

Deloitte.

The Shopping Centre Handbook 3.0

Investment & Financing Keys

Spain 2017

EXECUTIVE SUMMARY

22 November 2017

Financial Advisory | Real Estate



1

Market Overview



Consolidation of the recovery in most macro-economic fundamentals 2016-2017

- ▶ GDP growth: **3.1% 2017E**
- ▶ Unemployment rate decreased by **-6.9% (CAGR)** since 2013.
- ▶ Spanish exports growth: **+2.5%**
- ▶ Household mortgage effort rates: **31% 2016**
- ▶ Slight decrease in Consumer Confidence Index due to Catalonia uncertainty: **107.4 Dec-15 vs 99.6 Oct-2017**
- ▶ **Footfall & Sales Growth: +1.7% y-o-y** average footfall growth and **+2.5% sales** increase in the 2016-17 period.

2

Supply & Demand



- ▶ **Physical Obsolescence & Repositioning: 43%** of Spanish Shopping Centres are in need of repositioning or **obsolete**.
- ▶ Commercial Density in Spain is at 341 sqm/1000 inhab. (2017YTD) with **9 recent openings in 2016-17**.
- ▶ **10 out of the 31 new projects** until 2020 are expected to be **feasible** (353,900smq out of 1,790,006sqm).
- ▶ We have identified clear changes in the characteristics of Spanish Shopping Centres from the 70s to the current decade, as on average:
 - i. Grocery Stores are -70% smaller (sqm).*
 - ii. Leisure area has increased by +70%.*
 - iii. There are less sqm of cinema, however, there are more screens.*
- ▶ Average **Rents, Sales and Effort rates are experiencing a positive trend** in prime shopping centres.

3

Investment & Financing Market



- ▶ **EMEA** region concentrates **20%** of the total Retail Investment volume (shopping centres + high street). There has been a **change in interest** from investors from the EMEA region to the **Americas. Spain represents 16%** of this amount.
- ▶ In Spain, Shopping Centres Investment volume (**€2,296m 2017YTD**) represents **30%** of total non-residential investment. The **current pipeline may increase** the total investment volume to **€2,950m** by the end of the year. Spanish **REITs (SOCIMIs)** represented a 16% of the total investment.
- ▶ Shopping Centre Transaction **Pipeline for 2017-2018** amounts to more than **€3,042m**
- ▶ During this year traditional banks have **started to finance commercial land plots for developments**.

4

Key Drivers & Trends in Spain

- ▶ The **polarization** of the category of assets is going to **continue** to be a trend. **Core** opportunities will still be relevant in 2017 and **value-added** opportunities will also play a major role.
- ▶ Despite the increasing interest for **healthy food, Fast Food** still concentrates 64% of total restaurant supply and has average sales **5% higher**.
- ▶ Huge room for **omnichannel strategy growth** in all retail asset classes, but specially in Retail Parks.

5

The Future of Shopping Centres

The Phygital World plays an essential role in the Shopping Centre Industry:

- ▶ Communicating with the client has changed and must be done in a digital way as **56% of in-store sales** are influenced by digital media.
- ▶ Omnichannel Strategies are playing an increasingly important role, with new features such as **SC e-commerce**.
- ▶ Average condition of Spanish shopping centres **requires an investment of approx. €1.1bn** to refurbish and reposition them. The **average date of construction is 2001**, from a sample of 435 retail schemes.

EXECUTIVE SUMMARY

Drivers of the cross-border investment:



1 >

Despite all unanswered questions regarding political direction in many countries, markets are still responding in a rational manner.



2 >

An increasing number of investors are looking to properties as a stable investment, especially in times of widespread uncertainty.



3 >

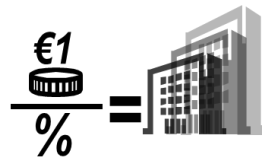
Cross Border investment volumes may have slowed down over the last year but they remain 41% above the 10-year average.



