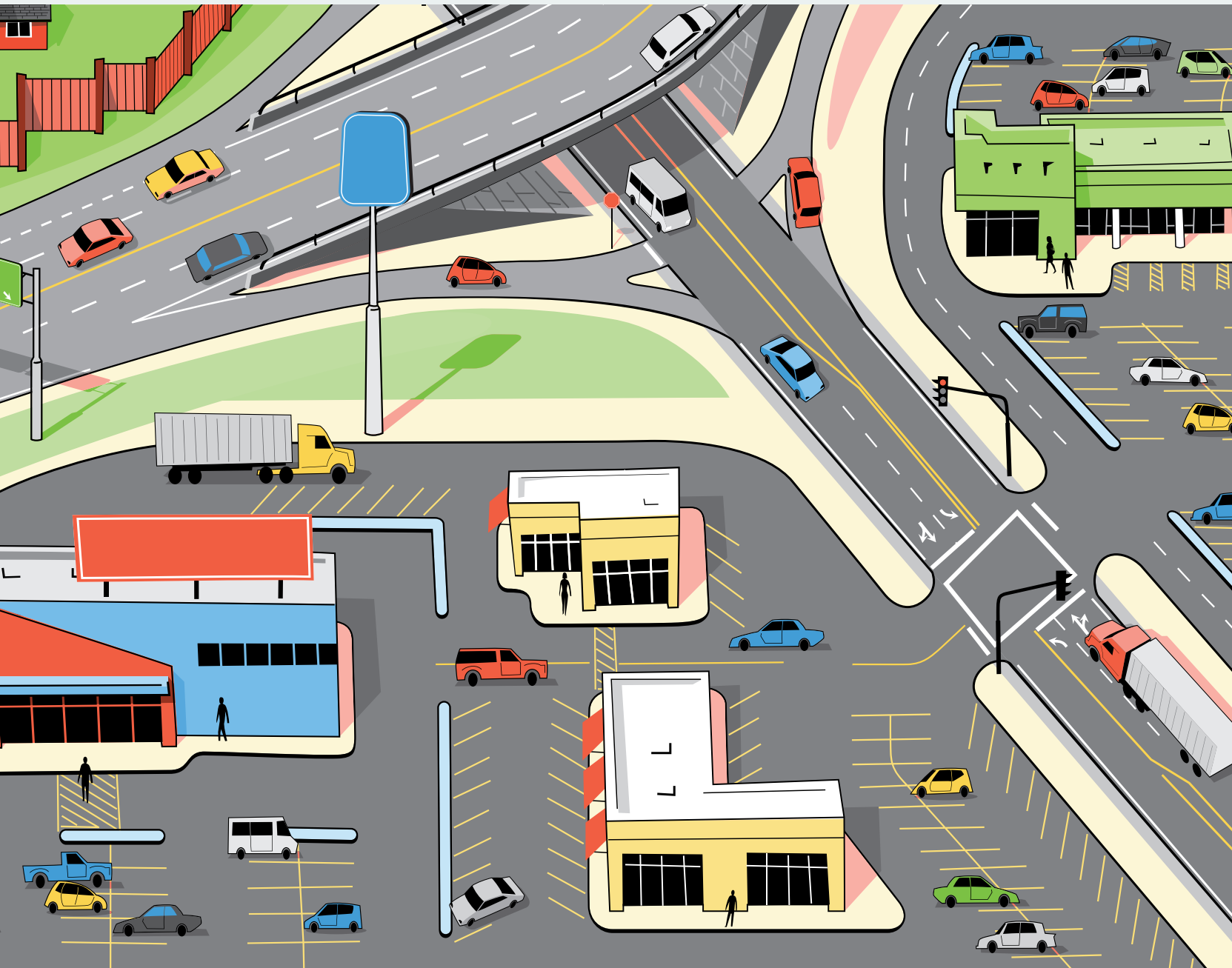


Retail Parks

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Market Outlook. 2021





REVIEW AND FORECAST

Retail parks are having something of a moment: their resilient performance in the face of the pandemic has not gone unnoticed, and investors are betting that this segment will continue to drive growth in the retail market.

