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INTRODUCTION

The city of Valencia has a population of close to 800,000 inhabitants. If the whole of the metropolitan area is included, the total population rises to 1,550,885, Valencia being the third most populous urban area in Spain, behind Madrid and Barcelona.

Alongside its excellent climate, the strategic location enjoyed by Valencia is the perfect factor for the economic development of the city and its area of influence.

2017 closed with GDP growth of 3.2%, this being above the national average. Since 2015, the region has grown at over 3% thanks to improvements in its competitiveness, exports and the fact that it has shrugged off its dependence on the property sector. The current goal of the city is to internationalise the business of its small and medium-sized enterprises and improve access to new technologies.

Current growth is translating into an advance in job creation, thanks to the upturn in consumer spending, investment and the positive outlook. Within this context, Valencia has managed to recover the levels of employment seen prior to the financial crisis and, for the coming two years, a number of analysts point towards the creation of around 120,000 new posts throughout the Valencia region. This will enable the unemployment rate to fall below 15%.

All of these indicators are generating interest on the part of major firms and franchises in positioning themselves on the main high street thoroughfares in Valencia.

MAP OF VALENCIA – HIGH STREET THOROUGHFARES

High street retail activity in the city is mainly focused around the following thoroughfares:

- Calle Colón
- Calle Jorge Juan
- Calle Juan de Austria
- Paseo Ruzafa
- Calle Ruzafa

Traditionally, the street Calle Colón has been the most sought-after and exclusive. Nevertheless, in recent years Calle Juan de Austria and the boulevard of Paseo Ruzafa have grown in prominence and rents along the better stretches have increased significantly to the point of matching the leading stretch of Calle Colón. Particularly noteworthy is the transformation of the street Calle Ruzafa since becoming aware of the opening of Primark. Operators with traditional activities here have made way for much more commercially oriented restaurant and clothing operators.
HIGH STREET
THOROUGHFARES
The street Calle Colón is the main retail artery in Valencia due to its length, pedestrianisation and quality of operators, where the majority of fashion and accessory chains are located (Inditex, Mango, H&M). The most popular low cost fashion retailers and flagship stores are also located here.

Retail activity recorded over the last 18 months has been very strong, a number of deals being performed. Notable among these are the arrival of the following brands: Vans, Etam, Kiko, Bimba y Lola, Aeropostale, Tezenis, Prima Dona, Pandora y Massimo Dutti, in addition to the renegotiation of Zara at no.11.
The thoroughfare of Jorge Juan is notable for having stores with reduced floor area which attract a more exclusive clientele. Moreover, practically all of the operators are dedicated to fashion and accessories. Starting from Colón and ending at the Calle Gran Vía Marqués del Turia, rents fall the further we distance ourselves from Colón’s second stretch alongside the Gran Vía.

The upturn on this thoroughfare has mainly occurred during 2018, where the openings of “Teria Yabar”, “Subdued” and “Visuals” stood out.
HIGH STREET THOROUGHFARES

CALLE JUAN DE AUSTRIA

Consists of a pedestrianised thoroughfare located between the streets Calle Pintor Sorolla and Calle Colón, where stores aimed at a wider and relatively young clientele are located. There is currently a significant presence of premises assigned to accessories.

The trend towards firms opening flagship stores has led to an increase in the available supply, which the market has absorbed at some speed.

As in the case of Calle Jorge Juan, an increase in demand has been recorded in 2018, the arrival of Zara and Primor confirming the interest of major operators in establishing themselves on this street.
Thoroughfare between Colón and Gran Vía. This street has been transformed, with traditional clothing stores giving way to restaurant and fashion & accessories operators. This coincides with the arrival of Primark, which opened its first store in the city on this street.

The rents corresponding to deals for the most strategically located premises on Calle Ruzafa have recorded increases over the last year in comparison with deals from previous years.

The openings of Taco Bell, Vips and Bankia in recent months are particularly noteworthy.
The boulevard of Paseo Ruzafa is a pedestrianised thoroughfare between the City Hall and Calle Colón. It is notable for having a high degree of occupancy by restaurants and a large tourist clientele.

It represents the high street having the highest concentration of restaurant operators.