4 >

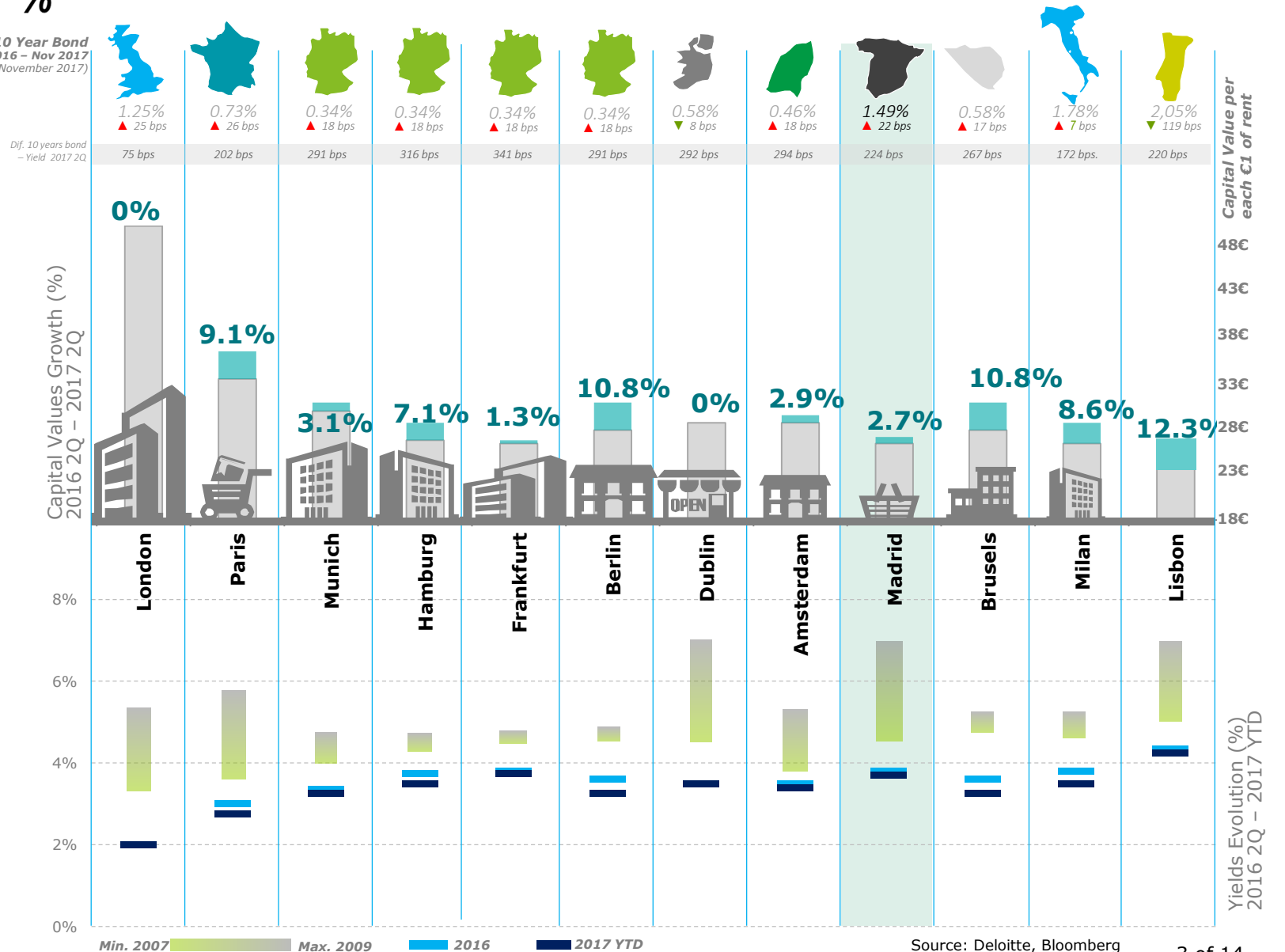
In addition to the generalised Yield compressions, expectations of rental increases in some countries will lead to a significant growth of capital values.

Between 2016 and 2017 Europe has kept the **global yield compression** trend which started in 2014, producing 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

10 Year Bond
Nov 2016 – Nov 2017
(6th November 2017)

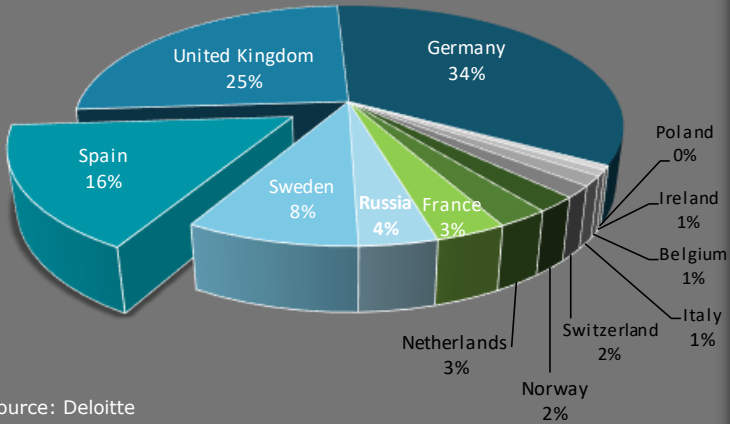


Source: Deloitte, Bloomberg

EXECUTIVE SUMMARY



16% of the Total Retail Investment of the analysed countries



Source: Deloitte



European Investment Market

Xanadú (Spain) with €520m of Investment Volume was the largest transaction of 2017YTD in Europe.



€220m

**Rathaus Galerie
Leverkusen**
Shopping Centre



BUYER
Union Investment

VENDOR
Credit Suisse AM
36,424 sqm



€233m

Nueva Condomina
Shopping Centre



BUYER
Klepierre

VENDOR
BNP Paribas Fortis
110,000 sqm



€244m

Le Befane Shopping Centre
Shopping Centre



BUYER
Union Investment

VENDOR
Credit Suisse AM
35,499 sqm



€264m

Xanadú 50%
Shopping Centre



BUYER
TH Real Estate

VENDOR
Intu Properties
76,847 sqm

€520m

Xanadú
Shopping Centre



BUYER
Intu Properties

VENDOR
Ivanhoe Cambridge
153,695 sqm

Source: Deloitte



Xanadú Shopping Centre



EXECUTIVE SUMMARY

Top 10 Spanish deals:

#	ASSET	PRICE (€m)	GLA (sqm)	TYPOLoGY
1	Xanadú	520	153.695	Prime
2	Xanadú (50%)	264	76.848	Prime
3	Nueva Condomina	233	110.000	Prime
4	H2O Rivas (70% stake)	175	36.400	Leading Sec.
5	Área Sur	110	47.000	Prime
6	Alcalá Magna	100	34.165	Prime
7	Parque Principado - RP	82	74.398	Prime
8	ABC Serrano	80	14.000	Prime
9	El Tormes	72	22.600	Leading Sec.
10	La Marina	70	35.599	Secondary