While the retail sector has undoubtedly been buffeted by COVID-19, certain segments, including retail parks, have taken on a new shine – particularly premium assets where the spotlight is on leisure and the visitor experience.

Over recent months, consumers have gravitated towards destinations where they can shop in a more open and spacious environment. In

fact, retail park sales sprang back more readily from the national lockdowns than other shopping destinations, proving their suppleness in the face of crisis. Close synergies with the logistics sector certainly helped, as e-commerce soared and services were hastily overhauled in response to the heightened demand.

Forecasts for the Spanish economy now hinge on two factors: infection and vaccina-

tion rates, and what we now know about the way the virus behaves. At the moment, all signs are pointing towards a steady return to form over the remainder of 2021.

Retail parks in particular are on track for further growth over the year ahead, with investor interest sharpening; at the time of writing a stack of deals was already on the table, all looking very promising indeed.

THE LARGEST RETAIL PARKS IN SPAIN



MEGAPARK BARAKALDO (VIZCAYA)

GLA: 127,772 sqm
No. of stores: 76
No. of parking spaces: 7,800
Anchor store: Mercadona
Principal tenants: Ikea, Leroy Merlin, Decathlon, etc.



LUZ SHOPPING JEREZ (CÁDIZ)

GLA: 126,500 sqm
No. of stores: 91
No. of parking spaces: 6,000
Anchor store: Alcampo
Principal tenants: Ikea, Decathlon, El Corte Inglés Outlet, etc.



MEGAPARK SAN SEBASTIÁN DE LOS REYES (MADRID)

GLA: 108,470 sqm
No. of stores: 44
No. of parking spaces: 4,600
Anchor store: Carrefour
Principal tenants: Ikea, Leroy Merlin, Media Markt, etc.

Source: Knight Frank Research | AECC

STOCK

Data from the Spanish Shopping Centre Association (AECC) indicates that 75 retail parks are currently operating in Spain, representing a gross lettable area of around 2.1 million square metres.

The largest exceed 100,000 sqm, with Megapark Barakaldo in Vizcaya taking the crown at almost 130,000 sqm. Next in line are Luz Shopping in Cádiz (over 125,000 sqm) and Megapark de San Sebastián de los Reyes in Madrid (a little under 110,000 sqm).

In terms of both GLA and number of sites, the Spanish regions with the greatest concentration of retail parks are Andalusia and Valencia, with Madrid, Catalonia and the Basque Country not far behind. Madrid claims the lead at the provincial level, followed by Valencia and Seville.

However, the highest retail density is found in Toledo province, with 133 sqm per 1,000 inhabitants. Toledo itself, population circa 700,000, may not be in the same league as Madrid and Barcelona – just short of seven and six million respectively – but no other Spanish city can top its 95,000 sqm of retail parks by GLA. The jewel in the crown is Abadía, at almost 55,000 sqm.

Although 2020 will be remembered above all for the COVID-19 pandemic, particularly in the retail market, it was also a year of new launches for the retail park segment in Spain. Destinations such as La Torre Outlet (Zaragoza), Bahía

