SLOWDOWN IN PROGRESS, BUT AT DIFFERENT PACES

The High Street Retail market has not been able to escape the general economic slowdown and, more notably after the second semester of 2008, has begun to decelerate. The fall in consumption has been transformed into a drop in demand by High Street retailers, many of whom have opted to freeze their expansion plans. Currently, there are no expectations for an increase in activity until the second half of 2009.

Within this overall slowdown, the High Street Retail markets in Barcelona and Madrid are experiencing the fallout to a lesser extent than other cities such as Valencia or Zaragoza. At this point in time, operators are avoiding risk, thus choosing safe prime locations over secondary ones.

FROM BRICK TO RETAIL

What in 2007 began as a mortgage-related crisis spread through all economic sectors in a global pattern throughout 2008. Spanish GDP fell for the first time in 15 years during the third quarter of the year and private consumption, a major contributor to economic growth, decreased from 2.1% in the first quarter of the year to 0.1% in the third. One of the most influential factors in household consumption is the negative trend in the employment, which reduces the level of families’ disposable income. The current unemployment rate stands at 11.33%, which represents a yearly increase of 41%. Twelve months ago, the unemployment level stood at 8.03%.

In the midst of such an economic environment, prime rents in the High Street Retail markets have remained stable within the prime locations of Madrid and Barcelona, but have experienced strong downward pressure in secondary locations due to the increase in vacant space. At a national level, demand has started to show signs of tightening while retailers of personal goods in general, and fashion in particular, remain the most dominant players.

RETAIL SALES

![Retail Sales Graph]

In general terms, the level of activity in 2008 has been similar to that of the previous year. An overall view of 2008 shows a tendency towards stability as the main feature of 2009.

The closing prices of the last several transactions of the year are, comparatively speaking, 15% below expectations. Such rent adjustment will present ample opportunities for demand in the current market.

Dolors Jiménez Varas
High Streets Spain Director
CB Richard Ellis

Market Indicators

Activity
-20%
Demand
-15%
Availability
-10%
Prices
-5%

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DEMAND

In 2008, retailers of personal goods have been the most active in the Spanish High Street Retail markets. Amongst these, firms of fashion and accessories have stood out. However, under a general feeling of uncertainty, many of these retailers have opted to place their expansion plans on hold. Additionally, in cases where retailers have carried out active searches of locations, their decision and negotiation process has been lengthened.

By surface area, units ranging in size between 100 and 300 square meters have been most in demand. By location, the majority of transactions closed in Barcelona has taken place in Rambla de Catalunya and Paseo de Gracia, while Claudio Coello has been the most sought after street in Madrid.

From abroad, the perception of the Spanish High Street market is that of a sector with a high level of risk. International retailers are interested in this market, but have undertaken a “wait and see” approach in hope of a future increase in vacancy rates, lower rents at more competitive levels and greater flexibility in contract conditions.

SUPPLY

The Spanish High Street Retail has traditionally been typified by a very low vacancy rate. Nowadays, however, the current availability level has become a new feature in this sector. Even though it is true that supply continues to remain low in the prime locations of Madrid and Barcelona, it is important to mention that the vacancy rate has increased in cities such as Valencia or Zaragoza, as well as in secondary locations. It is also important to note that the supply “en trasapso” has increased from a historical level of 50% to the current point of 70%.

By typology, streets that host mainly luxury retailers are starting to face a higher rate of vacant units than those locations with a higher concentration of large scale retailers. Thus, in Madrid there are vacant retail units in Ortega y Gasset, while the availability rate in Preciados is null.
A similar situation is observed in Barcelona. Paseo de Gracia is the street that concentrates luxury retailers and currently has a vacancy rate of 10.84%. On the other hand, Portal d’Angel is mainly occupied by large scale retailers of personal goods and fashion, and currently has a vacancy rate of 2.78%.

By size, the supply within the High Street Retail market is focused on units with a surface area below 500 square meters. Such is the case in Madrid, where units whose size ranges between 100 and 300 square meters account for 47 per cent of all available units, and those with areas ranging between 300 and 500 square meters account for 20 per cent.

If the current economic slowdown either persists or worsens, thus resulting in a sustained level of low consumer spending, an increase in supply in the upcoming months must not be discarded.

**PRICES**

Throughout 2008, rents in prime locations maintained levels similar to those of previous years. However, this observation is not applicable to secondary locations, which have in fact experienced strong downward pressure resulting from a more severe decrease in demand and a greater increase in vacant space.

In Barcelona, Rambla de Catalunya and Pelai have closed transactions at rent levels similar or even slightly higher than those registered in 2007, while rents in Paseo de Gracia have fallen. The market trend is thus confirmed: the current negative economic situation has a more conspicuous impact on luxury locations than on mass market retail areas.

With negative economic and consumer spending perspectives for the first half of 2009 and retailers facing the need to maintain their operating margins, further downward pressure on rents is expected. In this situation, the flexibility shown by landlords will play a key role in the High Street Retail market.

The question remains of whether property-owners will offer more competitive conditions. If this is the case, the closing of transactions will be facilitated. If, on the other hand, they maintain similar expectations to those of previous years, a greater decrease of market activity will likely take place.
# CB Richard Ellis High Street Retail - Spain

## High Street Retail-Tendencies in High Streets

### Preciados - Madrid

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<th>Street Profile</th>
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### Ortega y Gasset - Madrid

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### Portal de l’Angel - Barcelona

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### Paseo de Gracia - Barcelona

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### Colón - Valencia

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### Poeta Querol - Valencia

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