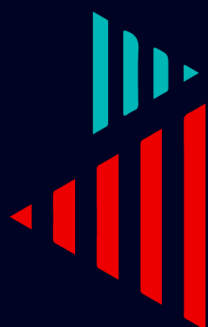




**POLSKA RADA
CENTRÓW HANDLOWYCH**
POLISH COUNCIL
OF SHOPPING CENTRES



RETAIL RESEARCH FORUM **CRISIS**

COVID-19

REPORT VOL. 22

VIEWS FROM ABROAD



VIEWS FROM ABROAD

The Covid-19 epidemic is a global crisis. The first such situation, which to such an extent affects most parts of the world, only at a different scale. It has been an unprecedented situation and crisis that none of the current working generations has ever faced before. This means that we have nowhere to draw on knowledge and experience.

It can be observed that the symptoms of the global retail crisis were of quite similar nature. The entire commercial real estate industry has faced a number of consequences which ultimately, in most European countries, apart from Sweden, ended up with the almost complete shutdown of shopping centres to customers.

From every part of Europe, there came virtually the same concerns and problems: conflicts between landlords and tenants, fear of mass bankruptcies of retailers, lack of liquidity of landlords or insufficient government support mechanisms.

European countries have dealt with this in different ways. Some have managed to bring tenants and landlords to the negotiating table (e.g. Australia or Germany) in order to work out common principles of operating in the new reality. Depending on the development and scale of the epidemic, various restrictions on the use of retail facilities and various support mechanisms were also introduced by the state authorities.

Global brands and international landlords have been confronted with a crisis that is present in every destination that they operate in, and which has had to be addressed in a number of different ways, specific to the region, country or scale of the local epidemic.

However, one thing is certain – after the first reopenings in China, all European countries are starting, or have already started, to defrost the economy. One aspect of this is to relaunch shopping centres for a wider range of customers, adhering to the developed detailed and restrictive rules related to the maintenance of safety and hygiene. The first openings have already taken place in Germany, the Czech Republic, and Austria. France opened its facilities on 11 May. Each country has slightly different rules – depending, for instance, on the area in which the facilities are leased or the type of their activity.

There is a great deal of concern – primarily about the scale of customers' return to the facilities and the level of footfall compared to what had been recorded before the outbreak. Another aspect is to prepare a shopping centre for the reopening – in order for it to take place, the asset must comply with a number of detailed rules aimed at ensuring customer safety. These entail not only enormous costs, but also operational challenges. It yet remains to be seen whether it is worth it, as the question is: will the customers return?

It would seem so. Not right away, not in the first week, but eventually, they will. As we wrote in the previous edition of this report – they will come for specific articles: clothing, lingerie, home articles.

However, other challenges facing the shopping centre industry following the reopening cannot be overlooked, especially the agreement between tenants and landlords on the rules of operation of both parties in the new, unforeseen circumstances.

This and many other challenges mean hard work for all of us in the coming months.

As PRCH, we will endeavour to be the voice of the industry, but also to provide data, knowledge, examples, best practices and analyses that can be of great help in rebuilding our business.

This time I present you with the second edition of the special report PRCH RRF Crisis. Covid-19. Vol 2. Views from Abroad to look at the scale of the phenomenon from the international point of view, in order to bring you closer to the situation and perspective of other countries in Europe and the world and to present certain developments firsthand. Let's benefit from good examples, learn from each other, which will help us return to stability more easily.

Anna Zachara-Widła

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Warsaw, 13 May 2020



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COVID-19 OUTSIDE POLAND

National councils on state measures regarding the epidemic

Justyna Ostrowska

Education & Research Specialist
Polish Council of Shopping Centres



The nearly two-month "national quarantine" period is over. It was the time when the retail market has been shaken at its core, as it is based on shoppers. Since 13 March 2020, significant restrictions on the functioning of retail facilities have been introduced in Poland. Only shops with essential goods (groceries, pharmacies or beauty supply stores) could still function in the dynamically changing reality. F&B establishments were also closed down, with just the "take away" function remaining. Most service points were also closed.

Never before has the retail industry faced such a challenge. Despite different points of view, it tried to unite and work out a common position, which was presented by the Polish Council of Shopping Centres during talks with the Ministry of Development. On 29 April, during a press conference, Prime Minister Mateusz Morawiecki announced that the shopping centres would be reopened on 4 May. This information allowed the industry to take a deep breath, but the question remained: how are the shopping centres and their tenants to function? On 2 May 2020, a regulation of the Council of Ministers on establishing certain restrictions in connection with the outbreak of the epidemic is presented. Under this regulation, as of Monday, 4 May 2020, commercial facilities with a sales area of more than 2,000 m² can be opened, under the condition that the jointly developed rules of safe use of these facilities are observed.

