

Puerta del Sol

Research, 2020-21

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Research 2020-21

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Puerta del Sol, Linazasoro & Sánchez

EXECUTIVE SUMMARY

CURRENT AND FUTURE SITUATION

Puerta del sol is the heart and the emblem of Madrid, it is the social cultural centre and the par excellence commercial area within Calle Preciados. In its plaza concur various of the most authentic and busy streets of the capital such as Preciados, Alcalá, Mayor or Arenal.

In August 2020, the Puerta del Sol was entirely pedestrianized. This action was taken in order to improve the quality of the city center's air, as per the Madrid's 360 Environmental Sustainability Strategy, fulfilling

the European air pollution goals from the 21st May 2008.

With the pedestrianization, the pedestrians in the area gain 5,500 sq m and vehicles will no longer be permitted.

Therefore, the new Puerta del Sol is indicative of how Madrid will be in the future, a sustainable city.

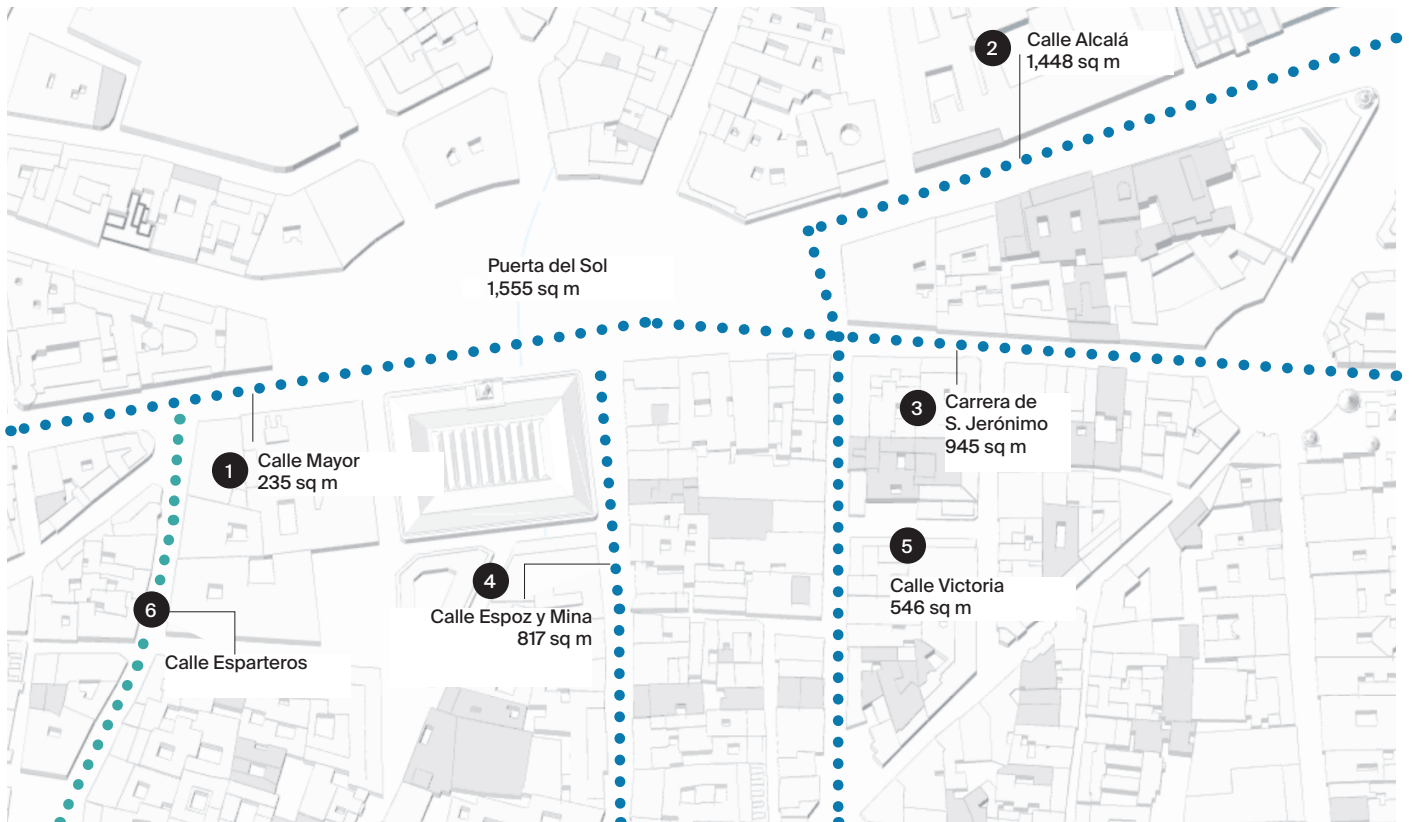
This new measure, will significantly benefit pedestrian traffic flow and will awaken the interest in Puerta del Sol for future investors and operators.

