

REPORT

# OFFICES AND RETAIL IN SPAIN

ASSETS IN DOUBT

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MAY 2023

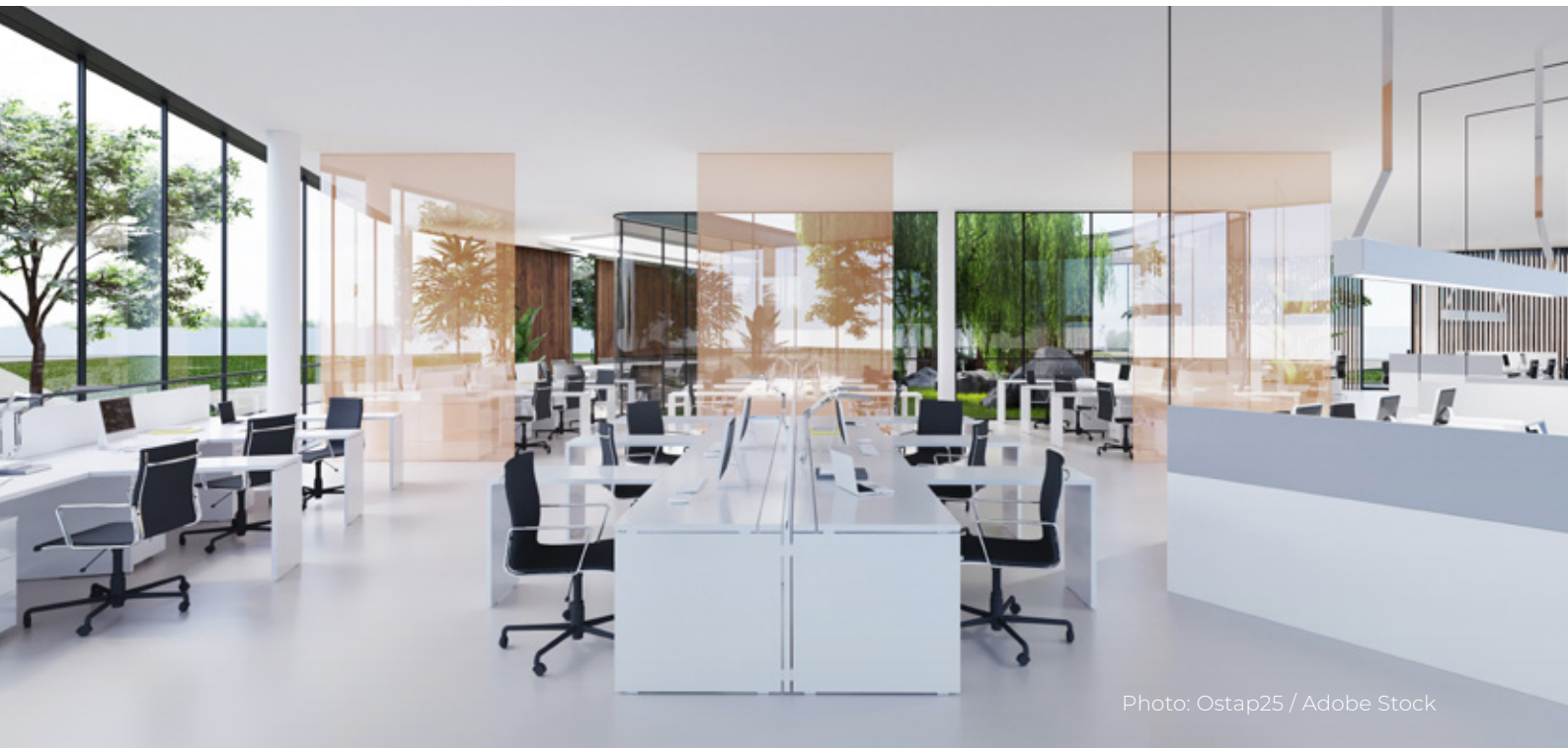


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GRI CLUB

## GRI CLUB

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GRI Club is changing the game for networking and providing key market insights with its event coverage that transforms the intimate discussions of C-level executives into digestible reports.

GRI Club events are a way to pick the brains of the leading figures in real estate. This report was created after España GRI 2023 in Madrid, which gathered 170+ of the top decision-makers in the business.

'The general sentiment we saw at **España GRI 2023** was that there is a 'wait and see' environment with many investors ready to deploy capital, but still awaiting new valuations or for signs of more economic stability.

Investors are not buying commercial real estate assets because they understand that prices do not reflect the rise of inflation and interest rates. Some reports indicate that prices could fall 40% until the end of 2024, with exceptions in Germany and Sweden, where prices have already fallen. This is not true in Spain, for now.'

**Gustavo Favaron**

*GRI Club CEO & Managing Partner*



For more insights into the Spanish and European markets, attend **Europe GRI 2023**, GRI's flagship event for real estate leaders.

