Devastated by the economic downturn, Spain has bounced back remarkably quickly as a retail destination. With busy Christmas trading times approaching, **Mark Faithfull** considers just why Spain is popular once more

Retail reigns in Spain again

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Spain is an enigma. The country's bare statistics do little to explain its renewed retail appeal among both investors and expanding retailers. While retail sales had experienced three months of year-on-year increases until the summer, in July they jolted back 0.5%, and with Christmas coming soon retailers will hope for a seasonal boost. Unemployment, particularly among the young, remains at crippling levels and the country's banks and construction industries have had to pull themselves back from the brink.

Yet, even during the darkest days, there was a feeling that Spain was somehow different from the five-dom with which it was associated, including Ireland, Portugal, Italy and Greece. In part this was because the country is relatively underserved from a retail perspective, with few large malls, meaning those that do exist largely remain coveted when they become available. It also means there remain development opportunities around many parts of the country.

Deloitte director of global economics Ira Kalish describes the current strength of recovery as "surprising" but notes that "since 2009 labour costs have gone down, which has made the economy much more productive. More recently, Spanish Government bonds have come down in rate dramatically, reflecting investor confidence and making borrowing cheaper and austerity less severe."

Development opportunities

Those attributes are in part no doubt what prompted UK-based developer Intu and Spanish-based Eurofund to create a joint venture to develop a large mixed-use scheme in Malaga, on Spain's popular south coast, which will include retail, hotels and leisure and which will be leased by Cushman & Wakefield.

Planning permissions have largely been completed to the point that the infrastructure build could begin in early 2015, with a completion target of the end of 2017. The move follows the previous and successful joint venture between Eurofund, British Land and Orion Capital Managers to develop Puerto Venecia in Zaragoza – another huge-scale, lifestyle-oriented scheme – and is one of three proposed projects that the new partnership hopes to develop. Valencia and Vigo are the locations for the other two potential schemes.

Eurofund chief executive Ian Sandford ↘

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> **Martin Breeden, Intu**

says Intu Costa Del Sol will take the concept of Puerto Venecia but develop it still further. "This is about creating a location that is not just about retail or leisure, but where people can come and have a big day out," he says. "So at Malaga, we will have a mini-theme park, a surf lake, Snowflex artificial ski slopes, a gourmet market, flagship stores and lots of food and beverage, all in one location."

Intu regional director Martin Breeden says the company chose Spain for its first international investment – at Parque Principado in Oviedo – and for further development because it feels the country offers the best combination of value and robust consumer spend.

"We have a very positive view on the long-term prospects for Spain and we feel that developing key sites in the country is the right way forward," Breeden says. "Intu Costa del Sol will be a retail resort, serving the local population and the huge numbers of international visitors who come to southern Spain every year."

Indeed, Breeden says that when focusing on investment fundamentals it came down to countries such as Poland, Turkey and Spain for the company to take its first steps outside the UK. In fact the first move was opportunistic as Intu bought Parque Principado in Oviedo, but the next three sites have been parcelled together over the long term, notably in Malaga where Intu partner Peel Group has been assembling the land for more than 15 years.

Lifestyle and leisure naturally lend themselves to the good year-round climate in most parts of Spain, and European shopping centre giant Unibail-Rodamco has also chosen the country to debut its food offer Fresh! The project has been launched at Les Glories, a prime shopping centre in Barcelona that attracts 12 million visitors a year.

Food market El Mercat de Glories has opened as part of the mall's comprehensive refurbishment. Designed by artist Javier Mariscal together with Saguez & Partners, El Mercat de Glories is the innovation business created by Unibail-Rodamco, "a pioneering concept, which places a vibrant food house at the heart of our shopping centres, responding to a growing demand from our shoppers for fresh and authentic food products", says Ludovic Flandin, managing director at UR Lab.

"With Fresh! we are also pursuing our strategic aim to create a unique culinary experience for our customers in an exceptional atmosphere." Fresh! is intended as a showroom for local producers. Healthy and seasonal produce, to eat in or take away, will be prepared by local food specialists, "usually only found on high streets or in traditional markets", says Flandin. These will include butchers, bakers, cheese merchants, fishmongers, chocolatiers and greengrocers.

The launch in Barcelona included 21 local food retailers such as organic store Veritas, ham seller Enrique Tomas, butcher Meat Corner, fishmonger Sugoi and delicatessen Casa Palet across a food hall that spans more than 34,500 sq ft. It has 750 seats and an area dedicated to events that will host more than 50 a year.

