

Valle Real turns around and beats the sector back to growth



 Valle Real	 2656 parking spaces
 Santander, Spain	 Sonae Sierra
 47,587 m ²	 Investment Management & Property Management
 97 shops	 Re-anchoring; value creation.

KEY HIGHLIGHTS

- In 2008 due to the European economic recession, **Valle Real** registered an adverse impact in retail sales.
- In order to achieve higher returns, to keep a solid occupancy rate and rents, and to boost visitors' traffic it was necessary to find an innovative solution to keep the attractiveness of the shopping centre.
- Through a proactive approach and to keep creating value for owners, tenants and visitors alike, the Investment Management team elaborated a successful re-anchoring programme.

SOLUTION

- The reconfiguration of the first floor from leisure to retail attracted to Valle Real new anchor stores, such as New Yorker, C&A and Primark, increasing footfall, rents and retail sales.
- Sonae Sierra's Investment Management team successfully turned a risk into an opportunity – and enabled **Valle Real** to buck the trend by emerging stronger from the economic recession.

KEY NUMBERS

€3.7 Million investment

9,112m² GLA rotated

↑ 31% contractual rents

100% occupancy rate

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Valle Real



Santander, Spain



47,587 m²



97 shops



2656 parking spaces



Sonae Sierra



Investment Management & Property Management

Abstract

Retail sales in Spain slumped during the periods of economic recession which affected the country between 2008 and 2013, spelling troublesome times for shopping centres. But **Valle Real** withstood the storm and emerged even stronger, cementing its position as the leading shopping centre in the north of Spain.

As early as 2012, **Valle Real** was commanding higher occupancy levels, bucking the national trend with growing tenant sales and generating more rental income. How? By implementing a carefully crafted plan to create value for the asset through a re-anchoring process that aimed to improve its physical layout, diversify its tenant mix and bring in new international brands.

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Introduction

Located in Camargo-Santander (Cantabria), **Valle Real** first opened in 1994 and is owned in a 50:50 joint venture by the Sierra Fund¹ and CBRE Global Investors. The shopping centre has a GLA of 47,587 square metres spread across two commercial floors and 2,656 parking spaces. Prior to 2010, the centre maintained two different concepts: a retail offer within the ground floor and a leisure offer on the first floor, which included a cinema operator and bowling alley as well as a food court offer.

As the prime retail destination within its catchment area, **Valle Real** delivered significant sales and rental growth between 2003 and 2006 with comfortable effort rates. Nevertheless, as the adverse effects of the economic downturn became manifest in late 2007, sales began to dwindle. The leisure area in particular - which had been near 100% occupied and delivered acceptable levels of sales and rents - showed some signs of weakness, and higher extra-contractual discounts were required in order to maintain reasonable effort rates among the leisure operators. The Sierra Investment Management team were quick to spot the risk - and quick to respond.

Background

In 2008, a long period of economic expansion in Spain drew to a close. The over-heated property market collapsed, the public account came into deficit, and the economy officially entered recession in the third quarter of the year. Retail sales suffered a record year-on-year decline as the economic slowdown shook international and domestic retailers alike.

Although Spain officially exited recession in the first quarter of 2010, fears over public deficit began to spread, and an austerity package was adopted. Austerity measures implemented included a two percentage point rise in VAT, as well as a labour market reform bill. With household

budgets under pressure and unemployment rising, retail sales fell further, not to return to positive growth until the end of 2013.

These extremely challenging economic conditions, coupled with the impacts of fast-moving changes in consumer behaviour, created the perfect storm for shopping centre owners and managers. In spite of its historically strong performance, **Valle Real** was not immune to these external events. In the years preceding 2010, the old cinema format started to negatively affect the dynamics of the upper floor, and the leisure anchors were underperforming.

The Sierra Investment Management team were quick to spot the risk - and quick to respond.

Challenge

Valle Real needed to be recreated as a shopping centre that could prosper in spite of challenging economic circumstances. The shopping centre would have to be able to sustain its attractiveness as a destination and deliver consistently strong performance for investors, managers and tenants alike.

