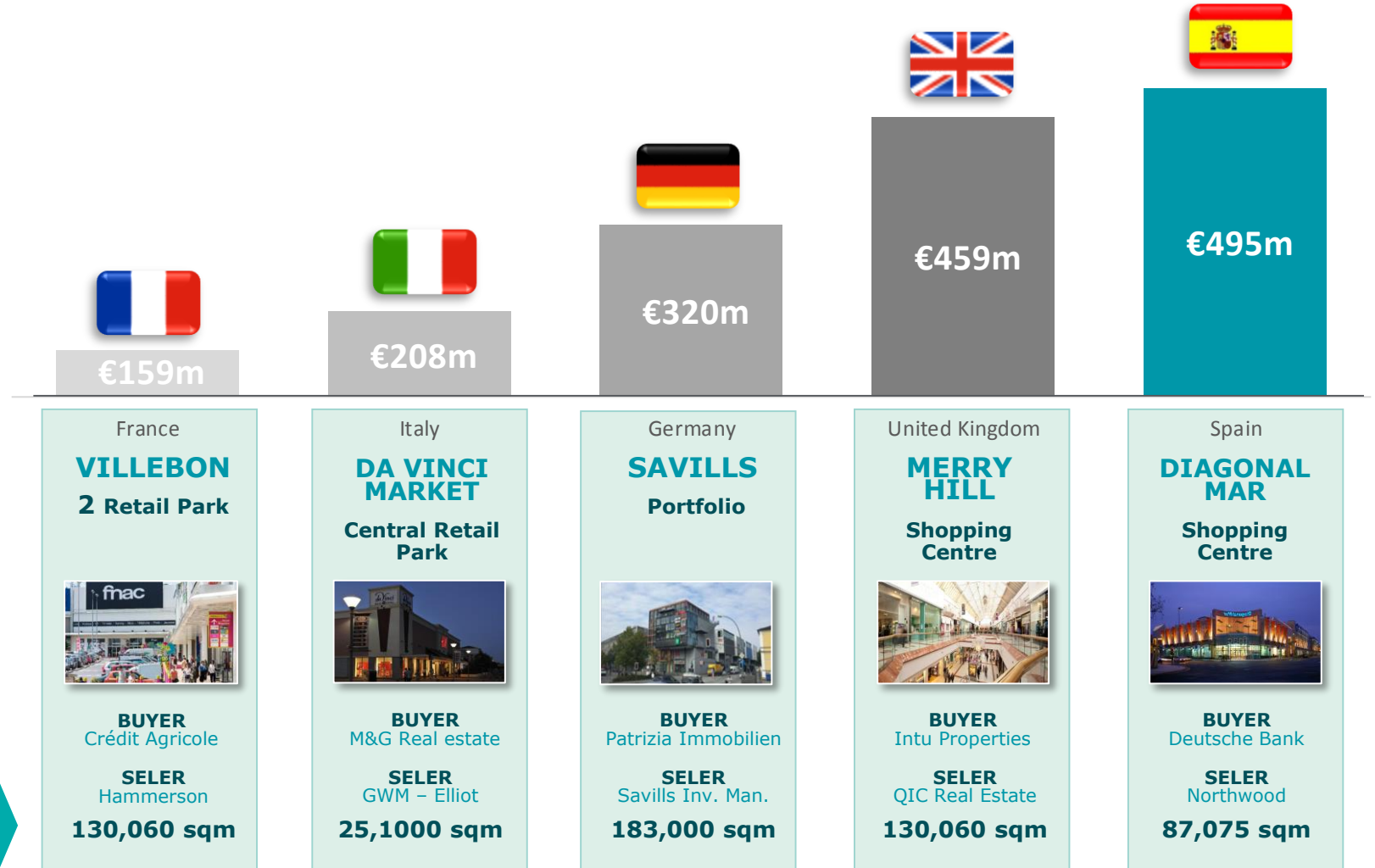


8% of the Total Retail Investment of the analysed countries



## European Investment Market

Diagonal Mar (**Spain**) with **€495m** of Investment Volume was the main transaction of 2016 in Europe.