Source: Deloitte

Total Shopping Centre investment volume in Spain as at 2017YTD: **€2,296m**

A total pipeline investment volume of **€3,042m** is expected to be transacted in Spain

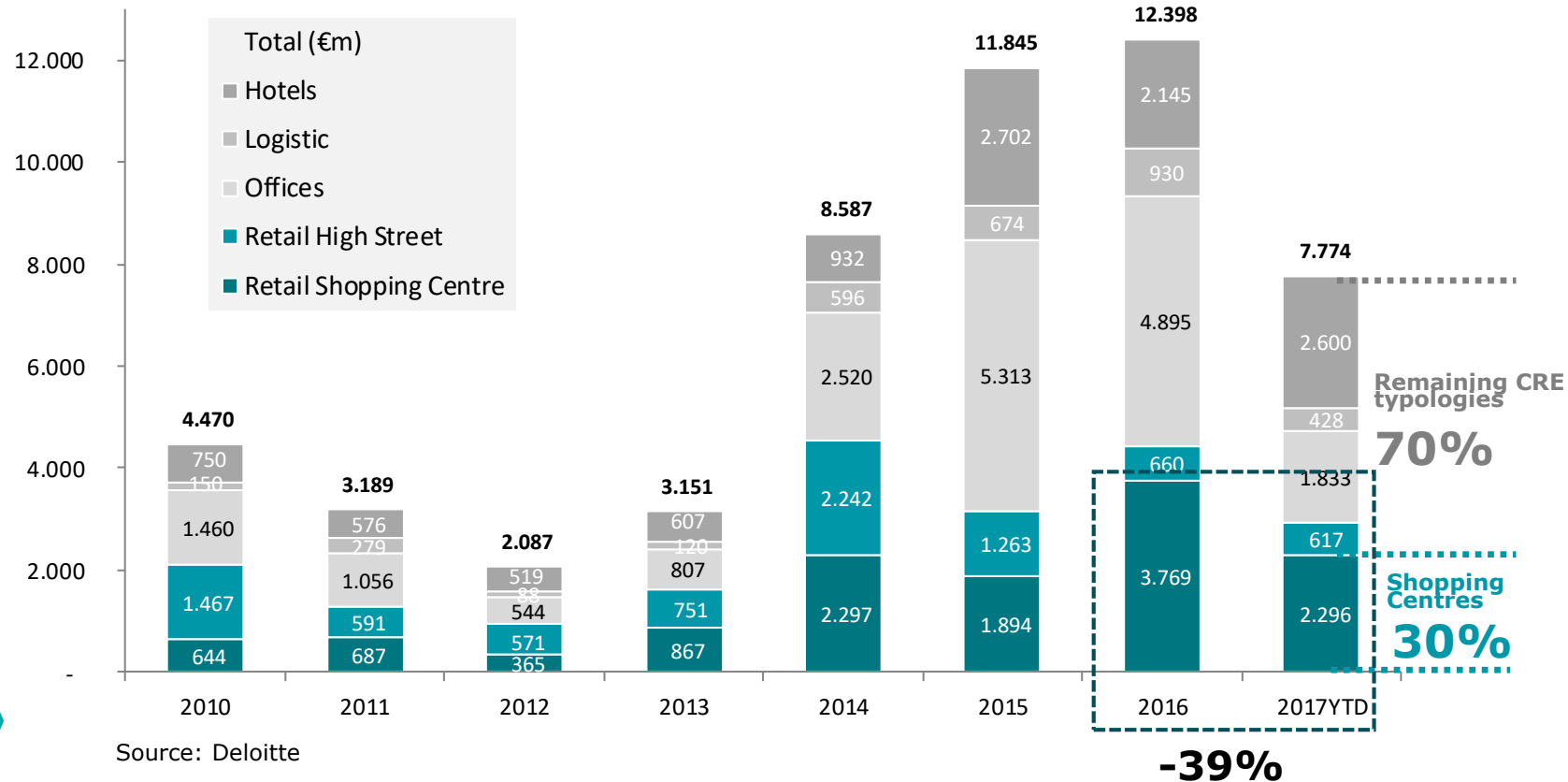


Short Term Medium Term Long Term TOTAL



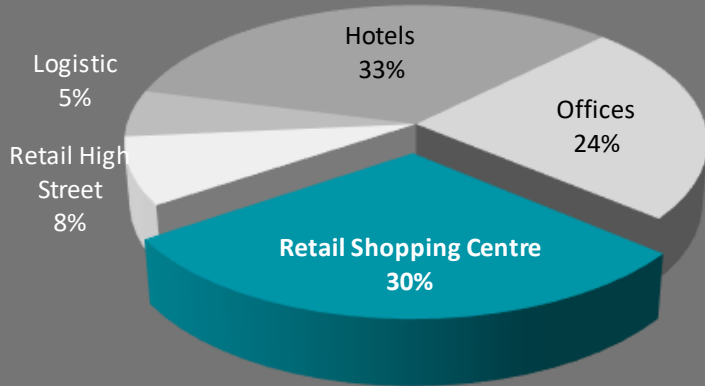
Spanish Investment Market

2017 it is **not expected to reach** the transactional **volume** achieved in 2016, investment volume is **unlikely to reach 10 billions** by the end of the year.



EXECUTIVE SUMMARY

2017 CRE Investment Breakdown



Source: Deloitte

Despite of the **lack of "super prime"** transactions, **secondary assets have played a major role** in Spain.