The openings of “Inspiral”, Décimas, Starbucks, KFC and Vodafone in recent months are worth mentioning, all of these on the Paseo Ruzafa.

TOTAL NUMBER OF RETAIL UNITS

LEGEND
- Fashion
- Restaurants
- Beauty Shop
- Services
- Household
- Others
- Vacant
- Under construction

PASEO DE RUZAFA
ANALYSIS
As may be noted from the above figure, the available offerings on the most retail oriented thoroughfares are meagre, whilst practically non-existent on the streets Jorge Juan and D. Juan de Austria if we focus on their prime stretches.

Calle Colón currently has the greatest degree of vacancy, especially in the final section of the street which is less attractive from a retail point of view.

With regard to the street Calle Ruzafa, the majority of the available premises are on the stretch furthest away from Colón, or in buildings to be refurbished, properties owned by banks or premises currently occupied and expected to become vacant.
We now analyse the sectors of activity of the premises occupied on each thoroughfare.

It is noted that “Fashion & Accessories” is the predominant sector on all thoroughfares, being particularly important on Jorge Juan, where 76% undertake this activity. Within this sector it is possible to differentiate according to the target clientèle. Firms with a medium-low average purchase value prefer Calle Colón and D. Juan de Austria, whereas Jorge Juan attracts demand from more exclusive fashion and jewellery firms.

The presence of restaurant premises on Calle Ruzafa and the boulevard of Paseo Ruzafa is also notable. These have decided to position themselves in the area in the wake of the arrival of Primark.

In terms of floor area tranches, premises with floorspaces of between 100m² and 300m² remain the most sought-after. Nevertheless, an increase in the number of premises exceeding 500m² over the last few months is noteworthy.
RENT ANALYSIS

High Street Rents

The recovery of consumer spending is driving Valencia’s retail market, with increases in prices and new openings on the part of major brands and franchises.

Rents have increased by between 5% and 10% on the most retail oriented thoroughfares of the city, reaching levels of €150/m²/month on the best stretches of the city’s main retail arteries.

The figure below details the rent levels on the most representative high streets in Valencia. Due to the increase in the volume of deals recorded and the current levels of availability on the most retail oriented thoroughfares, a slight increase in rents has been noted. The maximum rent in the city during 2017 was around €150/m²/month on the street Calle Don Juan de Austria, for premises with an average floorspace of 200 m².

The said increase has been more significant on the more retail oriented stretches of Colón and Jorge Juan, on the first section of Calle Ruzafa (closest to Calle Colón) and on the Paseo de Ruzafa at the corner with the Plaza del Ayuntamiento square.

### MAXIMUM, AVERAGE AND MINIMUM RENTS

<table>
<thead>
<tr>
<th>LOCATION</th>
<th>AVERAGE RENTS</th>
<th>MAX €/M²/MONTH</th>
<th>MIN €/M²/MONTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colón (nº1-66)</td>
<td>104</td>
<td>140</td>
<td>73</td>
</tr>
<tr>
<td>Colón (nº67-Final)</td>
<td>25</td>
<td>70</td>
<td>25</td>
</tr>
<tr>
<td>Don Juan de Austria</td>
<td>126</td>
<td>150</td>
<td>75</td>
</tr>
<tr>
<td>Jorge Juan (Cruce Cirilo Amorós)</td>
<td>78</td>
<td>100</td>
<td>70</td>
</tr>
<tr>
<td>Paseo Ruzafa</td>
<td>75</td>
<td>140</td>
<td>70</td>
</tr>
<tr>
<td>Calle Ruzafa</td>
<td>40</td>
<td>80</td>
<td>30</td>
</tr>
</tbody>
</table>

*N.B.: These values are for premises with an average floor area of 0 to 200 m² on the ground floor.
THE FLAGSHIP STORE EFFECT
THE FLAGSHIP STORE EFFECT

PRIMARK
ON CALLE RUZafa

Ever since Primark decided to open its first store in Valencia on the street Calle Ruzafa, the expectations for changes in the area have been very high. The street has been transformed in terms of both operators and investment and footfall will undoubtedly rise exponentially on the stretch between Primark and Colón, including in terms of tourism.