Source: Deloitte



### Diagonal Mar Shopping Centre





## EXECUTIVE SUMMARY

### European Yields (2016YTD):

| Country    | Prime Yield - 2016 YTD | Minimum last 10 years |
|------------|------------------------|-----------------------|
| France (*) | 4.00%                  | 4.00%                 |
| Germany    | 3.90%                  | 3.90%                 |
| UK         | 5.25%                  | 4.45%                 |
| Belgium    | 4.25%                  | 4.25%                 |
| Spain      | 4.50%                  | 4.25%                 |
| Sweden     | 4.25%                  | 4.25%                 |
| Italy (*)  | 5.25%                  | 4.50%                 |

Source: Deloitte

For more information see **CHAPTER 4** (Key Investment and Financing Drivers) in the full report.

**Top 5 deals per country** (UK, Germany, France, Italy and Spain) amount to **€4,786m** (2016YTD).

**Top 5 Spanish Deals** represents **27%** of this investment volume.



## European Investment Market

Spain with €2,704m of retail investment volume (Shopping Centre + High Street) is one of the most important players in the European Market.

| #         | Country        | Asset                            | GLA (sqm)      | Price (€m) | Vendor                         | Buyer                        |
|-----------|----------------|----------------------------------|----------------|------------|--------------------------------|------------------------------|
| <b>1</b>  | <b>Spain</b>   | <b>Diagonal Mar</b>              | <b>87,085</b>  | <b>495</b> | Northwood                      | Deutsche Bank                |
| 2         | United Kingdom | Merry Hill                       | 130,060        | <b>459</b> | QIC Real Estate                | Intu Properties Plc          |
| 3         | United Kingdom | Grand Central                    | 40,412         | <b>377</b> | Birmingham City Council        | Hammerson Plc                |
| <b>4</b>  | <b>Spain</b>   | <b>Gonuri Portfolio</b>          | <b>135,000</b> | <b>358</b> | Gonuri Harizartean             | Invesco Cor Fund             |
| 5         | United Kingdom | Liverpool One                    | 167,220        | <b>337</b> | Hermes REIM                    | Abu Dhabi Investment         |
| 6         | Germany        | Savills Portfolio                | 183,000        | <b>320</b> | Savills Investment Management  | Patrizia Immobilien          |
| 7         | Italy          | Da Vinci Market                  | 25.100         | <b>208</b> | GWM - Elliot                   | M&G Real estate              |
| <b>8</b>  | <b>Spain</b>   | <b>Eroski Portfolio</b>          | <b>234,785</b> | <b>205</b> | Eroski                         | Carmila                      |
| 9         | United Kingdom | Intu Bromley                     | 43,013         | <b>200</b> | Intu Properties Plc            | Alaska Permanent Fund        |
| 10        | Germany        | Forum Hanau                      | n.a.           | <b>200</b> | HBB                            | Hamburg Trust                |
| 11        | United Kingdom | Grand Central                    | 40,412         | <b>188</b> | Hammerson Plc                  | CPPIB                        |
| 12        | Germany        | HFS 18                           | n.a.           | <b>160</b> | WealthCap RE Management        | Revcap                       |
| 13        | France         | Villebon 2                       | 47,500         | <b>159</b> | Hammerson France               | Crédit Agricole Assurances   |
| 14        | Germany        | Gisele Portfolio                 | n.a.           | <b>150</b> | Family Office U.K.             | A&M Captiva                  |
| 15        | Germany        | Designer Outlets Wolfsburg       | n.a.           | <b>150</b> | Europa Capital                 | Invesco                      |
| <b>16</b> | <b>Spain</b>   | <b>Gran Vía de Vigo</b>          | <b>41,000</b>  | <b>145</b> | Oaktree                        | LAR - SOCIMI                 |
| 17        | France         | Portefeuille d'actifs commercial | 77,000         | <b>144</b> | n.a.                           | Frey                         |
| <b>18</b> | <b>Spain</b>   | <b>Luz del Tajo (sin cines)</b>  | <b>39,000</b>  | <b>107</b> | Sonae Sierra                   | CBRE Global Investors        |
| 19        | Italy          | Meraville Retail Park            | 35.975         | <b>100</b> | Orion European RE Fund         | TH European Cities Fund      |
| 20        | Italy          | Centro Commerciale i Gigli       | 24.800         | <b>82</b>  | Gruppo Pam                     | Euricommercial Properties    |
| 21        | Italy          | Centro Commerciale Collestrad    | 26.500         | <b>82</b>  | Fondo Etrusco - Fabrica SGR    | Eurocommercial Properties NV |
| 22        | France         | Les Sentiers de Claye-Souilly    | 18,000         | <b>56</b>  | n.a.                           | Frey                         |
| 23        | France         | So Green                         | 18,023         | <b>49</b>  | n.a.                           | Imocompartners               |
| 24        | Italy          | Buonvento Shopping centre        | 20.000         | <b>30</b>  | HIG capital via savills IM SGR | European Value Added Fund    |
| 25        | France         | Cap Liévin                       | 17,360         | <b>25</b>  | n.a.                           | Imocompartners               |