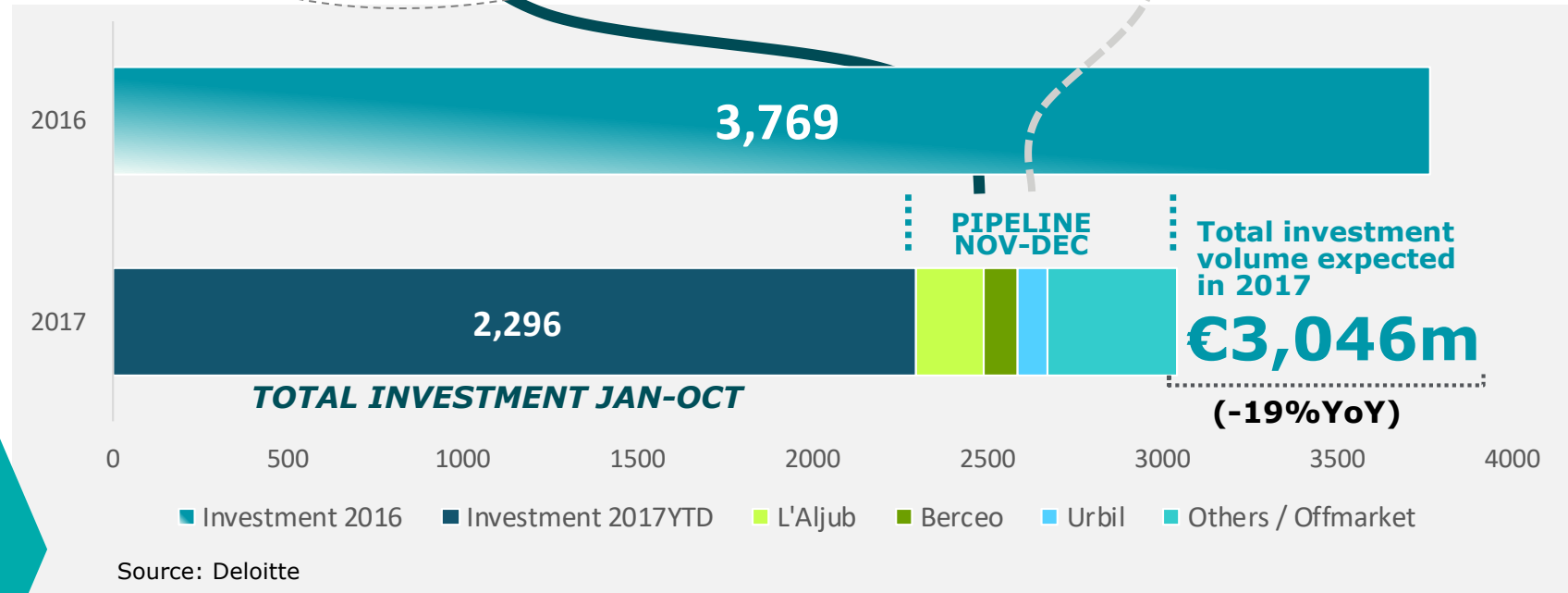
2017 Final Investment Volume

Despite the relevant investment activity it is **unlikely to reach the 2016** total investment volume.

€380m PIPELINE

L'Aljub / Berceo / Urbil

≈ €370m
OFFMARKET



Source: Deloitte

EXECUTIVE SUMMARY

MAIN DRIVERS FOR THE INCREASING LENDING APPETITE

MACROECONOMIC ENVIRONMENT

- Fundamentals improvement

REAL ESTATE INVESTMENT MARKET

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

MAIN LENDING CONCERNS

- Risks of 2018 pipeline: lack of "super prime" yielding assets
- Evolution of the interest rate in the medium term

Lending strategy for 2018

- ✓ **Refinancing** of mortgage loans **expiring at 2018** (increasing LTVs)
- ✓ Assuming **riskier collaterals** (secondary assets, developments, etc.)



Financing Market

Senior Debt – Yielding Assets

Lower costs with lower LTV at the Sponsor's requirement

	2013	2014	2015	2016	2017 YTD
Framework	← Credit Access Constraints →		← Financing Upturn →		
Main Players	← Institutional Investors / Debt Funds →		← Banking / Assurance Companies → Alternative lenders →		
Upfront Fee	250-300pbs	150-200pbs	50-150pbs	50-150pbs	c.100pbs
Spread	400-600pbs	225-350pbs	150-275pbs	120-225pbs	150-200pbs
LTV	<50% ⁽¹⁾	50%-60%	55%-60%	55%-65%	40%-50% At the Sponsor's requirement
Balloon	70% ⁽²⁾	60%	65%-100%	65%-100%	75%-100%

Main Conditions

(1) Sustainable LTV to face the debt service with high funding costs (A bigger LTV will mean a bigger debt service)

(2) Balloon need to cover the high funding costs during the loan's life. (an smaller balloon will mean a bigger annual debt service)

