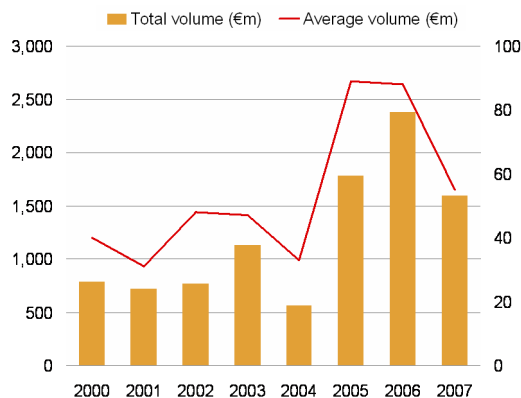


Spain Retail Market

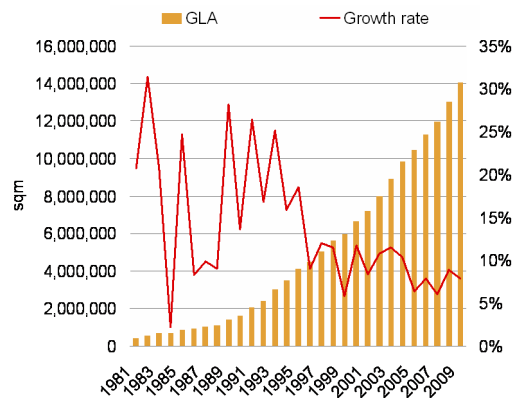
Spring 2008

Retail investment market - total and average volume



Source: Savills Research

Total GLA and growth rate



Source: AECC

“Investment market activity has been affected by economic uncertainty. Buyers continue to be looking for product although the number of transactions has dropped during the first months of this year. Investors are looking for consolidated and mature shopping centres which are dominant in their catchment area and that have a certain amount of growth potential. These are difficult times for the difficult product.”

Luis Espadas - Retail Investment Director



- The Spanish economy is experiencing certain difficulties due to increased inflation, the decrease in private consumption, the increase in unemployment and the uncertain growth expectations of the GDP. The financial markets situation is affecting the entire Real Estate sector, and especially the residential sector. These circumstances are generating uncertainty as it is not known how long they will last and what will be their real impact.
- Shopping centre rents are maintaining sustained growth rates. The highest rental values are found in the urban centres where increases are slower due to the difficulty with which a project can be developed in the direct catchment area. Close attention should be paid to the trend of retail warehouse space rents. These rental values are being underpinned by the international operators, primarily from the fashion sector, who are interested in occupying these types of spaces.
- In 2008, the development of Spanish shopping centres will set a record with 1,061,505 sqm expected to open. 1,026,605 sqm are planned for 2009.
- The economic instability has not brought the investment market to a standstill although it has generated a certain slowdown. The current situation has favoured a “natural selection” of the investors with liquidity who are capable of maintaining investment activity. A readjustment of yields has begun which is more notable in the secondary centres and less drastic in the prime commercial spaces.
- Madrid, with 452 sqm per 1,000 inhabitants, continues to be the region with the highest commercial density in Spain while restrictions imposed in Catalonia keep this region in one of the lowest positions (159 sqm/1,000 inhabitants).

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Economy

Economy

Slowdown in Spanish economic growth, although remaining above the European average

The Spanish economy continued to grow in the 2007 fiscal year at higher rates than those found in other European countries (the GDP's year-on-year average growth was 3.8% compared to the 2.7% seen in the Euro zone). However, a slowdown similar to that experienced by the majority of economies during the same period was noticed in the second half of the year after the U.S. mortgage crisis which occurred last summer. International concern and uncertainty regarding the financial markets, which were emphasised in the first months of 2008, are already causing a revision of the growth forecasts for both Europe and the United States resulting in a reduction of the previously expected rates.

The year-on-year growth rate for the Spanish GDP for the last quarter of the year was 3.5%, 30% lower than that for the third quarter. The rate of 3.8% for the entire year is 10% less than the rate seen in 2006 although the composition of the gross domestic product was more balanced, decreasing the negative contribution of the foreign balance.