## SHOPPING & RETAIL

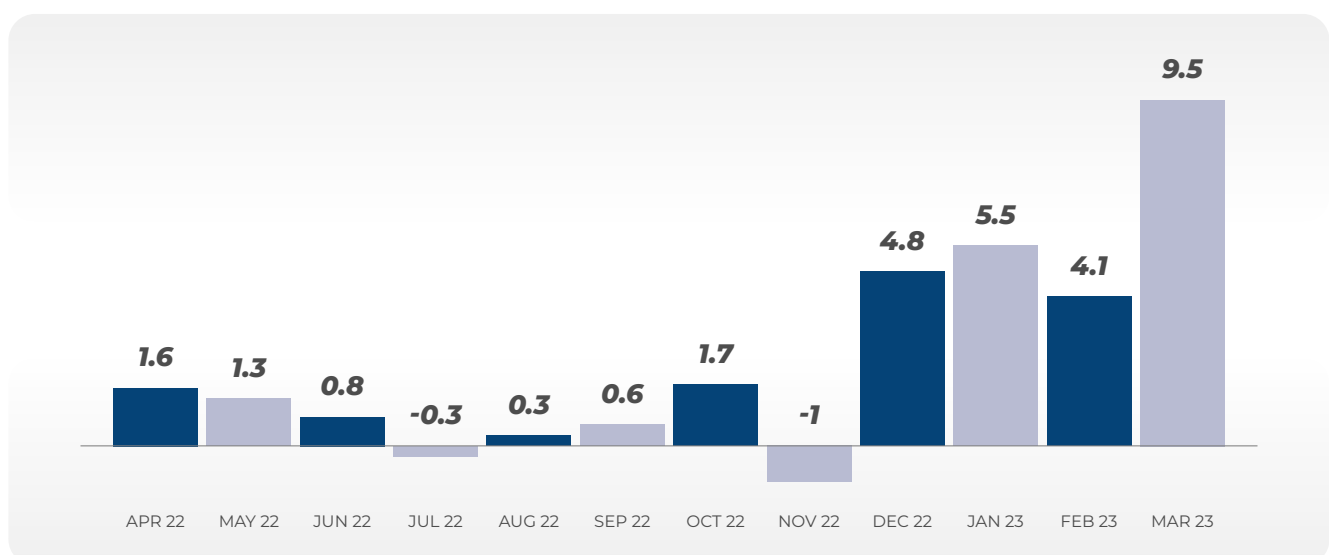
Hybrid retail rallying investors or still a long road to find confidence?

During 2022, investment in Retail real estate reached 4,450 million euros, according to JLL. It is clear from the figures that investor interest is greater than ever, as investment volume grew 310% compared to 2021, and grew even compared to 2019's €1,750 million. This is consistent with the level of consumption by individuals in Spain, which has remained stable despite inflation and other economic concerns.

In the Retail discussion at España GRI 2023, attendees started by noting that although there has been a shift in the retail paradigm from retail centres to online shopping, online business alone is not that profitable. The attendees noted that a very high percentage of online purchases are returned, while in-store sales have increased more than online sales in recent months. It was also noted that shopping malls exceed retailers in terms of net income and returns.

There is a need to differentiate between Retail and other real estate assets due to the recent shifts in dynamics, and Retail is possibly the most similar to Offices in this respect. Many are still convinced that the retail industry is in good shape, and has bounced back very well from the pandemic.

### SPAIN RETAIL SALES Y-O-Y, % CHANGE



Source: National Statistics Institute

In order to facilitate more investment into Retail, more effort is required to help key investors understand the current state of the market and the success that is possible to achieve in Spain. For investors, there is a need to reinvest continuously - not just in shopping centres themselves, but also in their surroundings.

At the current moment, the property values are not commensurate with the prices offered. It is a common theme in European real estate that valuations are lagging behind. For value-added assets, it is hard to exit, but the return is interesting. Investors with a low appetite for risk are not incentivised to buy at the current prices, preferring to follow the waves.

### **Other ways to incentivise investors:**

- » Reducing operational expenditure significantly in order to make investing more viable.
- » Listening to and reporting on new customers and new brands and providing different services.
- » Using cross-selling techniques.
- » Planning for Last Mile Logistics as it is critical for shopping centres.
- » Opening at all times to retain the loyalty of the clients.
- » Green variables are also increasingly important for retail assets and motivating these players.

The high yields being seen at present could be maintained for the next 2-3 years. However, returns will shrink unless rates go down, and the lack of land in prime locations was also an issue raised in this discussion. Diversification was shown to be the key to attracting shoppers to malls - healthcare centres and car parks are noted as having extra value.

There were also recommendations for creating portfolios in the Retail sectors of Latin American markets, which are currently evolving.

