Retail Market - Portugal

April 2011

Quick Stats

	2010 (e)	2011(f)
GPD	1.4%	-1.4%
Inflation Rate	1.4%	3.6%
Private Consumption	2.0%	-1.9%

	2010 vs. 09	2011(f) vs. 10
Prime Rent	↔	↔
Prime Yield	↔	↔
New Supply	↓	↑

Source: CB Richard Ellis/ Bank of Portugal
(e) Estimate
(f) Forecast

Hot Topics

- A new law has come into force implementing standard opening hours between 6h a.m. and 12h p.m. for all retail units, independently of the dimension. Therefore, major retailers are able to open in the afternoons of Sundays and public holidays.
- In Portugal a mere 76,000 sq m of retail developments were inaugurated, corresponding to a drop of around 80% when compared to 2009.
- Despite the crises, new insignias continue to come on to the Portuguese market, with special incidence on high street retail.
- Prime rents remained stable throughout 2010, in all formats. In comparison to 2009, only Porto high street retail showed a decrease of around 12.5%.
- The success of retail schemes relies increasingly on the innovation and reinvention of the concepts, as well as the refurbishment of existing units.

SUMMARY

2010 was the year during which less area in retail developments was inaugurated since the beginning of the XXI century. New supply stood in the region of 76,600 sq m with the opening of only 3 new developments and 2 expansions. However, in 2011 an increase in supply of new retail units is foreseen, together with the opening of more than double the area when compared to last year. Nevertheless, this area is below the average annual volume verified in the last 10 years.

The economic-financial crises which is currently affecting Portugal has had a direct impact on the local retail market, consequently leading to the retraction in consumption and a break in consumer confidence levels. These factors have forced many retailers to analyse the risk associated to their business with more criteria, resulting in lengthily decision taking periods.

This scenario, aggravated by the high supply of retail schemes in Portugal and the ever increasing restrictions in obtaining financing from banks, have forced many players in this sector to put previously foreseen development plans on hold, or even to cancel these.

Despite the fact that prime rents have remained stable, average rents have suffered major pressure. Operators have become increasingly demanding in contractual condition benefits, in order to open in "secondary" retail schemes, negotiating variable rents instead of fixed rents, as well as not paying key money.

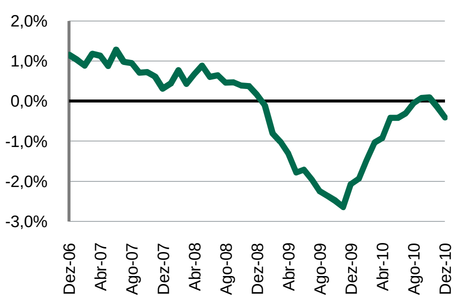
The retail property investment market was reasonably dynamic during 2010, with around 437 million Euros, representing 62% of the total invested in Portugal. However, approximately 300 million Euros refer to transactions completed outside the market. Nonetheless, prime yields remained stable in all retail formats.

ECONOMIC AND POLITICAL CONTEXT

Portugal is facing its major economic-financial crises since the 25th April 1974 political revolution. The numerous Stability and Growth Pacts (SGP) have not been sufficient to control deficit budget and the EU is becoming progressively intolerant with this situation. The failure to approve the last austerity measures presented, the SGP IV, resulted in the resignation of the Prime Minister José Sócrates. As a result of this instability, sovereign debt rates have increased at galloping speed during the last year, and Portugal has had to request financial aid from the International Monetary Fund.

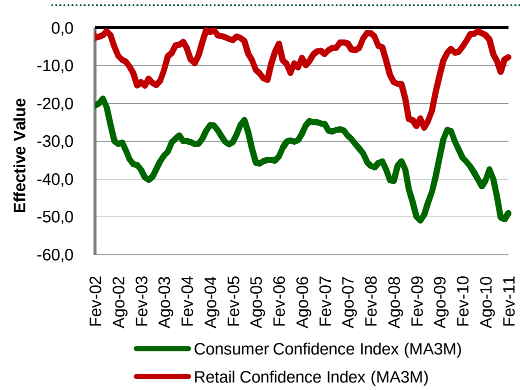
The Bank of Portugal recently launched the Spring Economic Bulletin, where it estimated that in 2010, the local GDP registered an increase of 1.4%, despite the difficulties which the country is now facing. This document foresees a contraction of circa 1.4% for 2011, and a stagnation for 2012 (0.2%), a scenario that is nevertheless considerably conditioned by the level of budget consolidation.