Source: Deloitte

## EXECUTIVE SUMMARY

### Top 10 Spanish deals:

| #  | ASSET              | PRICE (€m) | GLA (sqm) | TYPOLIGY     |
|----|--------------------|------------|-----------|--------------|
| 1  | Diagonal Mar       | 495        | 87,085    | Prime        |
| 2  | Gonuri Portfolio   | 358        | 135,000   | n.a.         |
| 3  | Eroski Portfolio   | 205        | 234,785   | n.a.         |
| 4  | Gran Vía de Vigo   | 145        | 41,000    | Prime        |
| 5  | Luz del Tajo       | 107        | 39,000    | Leading Sec. |
| 6  | L'Aljub            | 100        | 43,800    | Prime        |
| 7  | Festival Park      | 100        | 31,933    | Leading Sec. |
| 8  | Bogaris Portfolio  | 95         | 84,218    | Secondary    |
| 9  | Hispania Portfolio | 77         | 29,796    | Secondary    |
| 10 | ABC Serrano        | 73         | 14,000    | Secondary    |

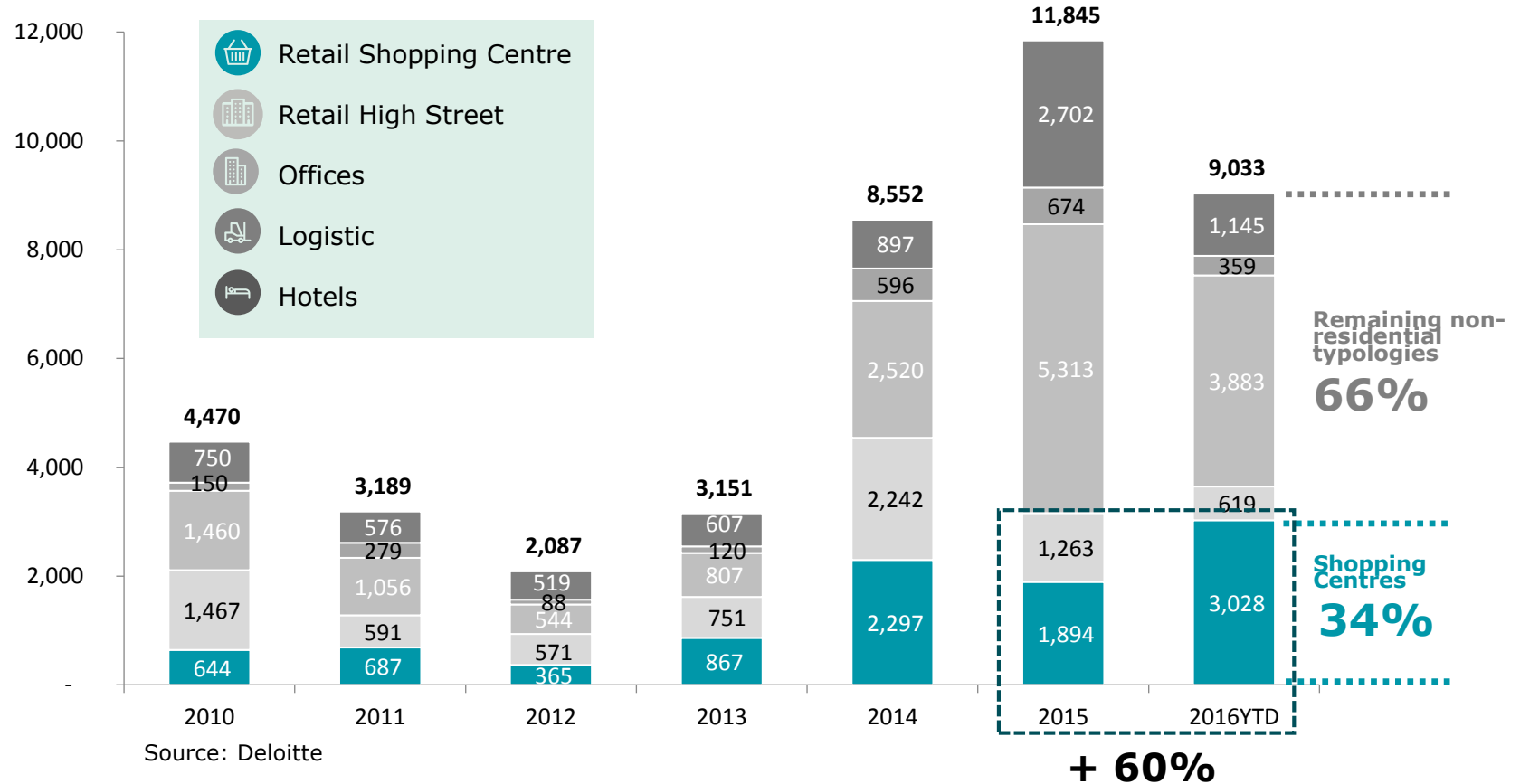
Source: Deloitte

Total Shopping Centre investment volume in Spain as at 2016YTD: **€3,028m**

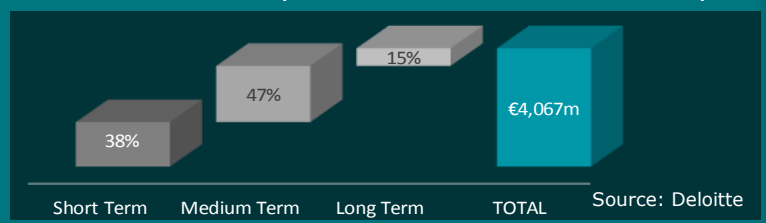


## Spanish Investment Market

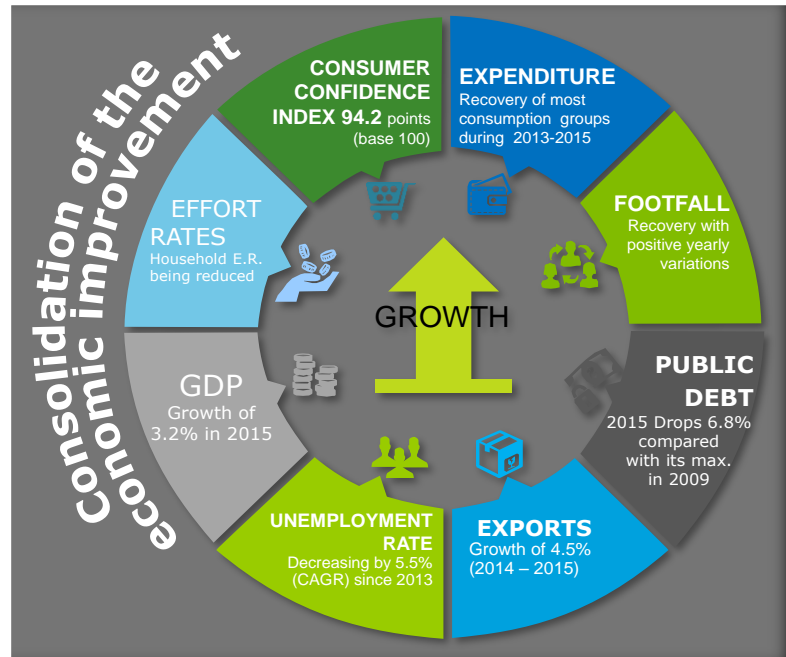
In 2016 it is not expected to reach the transactional volume achieved in 2015, but investment volume is likely to reach 10 billions by the end of the year.