Other areas of investment

While these projects may be grabbing the headlines at present, they are far from the only investments in the county. As a whole Spain attracted €985m (£783m) of retail investment in the first half of this year, according to Jones Lang LaSalle. It forecasts €2bn (£1.59bn) of investment by the end of 2014, the highest level of transactions since 2006. "The Spain country risk debate is off the table and it's seen as a core market again," says David Brown, Jones Lang LaSalle's head of retail capital markets in Spain. "In many ↘

Fresh! aims to create a unique culinary experience

Intu the Costa Del Sol

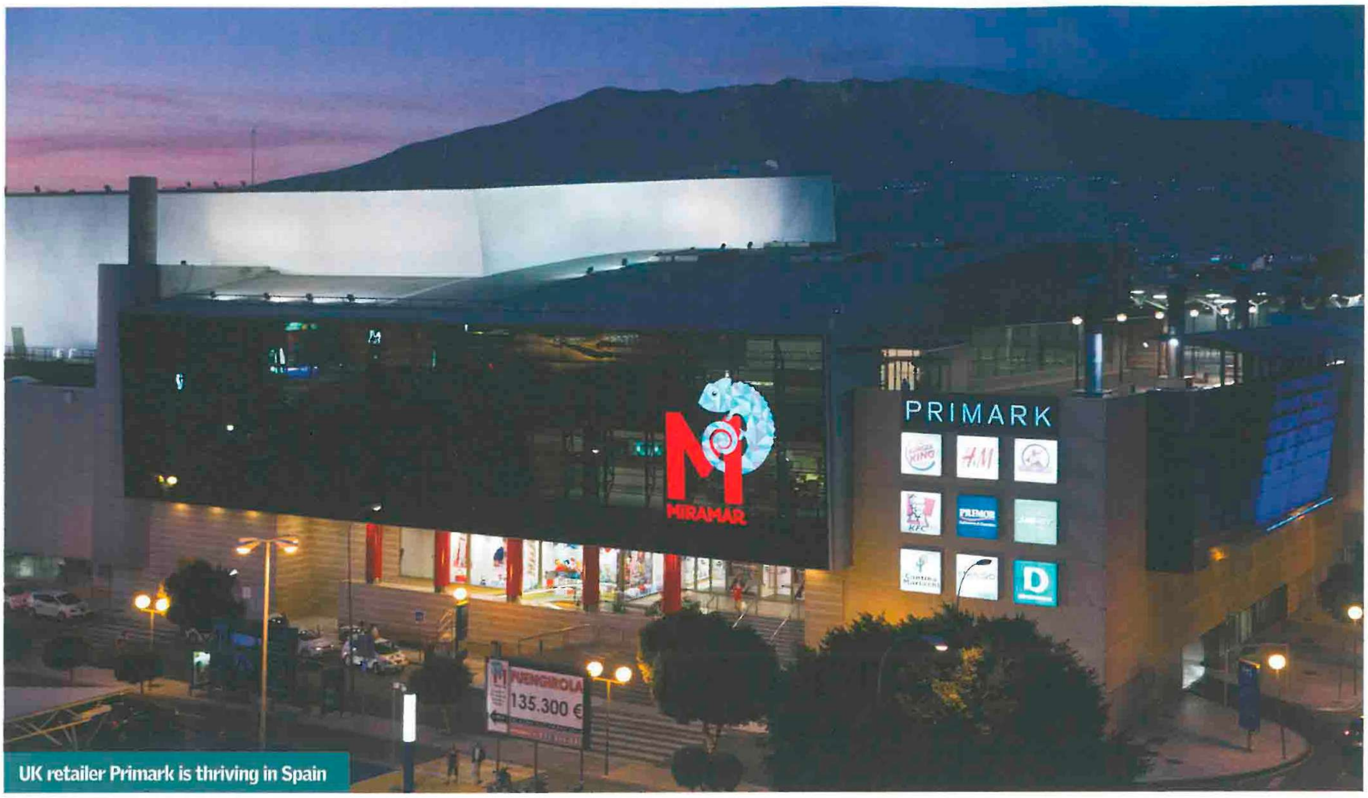
Intu and the Canada Pension Plan Investment Board (CPPIB) paid €162m (£129m) for the company's first Spanish acquisition, Parque Principado. Intu chief executive David Fischel says: "The opportunity to acquire Parque Principado, a top 10 centre in Spain on attractive and earnings accretive terms, firmly establishes our presence on the ground in a country where we see considerable growth opportunities in the regional shopping centre industry."