■ New pedestrianized areas

1. Calle Mayor street on its way to Puerta del Sol
2. Alcalá street between Calle Sevilla and Puerta del Sol
3. C. de San Jerónimo between Plaza de Canalejas and Puerta del Sol
4. Calle Spoz y Mina between Calle de la Cruz and Carrera de San Jerónimo
5. Calle Victoria between Calle de la Cruz and Carrera de San Jerónimo

■ Change of direction

6. Calle Esparteros



A NEW PUERTA DEL SOL

ESTABLISHMENTS AND PROJECTS UNDER DEVELOPMENT IN THE AREA OF INFLUENCE

KEY PLAN

Puerta del Sol

1. Apple **
2. Sol Souvenirs / Ria Money Transfer
3. Vips
4. Marypaz / Parfois
5. Unit available / Sol Tourist Center
6. Sergent Major / Zap Shop
7. Palacio Real Casa de Correos*
8. La Mallorquina / Ria Money Transfer
9. Available
10. El Corte Inglés
11. Sephora / Primor / Palazzo
12. Orange / Exact Change / Best and Fast Change / Loterías Sol / Casa de Diego
13. Vodafone / Rodilla / Aguilar lottery
14. Vision+ / Sol pharmacy / Pans & Co

In wider sub-market

1. Body Shop. c/ Arenal, 1
2. Souvenirs. c/ Mayor, 1**
3. Luckia bets. c/ Mayor, 1
4. Julia perfumery. c/ Carmen, 2
5. BBVA. c/ Correo, 2
6. KFC. c/ Correo, 2
7. McDonald's. c/ Esparteros, 1



(Percentages based on retail space)

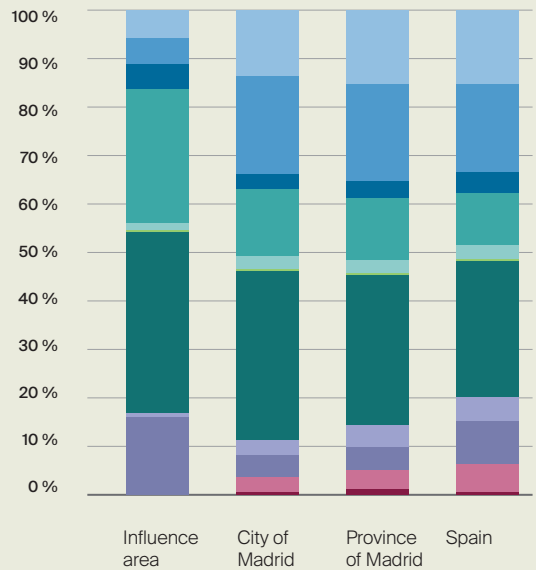


* Does not count as retail area
 ** Due to the health crisis, these stores remain closed



Comparison by categories of retail in the area of influence* in relation to Madrid municipality, Madrid province and Spain

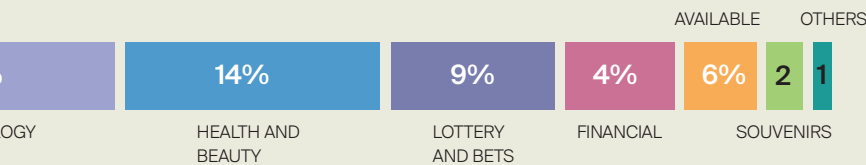
- Academies
- Home & office
- Food
- Fashion
- Accommodation
- Leisure
- Automotive
- Health and beauty
- Cars and restaurants
- Services
- Shopping centres



Source: Knight Frank Research with data provided by Geoblink.
 * Area of influence: a radius of 5 minutes walking from Puerta del Sol.

Analyzing the different commercial categories that have presence, we may see how food and beverage followed by health and beauty care centres are dominant in the Spanish market, with around 30% and 20% of the offer respectively. The service sector follows with the 15% and the fourth place is for fashion with a 10% of presence in the area. This data is very similar if we analyze Madrid and the municipality of Madrid.

Specifically in the Puerta del Sol catchment area it is seen that food and beverage is still the sector with the highest amount of offerings with almost 40% followed by fashion commercial spaces with the 30%. There are also several accommodation offerings that represent almost 15% of the offer in the area.



