

RETAIL RESEARCH

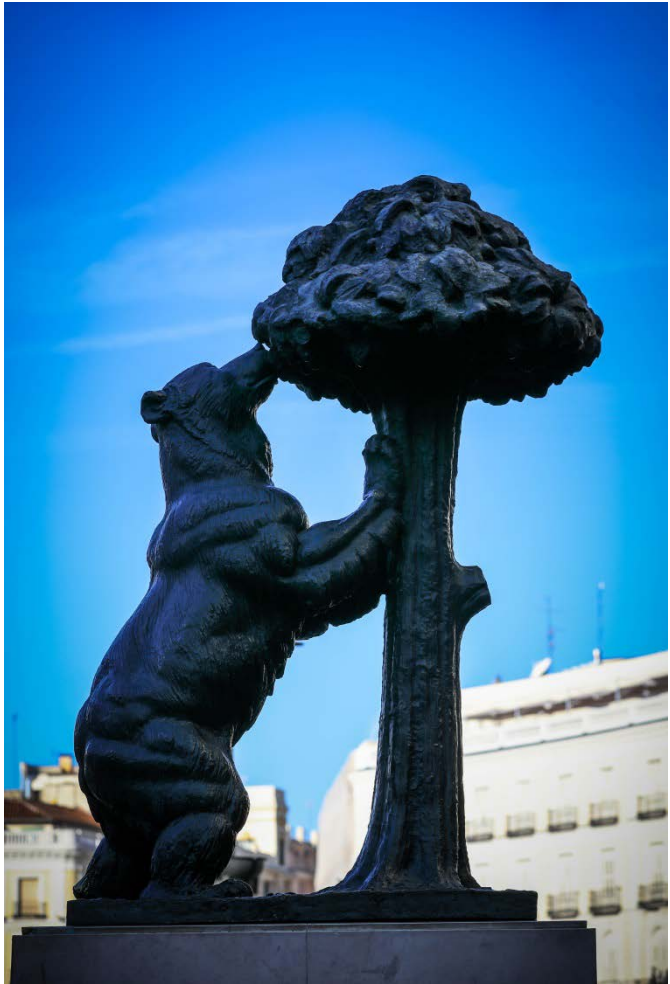


PUERTA DEL SOL

THE IDEAL LOCATION FOR SECOND
GENERATION FLAGSHIPS IN SPAIN

AUTUMN 2017







22,000 SQM OF RETAIL SPACE

37 RETAIL UNITS

A VIBRANT MELTING POT
THAT WELCOMES OVER 100
MILLION VISITORS PER YEAR

INTERSECTION OF THE
CITY'S BUSIEST HIGH
STREETS, MADRID'S
EQUIVALENT TO PICADILLY
CIRCUS OR TIMES SQUARE

STRIKING PERIOD FAÇADES
IN A LANDMARK SQUARE

SURROUNDED BY ICONIC
HISTORICAL BUILDINGS



2ND GENERATION FLAGSHIPS: A MULTI-SENSORY EXPERIENCE

A SECOND GENERATION FLAGSHIP IS THE PERFECT SETTING FOR CREATING MULTI-SENSORY AND OMNI- CHANNEL EXPERIENCES

- Across the globe, top retail brands are now turning landmark properties into second generation flagship stores. These new flagships are not just a shell in which to sell a product, they provide an exclusive setting in which retailers can innovate, present their most creative design concepts and continually reinvent themselves to provide their customers with truly unique experiences.
- A prized location in a prime retail area of a major city is no longer the be-all and end-all for success in terms of a brand's visibility and prestige, retailers must now also focus on the customers' sensory experiences when they visit their stores.
- Burberry on Regent Street is a prime example; creating an interactive shopping experience that has reinvented the brand and boosted its online sales. Pepe Jeans is another example of a brand that has introduced technology into its London flagship, now offering its customers both interactive fitting rooms and an area where they can design tailor-made clothing. Topshop has created a beauty area in its 8,400 sqm store on Oxford Street, now offering customers the opportunity to treat themselves to a make-over or even a hair appointment.
- In Spain, H&M has opened a flexitarian restaurant in its Paseo de Gracia flagship store in Barcelona, whilst KIABI, which up until now had not ventured into the high

street world, has embarked on its expansion strategy by opening a flagship store on Paseo de Gracia, where its customers can fully immerse themselves in the brand's philosophy and enjoy their "Happy Culture" right in the heart of the city centre. Sephora has developed and introduced its new concept in its stores in Madrid and Barcelona, integrating visual and digital content into the sale of its products. The sunglass designer Hawkers has also just joined the click-to-brick crowd, opening a store on Calle Carretas in Madrid that features both a videogame area and allows customers to pay with bitcoins.