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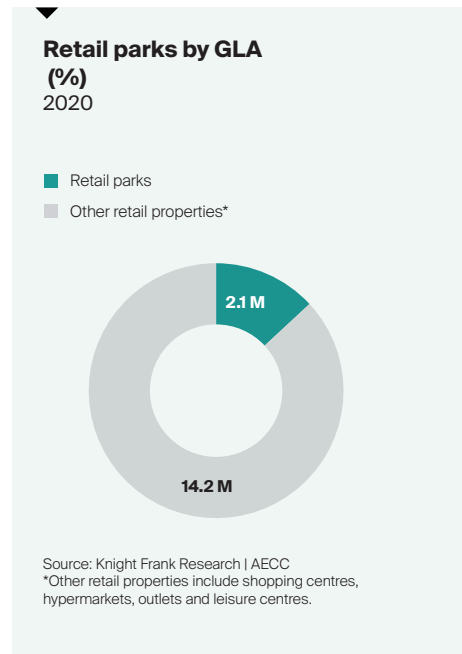
The roll call of new retail spaces for 2020 was dominated by retail parks, a trend that is set to continue in 2021 and very probably beyond – open-air access and an offering that meets customers’ current needs are key drivers in the post-pandemic climate

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Real (Cantabria), Cemar (Almeria) and Álcora Plaza (Madrid) all opened for business, bumping up the national tally. With more new sites in the pipeline for 2021, development activity shows no signs of slackening.

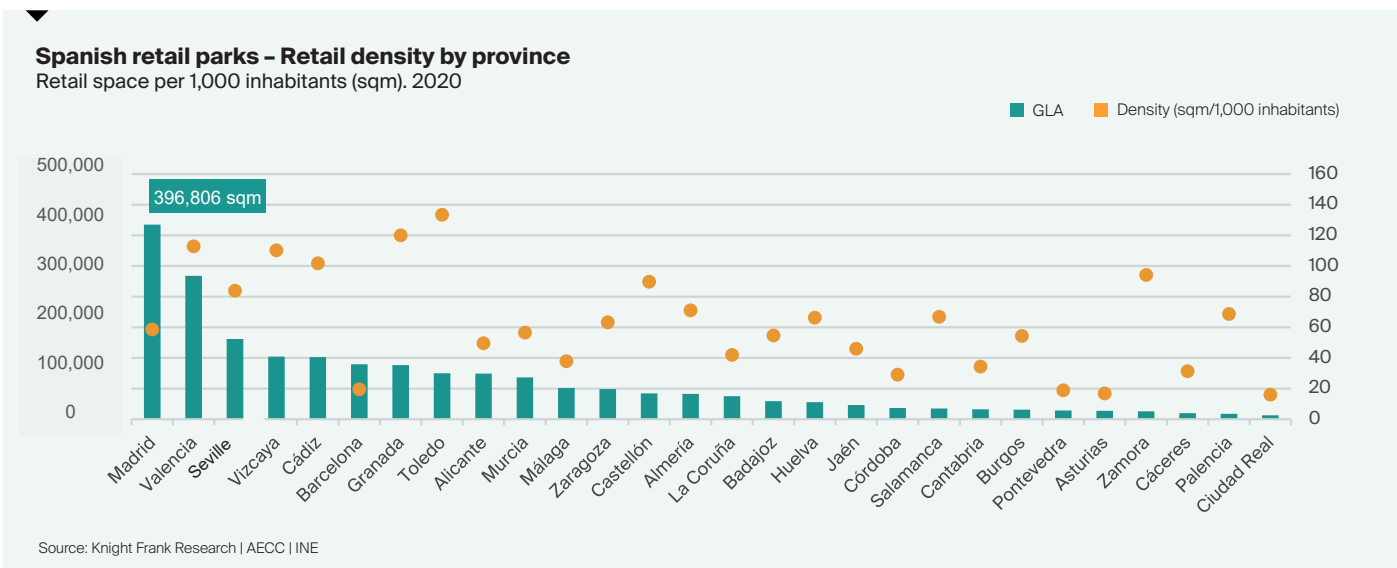
RENTS

The average prime rent for retail park space in Madrid has held steady at €13 per sqm/month, compared with €50 per sqm/month for shopping centres and €290 per sqm/month on the

