



2nd Round Questions ROMANIAN RETAIL MARKET



The retail segment was arguably one of the worst hit among real estate markets, particularly in the first part of the pandemic amid the closure of shops (please see below a survey which we published back then). Now, consumption has largely resumed - it is already

above pre-crisis highs, though in a different structure, but for retailers, quite a lot of challenges remain. We questioned 42 retail tenants and landlords between 28 September and 12 October to see where they stand right now and what is their opinion on the near future.

[CLICK HERE FOR THE SPRING SURVEY](#)

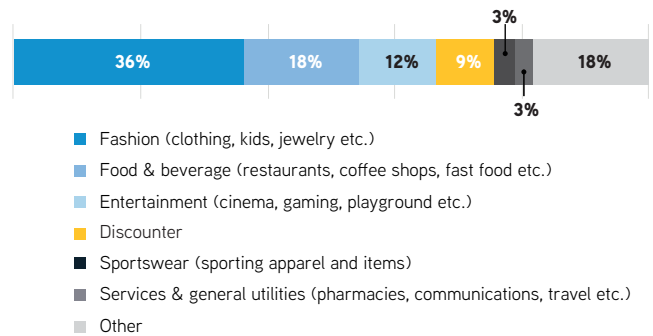
RETAIL TENANTS



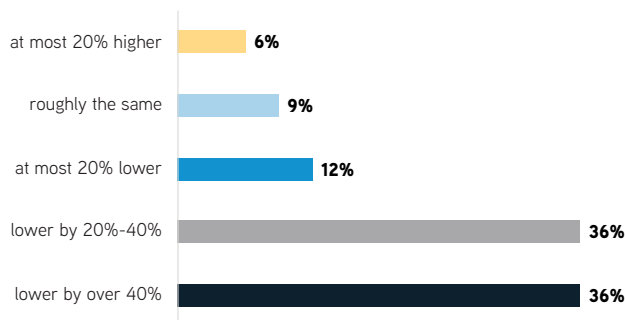
LOCATION OF SHOPS (MULTIPLE ANSWERS)



INDUSTRY



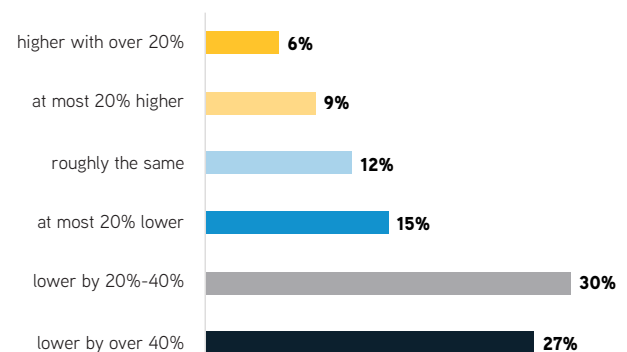
1 Roughly estimating, how has footfall been in your retail spaces in July-September 2020 compared to the same months of 2019?



For the vast majority of respondents (85%), footfall in stores has been lower in the third quarter than compared to 2019, with quite a lot reporting even more than 40% lower clients entering shops in recent months. This looks to be more or less in line with other metrics, like Google's Community Mobility Indicators, which showed traffic in retail and recreation areas to be around at least 20% below the trend in September.

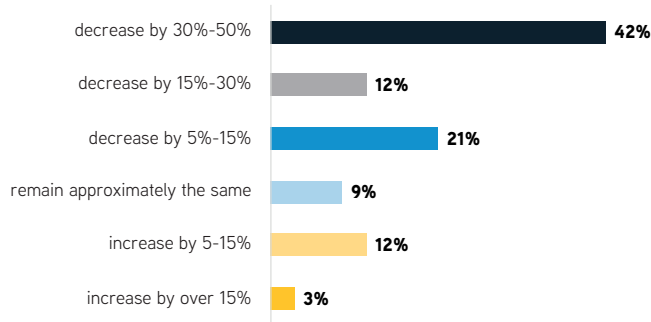
2 How are sales per retail space in July-September 2020 compared to the same months of 2019 (like for like)?

Meanwhile, sales figures seem to look a bit better than the footfall numbers: for instance, just 15% of respondents saw footfall increasing a bit or remaining constant year-on-year, but 27% of respondents reported sales increasing or remaining fairly in line with 2019 in the July-September period. Such data suggest that while fewer people are entering shopping areas, they are spending more when they do than in the past.