Rate Trade Turnover Annual Growth Evolution



Source: CB Richard Ellis/ INE

Consumer Confidence Index and Retail Confidence Index Evolution



LEGAL CONTEXT

In October 2010, DL 111/2010 came into force, replacing DL 48/95 and revoking Ministerial Order 153/96, consequently changing the opening hours of major retail areas (with a sales area in excess of 2,000 sq m), which were excluded from the general regime.

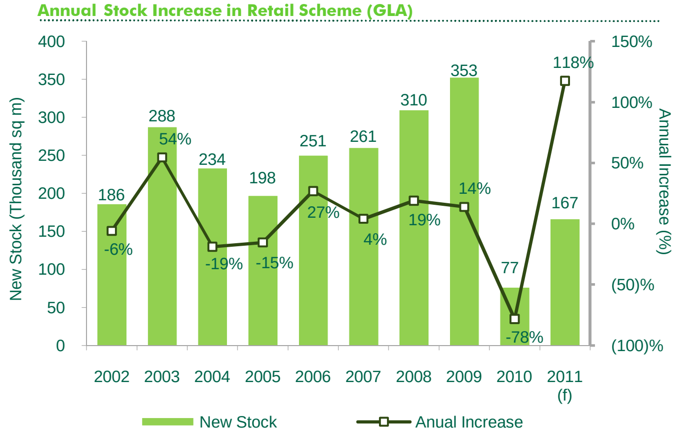
Ministerial Order 153/96 established a special regime for large surface retail areas, not allowing these to open on Sundays and Public Holidays, after 1h p.m.. With the revocation of this diploma, standard opening hours are applicable to all retail units, independently of the respective sales area.

DL 111/2010 thus foresees generic opening hours between 6h a.m. and 12h p.m. on all days of the week, respecting, however, the special regimes in force and the limitation or extension of opening hours foreseen in the inherent municipal regulations.

SUPPLY

Current total stock of retail developments in Portugal stands at 3.5 million sq m. This area includes shopping centres, Retail Parks and other formats, such as Outlets, Leisure Centres and Hypermarkets with retail gallery. Existing stock comprises around 168 retail schemes and corresponds to 30 sq m per each 1,000 inhabitants.

Annual Stock Increase in Retail Scheme (GLA)



Source: CB Richard Ellis

In 2010 the market reached an historic low level of new supply since the beginning of the XXI century. A mere 76,600 sq m of GLA were inaugurated, corresponding to three new schemes and the expansion of two existing units. This construction volume represents a drop of around 80% when compared to 2009.

The international economic crises, followed by the current sovereign debt crises, have had a significant impact on the Portuguese retail market, invalidating the development of several projects. These factors, together with the maturity of the market, have resulted in an continuously increasing number of projects being put on standby or even cancelled, the number of new projects announced by developers is almost non-existent.

Notwithstanding, expectations for 2011 point towards an increase in the area inaugurated, with an estimated opening of 167,000 sq m of gross lettable area, representing more than double the area in 2010, but still below average values of the past 10 years.

SHOPPING CENTRES

The gross lettable area opened in shopping centres last year corresponds to a mere 32,000 sq m, which is equivalent to 11% of the supply concluded in 2009.

This volume corresponds to the conclusion of a new scheme and the expansion of a retail gallery in an existing hypermarket:

- Liberdade Street Fashion is situated in the centre of Braga and developed by the Regojo Group. This scheme comprises 12,600 sq m of GLA, and is a mixed concept of shopping centre and hifgh street retail.
- LeiriaShopping, developed by Sonae Sierra, resulted from the expansion of the Continente hypermarket retail gallery, totalling 43,200 sq m GLA.