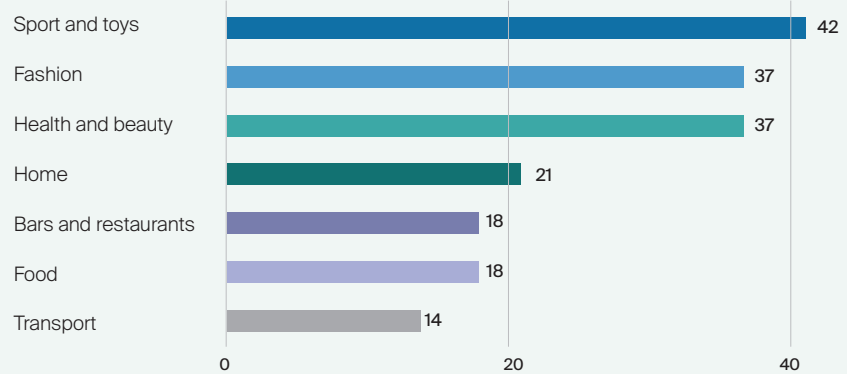
SALES RATE

AND CONSUMER INSIDE THE INFLUENCE AREA

With an average footfall of over 25,000 people in an 11,000 sq m area, the Puerta del Sol and its immediate surroundings experience significant commercial activity between 6pm and 8pm.

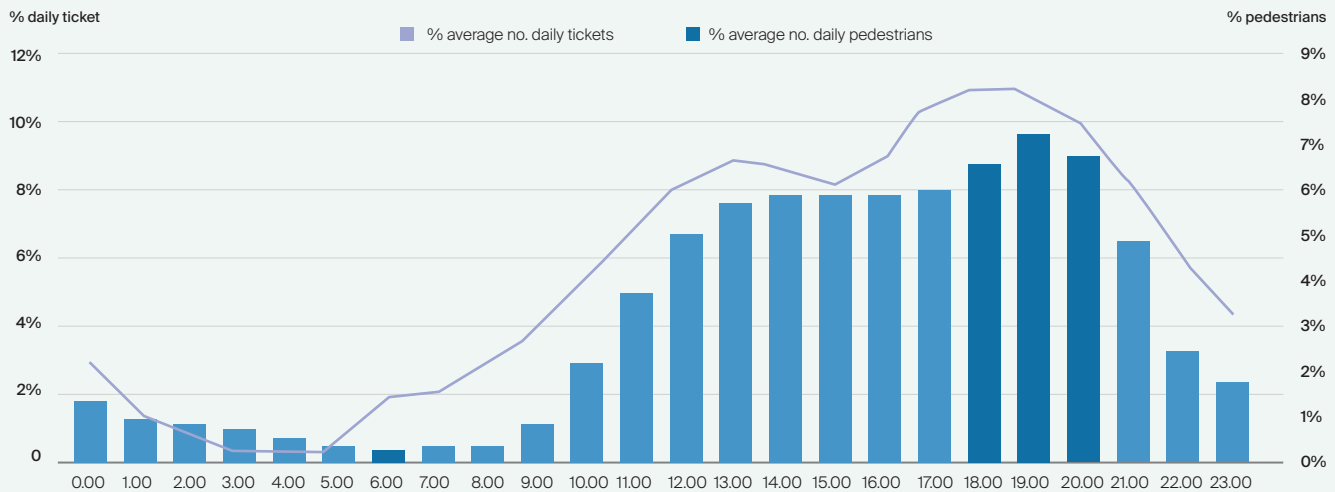
This tendency is very similar if we analyze the footfall in the area marking the highest footfall between 6pm and 7pm. This reveals that shopping and walking in this area on the afternoons appears to be more relaxed than at 3pm for example where we may see a decrease in the amount of footfall line although it is not reflected in the total number of transactions. This seems to indicate that consumers are being more cautious about how and where they spend their money in this time slot.

Average spending by category (€)