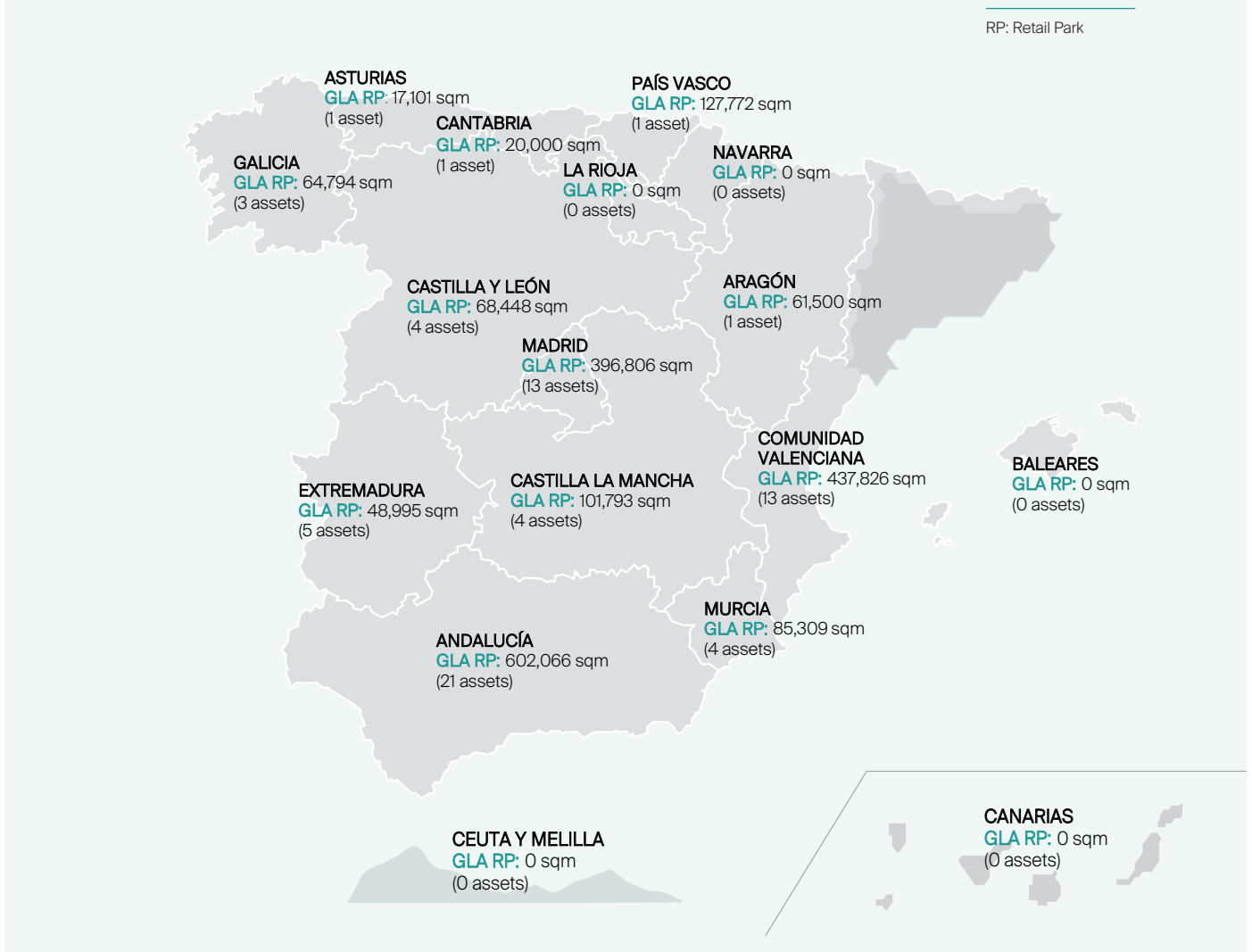


high street.

To date, the public health crisis has had no dramatic impact on rents, although some property owners have been obliged to offer temporary rental discounts, rent-free periods and rent deferrals in certain cases. Nonetheless, a cooperative attitude on the part of both landlords and operators has been instrumental in fostering a can-do spirit in the face of uncertainty, making for a less painful adjustment to the new reality.