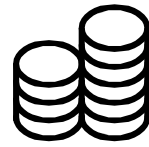
A total pipeline investment volume of **€4,067m** is expected to be transacted in Spain



## EXECUTIVE SUMMARY



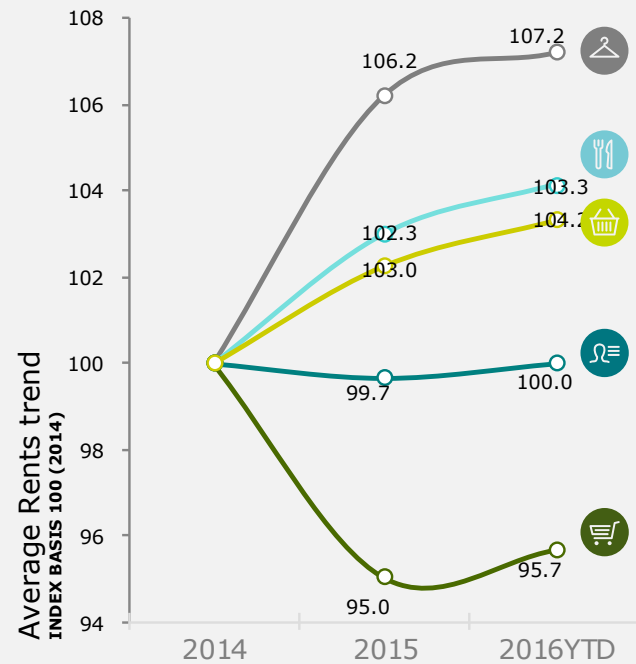
As **sales** experiment significant increases, retailers improve their business performance, with the subsequent decrease on **effort rates**



## Rental Market

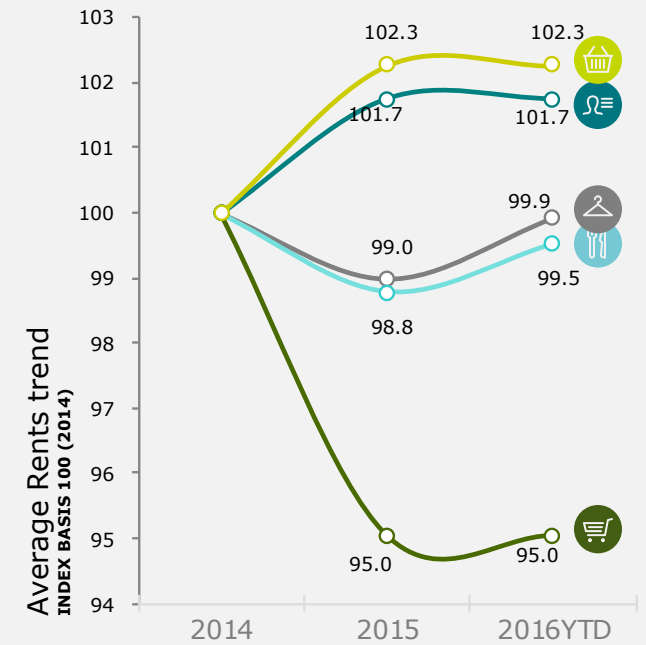
Recovery on consumption indicators is finally having a slight impact on rents

### Average Rents Prime S.C.



VS

### Average Rents Secondary S.C.



Source: Deloitte

For more information see **CHAPTER 2** (Supply & Demand) with the full rental market analysis based on Deloitte Database. Analysis sample size: 4,123 units (only 2015-2016YTD information)

## EXECUTIVE SUMMARY

### MAIN DRIVERS FOR THE INCREASING LENDING APPETITE

#### MACROECONOMIC ENVIRONMENT

- Fundamentals improvement
- Monetary Policy: QE, low funding costs, etc.