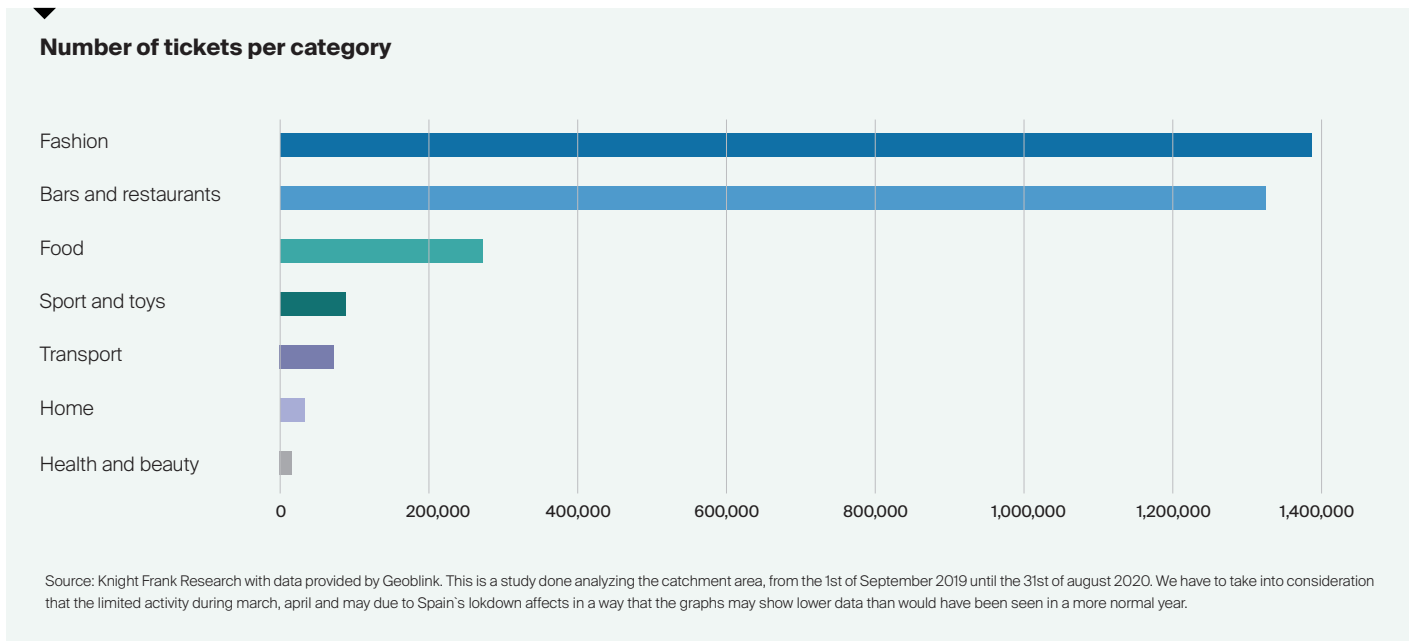


Source: Knight Frank Research with data provided by Geoblink. This is a study done analyzing the catchment area, from the 1st of September 2019 until the 31st of August 2020. We have to take into consideration that the limited activity during march, april and may due to Spain's lockdown affects in a way that the graphs may show lower data than would have been seen in a more normal year.

Evolution of the number of tickets and pedestrian traffic per hour in the area of influence



Source: INE. Data for 2020 are provisional. The closure of hotel establishments due to the health crisis caused by Covid-19 has meant that 2020 is not a year with figures comparable to the normal trend of other years, especially from March to June 2020, where activity has been practically null due to lockdown.



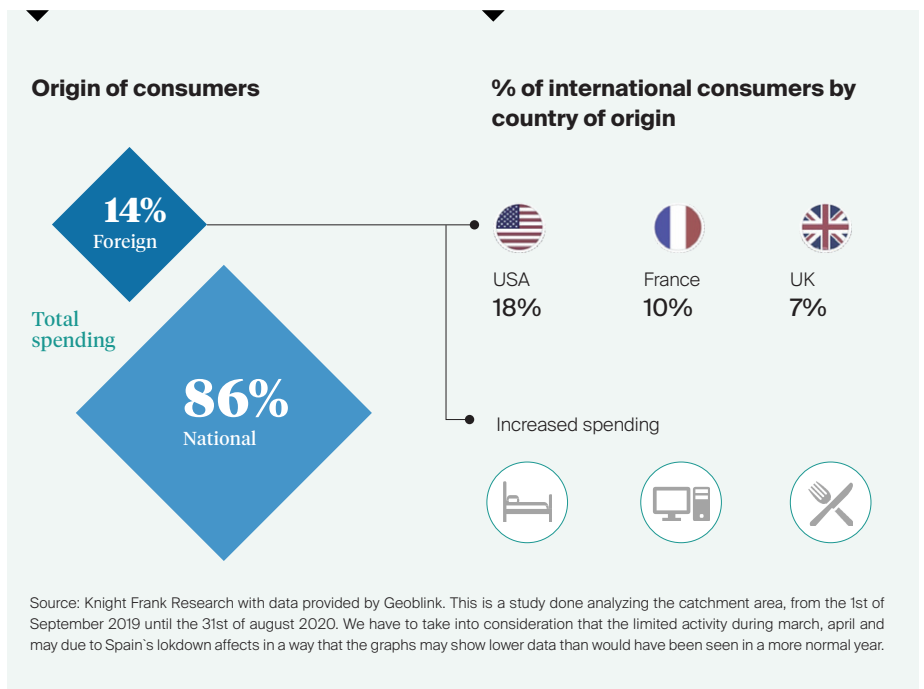
The greatest difference registered in both parameters is seen in the mornings and at closings in the afternoons where the highest foot-fall is from 7am onwards and slightly lowering from 9pm onwards.

Transaction size by sector reflects that fashion and health and beauty items sustain the 37€ average transaction size within the area. Sport articles and toys have an average transaction of 42€. The demand of this type of products has been reinforced due to the lockdown.

Despite having one of the highest average tickets in the area in comparison with other categories, fashion is also where the major number of transactions have been registered during the lasts months with over 1.4 million transactions, closely followed by food and beverage with 1.3 million transactions although in this segment the average ticket lowers to 18€. These two categories lead by far the total number of transactions made in the area. The consumer profile in the area is mainly a national client representing the 86% of the total consumers. 14% of the consumers represent an international client primarily Americans with th 18% follow by France and UK with the 10% and 7% respectively.

