

KRIS VAN LANCKER*Managing Director*

T: (+34) 91 123 7600

E: kvanlancker@optimusinvestors.com

DAVID DIEZ*Investment Consultant*

T: (+34) 91 123 9181

E: ddiez@optimusinvestors.com

Optimus Global Investors, a trademark of
Optimus Capital, S.L.

Spain Retail Market Report 2015

1 June 2015

Retail Real Estate Market...

Over the last 18 months, as demonstrated by the key economic indicators, Spain has witnessed a gradual improvement in its economy, a trend that is expected to continue over the next 2 years. Growing GDP, falling unemployment and rising real wages have resulted in growing consumer confidence, an upturn in household disposable income and increased consumer spending, the key pillars for the success of the Spanish retail market.

1. HIGH STREET

The continued recovery has fed into the Spanish high street since 2014, with demand for prime high streets increasing so much so that there is a now shortage of space on the best streets. Many expanding domestic and international retailers are considering streets off the prime areas and secondary cities.

Madrid, Barcelona and costal areas such the Balearic Islands and Costa del Sol (associated with luxury tourism) are the most sought-after locations by retailers. Those seeking to open stores in these areas are faced not only with limited supply but also with continued difficulties when looking for larger premises. Most of the demand over the last 18 months has been seen in Madrid, as a result of its above national average income levels, larger population and the regional government's positive stance towards retail developments and liberal opening hours.

The most popular streets in Madrid city center are Gran Via/Preciados (most expensive street in Madrid, focused on mass retailing with an average daily footfall of 21,000 people during sales periods, with rental levels reaching €2,700sq.m/\$32,500sq.ft per

Excess demand is pushing investors to look at secondary streets within prime locations, with Madrid being the most sought-after city

annum with almost no vacancy rates), Fuencarral (occupied by medium-high level segments and trendy retailers with rental levels around €1,425sq.m/\$17,150sq.ft per annum), Jose Ortega y Gasset, Serrano (both located in an upper-class area, demanded by international luxury retailers with a lighter footfall and annual rent of €2,300sq.m/\$27,700sq.ft) and Goya (mid-market retailers with rent of €1,300sq.m/\$15,650 per annum).

We highlight that Gran Via has been the only street that has shown countercyclical behavior and where rental yields on the best section of the street have increased by more than CPI during the crisis, increasing by 40% since 2006 (9% in 2014). The world's biggest fashion brands, institutional investors, real estate companies, hotel specialists and developers have gravitated to the street due to the aforementioned pick-up in yield, expected appreciation in values as well as the potential for (re)development through active management. Particular success on the road from rental increases is expected to be seen on the section from Fuencarral to Callao where fashion giants such as Zara, Mango, Primark and H&M have stores (€2,200sq.m/\$26,500sq.ft per annum typical rent).

Although the majority of investors are asking for the best locations in order to let them out to large international retail chain tenants, we are seeing an appetite for non-prime rental premises. Typically, institutional investors are behind those investments although the market of transactions under €10m are dominated by family offices and local private investors who target typically 4% for prime premises.

2. SHOPPING CENTRES

In 2014, Spain witnessed renewed interest in shopping centres by major retail brands. Attracted by increasing consumption, improvement in consumer confidence and reductions in unemployment the retailers have had increased sales and footfall in prime shopping centres and in those located in areas where the economic situation is more stable. Nevertheless, we noted a greater concentration of shopping centres per inhabitant in Madrid, Aragon, Asturias and Murcia – we do not think this is linked to the economic situation of these regions or levels of household disposable income but rather due to the lesser regulatory constraints that the regional governments provide in this space. If these constraints, seen particularly in Catalonia and the Basque Country, were to be loosened, we expect to see further opportunities.