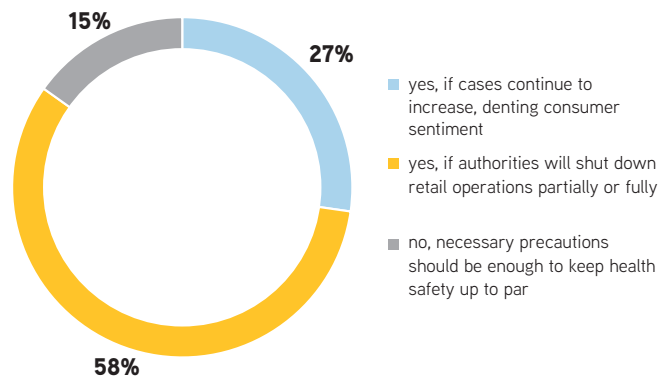
3 What are your expectations for your company's turnover in 2020 (full year) versus 2019?

That said, with shops closed for a few months of the year during the spring period and the prospect of an eventful winter period amid a spike in coronavirus cases, 42% of respondents expect a decrease of their 2020 turnover by 30% to 50%. Interestingly, the structure of answers does not seem as negative for retailers with shops in retail parks versus the rest.



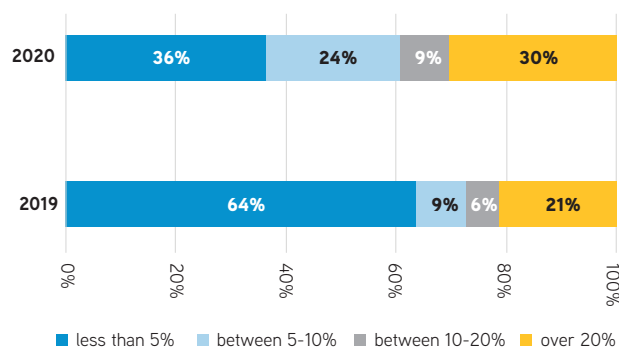
5 Do you feel that a second wave/steady rise in coronavirus cases could prove more damaging than during the spring period for retail?

This is a pretty straight forward question and it does show that retailers fear that a second closure of stores would be more damaging to their business. Up until now (mid-October), authorities have not hinted in any way of closing stores again (except closing restaurants and theaters on a regional basis, based on the number of cases) and insisted much more on precautionary measures, like wearing masks.

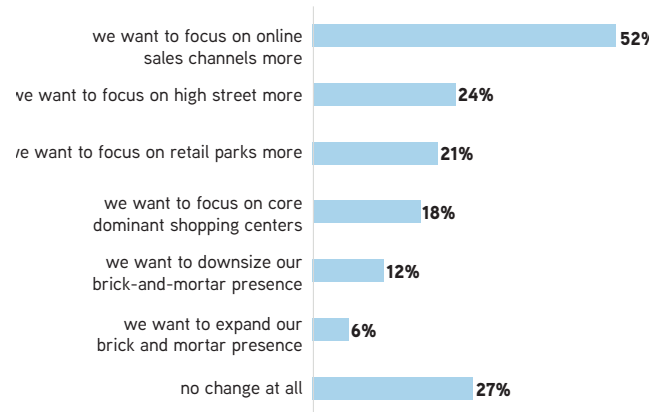


6 What was the % of online sales in your company's turnover in 2019 and where do you expect things to be in 2020?

In 2019, the majority of respondents recorded limited or no online sales (below 5% of their company's turnover). Projections for 2020 show the share of such responses dropping quite significantly as online sales surged and companies expect a much bigger chunk of their sales to come from e-commerce.



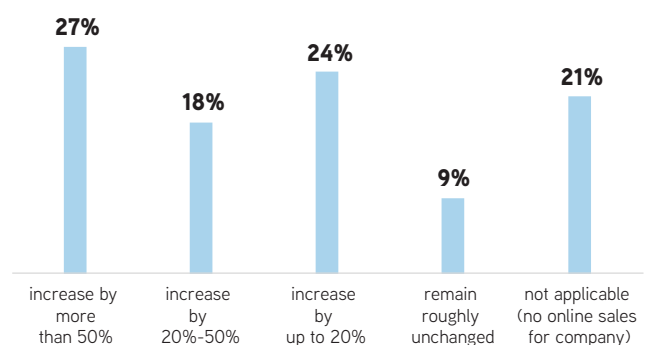
4 How has the coronavirus changed your plans? (multiple answers)



Since there was a fairly wide variety of retailers, we tried to offer multiple variants of answer: what is clear is that 3 out of 4 retailers want to change their strategy going forward. The novelty is that 1 in 2 retailers wants to increase their online presence (a trend which is to be expected), but only about 10% of respondents want to downsize their brick-and-mortar presence; hence, omnichannel sales and a mix between in-store and online services will become ever more visible.