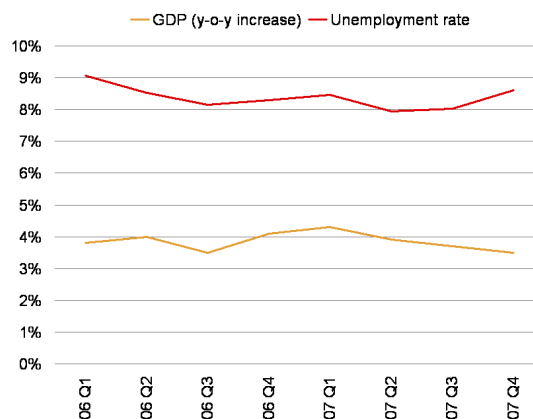
In Spain, demand components registered slightly lower increases than those seen in 2006. Consumption showed signs of slowing down (signs that were confirmed at the beginning of 2008 with strong decreases in retail sales and a substantial improvement has not been forecast for the rest of the year) and consumer confidence fell significantly although investment in capital resources remained high. On the supply side, the slowdown in industrial growth and especially in the construction sector are worth mentioning. The adjustment in the residential sector has caused the annual increase in housing prices to reach 4.8%, the lowest increase in the last ten years. The year's average was 5.8% in comparison to the 10.4% seen in 2006.

This slowdown in the construction sector has been decisive in the way employment rates have behaved. Employment showed a yearly growth of 3.1% which is one point lower than the previous year. The growth rate in the number of people registered with the Social Security reduced throughout the year, showing a growth of 1.9% in January of 2008 in comparison to the 3.6% registered for the same period of 2006. Job offers were also more moderate (growth of the active population) while the overall unemployment rate for 2007 was 8.3% (the rate for the fourth quarter was 8.6%).

The increase in prices of crude oil and food placed the CPI at 4.2% for December, 1.6% higher than in 2006, although the average yearly variation rate of 2.8% is the lowest seen in recent years.

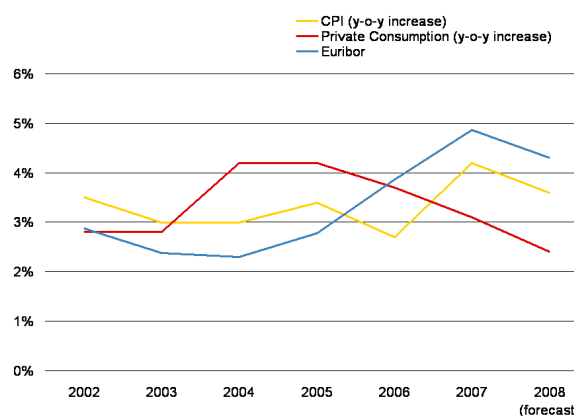
In an environment of international economic uncertainty, the Spanish economy is expected to continue on its path of moderate growth in the mid-term, showing increases of less than 3% in the GDP in 2008. These rates will, nevertheless, continue to be higher than those seen in the Euro zone which are expected to be below 2%.

GDP and unemployment rate - Spain



Source: INE

CPI, private consumption and Euribor



Source: INE, La Caixa, Funcas

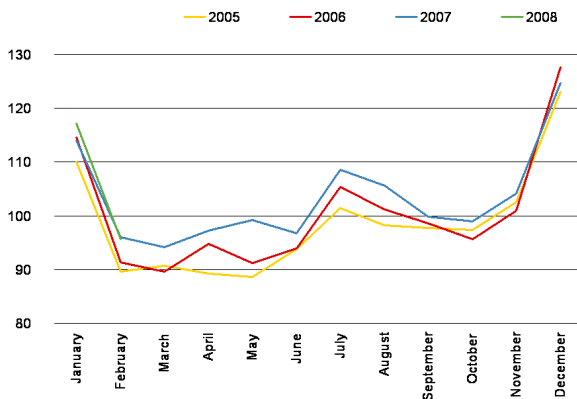
Footfall, demand and developments

Footfall

A slight decrease was seen at the end of 2007, but was compensated by the increase registered at the beginning of 2008

Consumer footfall in shopping centres is quite seasonal. Therefore, increased shopping during the Christmas season favoured a month-on-month increase of nearly 20% whereas the yearly variation showed a decrease of 2.3%. Despite this slight decline, the average level of consumer footfall during 2007 was the highest level registered since 2003. The data corresponding to the first weeks of 2008 balances the discrete setback registered in December since consumer footfall increased by 2.9% with respect to the figures registered during the same period last year. In February, the year-on-year growth of this index once again began to show signs of stability as the difference seen with respect to the same period in 2007 barely reached 0,4%.

