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MarketView

Romania Retail

H1 2010

Quick Stats

	Change from H1 09	Change from H2 09
Stock	↑	↑
Prime Rents	↓	↓

Hot Topics

- Growing gap between prime and secondary properties, between Bucharest and middle-size cities, in terms of expenditure power and appetite for consumption.
- Pipeline is dominated by schemes under planning, with no definite opening date (more than 50% of pipeline), while under construction schemes represents under 10% of pipeline.

OVERVIEW

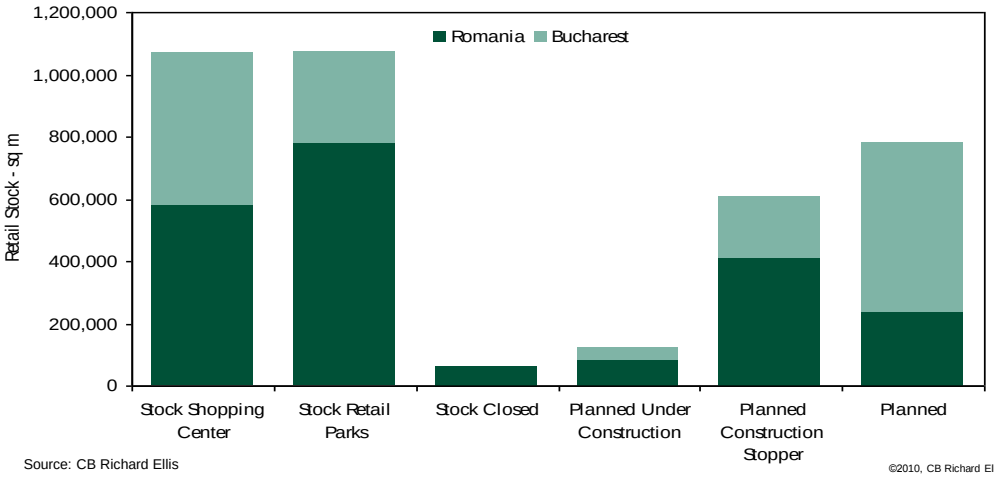
Trends evident in the EMEA region can be applied with great accuracy for Romania as well: the discrepancy between prime and secondary areas, with prime areas attracting most clients (both retailers and investment players), the long duration of negotiations for signing a lease (which can go up to 6-8 months for small size unit, something that was customary only for anchor tenants in the past), the pressure put by merchants towards the landlords in order to receive financial concessions.

Emerging markets in Europe, such as Romania, are interesting for international retailers, as within these markets brands have higher chances of increasing their market share and brand awareness. The fact that Romania is positioned in second place in a top analyzing the number of new retailers entering the market in 2009, an analysis conducted for almost 300 retailers in almost 200 cities worldwide, is a clear testament of this interest (CBRE study – How Global is the Retail Market, 2010 edition). In the first 6 months international retailers like Camaieu, Gerard Darel, SIX, Brioche Doree opened their first stores and we expect Leroy Merlin, Lidl to do the same in the next months, with H&M to open aggresivly in early 2011.

With so many retailers entering the market and with such an increase in market activity compared to 2009 it would seem that any signs of recession have faded. The answer is that Bucharest received most of this enthusiasm, while secondary cities in Romania experienced a clear drop in purchasing power, translated into lower spending levels and struggling retail schemes. The gap between Bucharest, a city which attracts 10% of the total population and has one of the lowest unemployment rates in all European Union (2.4% in Q1 2010, source National Institute of Statistics) and cities with under 200,000 people has accentuated.

As seen in the chart below, the total stock of modern retail space in Romania (including Bucharest) is almost equally divided between shopping centers and retail parks – a total of 2.15 million sq m. There is a high number of retail schemes under planning (780,000 sq m), with construction stopped (609,000 sq m), while the schemes under construction represent less than 10% of the total pipeline (123,000 sq m).

Retail Stock & Pipeline Bucharest & Romania as of H1 2010



Source: CB Richard Ellis

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RETAILER ACTIVITY

The power shift from intense shopping center development to a market dominated by prime locations and retailer activity has be profound in the first 6 months of 2010.

International tenants are the most active in the market, especially superbrands like Inditex Group (which grew their store portfolio by almost 75% in 2009 and H1 2010, and with plans for another 11 stores to be opened by the end of 2010) and from 2011 H&M, by opening 3-5 stores in less than 12 months from the opening of the first unit. After some quite time, Decathlon will expand their presence to all major cities in Romania; C&A is considering expanding; German & Austrian retailers, focused on value fashion, like Deichmann, Takko and discounters like Plus and Kaufland, have been the most active retailers in the market.

There is strong tendency towards the entrance and expansion of big brands directly, as many franchisees have experience difficulties in achieving gross profits. One example from H1 2010 is the acquisition of the only Ikea store in Romania by the IKEA mother company, thus we expect that the expansion of the brand to emerge.

Although some national tenants are strugling or have entered the insolvency process, we see an emerging class of tenants expanding their presence and aquiring market awarness, like Casa Rusu, Dedeman and eMAG.

As we detail below, proximity stores, super and hypermarkets are fighting for market share and closing down extremly good locations.

