MarketView

Romania Retail

H2 2009

Quick Stats

	Change from H2 08	Change from H1 09
Prime Rent	↓	↓
Vacancy Rate	↑	↑

Hot Topics

- Growing number of insolvency procedures started by national retailers
- Caution and prudence are key terms both for consumers and for investors.

OVERVIEW

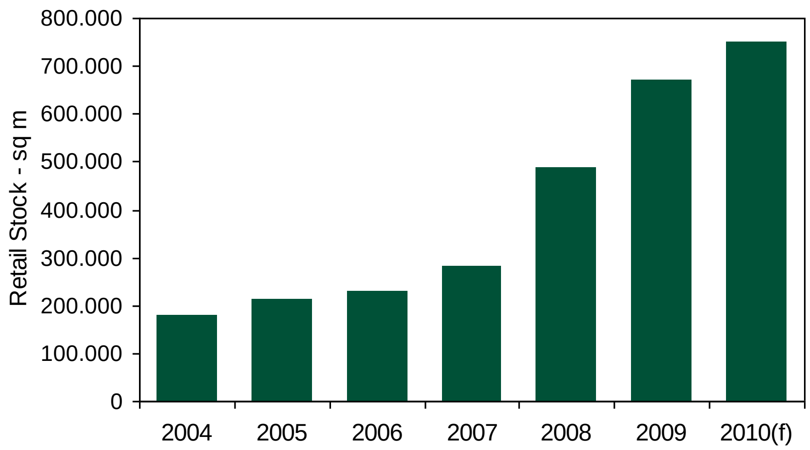
The second half of 2009 intensified the gap between Bucharest and the other big cities, proving that Romania is still a two-track economy, with the capital leading the economic growth. The Romanian economy in 2009 was affected by the international economic developments: GDP has dropped by 7,40% for Q1 2009 – Q3 2009, as compared to the same period of last year, which led to tensions on the labor market (higher unemployment and lower wages), especially in the private sector, and as a consequence people targeted their consumption only towards primary needs.

The change in consumption behavior was beneficial for discount supermarkets and value fashion retailers, but harmed white & brown retailers and furniture stores. National retailers had a difficult 2009, as lack of financing from banks, unproductive management decisions and a drop in consumption led to the insolvency of brands such as Leonardo, Mondex, Flamingo, PIC, Spar, Trident, Snack Attack and the bankruptcy of brands like Ultra Pro. International brands Castro and Oasis left the Romanian market, due to the financial crisis and the general re-organization of their mother-companies.

The second semester 2009 marked the definitive change of the market – from one of the owners, to a market in favor of the retailers, which have been able to negotiate rent reductions of existing leases by 5 – 20% for prime locations and even 50% for secondary locations. In cities which are oversupplied in terms of modern retail stock, discounts reached much higher levels (up to 100%). If the re-negotiation of lease terms started in 2009 for a limited number of months (6 to 12 months), now retailers demand that those reductions to be prolonged for 2010 and even longer.

Shopping centers owners are now facing a reduction of cash flow for a longer period of time than earlier predicted. In some cases, the incentives received by tenants went beyond rent discounts and included: discounted service charge rates, discounted marketing contributions (in some instances of up to 100%), intensified marketing campaigns in the favor of tenants paid exclusively by the owners of shopping centers.

Retail Stock Bucharest



Source: CB Richard Ellis Eurisko

Shopping Centers

During the second half of 2009 there have been only two openings of shopping centers in Romania: Galleria Piatra Neamt, a development of GTC and AFI Palace Cotroceni Mega Mall, a development of AFI Europe. AFI Cotroceni is the biggest project opened in Romania so far with around 76.000 sq m GLA including a number of features seen for the first time in Romania: IMAX screen, the biggest indoor skating ring, opened 24 / 7, new brands like: LC Waikiki, X-Side, Tatuum, Brooksfield. The scheme registered very high traffic in the first 2 months of operation, with peaks at over 80.000 persons / day.

The two openings were offset by the closing down of two shopping centers: Armonia Braila, with 37.000 sq m GLA and Trident Shopping Center in Sibiu, a 14.000 sq m GLA development (both premises consist of a shopping gallery anchored by a hypermarket). Armonia center was developed by RED Management, which plans to re-open it as a discount-oriented project in the next 12 months. On the other hand, for Trident Center, there is little chance of it re-opening, as Trident Supermarket Network entered the insolvency process.

Another large-scale scheme named Sun Plaza is scheduled for opening in Bucharest in February 2010. The scheme will have over 80.000 sq m, will be the biggest retail development in Romania and is anchored by Cora Hypermarket, Baumax DIY, Inditex Brands, Gap, C&A and Reserved. Besides this project, all other major schemes like: Dambovita Center, ParkLake Plaza, Esplanda have been put on-hold for an undetermined period of time. As such, we do not predict a major change in modern retail stock for Bucharest until 2012.