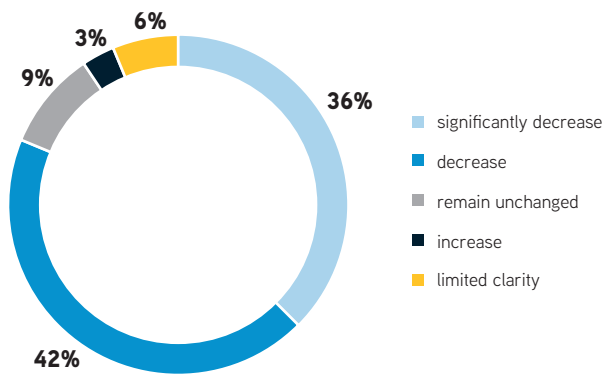
7 What are your expectations for the online sales change in 2020 versus 2019?

Furthermore, the dynamic of online sales is quite impressive: no respondent which is doing online sales is expecting sales to decline in 2020 versus last year, and at least one in four expect an increase of at least 50% and another one in five see growth between 20 and 50%. In general, it looks like fashion retailers are among those most likely to expect sharp increases in online sales, but this is not to say that other sectors are lagging.



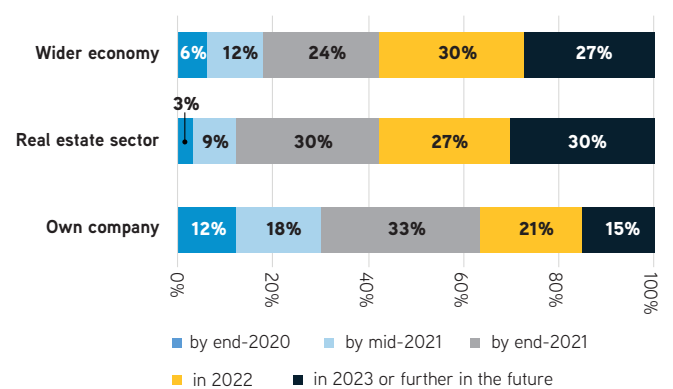
8 What are your estimation with regards to rents in 2021?

When asked about rents, a clear majority of retail tenants expect rents to decrease or decrease sharply next year, which could suggest that tenants are expecting some way to share the difficult year that was 2020 with the landlords and/or expect another difficult year. On the landlords' side, our question about NOI estimates in 2021 shows that some actually expect increases in income, which does come at odds with tenants' expectations. Most probably, this depends on the type of retail scheme and mix of retailers present in the scheme they own.



9 When do you expect the business situation to become satisfactory again?

Retail market participants seem to be a bit more pessimistic than those in other segments of the real estate market (like offices or industrial), but that can be explained by the impact that the pandemic has had on this sector. That said, 2 in 3 respondents expecting to recover a decent business level (at least for their own company) by end-2021, which does offer some optimism that next year can be better.



CONCLUSION

While retail has faced immense uncertainties and challenges in 2020, adversity often brings change and not necessarily for the worst. The focus on omnichannel approaches – like BOPIS: buy online pick-up in store – will only benefit the consumer, while retailers with strong brands are likely to come out on top after this crisis. Some have seen higher sales versus 2019, like supermarkets,

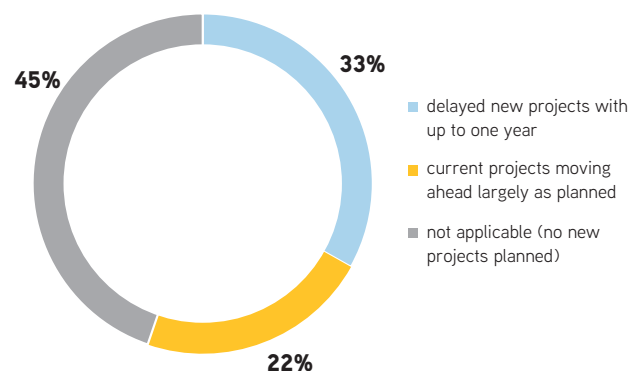
discounters, furniture, sports or electronics. Furthermore, diversity will likely be the new game in town, as retailers/landlords may spread their interest towards smaller, but proximity-based schemes in retail parks and, why not, high street destinations. Overall, the next few years will certainly look interesting and full of change for the retail segment.