EXECUTIVE SUMMARY

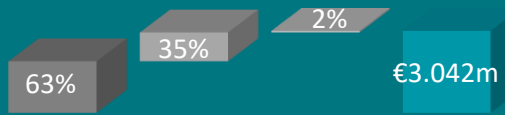
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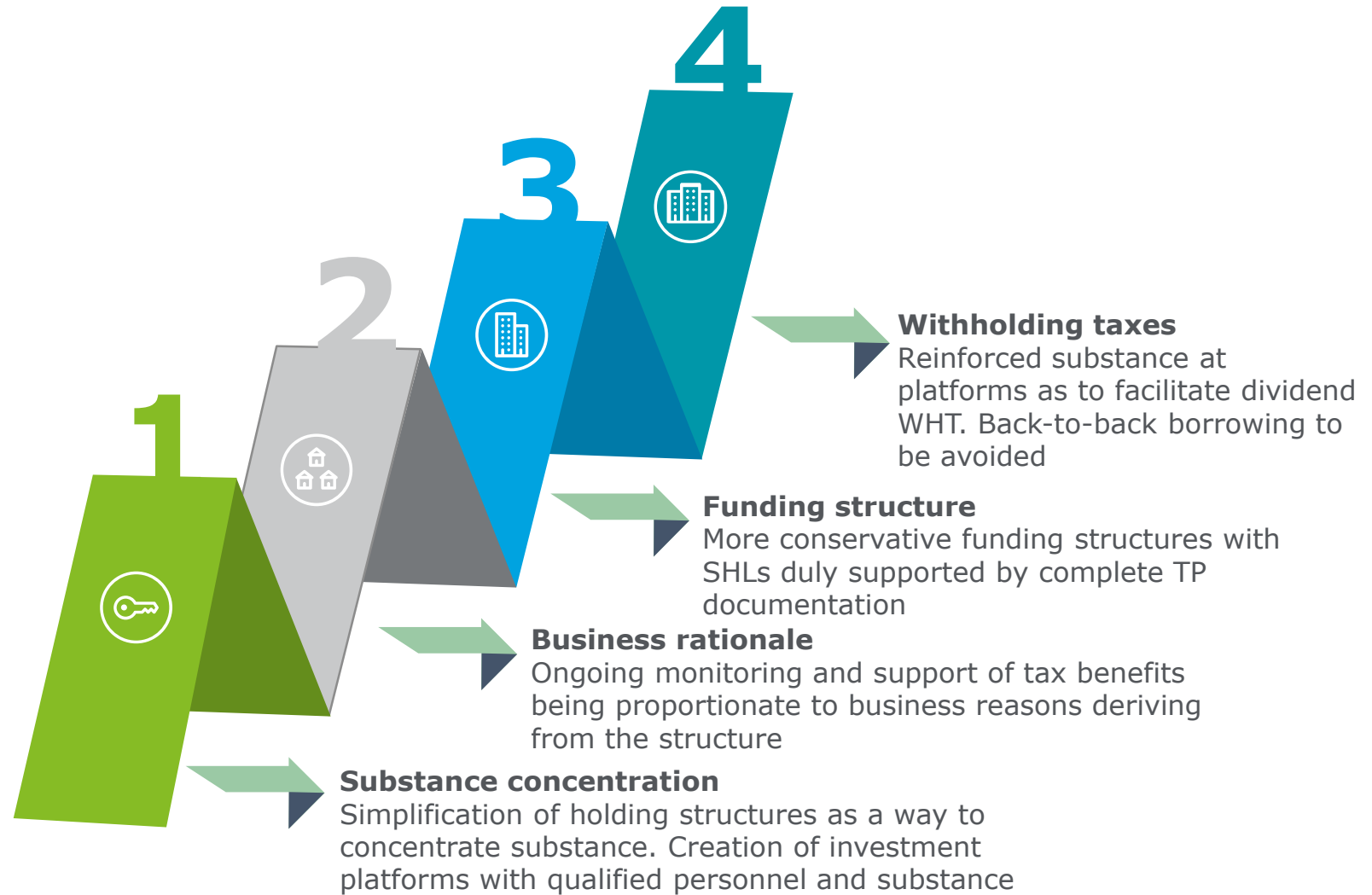


Short Term Medium Term Long Term TOTAL



A more defensive tax environment

BEPS are making an impact on **tax structuring strategies**

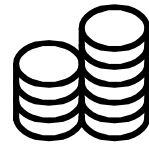


EXECUTIVE SUMMARY

Consolidation of the
Economic improvement



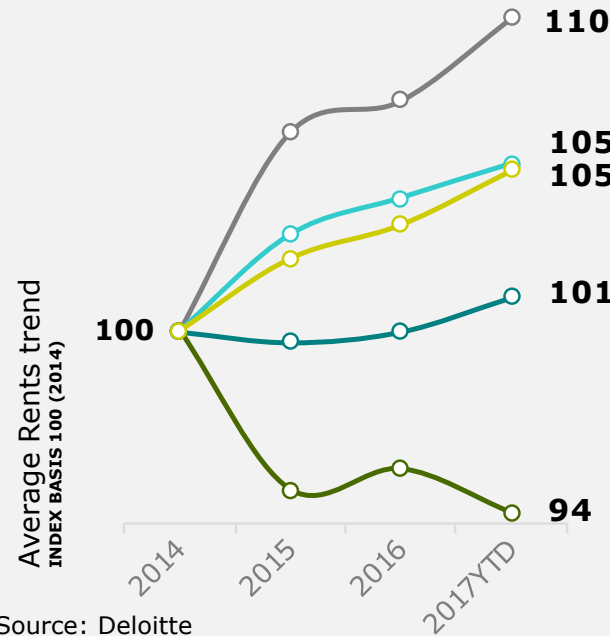
As **sales** experiment significant increases, retailers improve their business performance, with the subsequent decrease on **effort rates**