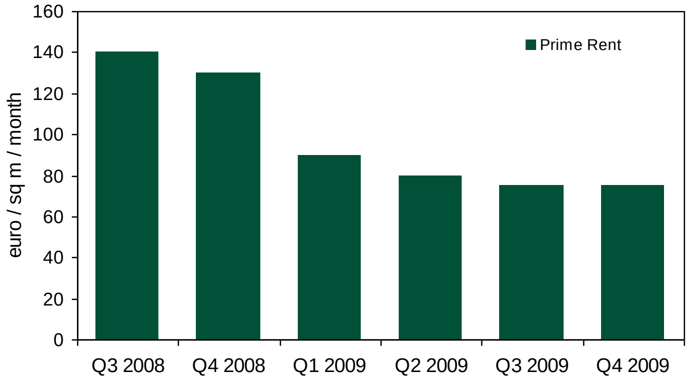
In the rest of Romania there are even fewer projects under development, all of them are projects that were delayed over the last two years. We expect that in 2010, projects like Atrium Arad, Gold Plaza Baia Mare, Polus Center Constanta to be opened and to have reasonable vacancy rates (under 15%). There are still schemes in smaller cities of Romania which are struggling, with rents reaching an all-time low level as a result of reductions, and we expect 2010 to be a year equally difficult as 2009.

On Street Retail Space

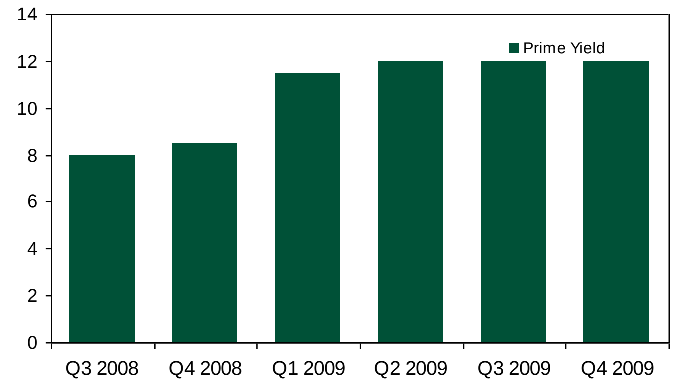
One of the hardest hit retail segments in 2009 was the on-street commercial area. With retailers not willing to maintain on-street stores just for marketing purposes, without any justification in sales, the vacancy rates have gone up, even for prime locations.

In Bucharest the second half of 2009 saw two major developments: a revival of the old-city center (Lipscani Area) with a high number of restaurants and cafes opening units here, in order to capitalize on the very high pedestrian traffic.

Evolution Prime Rent – On-street Bucharest



Evolution Prime Yield – On-street Bucharest



Retail Openings Romania 2010 (selections)

Project	Developer	Location	GLA
Sun Plaza	Sparkassen Immobilien	Sudului Square	80.000
Atrium Center Arad	Atrium Centers	Arad	30.000
Gold Plaza Baia Mare	Immoeast	Baia Mare	30.000
Polus Center Constanta	Trigranit	Constanta	50.000

Also, due to the lower asking rents a number of important brands (like: Ferrari Store, Belstaff, Frey Wille, Helvetansa, Cellini, Micri Gold, Hugo Boss) decided to open stores on the luxury artery: Victoriei Avenue. With the high number of luxury jewelry stores newly opened and other brands willing to bring new concepts, Victoriei Avenue promises to become a true luxury destination.
Anywhere else in Romania, on-street saw the rise of vacancy rates and lower asking rents, with relatively few retailers interested in opening this type of units.

Retail Parks

This type of retail development, a relatively small element of the overall market, performed at relatively adequate levels in 2009 because rents were at a much more sustainable level than for shopping centers. Additionally, they usually cater to the primary needs of customers (hypermarket, DIY stores, value fashion being the most important tenants).

Tenants

The retailer market tends to be completely dominated by international brands, with national brands, big or small, having some challenges in overcoming this period. We expect brands which have entered the insolvency process to continue the re-organization process, which will include closing down under-performing units and to re-negotiate the rental level with the owners of the premises.
As customers are very careful with their income, we expect that brands offering value for money will be the most sought-after brands, while promotions and a price that accurately reflects quality to be key performance principles. Among the brands which are scheduled to open stores in 2010 include: Lidl, Aldi, Leroy Merlin and Camaieu. Fashion retailers and discount stores are especially interested in Bucharest and in major cities of Romania and especially in cities with little or no competition. The study made by CBRE named "How Active are Retailers in EMEA?" was based on extensive talks with 220 retailers from 56 countries. In this study, Romania ranks 8th among the countries most prefered for expansion by retailers.
Commercial operators have to keep a balanced activity, as consumers still have a strong perception of the perils of the financial crisis and their carefulness in buying will persist even when economic growth resumes.

Investment

Only two retail transaction were completed in H2 2009: the sale of Modul Shopping Center in Targoviste, a project anchored by Praktiker and European Retail Park Braila, a 54,000 sq m project in Braila, bought by the investment fund NEPI. Investors will continue to be cautious in 2010, but we expect to register a higher level of transaction activity on the market than in 2009, as international developers and investors anticipate a revival of the retail market in the medium-term future.

For more information regarding the MarketView, please contact:

Adrian Nicolescu
Manager Valuation & Advisory Department
CB Richard Ellis | Eurisko
Europe House,
51 – 53 Lascar Catargiu Blvd.,
Sector 1, Bucharest
t: +40 21 313 10 20
e: adrian.nicolescu@cbre.com

Luiza Moraru
Head of Retail Department
CB Richard Ellis | Eurisko
Europe House,
51 – 53 Lascar Catargiu Blvd.,
Sector 1, Bucharest
t: +40 21 313 10 20
e: luiza.moraru@cbre.com