Analysing the consumer spending by nationality, Americans invest more in accommodation whilst French in technology and British in food and beverage.

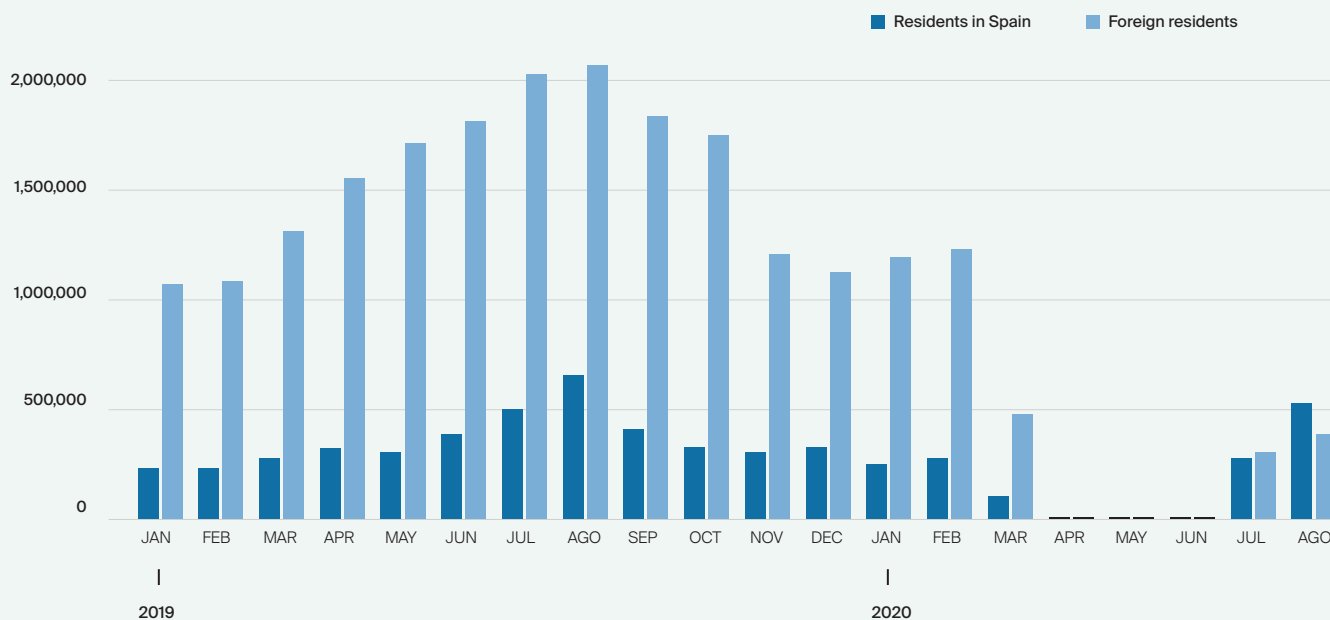
Fashion and health/beauty maintain the average transaction size in the area at €37. Exceeding them are sports goods and toys, reaching €42.



A 5 STAR HOTEL LIFE

ESTABLISHMENTS AND PROJECTS IN DEVELOPMENT IN PUERTA DEL SOL AND ITS SURROUNDINGS

Overnight stays in 5 star hotel establishments in Spain by residential area



Source: INE. Data for 2020 are provisional. The closure of hotel establishments due to the health crisis caused by Covid-19 has meant that 2020 is not a year with figures comparable to the normal trend of other years, especially from March to June 2020, where activity has been practically null due to lockdown.