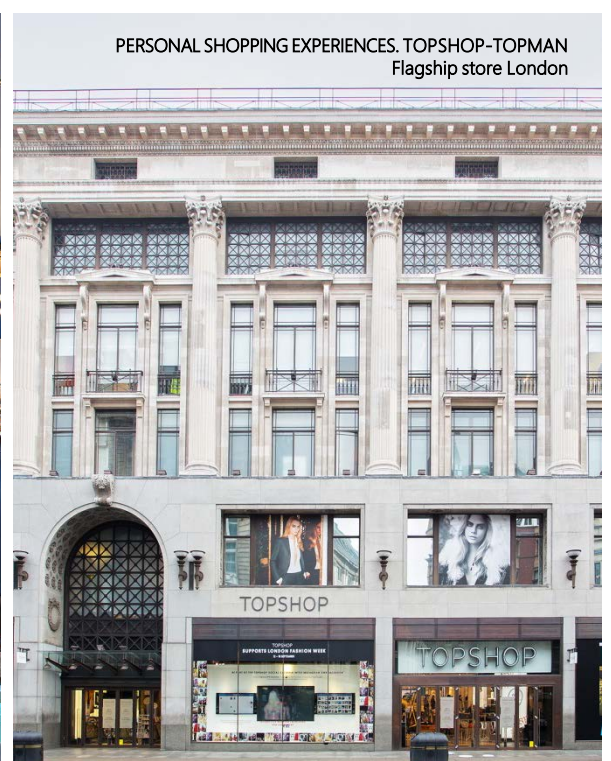
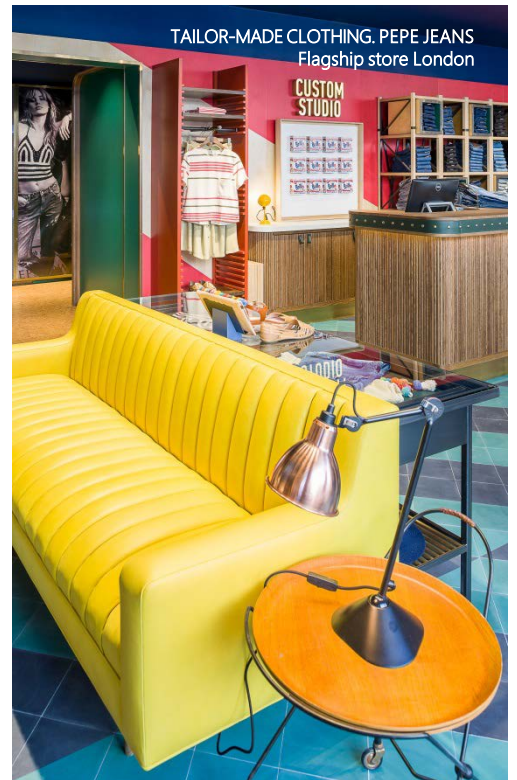
- Creating in-store multi-sensory experiences has become a must for retailers, who are now designing new formats that allow valuable synergies to be created between the on and offline businesses.
- E-commerce has significant room to grow in Spain, with only 30% of online stores delivering to the whole of the country. However, despite the rising number of online sales, with 27% of Spanish people now buying online, brick-and-mortar stores remain the country's preferred choice.
- Having a flagship store that produces that all important and lasting wow-effect has become a must, repositioning and strengthening a brand's image, thereby allowing the store to have a much higher effort rate than any other high street format.

SPANISH QUARTERLY E-COMMERCE TURNOVER
2013-2016



Source: CNMC

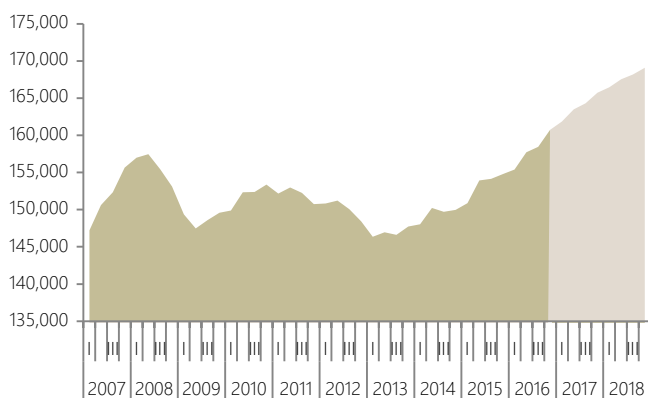
FLAGSHIP INNOVATION



WHY SPAIN?