Retail parks in each of Spain's autonomous regions. 2020



Major recent/upcoming retail park openings - 2021



PLAZA COSLADA (MADRID)

This recent arrival has changed the face of the former Industrias Garaeta factory site, offering more than 28,000 sqm of retail space and a six-screen cinema.



LOS PATIOS DE AZAHARA

In the works since 2008, the site is being expanded as construction resumes on the final two buildings of a larger complex, already home to brands such as Leroy Merlin, Decathlon and McDonald's.



WAY OURENSE

Expected to open in late 2021 or early 2022. With anticipated retail space of 18,000 sqm, Way is set to become Ourense's premier shopping destination.

INVESTMENT

INVESTMENT VOLUME

The retail park segment ended 2020 on total investment of roughly €300 million, almost 120% higher than in 2019 and up 35% on 2018.

Interest in retail park opportunities has heightened, thanks to their resilience and synergies with the logistics sector.

One major deal registered in 2020 was the Batipart fund's acquisition of 15 properties in Spain and Portugal (42 in Europe as a whole), a sale-and-leaseback deal amounting to over €200 million. The entire portfolio has now been fully let to specialist home improvement brands Leroy Merlin, Bricomart, Weldom and Aki.

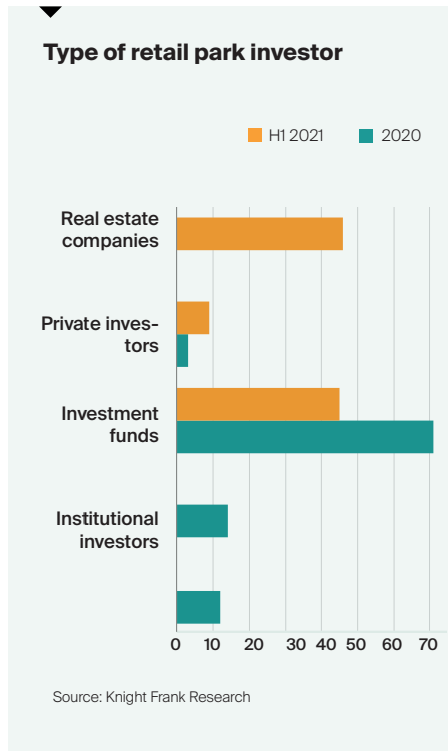
The first six months of 2021 saw this segment reach 15% of overall transaction volume, close to €110 million.

Standout deals in this period included Swedish property firm Sagax's acquisition of the Ikea store in Palma de Mallorca for approximately €50 million.