Footfall index



Source: Footfall

Demand

Almost 100% occupation in prime locations

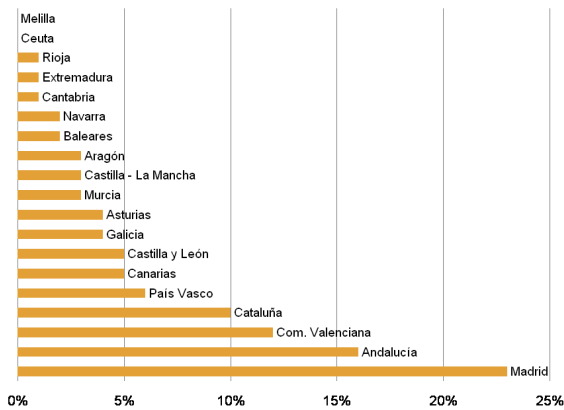
Demand for retail premises located in shopping centres continues to show signs of stability. One of the key aspects in this market, as well as in the Real Estate sector as a whole, is the location of the property. This has been confirmed by the excellent results seen in the marketing of those centres opening within one year with average occupation rates of between 80% and 85% and more than 95% in prime locations or in consolidated centres. On the other hand, the markets main operators continue to carry out aggressive expansion plans concerning this type of product. As far as retail warehouse parks are concerned, reaching a 100% occupation rate is not uncommon

New developments

GLA to set historic records in 2008

During 2007, nearly 700,000 sqm of gross lettable surface area entered the market and was distributed over 25 shopping centres. The year ended with a total of 12 million square metres accumulated, representing an increase of 6% with respect to the volume registered in 2006. Just over 27% of the new retail space was concentrated in the Community of Madrid, which continues to be community with the highest density of commercial space with 452 sqm per 1,000 inhabitants while the national average is 267 sqm. Catalonia is found at the opposite end of the list, occupying the third place in the ranking of those autonomous communities with the lowest commercial density. The new restrictions regarding the development of new commercial land imposed by the autonomous government has reduced the density rate to 159 sqm/1000 inhabitants. This places Catalonia behind only Extremadura and the Autonomous City of Melilla. On the other hand, it is worth mentioning the significant increase in commercial density seen in Murcia and the Canary Islands.

% current GLA in Spain per CCAA



Source: AECC

2008 will register a historic high as far as the development of new commercial space is concerned since more than one million square metres of gross lettable surface area is expected to enter the market, increasing the current total accumulated surface areas by nearly 9%. It must be made clear that both the surface areas of newly constructed shopping centres as well as those that had expansion projects pending have been included in this total volume. The rate of openings in 2009 will continue to be around one million square metres.

Andalusia, with 21% of the new openings scheduled for the next two years, and Madrid, with just over 19% of the inaugurations, continue to concentrate the largest percentage of new surface area volume.

Developments and rents

There are still not many developers who are enthusiastic about “exploring” other locations where the low commercial density of these areas makes them clear opportunities for future developments.

By product type, the small shopping centre category (those with a GLA equal to or less than 20,000 sqm) make up the largest percentage of the new developments (thirteen of the 57 developments planned for the next two years, which is 21% of the total planned developments, fall under this category). Those developments with a surface area of between 40,000 sqm and 79,999 sqm, the so-called “large shopping centres”, are responsible for the majority of the expansion projects. At the opposite end of the scale we find the outlet centres. La Noria, located in Guadalupe (Murcia) is the only “factory” development which is due to enter the market this year, opening its doors in mid-2008. In the analysis of all of the new commercial spaces, including both new shopping centres as well as the expansion projects, large centres make up one third of the total amount.