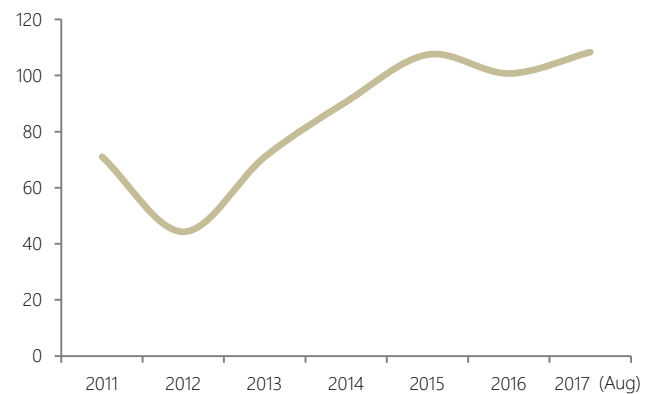
- Spain's economic recovery has been remarkable, and recognised by the IMF as the example to follow. It is currently the fourth fastest-growing economy in the Eurozone, outpacing the UK, Germany and France.
- The country's infrastructure, combined with the physical and legal assurance that it offers, has become a major draw for international investors.
- Thanks to the improving economic backdrop, consumer confidence reached all-time highs in July, generating positive expectations for consumption, which have then been further boosted by contained price growth and low interest rates.
- Spain received a record 75.3 million tourists in 2016. The industry has continued to thrive in H1 2017, with the number of tourists visiting Spain exceeding H1 2016's figure by 11.5%.

HOUSEHOLD FINAL CONSUMPTION EXPENDITURE MILLIONS (€)
2007-2018



Source: INE, Ieconomics

CONSUMER CONFIDENCE INDEX
2011-2017



Source: CIS

GDP (SPAIN AND REGION OF MADRID) and CPI
2001-2018



Source: INE, BBVA Research and IMF

WHY MADRID?

- Madrid currently boasts all the key attributes to establish itself as a global hub.
- The city's economic growth is outstripping the national average, with GDP forecast to climb 3.6% in 2017 and 3% in 2018.
- International tourism is playing an increasingly important role in Madrid. With the city receiving close to 5.3 million international visitors, Madrid was ranked fourth out of all European cities in the Global Destination Cities Index, which tracks average international tourist spend.
- Madrid also holds the number two spot in Europe, only behind London in the Globe Shopper index's Best Shopping Destination ranking. The results of this study are based on a five-category analysis: store quality, affordability, culture & climate, hotels & transport and convenience (opening hours, use of languages, security and savings).
- Madrid is highly competitive in terms of retail unit rental levels compared with other European cities, with the average annual rent standing at €3,600 per sqm versus €6,400 per sqm in Paris and even up to €14,500 per sqm in London.

TOP TEN EUROPEAN CITIES BY INTERNATIONAL TOURIST SPEND
Global Destination Cities Index



WHY OPEN A FLAGSHIP IN PUERTA DEL SOL?

- Puerta del Sol is situated right in the very heart of Madrid, forming the city's main social hub and is the retail area *par excellence* along with Calle Preciados.
- The ever-increasing number of international companies and retailers, including the arrival of top brands such as Apple, coupled with the refurbishment of some of the city's landmark properties and the regeneration of surrounding areas, is further establishing Puerta del Sol as a go-to national and international retail destination.
- The fact that Puerta del Sol is a pedestrianised area drives business; increasing sales and pushing up rents. Other streets such as Preciados, Fuencarral and Arenal boast virtually no vacancy.
- In Spain, works to semi-pedestrianise Gran Vía are expected to get underway towards the end of 2018, and will form one single retail hub that will join together the current pedestrianised areas of Fuencarral, Preciados and Puerta del Sol.
- Converting Preciados, Fuencarral and Arenal into pedestrianised areas paved the way for some of the city's most prestigious lettings, such as the opening of Pull & Bear's largest store at Preciados 9, the debut of Decathlon in the iconic Calle Fuencarral Market and Calvin Klein's decision to strengthen its positioning in Spain with its new store at Arenal 3. In London, semi-pedestrianising Oxford Street also bolstered sales and the road is expected to be fully pedestrianised by 2020.
- Madrid's City Council and Regional Government are working on plans to redesign the Sol area to make it more accessible by modifying the layout, repositioning the street furniture and clearing the centre of the square to allow for higher footfall. This project further demonstrates the city's push to establish this area as a major retail hub.