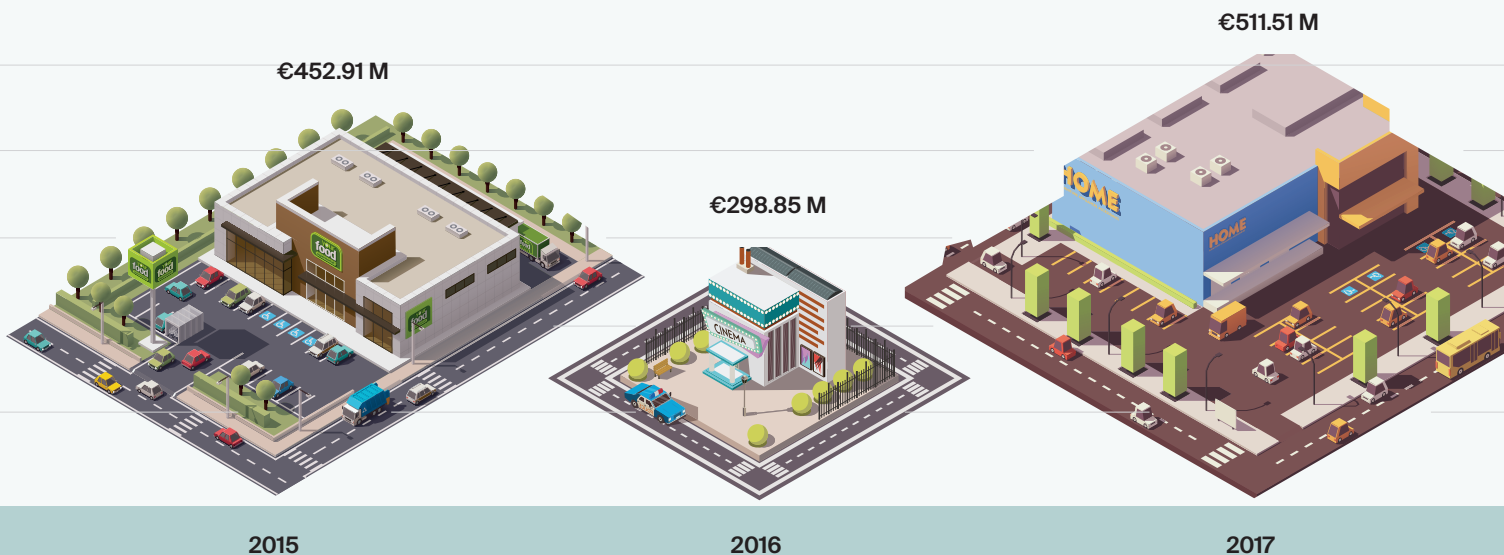
INVESTOR TYPE AND YIELDS

So, which investor profiles were most eager to invest in retail park opportunities in 2020? The answer – by a significant margin – is investment funds, representing around 70% of transaction volume. Institutional and corporate investors also came out in force, accounting for 15% and 12% respectively. Real estate firms took up the baton in the first six months of 2021, with investment funds close on their heels, each accounting for approximately 45% of transaction volume.

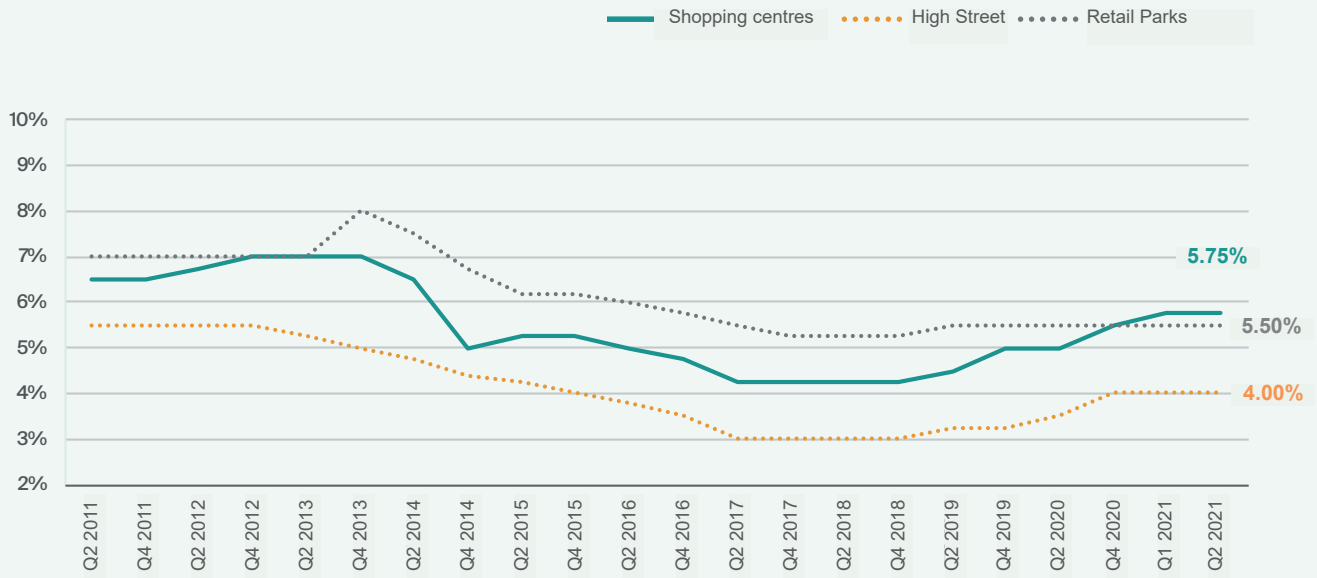
The average prime yield for retail park space has remained stable since 2019, standing at 5.50% in Q2 2021. Meanwhile, high street yields were up slightly at the close of 2020 to reach 4%. Finally, after inching steadily upwards for the last few years, shopping centre yields came in at 5.75%. What this tells us is that retail parks are still viewed as a safer choice than either shopping centres or the high street, where risks are perceived to be higher.