#### FINANCIAL SECTOR

- Restructure of the Financial Sector
- P&L reconstruction

#### REAL ESTATE INVESTMENT MARKET

- Excess of Liquidity: Increase of the transactional activity
- Arrival of new sponsors
- Alternative to the fixed income / bond yields

### Development loans:

Traditional lenders are coming back

### Senior Debt

Yielding assets: 2016 more and more competitive



## Financing Market

**Yielding assets:** Improvement of the financing terms

|              | 2013                                     | 2014       | 2015                              | 2016       |
|--------------|--|------------|-----------------------------------|------------|
| Framework    | ← Credit Access Constraints →            |            | ← Financing Upturn →              |            |
| Main Players | ← Institutional Investors / Debt Funds → |            | ← Banking / Assurance Companies → |            |
| Upfront Fee  | 250-300pbs                               | 150-200pbs | 50-150pbs                         | 50-150pbs  |
| Spread       | 400-600pbs                               | 225-350pbs | 150-275pbs                        | 120-225pbs |
| LTV          | <50% <sup>(1)</sup>                      | 50%-60%    | 55%-60%                           | 55%-65%    |
| Balloon      | 70% <sup>(2)</sup>                       | 60%        | 65%-100%                          | 65%-100%   |

Main Conditions

(1) Balloon need to cover the high funding costs during the loan's life. (a smaller balloon will mean a bigger annual debt service)  
(2) Sustainable LTV to face the debt service with high funding costs (A bigger LTV will mean a bigger debt service)

Source: Deloitte

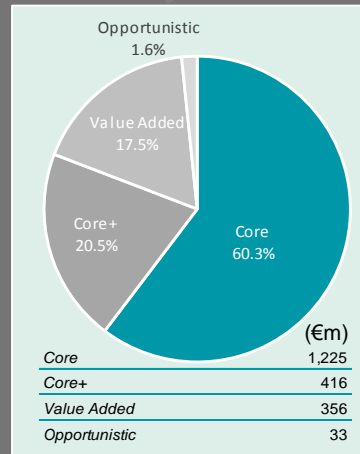
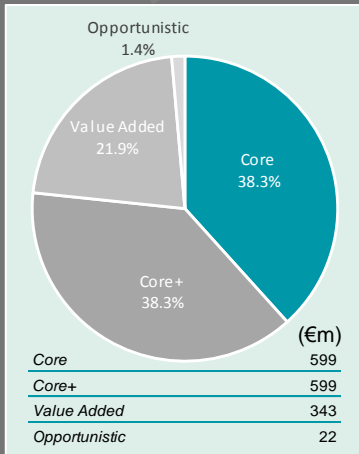


## EXECUTIVE SUMMARY

### INVESTOR PROFILE IS CHANGING:

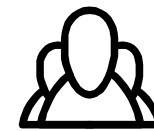
2015

2016YTD



Source: Deloitte

Most active players during 2016YTD that are expected to keep active:



## Main Players:

### Equity

### Debt

Source: Deloitte

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The Shopping Centre Handbook  
Spain 2016

## EXECUTIVE SUMMARY

### THE KEY FOR SUCCESS



Source: Deloitte

The shopping center is not just a **PLACE**, but also a **PRODUCT**, which must be adapted to a changeable market. Shopping Centres have a cycle. Malls can **die** or **survive** depending on the ability to adapt.



# WHITE ELEPHANT

# VS

# SUCCESSFUL PROJECT



# The Shopping Centre Handbook

## Spain 2016

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