

Interview for Retailnet.pl / SCF News

1. Is there any demand on the market for retail space located in shopping malls? Which companies are possibly interested in entering your centers?

Despite the current situation there is still a demand for retail space in shopping centres. We can even say that Covid enhanced expansion activity in case of some retailers. Of course all depends on a retail sector. What we can currently observe is that value and discount retailers, furniture and homewares as well as food store operators are actively looking for retail space. We are in advanced negotiations with some of them with a view of signing the lease agreements within upcoming weeks/months. Even more encouraging is the fact that we've also managed to sign a number of deals with smaller space national retailers and local tenants. The interest coming from the small independents was obviously stronger before Covid but the pandemic situation, though temporarily put some discussions on hold, didn't stop it entirely which eventually resulted in signed agreements.

2. Is the trend of retailers' optimization of the sales network visible (e.g. resignation from some locations, and on the other hand, e.g. enlargement of stores in others)?

The vast majority of the retailers remained in the shopping centres. It is worth emphasising that retailers not only stayed with us but also a number of them are working on upsizing their stores. We think that the trend is more about improvement and strengthening of online sales, more efficient stock management and mutual support and partnership approach between the tenants and the landlords instead of decreasing the number of locations. We have agreed many hundreds of individual Tenant Support Agreements (TSAs) to help retailers through these difficult times. These agreements also included extension of leases. A relatively small number of tenants decided not to continue and only once their leases expire.

3. On what conditions do tenants open stores in your locations after lockdown? Are these generally "pre-coronavirus" contracts, or can it be said that these are new rental conditions? In what direction are these changes going?

This is a mixed picture. Not in every case but the majority of our discussions are based on similar rents to a year ago. Expansion plans of the retailers have obviously been influenced one way or another by the pandemic situation but we are confident and optimistic about the future. A year ago and earlier we were working on remodelling the tenant mix in a many of our centres including plans to increase and improve the food & beverage offer and in some cases bring in additional leisure, entertainment, culture, workspace, logistics and increased synergy with online shopping. These plans continue. Although the F&B sector has been hit hard, there is still significant opportunity for growth in Poland post-pandemic. The Polish F&B market is significantly under-provided when compared internationally and the choice quality of the offer has been increasing substantially in recent years. We strongly believe in the success of food and beverage, cinemas and health & fitness in the medium and long term. We are working on some exciting plans especially for F&B. In the meantime we are supporting tenants in the sector as much as we can to help them survive this period.

4. have there been any cases of withdrawal from the contract by the tenant? What, if any, steps have you taken in this regard? In the near future, the problem may be the development of large areas of tenants from the sectors that were most affected by the crisis (gastronomy, fitness, cinemas, entertainment).

We have not experienced any tenants leaving a shopping centre by breaking a live contract. As already mentioned we set up a support strategy and implemented it by agreeing appropriate deals to help the tenants go through the crisis. Clearly some tenants required more help than others and that was reflected in the TSAs.

5. Tenants who do not want to be charged with the rent costs must submit appropriate declarations. As a result, they are required to extend their lease agreements for another 6 months plus the store closure period. This means that some of them have already had to extend their contracts for 18 months plus the closure period since the start of the pandemic. Is it a beneficial solution from your perspective? Do you offer your tenants any alternative?

It is still early days post reopening but from the discussions held with retailers so far we can say that some of them are happy and some are not to extend the leases for additional 12 months plus the closure periods of lockdown 2 and 3. At the moment we are in the middle of formulating the strategy on lease extensions as well as our response to tenants requiring support. We always regard our tenants as our partners and take the view that we are all in this extreme economic environment together; and by continuing to work together we will emerge from it more strongly and better able to trade our way out of the challenging times.

6. How to build an effective tenant-mix in post-pandemic times? Will the priorities change?

Overall, the approach hasn't changed significantly. Our plans are very similar to the ones we had before the pandemic started as we were already working on most of the "new" ideas which have been thrown into the spotlight over the last year. There will be some variations in the detail and potentially the scale of some of our plans driven by the cashflow issues affecting both owners and tenants. Retail (rebalanced where appropriate), Entertainment, Leisure, Lifestyle, Logistics, Culture, Workspace and Omnichannel will all be important elements within shopping centres of our time. Health, education, residential and education will also feature in some locations. All these uses contribute to creating a true community providing a wide mix for residents.

We focus a lot on local community engagement and charity support, especially needed during this crisis. One of our most interesting strategies involves new tech-led projects to augment tenant mix and to leverage synergy with online trade, harnessing the power of online to support physical visits and sales.

We expect to see a rise in interest from short term tenants some of whom will rotate on a regular basis, some will incubate into longer term physical operators, some will be "pure-play" online traders who need to showcase either on a permanent or temporary basis and some of these will trade from artisan Create & Sell spaces.

Physical retail, leisure and entertainment is not dead. People will continue to shop. There will undoubtedly be some variation in our behaviour but we will return to meeting places, to cinemas, to offices, to restaurants, bars and cafes, to gyms, theatres, museums and exhibitions. The human condition is key here. We require engagement, interaction and variety. We have recently had many things we have been able to take for granted, taken away from us. It will be some time before we take them for granted again, meanwhile most of us are keener than ever to go out for a meal, watch a film in a real cinema, visit a real gym, meet friends for a beer or a coffee, play sport, watch sport, wander round the shops. There is an argument that normality will bring an even stronger demand for the physical experience whatever the activity.

Some of the retail space of today will undoubtedly be repurposed and the goal is to create the optimum mix in each location. Despite the understandable pandemic-driven growth in online sales, it is important to remember that once an enduring level of post-vaccine normality is resumed, the big majority of retail spend will still be physical. In the UK for example where traditional retail has been hit very hard by a number of dynamics, online spend was running at about 20% of total sales pre-COVID and is forecast to be around 25% by the end of 2021 ie 75% is still expected to remain physical retail. To add the Poland context, PWC has just reported that ecommerce was 14% of total retail sales in 2020. The demonstrable “Halo Effect” which shows significantly increased online sales within catchments where a retailer has physical stores will also continue to play a part in retail sector decision-making.