Sonae Sierra's Investment Management team prides itself on being an innovative business with a multidisciplinary approach, one that is proactive in adopting effective strategies to mitigate risks and minimise the impact of potentially negative external factors, whilst continually seeking creative solutions to enhance asset values. Having

¹ Sonae Sierra holds 50.1% of the Sierra Fund's equity and acts as fund and asset manager on behalf of the Fund.

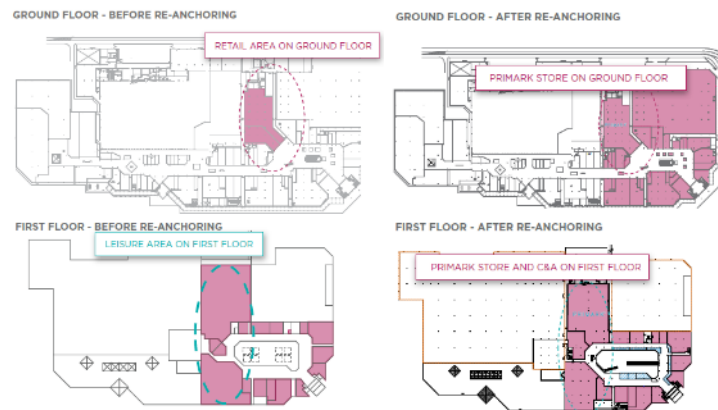
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identified that **Valle Real** had the potential to attract new international retail brands to replace the poor performing leisure anchors, the team set out a strategic plan to change the use of the first floor. Several brands had initially expressed interest in the project, but then pulled out due to the economic context. Could the team achieve its ambitions, and turn **Valle Real** around both physically and commercially?

Solution

Sonae Sierra was determined to pave the way forward. Having undertaken a thorough strategic review to identify all potential value creation opportunities and innovations that would deliver added value to stakeholders, Sonae Sierra investment management team settled on the re-anchoring approach as the best possible solution. In 2010 it was initiated the reconfiguration of the first floor from leisure to retail. They engaged with the property management team to pinpoint and target the most fitting brands. Then presented their business case to the shopping centre owners to secure a €3.7 million budget to proceed with the leasing strategy and refurbishment works, and negotiated with existing tenants to effect the necessary relocations. In a combined work between property management and investment management, the teams then made the strongest efforts to attract international retail brands.

Over the next two years, some pivotal new relationships were forged by the property management team: lease agreements were concluded with New Yorker, C&A and Los Telares in 2010, and Jack & Jones, Decimas and Mayoral were introduced in 2011. In 2012, Primark came on board and The Gables and Cardigan store was relocated. The opening of Primark was a notable success, with year-on-year visitor traffic up by almost 40% within its first two weeks of opening.



Valle Real re-anchoring scheme.

Through this re-anchoring process, **Valle Real** invested €3.7 million to successfully rotate 9,112 square metres of GLA. Once the changes were complete, contractual rents grew by 31%, and by the end of 2012 the centre was 100% occupied, enabling additional service charge savings. In operating terms, the centre achieved good rents and sales performance, enabling it to withstand the adverse economic context with success.



Valle Real after re-anchoring.

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Conclusion

With hindsight, we can appreciate all the more how Sonae Sierra's Investment Management team successfully turned a risk into an opportunity – and enabled **Valle Real** to buck the trend by emerging stronger from the economic recession. The re-anchoring of the shopping centre was pursued as a value creation strategy which capitalised on the weaker performance of the first floor as an opportunity to significantly improve the shopping centre as a whole, and allowed for the introduction of new major international brands. With a diversified fashion and retail offer, **Valle Real** strengthened its attractiveness as a destination for consumers and operators. In spite of increased local competition, its catchment area widened, footfall increased and demand for space grew.



Valle Real

Ultimately, the Investment Management team didn't just achieve the goal of sustaining high occupancy rates in the context of a protracted economic downturn. Rather, they skilfully identified and successfully implemented the re-anchoring of the shopping centre as a strategy to enhance **Valle Real's** position as a leading destination in the north of Spain.

Integrated solutions