Retail park investment € million. 2015 – H1 2021



Madrid prime yield over time
2011 - Q2 2021



Source: Knight Frank Research

Source: Knight Frank Research



LOGISTICS & RETAIL

Today's consumers want instant gratification and come with an increasingly sophisticated set of demands. They expect bespoke customer service at mass-market prices, placing pressure on delivery networks, clogging up roads and contributing to air pollution in major urban centres. The result is a significant headache for operators striving to keep up. It's that tricky 'last mile,' or the few kilometres between the distribution centre and the customer's front door, that causes the most grief for retailers.

Logistics operators doing their utmost to provide an efficient service often run into difficulties at this point, as they struggle to fulfil retailers' promises of lightning-fast delivery in a highly competitive market. This problem is not particularly new, nor are the pressures of managing deliveries at times of peak demand. However, the lockdown period exposed vulnerabilities in online channels – such as the challenge of maintaining adequate stock levels – that retailers must now remedy.

A NATURAL ALLIANCE FOR THE E-COMMERCE AGE

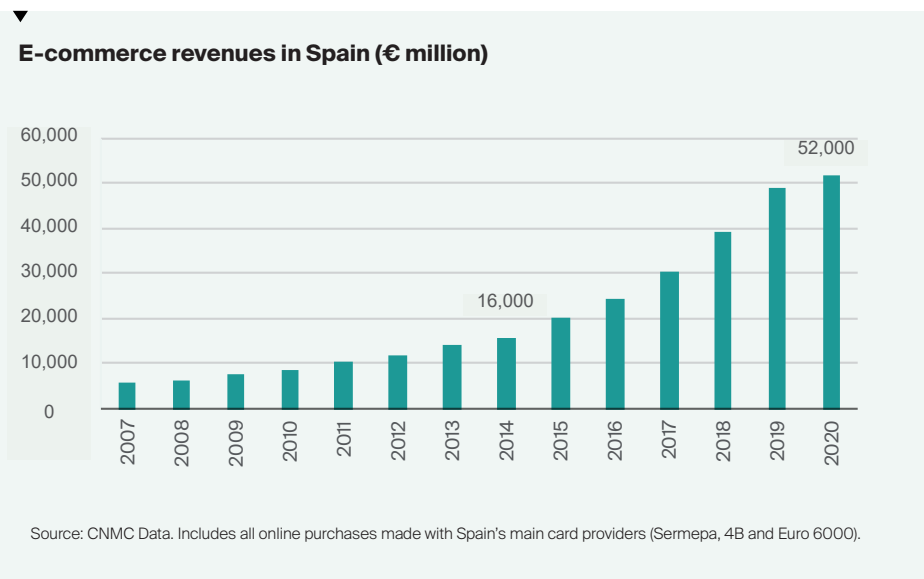
The logistics and retail sectors have a common interest in this regard that makes them natural partners in the search for solutions. In one example, Grupo Tier and Movilges have joined forces to launch Retailware, a set of technological solutions aimed at the fashion and food segments that will enable retailers to optimise their logistics and transport architecture.