17th Century



1900



1950s



2003



2017



Future - The COAM (Madrid Official Association of Architects) "Piensa Sol" tendering process

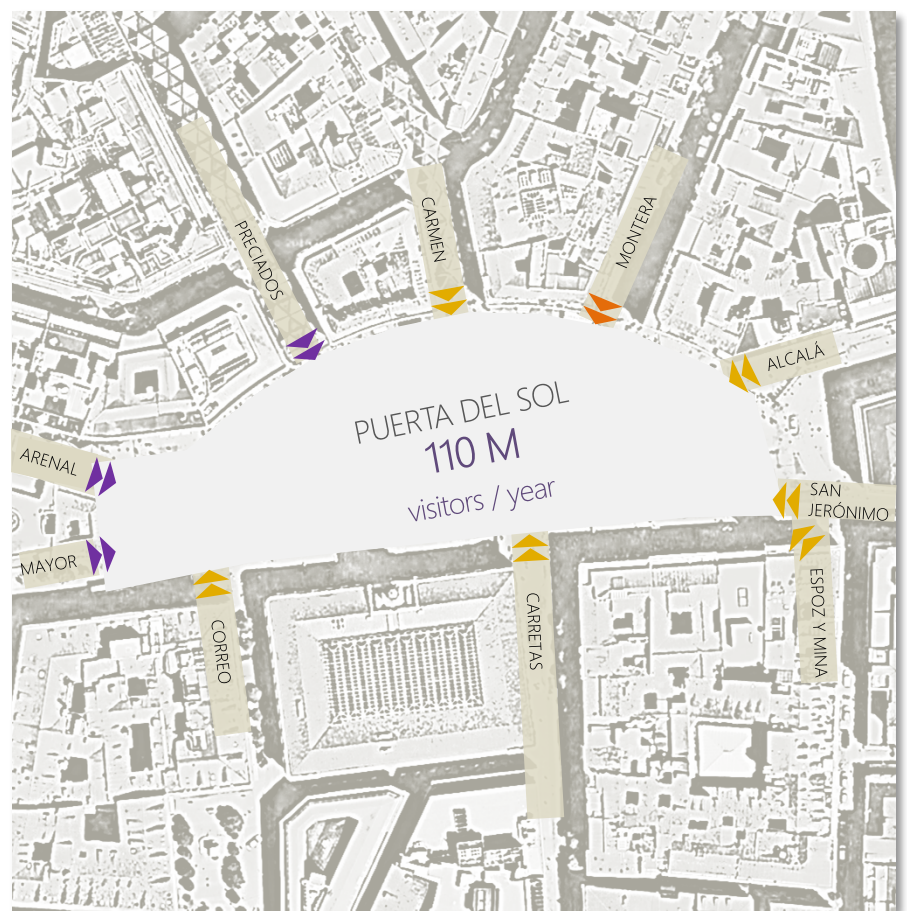
TIMELINE

- 15th Century Given its location outside the city's walls, the square was a busy meeting place for merchants looking to avoid paying taxes.
- 1766 *Casa de Correos* constructed.
- 1857 The square takes on its current semi-circular form after undergoing a major regeneration project.
- 1919 The first Metro line is opened, running between Puerta del Sol and Cuatro Caminos.
- 1950s The area is refurbished to improve vehicle access given the rising traffic levels.
- 1960s Landscaped areas and fountains are added. Works to pedestrianise Calle Preciados and Calle El Carmen begin.
- 1986 A large pedestrianised area is created, the Metro station is refurbished and the Regional Government relocates to the *Real Casa de Correos*.
- 2004-2009 The underground metro and regional train interchange is constructed.
- 2009 Several monuments are relocated, such as "The Bear and the Strawberry Tree" and the renovation of Kilometre 0 plaque, in order to improve pedestrian access.
- 2014 Apple moves into Puerta del Sol 1 and the illuminated Tío Pepe signage is moved to Puerta del Sol 11.
- 2017 Proposal from the City Council to redesign the square and reposition elements that limit visibility.

Puerta del Sol is the main retail area *par excellence*. With six of the city's main high streets leading onto it (Preciados, Mayor, Arenal, Carmen, Montera and Carretas) and other major retail high streets, such as Gran Vía and Fuencarral lying just a stone's throw away, the area can now increasingly be compared to London's Piccadilly Circus and New York's Times Square, although it still offers far lower rents than these celebrated squares.