A number of years ago, the majority of the retail offering on the street consisted of traditional clothing and jewellery shops, as well as local firms. Since 2014-2015, the most foresighted operators have been positioning themselves on the street in anticipation of this opening which, alongside that of Pull&Bear on the corner with Colón, has changed the current Key Plan.

The expectations for premises located on the first stretch of Ruzafa (between Colón and Cirilo Amorós) are positive if we take into account the Primark effect in other cities, such as Madrid, where one year following the opening on the Gran Vía the rents of premises nearby had increased by some 4.55% according to sources from the sector. In addition, availability is currently non-existent as a consequence of the arrival of operators from both the fashion and restaurants sectors.

ZARA
ON THE BOULEVARD AUSTRIA

The new move by the fashion giant Inditex consists of a lease on the Boulevard Austria, in what was up till now a multi-tenant arcade. It has chosen this location to house its new flagship in Valencia, where it did not possess a store to match those it has in another cities. The street Calle D. Juan de Austria is comparable to Porta de l´Angel in Barcelona or Preciados in Madrid.

This deal joins other changes made in recent years by Inditex, clearly committed to its strategy of opening megastores for each of its brands, such as:

- Pull&Bear at no.2 Colón
- Bershka at no.32 Colón
- Massimo Dutti at no.66 Colón
- Uterqüe on the square of Plaza de los Pinazo
- Stradivarius at no.26 Colón

As commented in the analysis, this new policy of ‘star stores’ increases the supply of vacant premises with medium-sized floor areas and reduces the availability of extensive floorspaces. Moreover, it will re-energise the area of Don Juan de Austria, despite the fact that rent increases are not anticipated.
INVESTMENT MARKET
Robustness of market fundamentals

RETAIL INVESTMENT IN SPAIN

In investment terms, 2017 was the year of retail in Spain. It has positioned itself as the driver of the real estate segment, with a market share of 32% of the total volume recorded in 2017. Interest on the part of investors in this segment has been very strong, amounting to 3.5 billion Euro in 2017. Shopping centres were the preferred option of investors, followed by retail premises and retail parks.

During the first quarter of the year, the distribution of investment was along the same lines as 2017: retail assets were the most sought-after and two out of the three most significant deals demonstrated this: the sale of 12 Inditex premises for 370 million Euro and the Parque Corredor retail park for 200 million.

VALENCIA MARKET – INVESTOR TYPE AND VOLUME

The buyers of high street assets in Valencia are normally family offices or local private investors aimed at property management, leaning towards maintaining the asset in portfolio long term and who study transactions valued at between €2m and €6m. Is also possible, however, to find family groups with the capacity to enter into deals valued at up to €20m.

It is important to point out deals made by Spanish family offices and some specialised private equity funds with greater investment capacity. These have been seen in transactions such as: No.2 Colón – Pull & Bear, no.25 Colón – Apple and no.1 Paseo de Ruzafa – Vodafone, KFC, Starbucks.

There is also an added value buyer profile which acquires premises that are vacant or with imminent lease expiries, in order to manage new contracts and rotate the property to other, more property management focused investors.

Few high street retail deals are openly put onto the market, due both to the property management tendencies of the owners and the manner in which they are normally transacted. This is by means of off-market deals which enable vendors to better manage time frames and maximise bids.

There is a great deal of interest in the Valencia market on the part of institutional investors, these however suffer from the handicap of only usually studying transactions from €8m to €10m, which often prove rather scarce. Local investors have commonly been more competitive in that institutional investors undervalue any deal which carries any type of commercial risk (short-term break options or vacant premises).

YIELDS AND VALUE ATTRIBUTABLE TO LAND

The average yield for the high street market in Valencia is 4.08%, with minimums of 3.5% and maximums of 5.2%. This variation depends on the location, rent, tenant and contract term (“break option”). The lowest yield recorded to date is that of a very exclusive location (junction of C/ Colón and C/ Ruzafa) at 3.52%. This consists of a premises which forms a corner with the “Pull & Bear” brand and has a new contract.

In terms of values attributable to land (€/m²), the average for the areas analysed is between €22,000/m² and €24,000/m². Nevertheless, in the most exclusive zones of the thoroughfares analysed, capital values could increase significantly.
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