CPPIB senior vice-president and head of real estate investments Graeme Eadie called the development an "attractive entry point to the Spanish retail market".

For Intu Costa Del Sol, the accessibility of the location is key. The site is positioned on the junction between the Malaga ringway and the link between the old coastal highway and the newer inland east-to-west motorway. As such, the location is easily accessible and will compete with a run of smaller schemes and Malaga's city centre retail.

However, Intu Costa Del Sol partner Eurofund chief executive Ian Sandford stresses that the nature of the project will be to bring leisure to the fore, as he remains convinced that multi-faceted locations are the way forward for the Spanish market.

The partners hope that once Malaga is underway, they can turn their attentions to first Valencia and then Vigo, each project beginning one or two years after the other.



UK retailer Primark is thriving in Spain

prime and dominant shopping centres we've seen sales beginning to rise again." About €380m (£302m) came from Carrefour's acquisition in February of 63 Klépierre-owned and anchored shopping centres, as part of a European portfolio it bought for €2bn (£1.59bn). Then in July, Spanish real estate investment trust (REIT) Merlin Properties bought the Marineda City shopping centre in A Coruna, Galicia, for €260m (£207m).

The deal for Spain's second biggest shopping and leisure complex was the largest in the country since 2008. At the same time, REIT Lar España paid Igipt Spain One €80m (£63.7m) for the AnecBlau centre in the tourist heartland of Castelldefels near Barcelona.

Looking to new cities

Brown expects more deals by Spanish REITs (which are known as Socimi), as these vehicles divest the considerable amounts of capital that they have raised this year. As investors have plucked up the prime or dominant shopping centres, yields have dropped from the 7.2% at which Intu and the Canada Pension Plan Investment Board purchased Parque Principado last year. As a result, investors are likely to start looking at secondary shopping centres and away from Spain's top five cities, which means considering centres with higher vacancies and that are in need of repositioning to increase returns.

Savills Spain head of capital markets Luis Espadas says: "Prime shopping centres continue to be most in demand, particularly for foreign investors, who dominate investment into this asset type. Shopping centre deals accounted for 51% of the retail investment volume in 2013, but supply remains scarce. Consequently, specialist investors are also looking to consolidated centres in secondary cities as a good alternative."

Savills expects approximately 3.23 million sq ft of new space to come on the market over the next 24 months. Key developments scheduled include: a 750,000 sq ft retail park in Torrecardenas, Almería, by Bogaris that is due to open in 2015 and the 485,000 sq ft Cruce de Caminos retail complex in Sagunto, Valencia, developed by Grupo Lar.

Other deals include European Real Estate III CV – a fund managed by Orion Capital Managers – buying the remaining 50% it did not already own in the Puerto Venecia regional shopping centre and retail park in Zaragoza from British Land for €144.5m (£115m).

Puerto Venecia was the biggest European opening of 2012. It comprises an 890,000 sq ft retail park, which opened in 2008, and a 1.4 million sq ft fashion and leisure destination that opened in October 2012.

> **In many prime and dominant shopping centres we've seen sales beginning to rise again**
> **David Brown, Jones Lang LaSalle**

Orion Capital Managers founding partner and managing director Aref Lahham is also bullish about Spain. He says: "Puerto Venecia has traded incredibly well since it opened, with more than 16 million shoppers passing through its doors in its first year," he says. "We firmly believe that there is consolidation of the retail property market underway in Spain and that the major regional centres will continue to perform and improve as the country comes out of recession."

While UK retail presence remains relatively limited in Spain, the increase in foreign mall owners is likely to encourage greater numbers of non-Spanish and British retail operators. Poundland's European fascia Dealz opened its first overseas store in southern Spain, while Primark has thrived in the country and opened a Madrid flagship earlier this year. However, Dixons closed its business in the country as its performance in southern Europe went into sharp decline after the economic crash.

It is still too early to pronounce Spain's return to centre stage. The country's fragile recovery would certainly not be helped by another economic shock to the eurozone, yet a combination of improving fundamentals and positive investor sentiment over acquisitions and development potential mean Spain has re-emerged as an important retail market. In Intu Costa del Sol it also has one of the largest prospective schemes in Europe on the horizon. ■