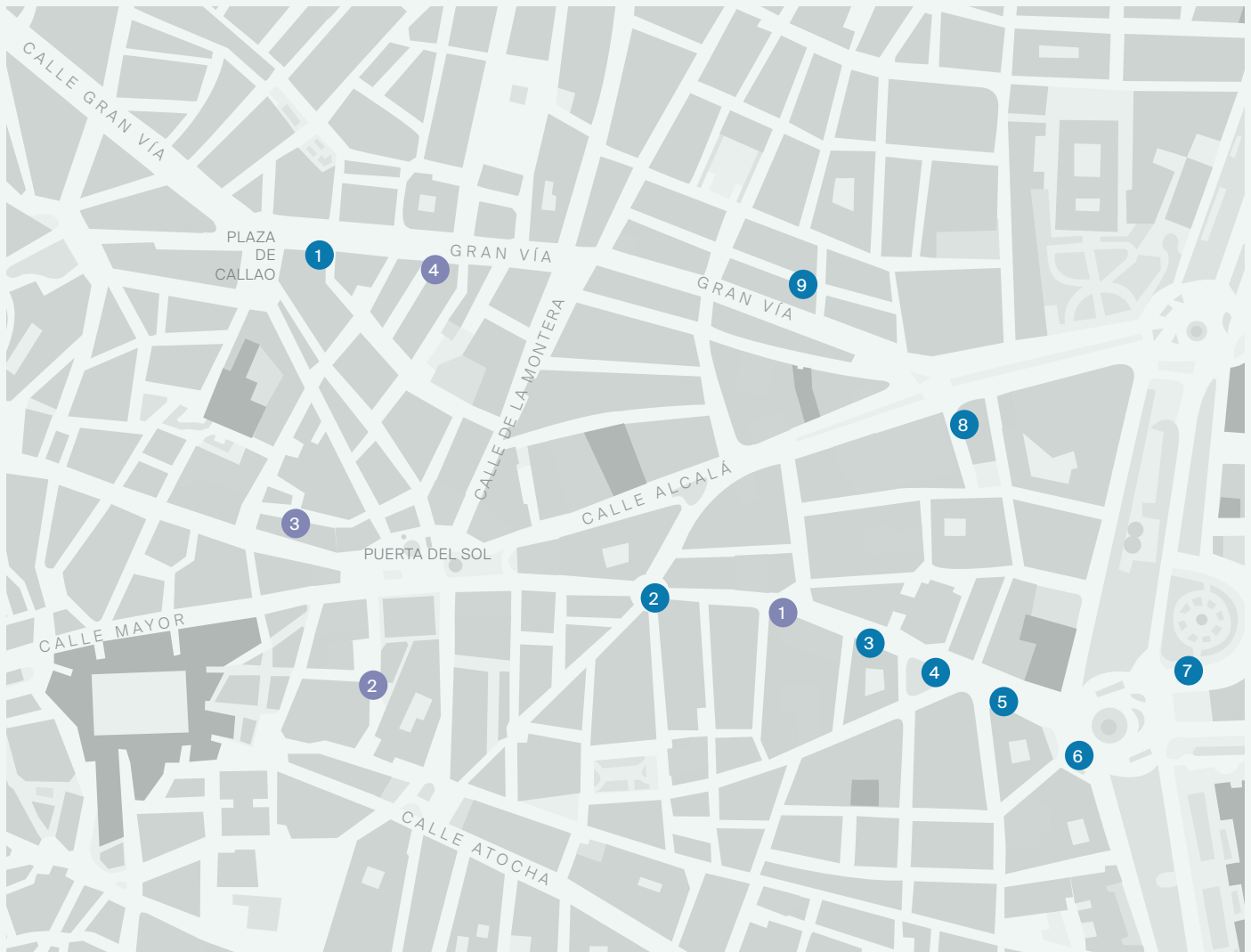
Puerta del Sol is characterized by being the most emblematic spot of national tourism and in its surroundings we find a commercial, leisure and hotelier axis much more developed and with a higher level than a couple years ago. In the last few decades, the city center of Madrid has undergone a huge transformation that has positioned the Spanish capital as one of Europe's most attractive cities for international tourism.

Due to this great appeal, its commercial renovation and urban improvements, important hotel investors have shown higher interest in the area and nowadays we can find a more extensive offering of five star hotels.

Hyatt or Urban have their presence, as well as the historical Palace hotel and Ritz hotel (now Mandarin Oriental Ritz) only a 15 minute walking distance from Puerta del Sol. Certainly one of the most outstanding ho-

tels is the recently opened Four Seasons in Madrid. Apart from becoming the most luxurious hotel close to Puerta del Sol, it also hosts a luxury gallery with over 45 boutiques having Hermes as the first opening, and 22 luxury residences with 5 star hotel services. With the impressive refurbishment of several buildings, the Four Seasons Madrid is part of a period marked by the opening of high level hotels in the heart of Madrid that will

5* Hotels in Puerta del Sol and surroundings



*The Mandarin Oriental Ritz is undergoing renovation..

continue during the following months with new hotels such as Marriott that will be opening in Carrera de San Jerónimo or The Madrid Edition in the Celenqueo Plaza. Also the new CR7 will be opening in Gran Vía, although it is not yet known what level of luxury the hotel will offer.

In most cases, the development of these hotels has occurred in period buildings where a change of use was necessary.

That being the case of the old Iberostar Albeniz Theater, another 5 star hotel in the area, the second one of this hotel chain. The project involves the preservation of the former theater.

Despite Covid and the inevitable worldwide economic slowdown, Madrid has all the potential needed to take up its tourism life and this hotel and leisure transformation will respond to an even more rigorous demand.

■ 5* HOTELS

1. Hyatt Centric Gran Via
2. Four Seasons Hotel Madrid
3. Urban Hotel GL
4. Villa Real
5. The Westin Palace
6. NH Collection Madrid Paseo del Prado
7. Mandarin Oriental Ritz*
8. NH Collection Madrid Suecia
9. The Principal Madrid Hotel

■ 5* FUTURE OPENINGS

1. Marriot W
2. Iberostar Teatro Albeniz
3. The Madrid Edition
4. CR7 Gran Vía (TBD star rating)

MARKET OVERVIEW

AREA OF INFLUENCE

RENTS

In a normal situation, the rents in the area would increase as they would benefit from the pedestrianisation of the Puerta del Sol.