Its high retail footfall makes it the most visited area in Spain, registering over 100 million visitors per year, whilst more than 30 million passengers travel through the Puerta del Sol transport hub each year.

FOOTFALL



▶▶ 30,000 - 40,000 people per day

▶▶ 20,000 - 30,000 people per day

▶▶ 10,000 - 20,000 people per day

WHY OPEN A FLAGSHIP IN PUERTA DEL SOL?

NEW RETAILERS DEMAND FORECAST

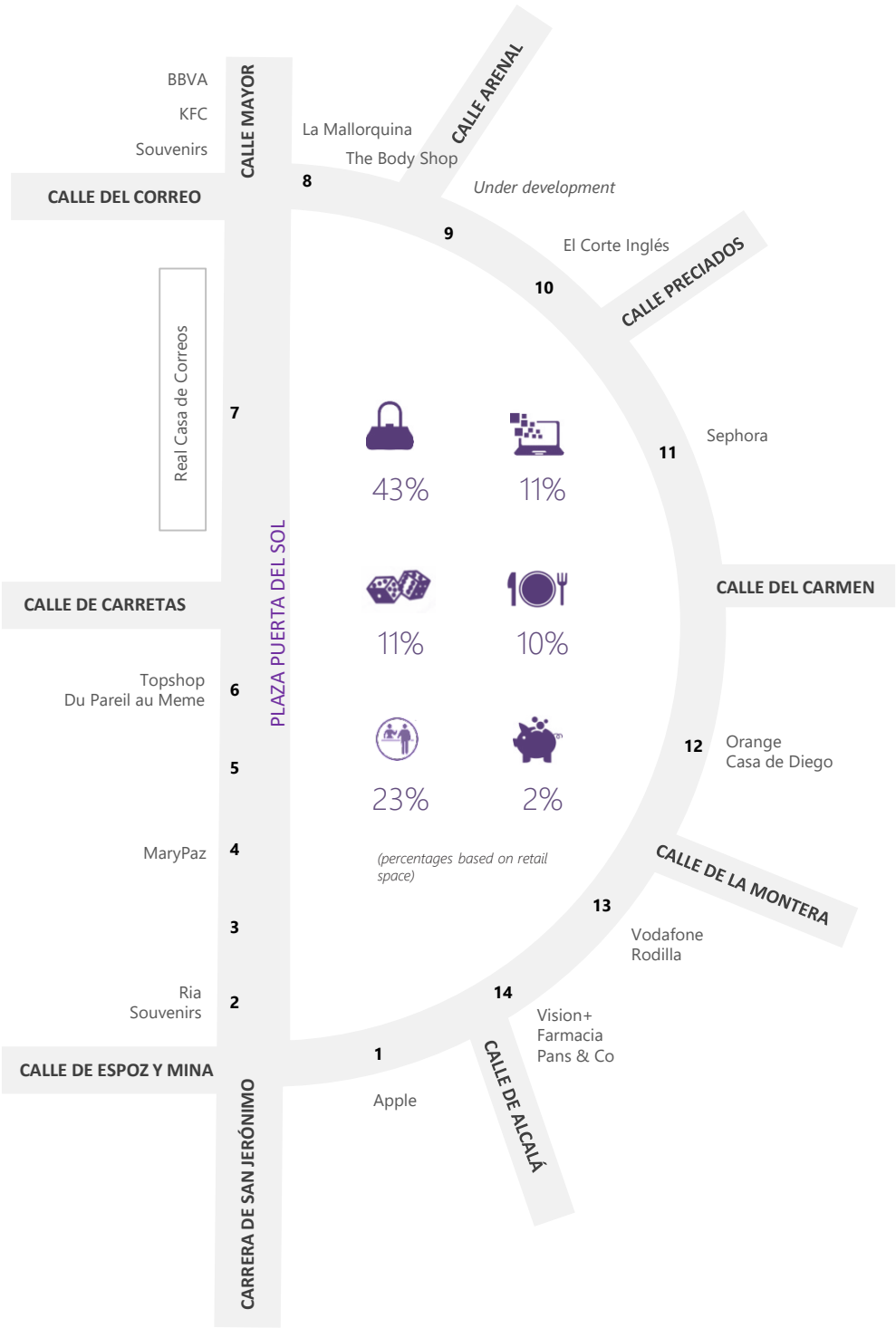
With the economic recovery in full swing and high street stores seeing sales surge, retailers already in the market are trying to consolidate and improve their locations by looking for areas with higher footfall.