SHOPPING CENTERS

With the opening of Sun Plaza, the total stock of modern retail space in Bucharest is dominated by large shopping centers, with over 40,001 sq m GLA (32%). The total retail stock in Bucharest (adding shopping galleries, retail parks and factory outlets) reaches 788,000 sq m. Within the market it seems that big, dominant schemes are performing at good levels, while smaller, convenience-based center are facing difficulties. In the future we expect that any center which will be delivered to have a clear position in terms concept, to target a clear catchment area and to offer that “point of difference” which will transform it into a succesfull scheme. If these criteria are met, the market can absorb new leaseble area of modern space.

ON-STREET

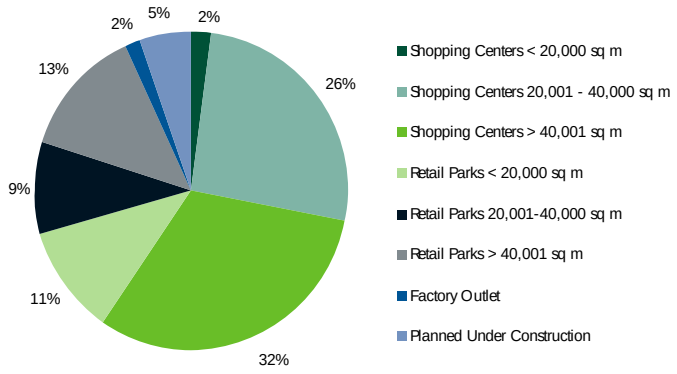
Surprisingly enough, the on-street segment in Bucharest saw a strong revival coming from three areas:

Top Countries by new retailer entries in 2009

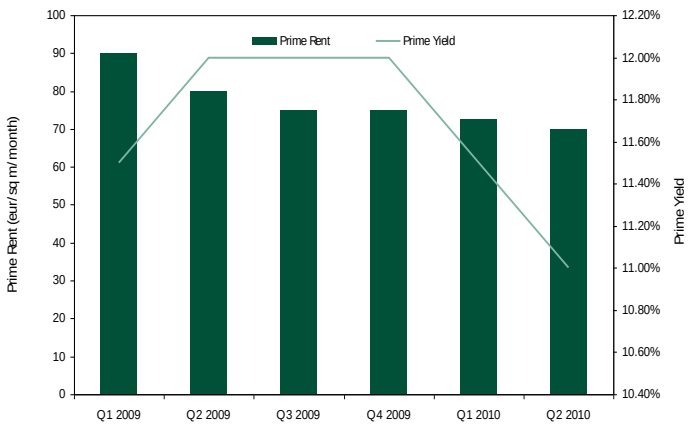
How Global is the Retail Market, CBRE, 2010 edition

Country	No of New Retailers
United Arab Emirates	21
Romania	9
Kuwait	9
Morocco	8
India	8
Saudi Arabia	8
Cyprus	8
Ukraine	8
Portugal	7
Croatia	7
Slovakia	7

Split of modern retail space in Bucharest by retail segment, H1 2010



Evolution Prime Rent & Prime Yield – On-street Bucharest



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- Luxury and up market clients on Victoriei Avenue – where the vast majority of premises, vacant last year, have been occupied or are in the process of fit-out to very strong tenants like: Gerard Darel, Victoria Men, Emporio Armani (TBO), Montblanc (TBO).
-The old city center stopped being an under developed area and transformed into the hot spot for Bucharest cafes & restaurant segment. With an unbeatable traffic, good and improving conditions for doing business, Lipscani & Co is the place to be. Unfortunately, the retail area has developed in one way only: food & bar, rather than fashion and auxiliary services. For the area to become a true destination, including tourists it is important to spice up the tenant mix.
- Proximity shops have been the number one tenant in terms of expansion for on-street segment, with several new names: Carrefour Market, Mega Image, especially with the Red Market format, Billa, Mic.Ro Retail, one of the few Romanian businesses targeting the proximaty format (over 50 openings).
Prime rent for on-street locations in Bucharest has been quite stable in the last 4 quarters with margins variing between EUR 70 – 75 /sq m/month, while prime yield compressed by 100 bps to 11%. Outside Bucharest, prime on-street locations in Brasov, Sibiu, Timisoara are in demand, as vacancy rates are lower than last year. For secondary and tertiary areas, average rents have seen a decline by 5 – 15% y-o-y.

RETAIL PARKS

The only retail park opened this semester in Bucharest was the first phase of a scheme, anchored by Real Hypermarket, Metro and Obi (around 28,000 sq m GLA). Developers announced other schemes like: Coresi Brasov, Pallady Shopping Center, Collosseum (for all these projects we are talking about their first phase consisting of a retail park development). Some centers continued to struggle with higher vacancy rates for the shopping galleries and with increasing demands from tenants for lower costs, both rental and service charge wise.

INVESTMENT

The investment volume for H1 2010 was dominated by retail products – 87% of transactioned schemes were shopping centers or retail parks. Some of the most important transactions for this semester are:
-Auchan and Bricostore in Pitesti, bought by investment fund NEPI.
-Atrium Center Arad, 50% acquition by Arcadom, construction company, part of Trigranit
-Polus Center Constanta, the final stage of a forward purchase agreement from 2008. The buyer Immofinanz assumed all debts (EUR 40 million) and no other payment was done.
-Tiago Mall Oradea, the first large real-estate scheme sold at a public auction, as the developer entered insolvency process.
Out of the transactioned sum (EUR 196.9 million) almost 46% represents the take-over of debts for the respective properties.

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