

THINK RETAIL THINK VERDICT



Retailing in Spain 2008

Opportunities as the housing market bubble corrects

Published: May 2008

Reference Code: DMVT0464

Report Price: £1,795/€2,595/\$3,450

About Verdict Research

Authorative analysis...

Verdict's analysts and consultants work closely with retailers, suppliers, consultancies, investment banks and property companies to identify the key issues, sector and company data and strategies driving the changing retail market.

Our research identifies how retailers can enhance product, store and brand performance as well as the factors that determine future retail success. Our specialist in-store auditing team continuously collects price and product data across locations, brands, fascias, ranges and retail sectors.

Rigorous research methodology...

Our in-house retail expertise and rigorous research methodology ensure our reports provide complete and accurate analysis of the major players, issues and trends together with a detailed examination of the strategic implications for the retail market.

For key players in the retail industry, our reports are the first source of information on sector forecasts, retailer performance, store and product portfolio developments and trading strategy.

Global, European and UK analysis across nine core sectors...

Verdict Research reports covers nine core sectors, five year forecasts, strategic issues, key locations, How Britain Shops consumer surveys and the main European retail markets. Also available are a daily news service, weekly newsletter and tailored consultancy portfolios to suit individual business information needs.

Over 20 years of experience...

Verdict Research is the UK's leading authority on retailing and publishes unrivalled independent analysis of the retail industry. With over 20 years' experience, Verdict has close relationships with major UK retailers and access, at the highest level, to key executives working in the top 300 retailers to hear their first hand views. Verdict reports provide clients with a complete picture of the retail sector and unique forecasts to help UK retailers, manufacturers, service suppliers, city analysts, consultants and the media with strategic planning.

A key source for independent analysis and comment...

Verdict Research is regarded as a key source by the BBC, ITV, Sky News and the UK's leading broadsheets including the FT, Times, The Independent and Daily Telegraph. Leading trade publications often refer to Verdict's opinion and research including Retail Week, Drapers, DIY Week, Cabinet Maker and The Grocer.

In addition Verdict regularly appears in the international media. News sources quoting Verdict analysts and data include CNN, the International Herald Tribune, The Australian, Los Angeles Times, and New York Times.



“Verdict are the company of choice for any research analysis and insight into retailing”

Sir Stuart Rose
Chief Executive of Marks & Spencer

Retailing in Spain 2008

Opportunities as the housing market bubble corrects...

On the back of buoyant growth in the past, Spain's GDP has overtaken Italy and is now a mature economy. While this has given cause for celebration and is apart from Spain's hard work also testament to the success of the EU, its integrative powers and its common market, a new chapter in Spanish history has been opened. Not all is well though, as Spain's housing market has gone into reverse. The bubble has finally burst and arguably this could not have come at a worse time.

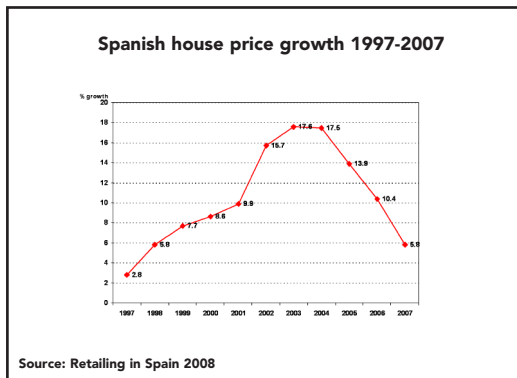
This new report published by Verdict provides accurate insights into the key trends and future developments for Spain's retail sector and in-depth analysis of the main operators in the market. It also offers new insights into the strategies for growth in a challenging and competitive market environment through its detailed analysis of the opportunities in the country.

21 Key Spanish retailers

Auchan	Eroski	Merkamueble
Benetton	Grupo Rey	Media Markt/ Saturn
Brico Dépôt	H&M	Sinersis/ Euronics
Carrefour	IKEA	Grupo Prometheus
Caprabo	Inditex	
Cortefiel	Leroy Merlin	
Decathlon	Mango	
El Corte Ingles	Mercadona	

This new report will help you to assess the retail competitive landscape in Spain and create strategies to exploit future growth in the retail market...

Housing market, the bubble has burst...



"House prices have grown strongly in Spain over the last decade. Whilst house prices continue to rise (5.8% in 2007), the rate of growth has decreased since the peak of 17.6% in 2003/04 and we expect prices to slow markedly going forward. While the housing market bubble was already showing signs of bursting in 2005 as rising interest rates met with an over supply of properties, the real pain came with the credit crunch and subsequent global financial gloom..."

- **Quantify key retail trends and accurately predict future opportunities** based on this report's company analysis detailing market share of leading retailers, demographics, channels of distribution, store numbers, selling space provision, sales densities and average store size in six key retail sectors.
- **Predict potential growth for retail in Spain and the challenges facing key Spanish retailers** in-depth analysis of market drivers, key issues and market outlook using this report's growth forecasts for DIY, Food & Grocery, Furniture, Out-of-Town, Clothing (including department stores) and Electricals in Spain.
- **Develop more effective strategic responses** with this report's actionable recommendations for how retailers can cope with the changing Spanish retail market.

Retailing in Spain 2008

This report answers key questions including...