Not only has the improvement in the economic outlook contributed to the increased appetite by international investors but also the

Expected appreciation in values as well as potential for (re)development and yield pick-up are the main factors for investor interest in prime streets

Regulatory factors within each autonomy in Spain is a key consideration when looking for opportunities within the shopping centre space

attractive pricing relative to comparable markets. Furthermore, SOCIMIs (the Spanish equivalent of REITs) have provided additional liquidity/demand having accounted for 50% of the total investment volume of shopping centre assets in 2014.

SOCIMIs enjoy generous tax incentives and pay out 80% of their rental profits in the form of dividends. Properties that can show sustainable growth and that are leaders in their catchment areas are of particular interest to investors. Accordingly, investors place greater importance on the quality/solvency of the largest occupants and the shopping centre project's fundamentals. We still witness ongoing demand for core/prime shopping centres despite the aggressive hardening in yields seen over the last 2 years (6.75% in mid-2013 to 5.25% at present) and we believe there is room for 75bps further hardening with minimal volatility. Second-tier assets however offer some margin for pickup in returns leading to new transactions as investors accept marginal further risk. Despite the expected yield compression in due course as a result of the low availability of space, we forecast rental growth of 20-30% over the next 5 years depending on the shopping centre. This is as a result of the aforementioned interest from retailers and the low availability of quality space.

Specific to Madrid, the vacancy rate in prime centres is low at 8.7% and we see this to be consistent across both urban and semi-urban centres, as well as centres with both low and large GLA. Typical rents in prime are €190sq.m/\$2,300sq.ft per annum. In addition, Madrid, which accounts for 20% of Spain's GLA of shopping centre space, we have noticed a shift in population to the suburbs which makes semi-urban centres all the more attractive.

KEY TAKEAWAYS

Spain's economy in GDP terms will continue to be one of the best performers in Western Europe, bolstering domestic demand and confirms the recovery of the retail sector, leading to further investment. We expect the vacancy rates and prices to continue to differ depending on the type of property being analysed. The worst positioned will see vacancy rates rise and greater rental corrections, whilst in the best centres the vacancy rate will stabilise and new contracts will be signed at higher rents. Of particular importance is the setting up of correct rent review structures in order for both parties to be in agreement on signing the lease. With regard to shopping centre assets in Madrid, we do not see any offering of urban centres dedicated exclusively to luxury brands – this could potentially present an opportunity once the economy recovers fully.

Prime Shopping Centre
Yields: **5.25%**
Vacancy rates: **8.7%**
Rents: **€190sq.m per annum**

Contact us

If you would like to discuss this report or the investment opportunities for your institution in further detail, please email the team or call us directly.



Email:
research@optimusinvestors.com
info@optimusinvestors.com

Global phone numbers:
Spain: (+34) 91 123 7600
UK: +44 (0)20 3514 3775
US: +1 (646) 453 6252

