

Interview to the annual report 'RAPORT HANDEL 2021' published by ECP Polska.

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How would you evaluate the market changes wrought by the pandemic?

To a large extent, the pandemic has been an accelerant of changes already taking place in the market for several years. Regional, smaller shopping centers have proved that the concept of shopping and service convenience is resistant to the growth of online commerce. At the same time, despite the enormous progress in digitization made by retail, especially in the fashion sector, the cost of returns and handling online orders has made us painfully aware of the challenges that e-commerce poses to our tenants.

At this particular time in the cooperation of tenants, center owners, managers and lenders playing on the same team was very important. Effective cooperation with investors and banks as well as long-term relationships with our partners were also important, which allowed us all to work out ways to survive and further develop.

What actions have you taken to minimize the effects of the pandemic? (modernization of stores, investments, etc.)

The difficult times make us realize the need for innovation in the retail market. Long before the first lockdown, we were working intensively on modern solutions combining last mile and convenience functions in our centers as well as integrated management and multifunctionality of properties. We also took on the logistics market and the synergy of brick-and-mortar trade with online shopping. Most of our centers, for example, have parcel collection points. We know that people who pick up their packages often also visit the stores and make more purchases.

After shopping centers reopened in February, we found out that demand for commercial space still existed despite the current situation; what's more - COVID-19 even accelerated the expansion of some tenants. Currently, grocery operators, discount brands, as well as furniture and houseware stores are actively seeking retail space. We are in the process of advanced negotiations with a view to signing lease agreements in the coming weeks or months.

We negotiated hundreds of individual support agreements with our current tenants. These arrangements also involved lease contract extensions. We have also taken a number of initiatives to help the food service industry, which is operating with extensive limitations.

What are your observations regarding consumer behavior in recent months?

Consumer interest in online shopping definitely increased, although we have also noted an increasing number of click-and-collect purchases made, which is why one of our most interesting projects is a solution currently being implemented that combines e-commerce with brick-and-mortar sales. The

average shopping cart has also increased, customers shop individually in the malls and with greater intent, especially at convenience shopping centers.

We believe that the era of traditional shopping, leisure and entertainment in shopping centers is not over. After vaccinations restore a permanent level of "normality," we will return to all our meeting places, events, concerts and exhibitions. After all, human nature involves a need for engagement, interaction and diversity. Most of us likely want to go out to a restaurant, watch a movie on the big screen, visit a real gym, meet friends for a coffee or beer, play or watch sports or just walk in the shops more than ever. The return to "normality" will bring a very strong need to physically experience life in every dimension.

How do you rate the development prospects this year? What can influence them positively and what negatively?

Our current development plans are in line with those we had before the outbreak of the pandemic, any changes may include reducing the scope of these ideas due to cash flow problems affecting both center owners and tenants. Part of the retail space that exists today will certainly be optimized in order to maximize its potential. Tailored to the current needs, retail will certainly expand with additional functions, such as entertainment, leisure, lifestyle and work space. In some locations, there will also be healthcare, education and residential services. Such a multi-format approach meets customer expectations and favors the creation of local communities. We put a lot of emphasis on the social aspect of all our activities and support, so needed during the current crisis.

As for the lease issue, we expect an increase in interest among short-term tenants. This will increase the need for professional management of centers that will become a hybrid between investments in physical real estate and operational businesses. Some of the tenants will change regularly, others will expand their business and stay with us longer. Certainly, there will be internet sellers who would like to present their assortment in a brick-and-mortar setting – temporarily or in an on-going manner, as well as local manufacturers for whom the leased premises will be both a space for creating products and selling them.

Shopping centers are close to customers, so their click and collect functions and a hybrid of online shopping intersecting with offline shopping will create a de facto "last mile delivery" with self-pickup. This creates many new opportunities on the market for both us and tenants.

Sierra Balmain

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