RETAIL LANDLORDS



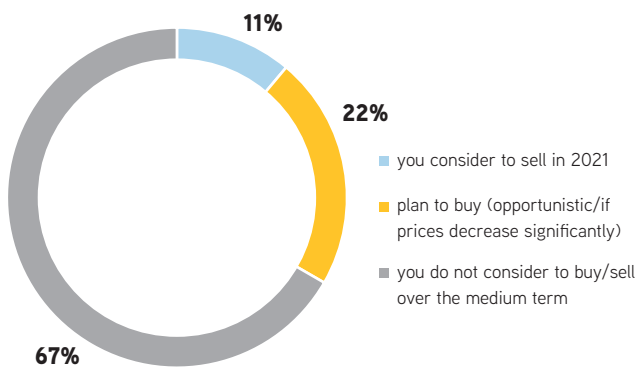
1 How have your plans changed amid the coronavirus outbreak?

As Romania was one of the best performing countries in terms of retail sales in the past decade and large parts of the country still have too few retail schemes, it is somewhat understandable that developers remain quite optimistic about their long-term prospects here. Hence, nobody is looking at long-term delays for retail projects.



2 Due to the COVID effects has your investment strategy regarding a potential disposal changed?

For two possible reasons that we think of, the majority of landlords do not want to commit to any major changes right now via acquisitions or sales: 1) elevated uncertainties or 2) long-term growth potential. Or possibly a combination of the two. Still, there does seem to be a view that for some, selling in 2021 might be considered like a viable alternative and there's also a market of willing buyers, but those would rather consider opportunistic deals (not with prices at pre-crisis levels).

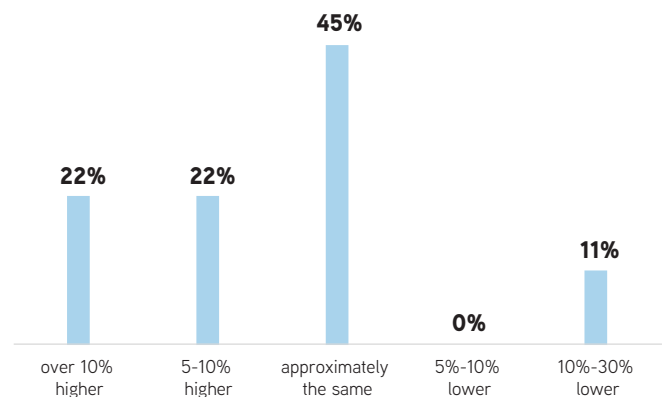


CONCLUSION

Retail developers and, in general, the retail sector is not out of the woods yet, with heightened uncertainties over the next year and likely long-term transformations in store over the next few years. That said, our survey does offer some expectations that 2021 should be better than 2020 for retail landlords, but we would note that the impact will be quite uneven: between malls versus retail parks, between dominant and non-dominant schemes, between schemes in Bucharest and big cities versus smaller cities.

3 What impact you believe the crisis will have in your NOI in 2021 vs 2020?

While the vast majority of respondents expect to see their NOI lower in 2020, next year does seem to offer at least hopes for stability (c.40% expect stable income and a similar number expect some gains). Given the recovery in retail sales seen this year (with consumption actually returning to pre-crisis levels as of August), this does not seem too far-fetched, though a lot depends on how things will pan out with the pandemic.



FOR MORE INFORMATION



SIMINA NICULITA

Partner | Head of Retail Agency | Romania
 simina.niculita@colliers.com
 +40 723 187 919



LIANA DUMITRU

Associate Director | Retail Agency | Romania
 liana.dumitru@colliers.com
 +40 722 622 121



SILVIU POP

Head of Research | Romania
 silviu.pop@colliers.com
 +40 741 698 655

DISCLAIMER The analysis and findings reported on this survey are based primarily on Colliers International data, which may be helpful in anticipating trends in the property sector. However, no warranty is given as to the accuracy of, and no liability for negligence is accepted in relation to, the forecasts, figures or conclusions contained in this survey and they must not be relied on for investment or any other purposes. The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organization as a "Global Pandemic" on the 11th March 2020, has impacted market activity in many sectors, creating an unprecedented set of circumstances on which to base a judgement. This survey does not constitute and must not be treated as investment or valuation advice or an offer to buy / lease or sell property. Given the unknown future impact that COVID-19 might have on real estate market supply, demand and pricing variables, we recommend that you recognize that our research and analysis is far more prone to market uncertainty, despite our endeavors to maintain our robust and objective reporting.