www.optimusinvestors.com

Address: Calle General Oraa 29, 28006 Madrid, Spain

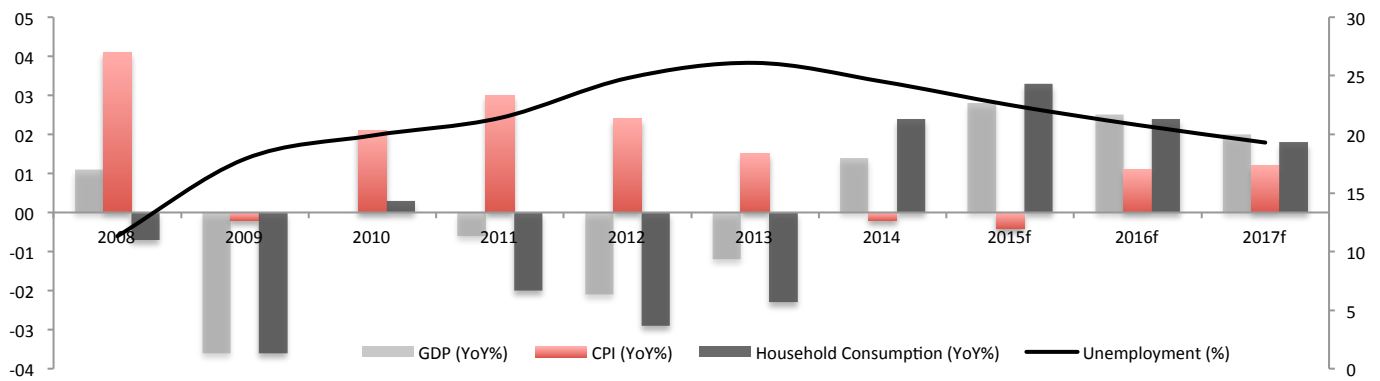
Appendix (i) – Economic Indicators

Macroeconomic backdrop, Spain:

SPAIN	2008	2009	2010	2011	2012	2013	2014	2015f	2016f	2017f	GDP (% YoY change)
GDP (YoY%)	1,1	-3,6	0,0	-0,6	-2,1	-1,2	1,4	2,8	2,5	2,0	Spain 2,7 Eurozone 1,0 Germany 1,0 France 0,8 UK 2,4 Italy 0,1
Industrial Production (YoY)	--	--	--	--	--	--	1,5	2,5	2,6	--	
Household Consumption (YoY)	-0,7	-3,6	0,3	-2,0	-2,9	-2,3	2,4	3,3	2,4	1,8	
CPI (YoY%)	4,1	-0,2	2,1	3,0	2,4	1,5	-0,2	-0,4	1,1	1,2	
Unemployment (%)	11,3	17,9	19,9	21,4	24,8	26,1	24,5	22,5	20,8	19,3	
Central Bank Rate (%)	2,50	1,00	1,00	1,00	0,75	0,25	0,05	0,05	--	--	
3-Month Interest Rate (%)	2,89	0,70	1,01	1,36	0,19	0,29	0,08	0,01	--	--	
2-Year Note (%)	2,29	1,85	3,44	3,16	2,78	1,41	0,38	0,37	--	--	
10-Year Note (%)	3,81	3,97	5,44	5,04	5,23	4,13	1,60	1,93	--	--	
EURUSD	1,40	1,43	1,34	1,30	1,32	1,37	1,21	1,05	1,10	1,13	

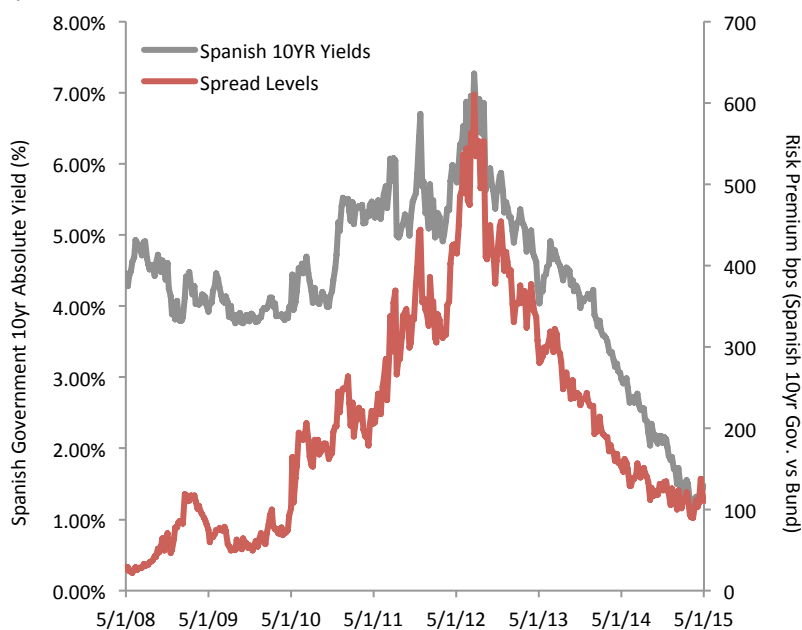
Source: Bloomberg, Optimus Capital

Key Economic Indicators, Spain:



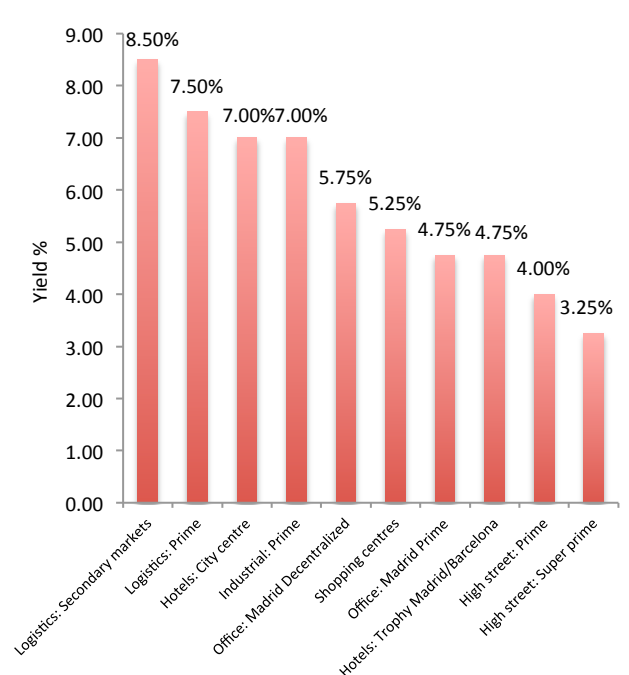
Source: Bloomberg, Optimus Capital

Spanish Yield Premiums:



Source: Bloomberg, Optimus Capital

Yield by Asset Class:



Appendix (ii) – Market Transactions 2014 (>€100m) & 2015 YTD

2014	Asset Class	Asset	Location	Transaction Value (€m)	Vendor	Purchaser
2014	Offices	70 Andalucian government buildings	Several locations	300	Junta de Andalucía (Gov. entity)	W.P. Carey (US REIT)
2014	Retail & Hotel	Marineda City Complex	La Coruña	260	Invest Cos (Fund)	Merlin Properties (SOCIMI)
2014	Retail	Islazul	Madrid	232	Grupo Lar & Ivanhoé Cambridge (Fund)	TIAA Henderson Reat Estate (Fund)
2014	Hotel	Resort Sotogrande	Cadiz	220	NH (Hotel Group)	Cerberus (Fund)
2014	Offices	13 Generalitat buildings	Barcelona	201	Generalitat de Catalunya (Gov. entity)	Zurich (Insurance)
2014	Offices & Retail	Four office buildings & one retail warehouse	Madrid, Barcelona & Tarragona	180	Credit Suisse (Bank)	Axia Real Estate (SOCIMI)
2014	Vastned Portfolio (8 centers)	Several locations	Several locations	160	Vastned (RE Group)	Baupost Group (Fund) / Green Oak Real Estate (Fund) / Grupo Lar (RE Group)
2014	Retail	El Boulevard	San Sebastian	157	CBRE Global Investors (RE Group)	REI Investment IBV (Fund)
2014	Office, Retail & Hotel	Paseo de la Castellana, 200	Madrid	140	Reyal Urbis (RE Group)	Drago (RE Group) + PSP Investments (Canadian Pension Fund)
2014	Offices	Santa Hortensia 26-28	Madrid	130	Morgan Stanley (Bank)	Finaccess (Fund)
2014	Industrial	Six logistics assets	Madrid & Guadalajara	133	Gran Europa (RE Group)	Logicor (RE Group)
2014	Offices	Levitt Portfolio	Madrid	130	Levitt (RE Group)	Merlin Properties (SOCIMI)
2014	Offices	Eight buildings	Madrid & Malaga	120	Oncisa (RE Group)	Hispania Activos Inmobiliarios (SOCIMI)
2014	Offices	Avenida de America 115	Madrid	117	Solvía (RE Group)	London Regional (Fund)
2014	Retail	Gran Vía de Vigo	Vigo	115	ING Real Estate developments	Oaktree (Fund)
2014	Industrial	Portfolio SABA	Madrid & Barcelona	100	SABA (Interparking)	Prologis (Logistics)