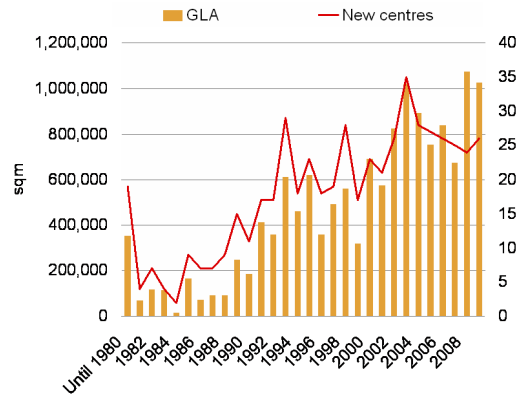
Main centre openings 2008-2009

Centre	Location	Area (sqm)	Type	Developer
Dolce Vita	A Coruña	62,000	L	Área Grupo Chamartín
Parque Almenara	Lorca	67,000	L	Eroski
Plaza Imperial (2nd phase)	Zaragoza	70,000	RP	Duprocom
Puerto Venecia (1st phase)	Zaragoza	83,100	RP	Retail Parks
Terrazas de Jinar (1st phase)	Telde	90,000	VL	Cointe, Eroski
Islazul	Madrid	90,000	VL	Grupo Lar, Ivanhoe
Ribera Nord	Comellá de Llobregat	54,500	L	Acciona
Aranjuez Plaza	Aranjuez	55,000	L	Superco
El Tiro	Murcia	70,500	L	Gran Casa
Aqua Mágica	Palma de Mallorca	81,100	LC	Riofisa
Mirador de Jinamar (2ª fase)	Telde	90,000	VL	Cointe, Eroski
Puerto Venecia (2ª fase)	Zaragoza	112,000	L	Retail Parks

Source: AECC

L: Large
 RP: Retail Park
 VL: Very Large
 LC: Leisure Centre

GLA of new centres opened (including centre extensions)

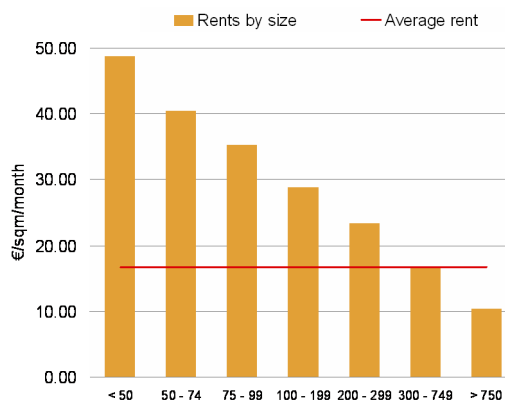


Source: AECC

Rents

The rental levels in shopping centres vary according to numerous circumstances such as location, the type of centre (if it is a retail or leisure orientated centre), the number of competitors in the immediate area and the purchasing power of the population located in the centre's catchment area, etc. According to the rent analysis carried out by Savills on a sample of commercial space in almost 100 centres located throughout Spain, we can say that, in general terms, the average rent for a standard shopping centre is between 16 and 17 €/sqm/month although the price for commercial premises measuring between 100-150 sqm is around 30 €/sqm/month. The rents in a shopping centre are closely related to the size of the premises, its location within the centre and its use.

Average rents per shop unit size



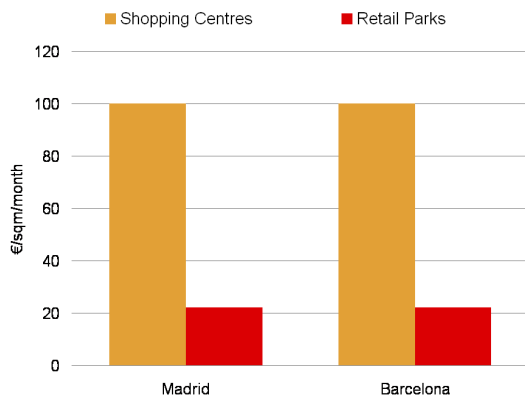
Source: Savills Research

The rent prices seen in the prime shopping centres located in the urban areas of the large cities (Madrid, Barcelona)