Portuguese shopping centres currently represent a high quality market and one of the most well developed in European terms. This factor, together with the high number of schemes available on a national level, as well as the consecutive drops in consumption, have demanded constant adaptations by developers to the demands of the market. The revitalisation and expansion of existing but less competitive shopping centres, are the current trends and are likely to continue in the future.

Examples in 2010 include the expansion of LeiriaShopping and the rebranding of the renamed AlbufeiraShopping, both of which resulted from the refurbishment of outdated hypermarket galleries. The change in concept and the total rebranding of Odivelas Parque is expected for the near future.

The shopping centres in the pipeline to open in 2011 total 147,500 sq m of GLA, corresponding to 3 medium and large dimension schemes, situated to the North, in Greater Lisbon and in the Algarve.

Aqua Portimão and Fórum Sintra both opened to the public at the beginning of April this year, the latter resulting from the expansion of the Feira Nova Gallery. The developers are Bouygues and Multi Development, respectively.

Dolce Vita Braga, of developers Chamartin, bet on the aggregation of a shopping centre and a retail park within the same complex, and opening is foreseen for the third quarter of 2011.

Shopping Centres Openings in 2011

Name	Location	Developer	GLA (Sq m)[1]
Aqua Portimão	Portimão, Algarve	Bouygues	35,500
Dolce Vita Braga	Braga, North	Chamartin Imobilíaria	71,000
Fórum Sintra (Feira Nova Gallery expansion)	Sintra, Great Lisbon	Multi Development	41,200
TOTAL			147,700

(1) In Shopping Centres which resulted of an expantion, the total GLA included only the expansion area.

Source: CB Richard Ellis

RETAIL PARKS

For the third consecutive year the retail park concept has registered a drop, although not accentuated, in terms of new openings. In 2010, two developments of this format were concluded, and Sintra Retail Park was expanded, totalling 44,600 sq m of inaugurated area.

The Barreiro Retail Planet is one of the complexes inaugurated, developed by Miligan and Eiffage, which comprises a retail park and a shopping centre within the same scheme. The IN Ermesinde Retail Park, developed by Banif/Grande Solar, also opened to the public in 2010 and contributed to an increase of 7,000 sq m of GLA in the total stock.

The opening of 2 new retail parks is also expected for 2011, namely Évora Forum Retail Park, of developers Imorendimento and Espaço Oriente, in Moscavide, a project of Obriverca. These 2 schemes total 19,300 sq m of GLA. It should be noted that the Évora Forum Retail Park is the first retail complex in the Alentejo Region.

This pipeline gives continuity to the successive reduction in the development of retail schemes with this format. This results not only from the unfavourable economic scenario, but essentially from the reduced number of operators in Portugal that currently choose the Retail Park format and the strong competition from the supply of insignias belonging to the same group (for example the Continente Modelo Galleries) that aggregate units similar in size and sector of activity.

***Retail Parks* Openings in 2011**

Name	Location	Developer	GLA (Sq m)
Espaço Oriente	Moscavide	Obriverca	13,500
Évora Fórum Retail Park	Évora	Imorendimento	5,800
TOTAL			19,300

Source: CB Richard Ellis

HIGH STREET RETAIL

The prime high street retail locations in Lisbon are Avenida da Liberdade/ Rua Castilho and the Chiado and Baixa (downtown) areas. In Porto the prime retail luxury area continues to be the Aviz zone, while Rua de Santa Catarina is majorly targeted at mass market retail.

High street retail in prime zones currently still registers high levels of demand, namely from the international luxury and medium-high insignias. Several operators in these sectors show interest in opening a store at Avenida de Liberdade or Chiado. However, supply in these locations continues to be reduced.

In Chiado, supply has expanded to streets adjacent to the principal axis, (Rua Garrett e Rua do Carmo), i.e. to Rua Nova do Almada and Rua Ivens.

We would also like to point out that the refurbishment of various buildings in these areas have contributed positively towards the supply of quality space.

OUTLETS

Following the strong dynamics of the outlet concept in Portugal at the beginning of the decade, no new openings of this type have occurred since 2004. In 2009, Parque Nassica was expanded and renamed Vila do Conde The Style Outlet.

There are presently 5 such schemes, totalling 156,000 sq m.