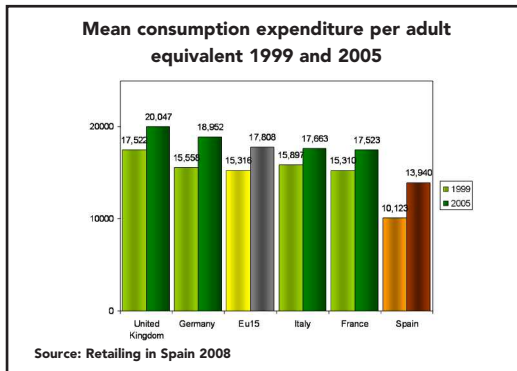
- What are the key issues affecting the retail market in Spain?
- Who are the top players in the Spanish market and how quickly are they consolidating their position?
- Where are the growth opportunities in the Spanish market?
- Where are the major threats to Spanish retailers coming from?
- What impact is the slowing housing market having on the Spanish retail environment?

Key Retailer Data

- Sales densities
- Selling space
- Number of stores
- Sales
- Operating profit
- Average store size
- Sales per outlet

Key issues examined in this report...

Despite recent years of buoyant economic growth Spain still has some major catching up to do...



"In 2005 the mean consumption per adult equivalent was still lagging the EU15 average by a considerable margin. Spain's €13,940 is way off the EU15's €17,808 or the UK's €20,047. Though retailing and overall consumer expenditure will be adversely impacted by the freezing up of easy credit, Verdict Research believes that once the economic crisis has run its course, convergence will become the major trend again and Spain will start to close the gap on the other EU economies..."

- **Adverse macroeconomic conditions.** The credit crunch will take its toll on the Spanish economy over the next two years. The unemployment rate is projected to grow to 9% in 2008 and 10% in 2009 due to the fallout from the slump in the housing market. Unemployment will rise principally in the construction and real estate sectors, however we also expect job losses to rise in sectors that are closely related to the housing market.
- **Pharmacy Liberalisation.** The European Union has started an investigation into the Spanish pharmacy sector. EU legislation looks set to change the restrictive ownership model, under which every owner had to be a licensed pharmacist. As a result, vertical integration by pharmaceutical wholesalers, which is currently unknown in Spain, could become a business model going forward.
- **Reforms in the retail sector.** The regional government of Madrid views liberalisation of the retail sector as the key to boosting economic activity in the city. Shop opening hours in the city are to be liberalised and restrictive planning laws could be next on the cards. The reforms in Madrid could work as a model for further liberalisation nationwide.

Retailing in Spain 2008

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...the impact on retailing

- The home related sectors look likely to be most affected: On the back of a slowing housing market we predict rough times ahead for furniture, DIY, electricals, and homewares retailing. While Spain looked like the land of opportunity for years, now times have gotten harder for the likes of IKEA, Conforama and Leroy Merlin.
- There is an argument stating that now that Spaniards are stuck in their flats, struggling to pay their mortgage and unable to sell or buy new properties, they start refurbishing them. However while this might soften the blow and will benefit the DIY players, IKEA and other value lead operators no doubt, we tend to go with the view that expenditure in the home related sectors is largely determined by the number of people buying their own and moving house, and since the housing market has gone into reverse we are quite bearish about the immediate outlook.
- Verdict believe that in a situation akin to the UK mortgages in Spain will become a lot more expensive and difficult to get going forward, mainly due to the effects of the credit crunch, which throttles demand and as a consequence house prices will keep falling. In short, the market has suddenly turned from a seller's market to a buyer's market. We would also expect a lot of first time buyers to keep sitting tight and continue renting, until the crisis blows over.
- Over the last decade a glut of new homes has come on to the Spanish housing market. Without a doubt this has driven retail expenditure on home related sectors to a large extent. Until 2006 they did so in good times.
- While an enormous amount of new flats (about 650,000) will be available to buyers and tenants in 2007/08 we do not believe that these will all find buyers or lodgers and hence be able to prop up retail spend in bad times. Recent statistics on consumer taking out credits to finance retail expenditure show a drop of 30.0%.
- Of course these flats will eventually need to be furnished, however we believe that in times of economic hardships consumers will choose the less expensive options and go for value when purchasing new products be it kitchens, washing machines or sofas. This means that overall sales of the various sectors will go down, as the demand for product for furnishing an empty home will not be able to offset the declines brought on by the bursting housing market bubble.

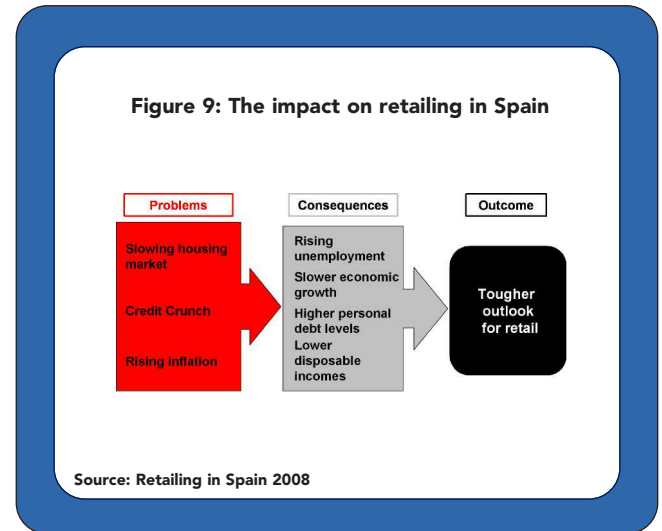


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