Rents and investment

reach 100 €/sqm/month for retail premises of 100 sqm. The shortage of potential competition in urban areas, on the one hand, and the abundant demand waiting to obtain space, on the other, have made rent increases dependent on tenant turnover. The leasing contracts for premises measuring around 100 sqm are usually valid for a period of five years which allows for active management. On the other hand, the anchor tenants generally have long-term contracts which limit any possible increases in the rents to the CPI. Hypothetically, a significant increase in rents for a prime centre would depend on the development of a centre with the same characteristics within the same urban centre. This would create a situation in which new maximum rents could be registered for all of the operators. We will see a moderate increase in rental rates outside the urban area.

Prime retail rents



Source: Savills Research

Retail investment



Source: Savills Research

As far as those commercial premises located in prime retail warehouse parks are concerned, the rent price for a premises with 2,500 sqm is approximately 22 €/sqm/month. The prices are expected to remain stable even though we could see a significant increase when new operators, such as clothing brands, for example, decide to occupy this type of product.

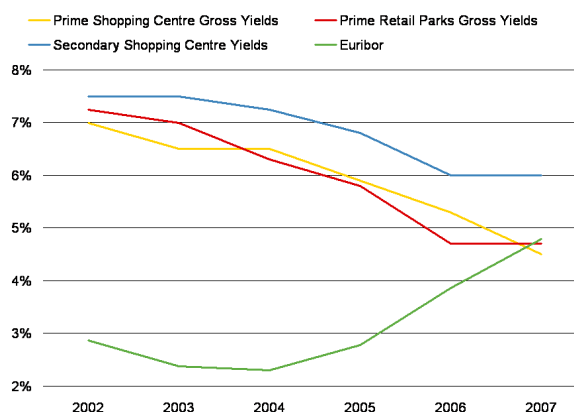
Investment

Strong market activity

The investment market ended 2007 registering a volume of slightly more than 1,600 million euros. It must be made clear that Banco Santander's high street bank branch portfolio has not been included in this figure which would have more than doubled the annual total and caused it to register a record high when compared with the previous years. 2007, therefore, occupies the third place as far as investment volume since the year 2000 is concerned, registering figures which ranking behind only those seen in 2006 and 2005. As far as the number of transactions signed is concerned, only around thirty transactions were registered. Some of the most noteworthy regarded two retail parks (Nueva Condomina in Murcia and Plaza Imperial in Zaragoza) which made up 45% of the total investment volume. This type of product is becoming increasingly more relevant in the market since, in general terms, the tenants tend to be consolidated operators, the leasing contracts are long-term and the management of such developments is not difficult.

Despite the financial turbulence which seriously affected the international economy after the summer of last year, investment activity in the retail sector remained quite strong. El Aljub in Elche was acquired by Hendersen; Travesía in Vigo obtained by Pradera; and the Vallehermoso portfolio made up of Los Fresnos which was purchased by Redevco and Lakua, increasing the asset portfolio of Sotohenar, stand out among the most representative transactions signed in the second half of the year.

Evolution of yields until the end of 2007



Source: Savills Research

Investment and yields

Main investment transactions

Centre	Location	Area (sqm)	Million €	Vendor	Purchaser
Plaza Imperial	Zaragoza	128,000	385.0	Duprocom	Bank of Ireland
Nueva Condomina	Murcia	145,000	350.0	Eroski	BritishLand
Metromar	Mairena del Aljarafe	25,000	100.0	Novaindes	UBS
El Aljub (50%)	Elche	31,000	60.0	Grupo Lar	Henderson
Planetocio	Villalva	22,000	53.0	Invers Oil	Wereldhave
UGC Manoteras	Madrid	13,300	53.0	Alius	AXA Reim
Ociopía	Orihuela	26,500	50.0	Inerzia	ING Real Estate
PC City	Alcorcón	2,300	12.0	PC City	Scottish Widows
Los Fresnos	Gijón	38,000	45.4	Vallehermoso	Redevco

Source: Savills Research

Foreign investors, more active buyers

As far as the sellers are concerned, the profile of the retail market's main players is a Spanish developer who is selling an already developed centre or one that is under construction: 88% of the sellers were Spanish companies and, if considered by type of activity, 66% were developers. And who is buying in this market? Only 14% were national companies; 86% of the remaining buyers were divided mainly among British and Irish investors, making up 34% and 24% of the total respectively. Dutch, German and French investors, who together made up a total of 28%, lagged somewhat behind. When the type of buyer is examined, we find that 57% were investment funds followed by private investors representing 30% of the total buyers. Lastly, we find the Real Estate companies and developers.