However, due to the impact of the pandemic, there is not sufficient comparable data to confirm this trend, we estimate that rents from the main commercial axis are being reduced by approximately 10 to 20%.

The boost in rents in Puerta del Sol is expected to be significant in the mid term, as there will be a higher demand from main brands that would like to position themselves in this privileged area.

INVESTMENT

Taking into account the investment volume and from examining its data over the past few years as well as in the first semester of 2020, it

shows that investment funds lead with 40%.

Regarding total number of transactions, they are also leading, representing over 45% of total deals.

Private investors lead the total purchased floor area with almost 45% and occupy second position regarding investment volume with nearly 30%.

Real Estate companies occupy third position regarding the number of transactions with circa 30% of total signed deals between 2015 and mid 2020. With the pedestrianization of the plaza and the increase in footfall playing an integral role in this.

As result of it, this area will be more accessible and much less polluted, alongside other changes, this will increase investor appetite in the area. In addition, property owners will notice an increase in the value of their assets.

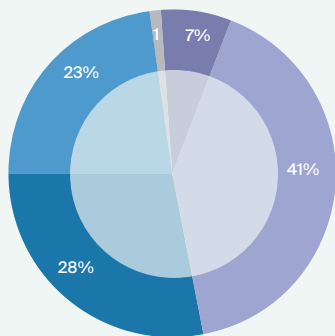
Income and trend* Central area (Q3 2020)

	Q3 2020	TREND
Preciados	290	▼
Puerta del Sol	300	▼
Serrano	300	▼
Gran Vía	290	▼
Fuencarral	200	▼

Source: Knight Frank Research. *Based on a retail unit composed of 200 sq m on ground floor.

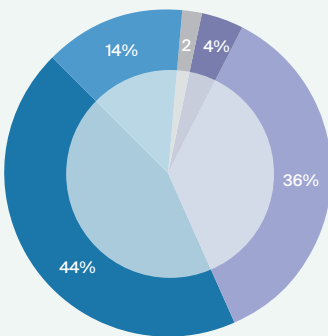
Investment volume

Influence area. 2015 - Q2 2020



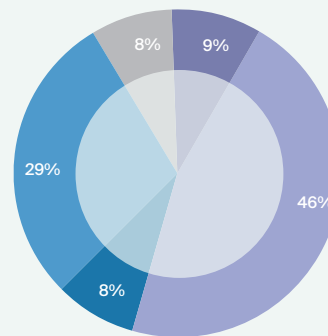
Acquired surface

Influence area. 2015 - Q2 2020



Number of transactions

Influence area. 2015 - Q2 2020



Source: Knight Frank Research

■ Institution ■ Pooled funds ■ Private ■ Property company ■ REITs





Gran Vía, Madrid

MAIN HIGH STREETS

INTERNATIONAL LEVEL

Even in the current situation, with the Covid pandemic, then location where brands place themselves is still a key component within the retails market. Big brands increasingly demand the best locations in order to maximize their benefits to offset the high rents that are charged in most city centers.

Amongst main high streets of major cities, London is one of the most outstanding with commercial streets such as Oxford Street or Knightsbridge, home of some of the most famous shops such as Harrods. Many luxury brands such as Versace or Chanel are located in Bond Street. Also noteworthy Covent Garden and Regent Street, where Hamleys is located, are also noteworthy.

The most exclusive and famed commercial street in Paris is The Champs Elysees where the "golden triangle" is located. Also Rue de Rivoli is prominent where you may find anything thanks to the great number of stores. Avenue Montaigne, a small street that has more sophisticated brands such as Gucci or

Via Montenapoleone, Milán



Louis Vuitton.