Another solution could be to shift distribution networks closer to consumers and create an efficient chain of warehousing and dispatch centres providing a fusion of logistics and retail services. A number of ventures seek to develop collaborative models of this kind, such as various proposals to convert disused retail parks to logistics hubs. This would

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At YE 2020, the retail park segment had hit a new investment record: almost €52,000 million. This milestone performance reflects ongoing shifts in consumer behaviour that we've known about for quite some time
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have the merit of creating additional warehousing space while offering a way forward for aging sites, left behind by the growing trend for flagship stores and others to migrate to more central locations.

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For 2020 as a whole, e-commerce growth in Spain was up 6% on the previous year – bearing in mind that 2019 was something of an outlier, with turnover 200% higher than just five years earlier
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Pre- and post-pandemic performance by business sector

2019

Retail segments posting highest turnover

- Travel agencies and tour operators
- Air transport
- Clothing
- Hotels and accommodation
- Gambling and sports betting
- Ground passenger transport
- Direct marketing
- Cultural, sporting and recreational events
- TV channel subscriptions
- Public authorities, taxes and social security
- Financial brokerage
- Department stores
- Hypermarkets, supermarkets and food stores

2020

Relative growth in online demand over the pandemic period

- Supermarkets/hypermarkets
 - Sports equipment
 - Clothing and self-care
 - TV channel subscriptions
 - Pharmacies
 - Wines, beers and spirits
 - Office and school supplies
 - Video games
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- Travel agencies and tour operators
 - Hotels and similar accommodation
 - Air transport
 - Ground passenger transport

Source: CNMC Data | Minsait (Indra) "The impact of COVID-19 on e-commerce"

By working together, logistics and retail sectors can pack a formidable punch, reshaping the logistics landscape and transforming retail parks with mixed distribution models. Each side is actively developing complementary or even concerted strategies aimed at enhancing the customer experience. Aware that they must cater to a hyper-demanding client, and that a positive online experience allows for no rough edges, both sectors are focused on a common goal: building customer loyalty in an omnichannel environment, where sales promise to far exceed those of physical stores alone.



Logistics

- ◆ Widespread rollout of alternative delivery solutions, such as public lockers or smart mailboxes in residential neighbourhoods and office lobbies.
- ◆ More emphasis on sustainability, with new policies such as passing logistics costs onto the customer if home delivery is required.
- ◆ Significant technological advances allow for greater precision in stock control and more accurate predictions of future demand and delivery times.
- ◆ Micromobility solutions (such as small electric cars, bicycles and scooters) and overnight delivery are boosting distribution efficiency in urban areas.
- ◆ Retailers are teaming up with logistics providers to offer hyper-personalised services – including deliveries 24 hours a day, 365 days a year – thanks to the integration of retail and delivery networks.
- ◆ E-commerce platforms and their specifications are under growing scrutiny as operators seek enhanced agility and flexibility in their distribution systems.



Retail

- ◆ Click and collect is becoming increasingly popular, prompting a realignment among operators and stores.
- ◆ Pure players – retailers that operate entirely online – now require more physical space and demand solutions tailored to their needs.
- ◆ More and more operators are developing their own distribution channels, allowing for hands-on management and more targeted services.
- ◆ Sophisticated data analysis and cutting-edge technology make it possible to track customer behaviour, respond quickly to unforeseen events and offer ad hoc product suggestions and optimised delivery.
- ◆ Retail parks are lending support to other stores, freeing up warehousing space to accelerate deliveries without compromising their primary role; meanwhile, certain physical stores are repurposing underperforming warehouses to create additional retail space.
- ◆ Physical stores are more vital than ever, due to the multiplier effect of online channels. Around one third of consumers collecting an order instore will make an additional purchase. Flagship stores have retained their status as a safe haven for investors.

Retail

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