The first months of 2008

The first few months of 2008 have also shown signs of intense activity but the rules of the game and the situation of the players have changed. On the one hand, financing is not as accessible as it was a few months ago which has left numerous players out of the "game". On the other, economic difficulties have caused companies to put assets on the market in order to free their owner's accounts from debt. In a scenario with fewer investors and more products to choose from, demand is directed mainly towards those retail spaces located in prime areas and with good footfall and sales levels.

German investors have begun to look to the Spanish retail market once again. The star products will be the "easy" shopping centres. By "easy" we are referring to those consolidated centres that have been operational for a number of years and which have room for possible future growth. As far as location is concerned, those spaces located in easily recognisable areas will be those that draw this type of investor's attention since these investors are more likely to place their trust in large urban centres than in those locations which are more remote even though the latter can offer better results. Projects which are under construction will be left in the background.

Yields

An upwards correction

Various factors, such as the difficulty in acquiring credit, a liquidity shortage in the market, or the readjustment in the value of assets, are influencing the behaviour seen in yields. It must be made clear that the correction is taking place primarily in the centres situated in secondary locations, which were, in many cases, reaching values similar to those seen in prime areas. The adjustment in these areas could be between 25 and 50 basis points. The expected yield rates in 2008 for the main retail products are as follows: prime shopping centres will show rates of around 5% while the prime retail warehouse parks will exceed this rate slightly and reach up to 5.25%. Finally, the secondary centres will register rates of between 6% and 6.5%.

Forecasts

Forecasts

The forecasts for the Spanish economy indicate that activity will slowdown although it will still remain higher than the rate seen in the Euro zone

According to data compiled by Experian, GDP is expected to grow by less than 3% in 2008. The key factor is the reduction in private consumption along with the increased debt level in Spanish households and less accessible credit. Both parameters negatively affect the global indicators which will be alleviated by a decrease in the trade balance's negative contribution.

GDP is expected to decrease in 2009 reaching 2.7%. This is due to reduction in the employment growth rate which will limit the level of private consumption. Public spending will become more moderate after the strong growth of the last few years.

In the long-term, the Spanish economy will progress with an estimated annual growth rate of 2.6%. Despite the fact that this figure is significantly lower than those registered in previous years, Spain will still continue to lead the ranking of the fastest growing countries in the Euro zone.

Spain - economic forecasts

	2006	2007	2008	2009
GDP	3.9%	3.9%	2.9%	2.6%
Consumer Spending	3.8%	3.3%	2.8%	2.7%
Exports	5.1%	5.4%	5.7%	5.7%
Imports	8.3%	5.5%	5.5%	5.5%
FTE*	3.6%	2.2%	1.2%	0.9%