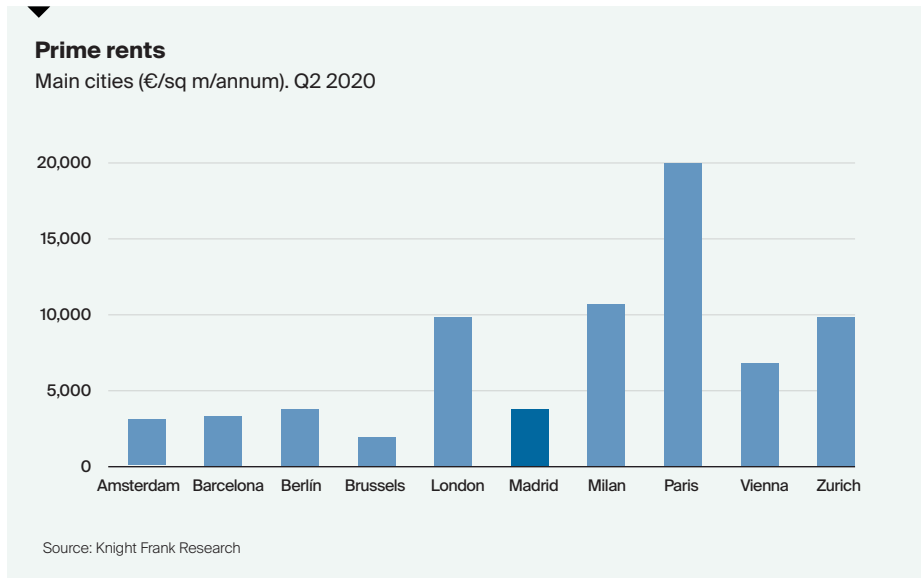
Milan is another worldwide fashion capital, it has the emblematic Via Montenapoleone, one of the most luxurious in the world with great brands like Dior or Cartier. Corso Venezia, a picturesque and exclusive street is home of national and international brands and Corso de Buenos Aires, the largest street in the Europe are also located in Milan.

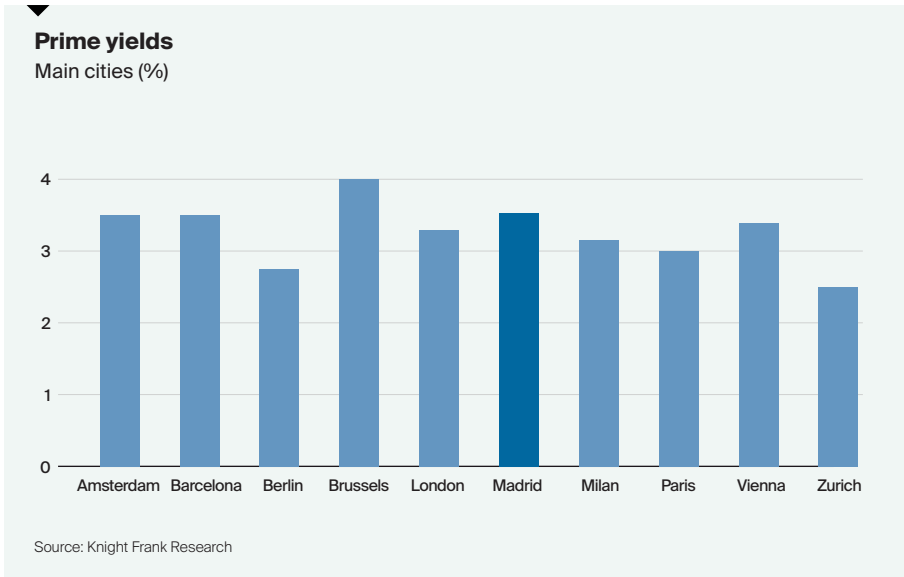
Located in the heart of Brussels is the biggest commercial street, Rue Neuve, where the highest footfall and numerous international brands are located. The Louise and Toison d'Or avenues that cross each other, are some of the most exclusive in the city and host renowned fashion brands and the most famous



Oxford Street, Londres

chocolate stores. In Spain’s capital, streets like Preciados or Serrano, which is located in the neighborhood of Salamanca, stand out as the most exclusive streets in the country. But undoubtedly the most well known and busy street in Madrid is the Gran Vía, that hosts not only fashion brands but also restaurants and historic cinemas and theaters. Analyzing different emblematic cities because of their well known streets with high shopping tourism, we can observe how prime rents in Paris retail units lead, reaching 20,000€/sq m/year followed by Milan, then London with annual prime rents of around 10,000€/sq m/year. Amongst the two main cities in Spain, Madrid is positioned above Barcelona and in





Rue Neuve, Brussels



Champs Elysées, Paris

◆ ◆

Regarding prime yields, Madrid occupies one of the top positions with 3,5%

◆ ◆

6th position within this comparison with about 3,600€/sq m/year.

Regarding retail prime yields, Madrid occupies one of the top positions, with 3.5%, only being surpassed by Brussels with a 4% yield and being equaled by Amsterdam and Barcelona which registered the same 3.5% yield. This data reflects that at this moment Madrid is one of the most competitive cities in the European market.

Retail

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COVID-19: Across Europe and beyond, market activity is being impacted in all sectors due to the Novel Coronavirus (COVID-19) outbreak. As at the date of this report, we consider that we can attach less weight to previous market evidence for comparison purposes, in providing our opinions on the market. Given the unknown future impact that COVID-19 might have on the real estate market and limited recent comparable data, this report is meant to provide market insights as we see them at this time but we wish to highlight the material uncertainty which may cause swift changes in the market. Please get in touch with our team if you would like to discuss in further detail or receive an update regarding market conditions.

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