Neinver (developer of Parque Nassica) has announced the intention of building an outlet in the periphery of Faro, which despite not yet having a commercial license is expected to open at the end of 2012. There is a another project, that has been approved by Directorate General for Economic Activities (DGAE) since the end of 2008, for an outlet at Alcantarilha, also in the Algarve Region, but there is no confirmation to date whether the project will advance.

Prada, Avenida da Liberdade, Lisboa

Source: CB Richard Ellis

DEMAND

The economic context that has prevailed since 2008 has forced a number of retailers to reconsider their expansion plans. Effectively, the drop in private consumption, together with the excess retail supply in some of the less consolidated areas, has led many retailers to analyse business risks in greater detail, leading to lengthy decision taking processes. Nevertheless, the national retail sectors have registered good levels of demand, specially for prime units and high street retail in privileged areas of Lisbon.

Several insignias entered the Portuguese market in 2010, although this number was below that of 2009, during which Dolce Vita Tejo was inaugurated, contributing significantly towards this situation.

The entry of new insignias in Portugal was more evident in high street retail, due to the fact that, and as referred above, there were few shopping centre openings last year. The insignias Muji, Custo Barcelona and Filthy Rich opened units in Chiado, their first stores in Portugal. Prada, Escada Sport and the Portuguese insignia Fly London opened first stores on the Avenida da Liberdade/ Rua Castilho axes. In shopping centres, we point out Sinéquanone, at Amoreiras Shopping Center, and Lush at Oeiras Parque. Furthermore, at the beginning of 2011, the hardware and decoration store, Bricor, owned by the El Corte Inglês Group was inaugurated at the Nassica Complex at Vila do Conde.

Sonae Distribuição launched yet another insignia during 2010, with the opening of the Continente ICE (frozen products), in Campo de Ourique, in Lisboa and in the Constituição area, in Porto.

RENTAL VALUES

2010 was characterised by the stability in prime rents in all retail formats.

In the shopping centre segment in the Lisbon area, this indicator stabilised at 85 €/sq m/month, following an increase of 5 €/sq m/month in the first quarter of the year. This rise resulted mainly from an increase in the demand by operators for "1st line" shopping centres, which in an unstable economic context and continued reduction in consumption, give preference to schemes where the risk is reduced. In shopping centres in Porto, the prime rent is significantly lower, standing at 60 €/sq m/month.

Prime rent in the retail park concept remained at 10.5 €/sq m/month, value already registered at the end of 2009. The high street retail indicator stood at 80 €/sq m/month in Lisbon, as a result of the good dynamics on the demand side, together with the scarcity in supply and of reduced quality. In Porto this value reflected a decrease of 12.5% when compared to the year before, standing at 35 €/sq m/month.

However, as a result of the level of maturity of the retail sector in Portugal and the economic-financial instability, average rents have been decreasing in the last months. Furthermore, contractual conditions in retail schemes located in secondary zones or where there is strong competition have been changing. These properties reflect an increase in the contracts with a variable base rent and a consequent decrease in the fixed component, which in many situations has been inexistent; as well as the exemption of payment of key money.

It is expected that these same conditions will prevail throughout 2011, that is, the rents in prime developments should remain stable and average rents and those of retail schemes located in secondary zones or with strong competition may continue to drop, as a consequence of the efforts developers will have to endeavour in order to attract operators.

INVESTMENT

The investment market in retail assets was considerably active during 2010. Following the weak performance during 2009, with only 45 million Euros in transactions, in 2010 the volume of investment in this sector reached 437 million Euros, representing 62% of the total amount invested in Portugal. Shopping centres, with a 70% quota of the total invested in retail, were principally responsible for this dynamics. However, 300 million Euros of this volume do not represent an amount effectively circulated; these refer to transactions completed outside the market, namely to LeiriaShopping, Espaço Guimarães, Tavira Gran Plaza and 25% of CascaisShopping, which were not in fact on sale.

Despite the interest manifested for retail properties, the prime yields remained stable during 2010 and at the same level registered the year before. Consequently, prime yields for different retail formats stood at 7% (net yield) for shopping centres, 7.5% (net yield) for retail parks and Lisbon high street retail, and at 8.5% for high street retail in Porto.

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