Retailers are placing particular emphasis on the efficiency and layout of their stores, valuing both quality and location. Brands which are established on the market such as Sephora and The Body Shop, are improving their stores and their positioning in the city centre.

Apple's arrival to Puerta del Sol 1, occupying 6,000 sqm and boasting a sales area of over 1,000 sqm, triggered the start of a new consolidation phase for the area.

KEY PLAN

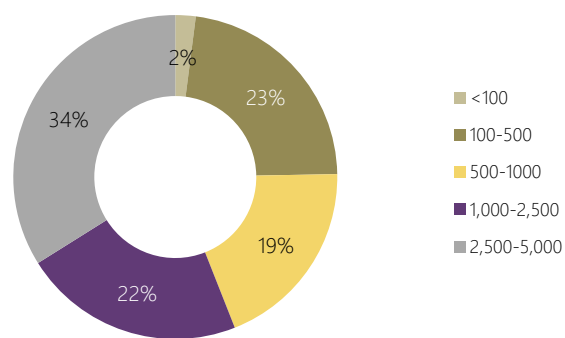
- The heightened investment in refurbishing properties has opened the door to new front-line retailers that attract more demanding buyers.
- In recent years, some of the city centre's most iconic buildings have been refurbished and let to big-name brands such as Apple, Sfera, Primark, H&M and Adidas, who have all turned these properties into flagship stores.
- The number of smaller retail units, that featured heavily on the square up until a few decades ago, is now falling as the area establishes itself as a showcase for the industry's top retailers.



STOCK

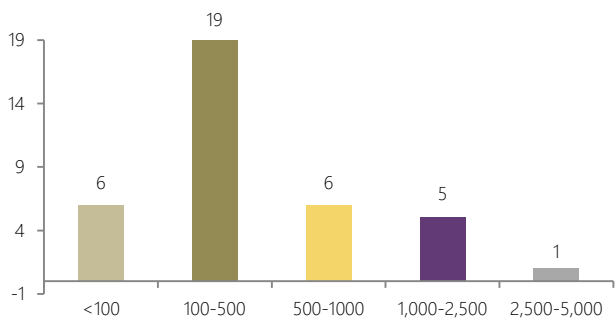
- Retail units comprising between 100 and 500 sqm are the most common format in Puerta del Sol, accounting for 19 of the 37 units which currently front onto the square.
- There is currently only one unit that is large enough to comprise a flagship, namely the El Corte Inglés sports store. However, Kennedy Wilson's project at Puerta del Sol 9, will create a retail unit with a GLA of circa 3,400 sqm when complete.

GROSS RETAIL AREA PUERTA DEL SOL
%



Source: Knight Frank

DISTRIBUTION OF UNITS BY SIZE
No. of retail units



Source: Knight Frank

- 22,316 sqm of retail space.
- This does not include projects pending approval.
- 37% of prime space is located on the ground floor.
- Average ground floor area: 207 sqm.
- There is only one operational retail unit comprising more than 2,500 sqm GLA.
- In the short term, the number of retail units will drop by 10% due to the merging of properties to create larger retail units.

RENTS

- Between 2015 and Q1 2017, retailer demand in Puerta del Sol has risen, putting upward pressure on rents and further establishing it as the area with the highest rental levels in Madrid.
- Calle Serrano and Calle Fuencarral have seen rents spike the most following the latest lease agreements signed with big-name brands, such as Hugo Boss which debuted at Calle Serrano 28 and Victoria's Secret which opened a store at Fuencarral 14. Similar rental increases are expected for Puerta del Sol.

PERCENTAGE RENTAL VARIATION IN CENTRAL AREAS
€/sqm/month

	2015	Q1 2017	VARIATION
PRECIADOS	280	290	+4% ▲
PUERTA DEL SOL	290	300	+3% ▲
SERRANO	220	250	+14% ▲
GRAN VÍA	230	250	+9% ▲
FUENCARRAL	145	175	+21% ▲

Source: Knight Frank

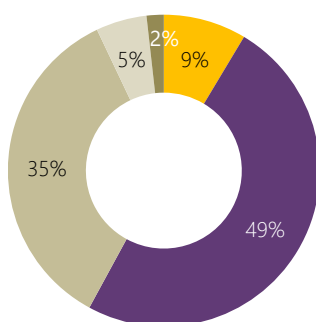
PUERTA DEL SOL TRENDS

INVESTMENT

INVESTOR TYPE AND YIELDS In catchment area. Cumulative 2013-2017

■ Institutional investors
 ■ Investment funds
 ■ Private investors
 ■ Real Estate Companies
 ■ SOCIMIs