Rental Market

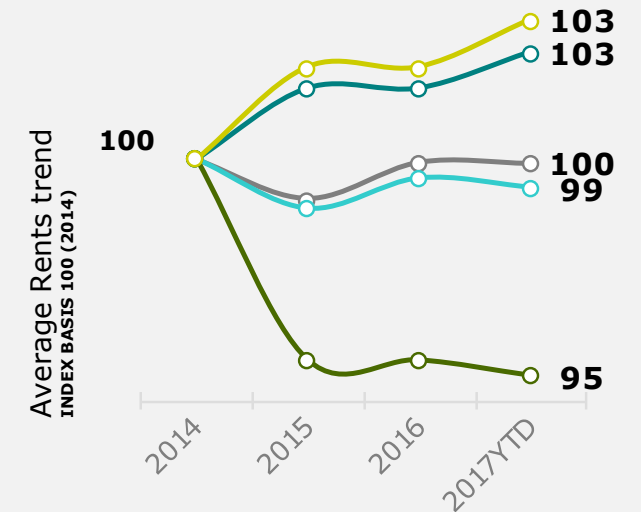
Changes in grocery shopping customer preferences are being reflected on rents. **Hypermarket rents** are decreasing while **supermarket rents** are increasing in the last years.

Average Rents Prime S.C.



Source: Deloitte

Average Rents Secondary S.C.



VS



SERVICES



RESTAURANTS



FASHION & ACCESSORIES



SUPERMARKET



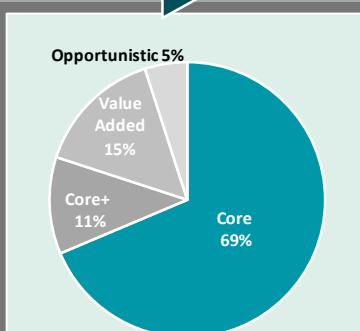
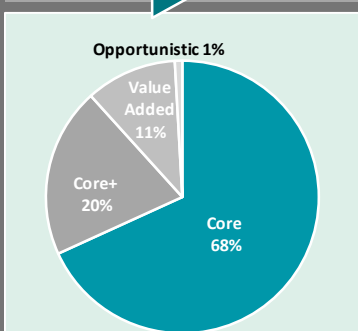
HYPERMARKET

For more information see **CHAPTER 2** (Supply & Demand) with the full rental market analysis based on Deloitte Database. Analysis sample size: 4,498 units (only 2016-2017YTD information)

INVESTOR PROFILE IS CHANGING:

2016

2017YTD



	€m
Core	2,555
Core+	776
Value Added	405
Opportunistic	33

	€m
Core	1,615
Core+	268
Value Added	353
Opportunistic	105

Source: Deloitte

Most active players
during 2017YTD that are
expected to keep active:



Main Players 2017-2018:

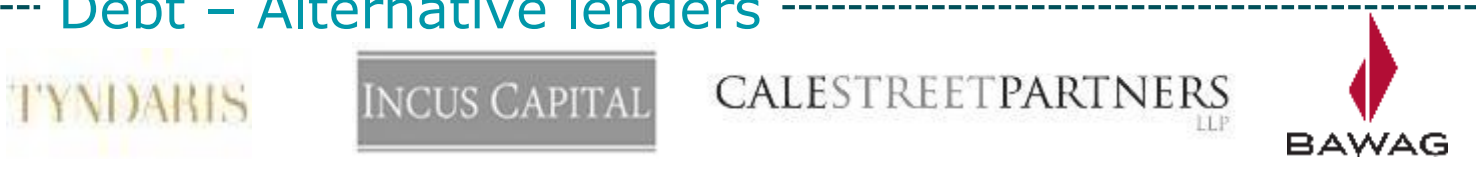
Equity



Debt – Traditional lenders



Debt – Alternative lenders



Online

VS

Offline



Source: Deloitte

Shopping Centres are not just **PHYSICAL** places, they are becoming a unified **PHYGITAL ECOSYSTEM** in which **online** aspects are becoming increasingly important.



Phygital World: what to expect?