Source: Experian

(*) Full Time Equivalent Employment

Continued activity in the investment market

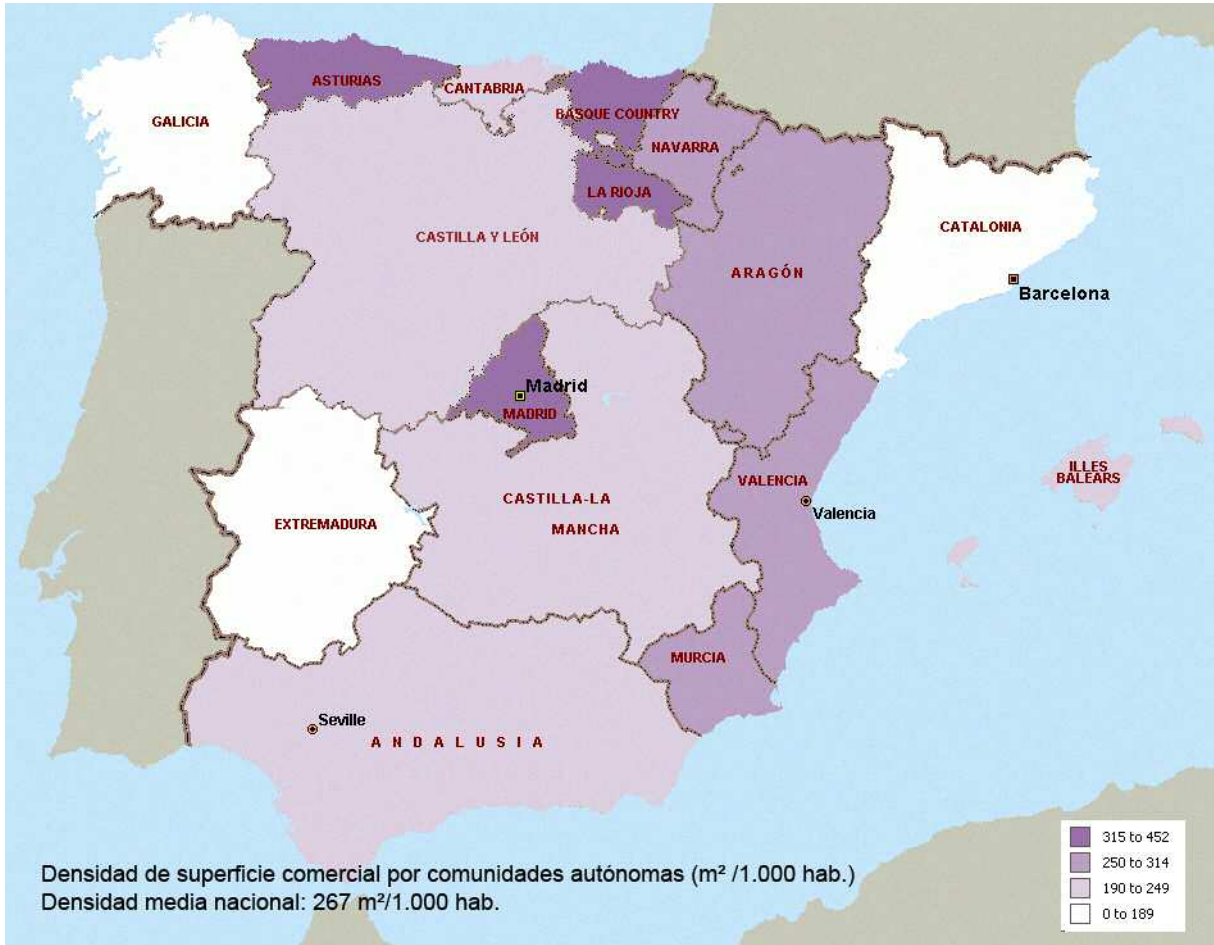
Investors will continue to act cautiously and prudently. This "wait and see" attitude suggests a lack of trust in the global economy's current situation and a concern about the repercussions that may be seen in the Real Estate market. They know their possibilities perfectly well but prefer to see how the situation progresses from the sidelines. Thus, numerous players will be left out of the purchasing scenario and only those with fewer liquidity problems and more experience in the

market, in other words, those companies which are experts in the retail sector capable of analysing and evaluating the current opportunities and their future potential, will remain in the game since credit restrictions imposed by the financial entities will continue. In this sense, the development sector will also be left to the "traditional" developers. The opportunists or the small-time property owners with plots of land which were to be used for the construction of shopping centres who threw themselves into the developing adventure have been left out since the almost immediate sale of the property is now not so clear.

We will see various retail portfolios on the market. These packages, especially those of companies who have business lines related with the residential sector, have already been present in recent years and are now responding to the crucial need to make money in order to pay off pending debts from other areas of the Real Estate sector.

Yields will continue on their upward path which will attract even more foreign investors. The economical situation will be followed very closely and its progress will, to a great extent, set the market pace. The annual volume is expected to be less than the previous year although we do anticipate that it will exceed 1,000 million euros.

Retail Market



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