2015	Asset Class	Asset	Location	Transaction Value (€m)	Vendor	Purchaser
January	Retail	Building on Gran Vía 30	Madrid	42	N/A	Talus Real Estate (RE Fund)
January	Retail	Building on Gran Vía 32	Madrid	N/A	Drago Capital (RE Group)	Pontegadea, Amancio Ortega (Retail)
January	Offices	Torre Eterra	Madrid	N/A	BBVA (Bank)	GMP (RE Group)
January	Offices	BMW Offices	Madrid	41	Gecina (RE Group)	SOCIMI managed by IBA Capital Gecina
January	Residential & Commercial	11 plots in Madrid	Madrid	64	Sareb (Restructuring fund, Spain banks)	N/A
January	Office	Office buildings on Goya 29	Madrid	27	N/A	Realia (Fund)
January	Residential & Commercial	RE complex 'Golf Hills Village'	Madrid	N/A	N/A	CTH Capital (Fund)
January	Offices	Building in Barcelona	Barcelona	37	UBS (Bank)	Merlin Properties (SOCIMI)
January	Retail	Ten Consum Supermarkets	Valencia & Castilla-La Mancha	N/A	A group of investors	Meridia (Fund)
January	Residential, offices & nursing homes	18 buildings	Barcelona	90	La Llave de Oro (Developer)	Goldman Sachs (Bank)
January	Offices	Office building in Barcelona	Barcelona	10	Sareb (Restructuring fund, Spain banks)	Colonial (Fund)
January	NPL portfolio	NPL Portfolio "Aneto"	Madrid	250	Sareb (Restructuring fund, Spain banks)	Blackstone (Fund)
January	Offices	Tripark Business Park (Las Rozas)	Madrid	N/A	N/A	IBA Capital Partners (Fund)
January	Residential & Commercial	Real Estate complex	Madrid	35	Cevasa (RE Group)	AKM Arganzuela (RE Group)
February	Residential	Plots in Madrid	Madrid	13	Sareb (Restructuring fund, Spain banks)	Castlelake (Fund)