EXECUTIVE SUMMARY

% OF SHOPPERS WILLING TO PAY FOR DELIVERY



% OF SHOPPERS WHO WOULD NOT BUY BASED ON DELIVERY TIME

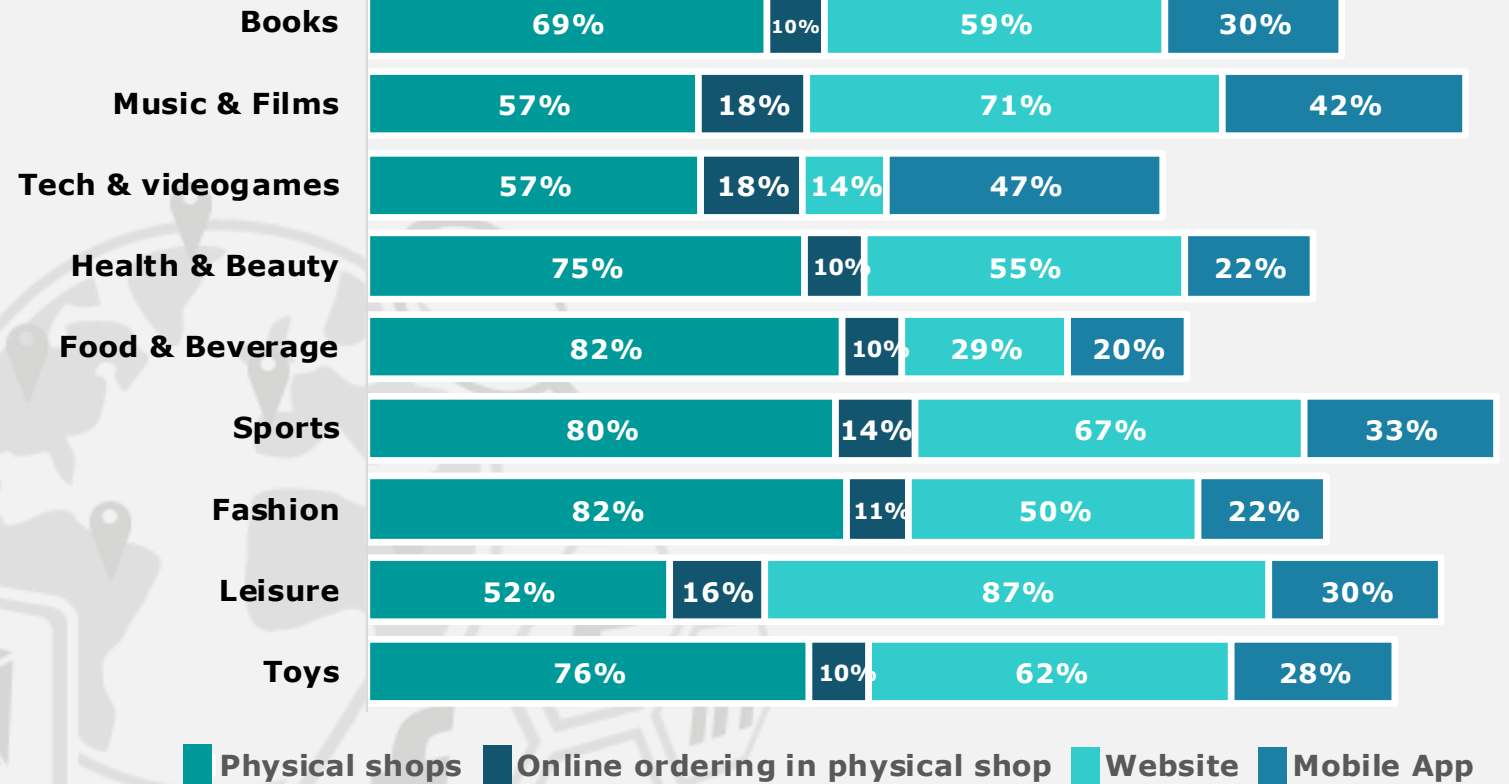


Source: Deloitte

E-commerce has continuously **increased its market share**, specially in traditional in-store segments. However, ecommerce still **faces several challenges** which have an impact on customers preference

Are consumer trends more dependent on smartphones?

Customer preferences show an **important increase of e-commerce**, making a noticeable impact on physical shop sales. For example **food & beverage has decreased by 18%**.