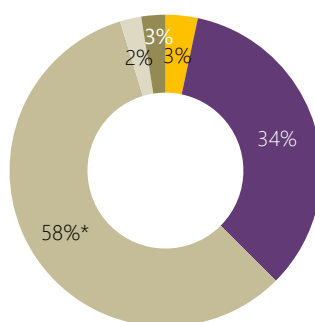
INVESTMENT VOLUME



Source: Knight Frank

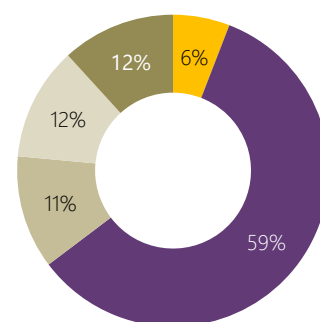
AREA ACQUIRED

* 36,000 sqm Gran Vía 32



Source: Knight Frank

NUMBER OF TRANSACTIONS



Source: Knight Frank

- Up until a few years ago, the retail units housing traditional businesses in Puerta del Sol were mostly owned by private landlords or Spanish companies such as El Corte Inglés.
- However, since 2013, the number of retail units being acquired by investors has been climbing. Investment funds feature heavily among the new owners, acquiring half of the properties sold and accounting for 49% of the total investment volume in units in this area.
- One of the first deals to be completed by an investment fund in this area was El Corte Inglés' sale of Preciados 9 to IBA Capital Partners, a property which is currently under refurbishment and which will house Pull & Bear's flagship store.
- Private investor acquisitions of interest include Amancio Ortega's acquisition of Gran Vía, 32 via Pontegadea at the start of 2015, a 36,000 sqm unit currently let to Primark, and Triuva's acquisition of the over 6,700 sqm Adidas flagship store at Gran Vía, 21 from Iberfin Capital in Q1 2017.

HIGHLIGHTS

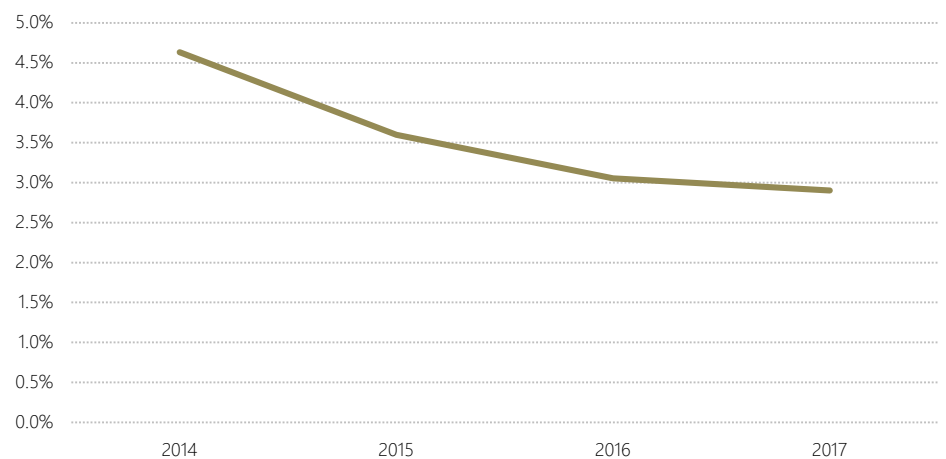
The limited availability of quality properties in areas with high footfall, combined with the visibility that a prime location such as Puerta del Sol offers, is driving rental growth in the area and is expected to continue to do so over the coming years.

The shift towards higher profile and more international tenants, combined with the lack of investment opportunities in Puerta del Sol has generated high investor interest in recent years, pushing up the square's average price per sqm, similar to that seen on other streets such as Preciados and Gran Vía.

Although yield compression has driven up property prices, expected rental increases are maintaining investor interest in the area.

- Thanks to significant injections of capital over the last eighteen months, Puerta del Sol is undergoing a major transformation and starting to welcome higher profile and more international tenants.
- Investor interest in this area is putting upward pressure on retail unit prices and therefore tightening yields compared to previous years. Despite this, Spain still offers highly competitive opportunities compared to other markets.
- The lack of quality prime properties is also driving up rents and is expected to continue to do so over the upcoming years.
- International funds are proof that the area boasts a strong retail draw; Kennedy Wilson acquired Puerta de Sol 9 and Thor Equities purchased numbers 5 and 11.