# OFFICES

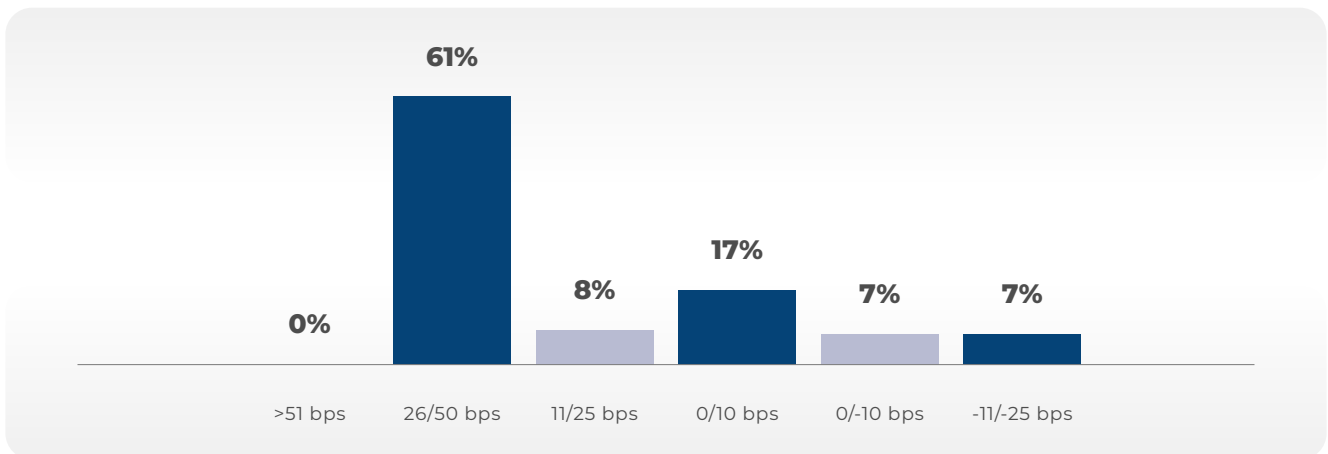
Still investor’s bedrock or will the market shift confidence to new assets? What does office mean to us now?

The Office sector is also well known to have been shaken over the past few years, becoming an operational asset with many functions in the present day.

Demand has shifted towards valuing quality and ESG features. The definition of good location changes over time and depends on whether it’s a bullish or bearish market.

## ANNUAL YIELD MOVEMENT EXPECTED AT YEAR-END FOR OFFICES IN EUROPE

Vertical axis - Yield Movement, % | Horizontal axis - bps



Source: Savills Research

From the owner’s perspective, a tenant’s area of work matters when it comes to choosing preferable occupants. More flexibility in the market means that there is a trade-off, for example, when choosing a tenant who offers a high rent but a short period or a tenant who provides a lower rent but will stay longer.



The pre-pandemic average occupancy was **70%**.



Friday occupancy rates are an average **17 percentage points lower** than the mid-week peak.



Average office occupancy rates are highest on **Tuesdays (63%), Wednesdays (62%) and Thursdays (62%)**.



European office occupancy rates have increased from **43% (June 2022) to 55% (February 2023)**

# THE FUTURE OF REMOTE WORK

The costs of operating from home are high, and office rents are lower in Madrid compared to London or Paris. Many companies think that it is more efficient for employees to work in the office. However, it is difficult to predict whether workers will continue to come back to the offices, or how many days per week they might be there.

Spanish culture has a strong emphasis on socialising in person, which results in remote work generally being less popular.

Having multiple office locations dispersed throughout a city can incentivise employees to go back to the office. However, when it's far from the city centre, investors are far more hesitant. Good communication is needed with these investors in order to incentivise.

	Madrid	Barcelona
<b>Investment Volume Millions €</b>	435	157
<b>Take up K sqm</b>	95	42
<b>Prime Rent €/sqm/m</b>	34.00	28.25
<b>Prime Yield %</b>	4.25	4.50

## CHANGES IN THE MODEL

From the perspective of landlords, the primary goal is to make Office assets more attractive for possible tenants. Offices are increasingly finding themselves in mixed-use spaces, as part of shopping centres and hospitality projects. The need for common spaces has increased significantly and is seen in the use of coworking facilities.

Tenants are also increasingly looking for green energy buildings, with high quality, ESG-compliant assets in non-prime locations potentially achieving higher prices than their less sustainable counterparts in prime areas. Tenants are increasingly requiring more flexibility and shorter leases.

Attendees of the Offices discussion noted that experience is becoming important in this sector and that refurbishments and retrofitting are an opportunity for creating tenant attractiveness, rental yields, and liquidity.

## GRI CLUB SPAIN

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Aside from España GRI, the members of GRI Club Spain meet at club meetings throughout the year in order to discuss new trends and maintain their real estate connections while making new deals.

This year, GRI Club Spain has aimed to create a strong network of players in the Spanish market as well as interested international players in order to facilitate the injection of new capital into the country.

Our club meetings have allowed GRI members to get insights into macroeconomic developments and market changes for the main asset classes while exploring up-and-coming assets such as Co-Living.

## SOME OTHER **CLUB MEETINGS** IN THE PAST YEAR



MEMBERS OF GRI CLUB SPAIN WILL  
ALSO ATTEND **EUROPE GRI 2023**

SEPTEMBER 12-13, PARIS

# EUROPE

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