February	Hotel	Hotel Solvasa	Barcelona	N/A	N/A	Eurohotel Group (Hotel Group)
February	Industrial	Gescobro (Collection company)	Madrid	N/A	Miura (Fund)	Cerberus (Fund)
February	Offices	Building at Gran Vía 14	Madrid	21	N/A	Private Mexican Investor
February	Residential	Building at Calle Juan Bravo	Madrid	120	N/A	Lar España (RE Group) & PIMCO (Fund)
March	Residential & Offices	Principe de Vergara & Sanchinarro	Madrid	86	N/A	Hispania (SOCIMI)
March	Offices	11 office buildings	Barcelona (7) & Madrid (4)	100	GE Capital RE (Fund)	Meridia (Fund)
March	Retail	Airesur Shopping Centre	Sevilla	77	N/A	CBRE GI (RE Group)
March	Retail	Plenilunio mall	Madrid	375	Orion Cap Managers (Fund)	Klepierre Acquires (RE Group)
March	Self storage & Offices	Self-storage	Madrid	8	Baraka Global Invest (RE Group)	Bluespace (Self-storage Group)
March	Retail	Zielo Shopping Centre	Madrid	73	Hines (RE Group)	UBS (Bank)
April	Offices	Revlon's HQ	Barcelona	30	Morgan Stanley (Bank)	Standard Life (Fund)
April	Retail	As Termas' shopping mall	Lugo	67	N/A	Lar España (SOCIMI)
April	Offices	The 'Torre Norte' building	Barcelona	15	CaixaBank (Bank)	SegurCaixa (Insurance)
April	Logistics	Logistics Plot	Guadelajara	N/A	N/A	Montepino (RE Group)
April	Student Accomodation	Two Halls of Residence	Barcelona	N/A	N/A	The Student Hotel
May	Land	Private plot of land	Mallorca	6	Ministry of Defence (Gov. entity)	La Llave de Oro subsidiary (RE Group)
May	Logistics	3 Logistics Platforms	Madrid & Valencia	19	UBS (Bank)	Lar Group (SOCIMI)
May	Retail	68 Gran Vía	Madrid	45	Carlyle (Fund)	FMS Wertmanagement (German 'Bad Bank')
May	Retail	Puerta del Sol 9	Madrid	30	Auction	Kennedy Wilson & Renta (Fund)
May	Retail	3 land plots in Arroyo del Fresno	Madrid	50	Madrid City Council (Gov. entity)	CP Grupo Inmobiliario (RE Group)
May	Offices	Paseo de la Castellana 89	Madrid	147	N/A	Corporacion Financiera Alba (March Family)
May	Logistics	Logistics Platform	Meco	22	Kefren Capital (RE Group)	Merlin (SOCIMI)
May	Retail	Shopping centre	Leon	N/A	CG Malls Europe (RE Group)	Blackstone (Fund)
May	Hotel	Ritz hotel	Madrid	130	Belmond Spanish Holdings & Landis	JV - Olayan (Fund) & Mandarin Group (Fund)
June	Hotel	Villa Magna Hotel	Madrid	190	Sodim (HoldCo of Queiroz Pereira family)	Jaime Gilinski (Colombian individual)
June	Loans	NPL Portfolio - 'Project Gaudi'	Madrid	260	FMS Wertmanagement (German 'Bad Bank')	Oaktree (Fund)
June	Offices	2 office buildings (Las Rozas & Cristalia BP)	Madrid	55	Deka (Fund)	Hispania (SOCIMI)
June	Logistics	5 Logistics Platforms	Madrid	75	N/A	GreenOak (Fund)
June	Retail	Plaza Éboli Shopping Center	Madrid	30	Doughty Hanson (Fund)	HIG Capital (Fund)
June	Hotel (Trophy assets)	2 Hotels In Canary Islands	Canary Islands	105	N/A	Hispania (SOCIMI)
June	Offices	Offices in Madrid	Madrid	51	Sareb (Restructuting fund, Spain banks)	Axiare (SOCIMI)
June	Offices	Office Building	Barcelona	20	N/A	Lar Group (SOCIMI)
June	Supermarkets	Eroski Hypermarket	Alicante	7	Altadena (Fund)	Lar España (SOCIMI)
June	Residential-Hotel	Condominas Building	Barcelona	N/A	N/A	Manel Adell (Private investor)
June	Trophy asset	Building In Puerta de Alcalá	Madrid	80	Auction	Mapfre (Insurance)
June	Company	Subsidiary Testa	Madrid	1800	Sacyr (Construction)	Merlin (SOCIMI)
June	Loans	Hotel Loan Portfolio (Project Castle)	Madrid	N/A	Bankia (Bank)	UBS (Bank)
June	Retail	Zielo Shopping Centre	Madrid	70	Hines (RE Group)	UBS (Bank)
June	Port	50% Of Puerto Venecia	Zaragoza	225	Intu	CPPIB (Canadian Pension Fund)

Disclaimer - please read

Optimus Global Investors is a trade name of Optimus Capital, S.L. This document has been prepared by Optimus Capital, S.L. and is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by Optimus Capital, S.L. or obtained from or based on sources we consider to be reliable, and have not been independently verified by Optimus Capital, S.L. Therefore, Optimus Capital, S.L. offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. Optimus Capital, S.L. is not responsible for updating these contents or for giving notice of such changes. Optimus Capital, S.L. accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents. This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by Optimus Capital, S.L.

COPYRIGHT © Optimus Global Investors and Optimus Capital, S.L. All rights reserved.