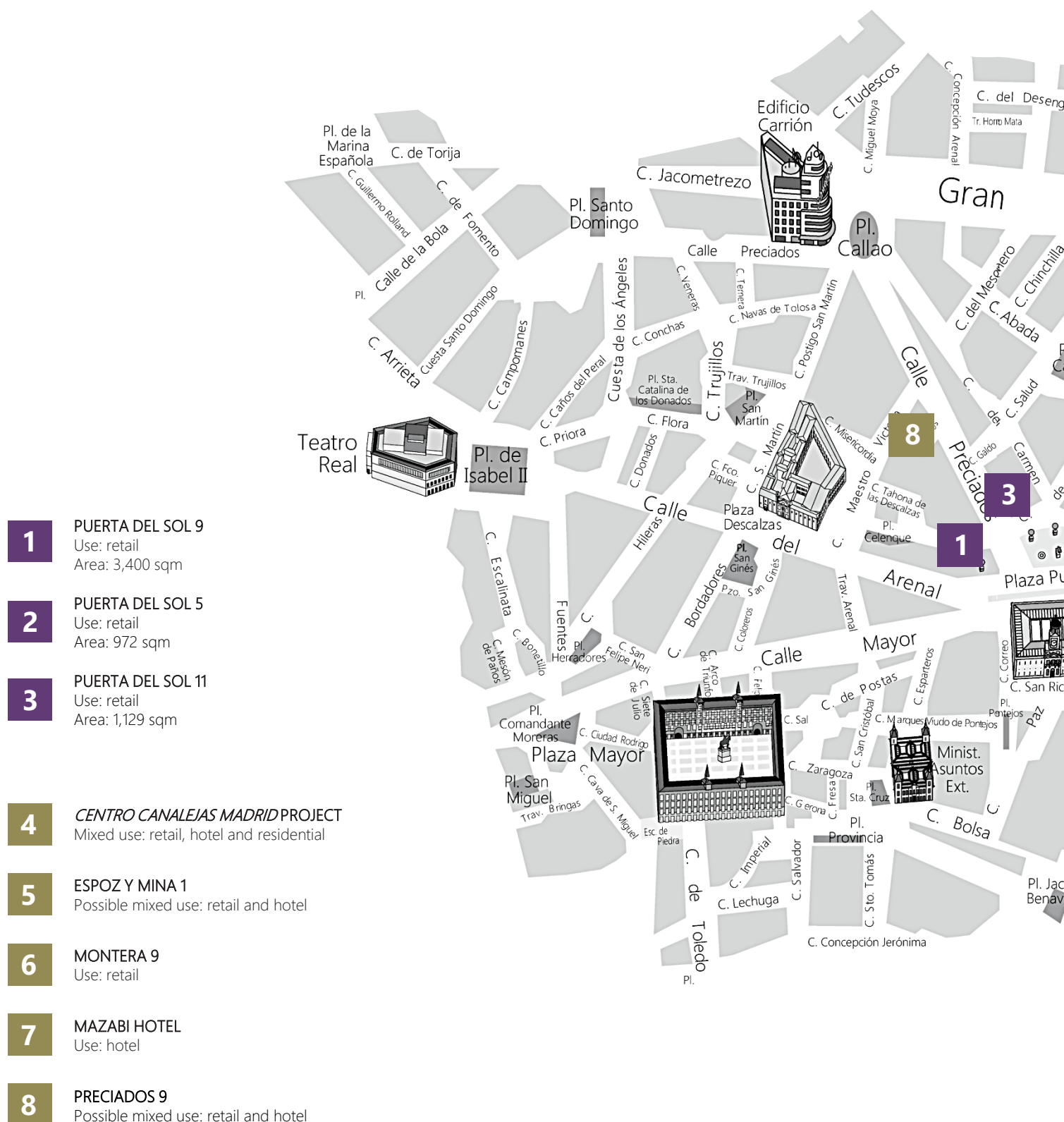
YIELD VARIATION
In catchment area. 2014 - 2017



Source: Knight Frank

PUERTA DEL SOL TRENDS

PROJECTS UNDER CONSTRUCTION IN THE CATCHMENT AREA



In the short term (2017/2018), 30,000 sqm of retail projects are due to be developed in Gran Vía, Montera and Sol.

These projects are expected to spur demand during the coming months.





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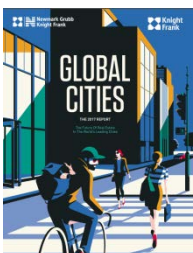
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Global Cities 2017



International Retail
2017



Spotlight on Retail 2016

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