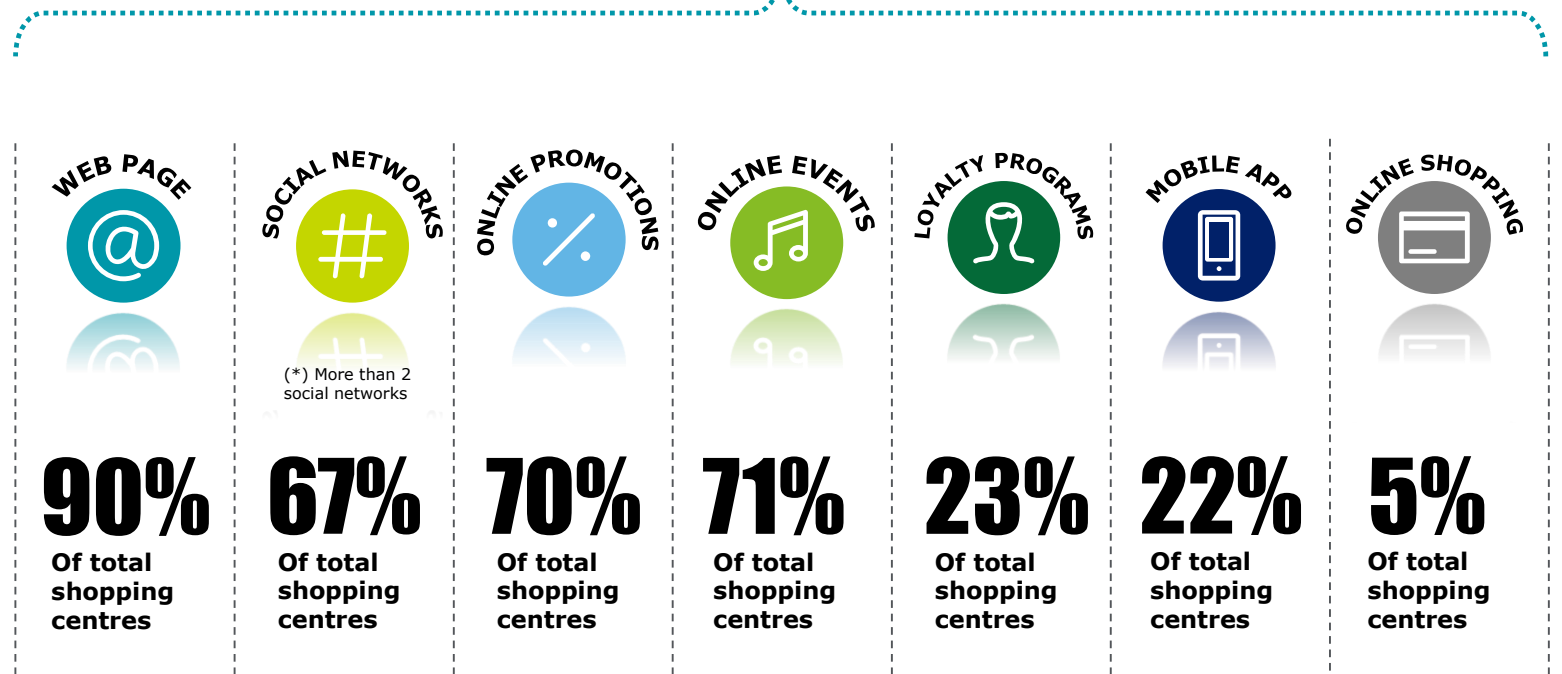
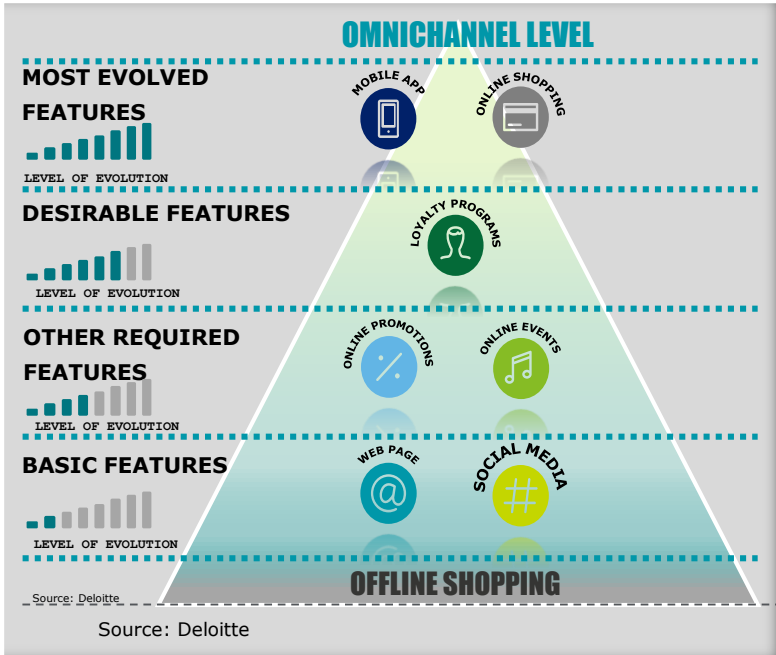
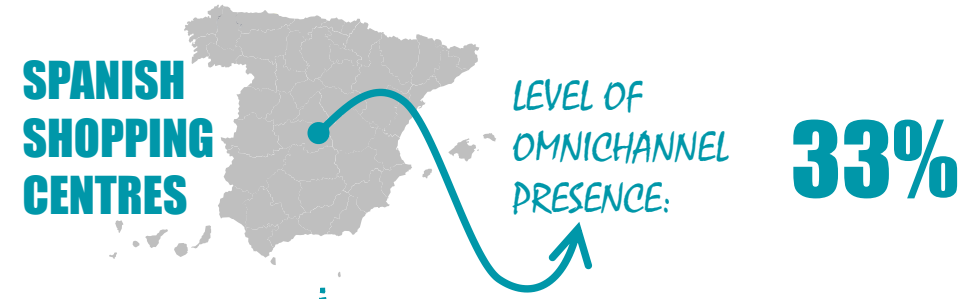


Source: Deloitte

EXECUTIVE SUMMARY

@ Omnichannel Spanish footprint: 2017

Online & Offline transformation still to come...



Spanish Shopping Centres are still in a **preliminary level of evolution** regarding online presence. Only the **most advanced shopping centres** have an online shopping platform, mobile app or a loyalty program.

Source: Deloitte

EXECUTIVE SUMMARY

OMNICHANNEL STRATEGIES

INTERNET USE

- European Access to internet has been gradually increasing to **83%** of total households in 2016.
- 93%** of consumers report using a digital device while browsing & researching.
- Customers' preferred method of locating, buying, and receiving products in-store has been **redefined** by their online experiences.

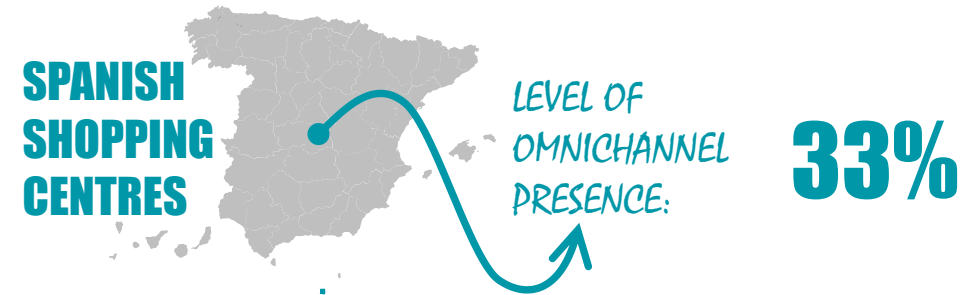
Source: Deloitte

The Spanish **average** level of Omnichannel presence **stands at 33%**, showing its **early** stage of development.

Factory Outlet Centres have the **most advanced** omnichannel strategies.

@ Omnichannel Spanish footprint: 2017

Online & Offline transformation still to come...



¿Which features do Spanish shopping centres offer?



Shopping Centres

31%
Level of omnichannel



Factory Outlets

61%
Level of omnichannel



Leisure Centres

33%
Level of omnichannel



Hypermarket with gallery

19%
Level of omnichannel



Retail Park

5%
Level of omnichannel

Source: Deloitte

Deloitte.



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