For landlords and customers of shopping centres, this new reality entails a number of obligations to follow. Poles are required to keep the limit of people (1 person per 15m² of retail space) visiting the premises, to cover their nose and mouth, or to use personal protective equipment and hand disinfectants. These are only the

most important guidelines for the functioning of large-area commercial facilities developed by the industry, the PRCH and authorities.

This has been the situation of the retail sector in Poland for over a month and a half. But what is the situation outside our "closed" borders? The Polish Council of Shopping Centres works closely with institutions supporting retail in Europe. Daily contact with their representatives allowed us to study the crisis situation in Portugal, Italy and Germany, among others.

According to the Portuguese Council of Shopping Centres, as of 16 March 2020, the Portuguese authorities introduced restrictions on the operation of shopping assets, with the exception of grocery stores, food markets, pet food stores, florists, laundries, pharmacies, beauty supply stores, electronics and household appliance stores, DIY stores, banks and petrol stations. In the case of F&B establishments, their activities are limited to the sale of take-away meals.

Government aid for shopping centre tenants is not entirely transparent. As of the date of the study, rent deferrals for the duration of the pandemic plus 1 month were still under consideration. Tenants will be required to pay the deferred rents within 12 consecutive months after the resumption of their operations. However, the government has not defined the scope of support for shopping centre landlords.

The retail sector centred around the Portuguese Council of Shopping Centres is of the opinion that only individual discussions and negotiations between tenants and landlords can have measurable effects for both parties.

The Italian Council Consiglio Nazionale dei Centri Commerciali describes the situation of the retail market as follows:

At the end of January, the Italian government decided to impose a state of emergency for 6 months. From 26 March 2020, according to the adopted decree, the Italian retail market is to operate to a limited extent. Only shops offering the most essential goods can operate, provided that they do so in compliance with the sanitary requirements. These are: grocery stores, pharmacies, beauty supply stores, pet food stores, tobacco shops, electronics and household appliances shops, newsagents, petrol stations, post offices and banks. Some Italian regions also have additional restrictions depending on the epidemic situation there. However, many of the establishments that may still operate in Italy decided to hold or limit their activities.

As assistance to retail market The Italian Government consider granting of a tax relief to operators, amounting to 60% of the rent for March 2020. However, that law does not apply to all retailers and excludes most shopping centre tenants. Regardless of the above, they may benefit from the aid for all business activities, i.e. tax deferral, payment of a special amount of remuneration by the government for a maximum of 9 weeks, deferral of bank loans and, in the future, special aid for new banking or public financing entities.

The Italian Banking Association (ABI) has reached an agreement with the Italian

authorities to postpone the payment of loans and to extend the existing financing. The Italian government does not provide any special aid for the landlords and tenants of shopping centres. Each lease agreement should therefore be considered individually. The Italian Council of Shopping Centres is trying to help to reach an agreement between landlords and tenants in order to develop mutually satisfactory solutions and avoid the eviction of tenants from shopping centres, as the pandemic can be seen as a legitimate cause for such actions.

The Italian Council made several requests to the Government, including: an extension of the 60% tax relief on rents, or a 50% reduction in VAT for all non-food stores for the first month after reopening (excluding online).

According to the information sent by the Belgian Luxembourg Council of Retail and Shopping Centers, all restaurants and bars were locked down as of 14 March 2020, while as of 18 March 2020 all shops except for groceries and pharmacies were closed.

According to the Dentons report "Retail: country-by-country summary of the impact of COVID-19", the Belgian government will pay compensation of between €2,000 and even €5,000, depending on the region where the establishments that were forced to close their shops are located.

The Belgian Council presented a position in which it recommended a 50% rent remission during the shopping centre lockdown, and an additional deferral in payment of the remaining 50%. This proposal was discussed with the companies associated in the Council representing shopping centre tenants, but it did not meet with approval.

According to the information from the Swiss Council of Shopping Places (SCSP), the restrictions on the operations of commercial facilities, effective as of 23 March 2020 do not apply to: grocery stores and other stores selling everyday items (e.g. newsagents and petrol stations), take-away restaurants, pharmacies, beauty supply stores and stores selling medical devices (e.g. glasses and hearing aids), post offices, points of sale for telecommunication service providers and banks.

The SCSP recommends extending the deadline for repayment of tenants' rent arrears. If, as a result of actions taken by the Government to combat coronavirus, a tenant is in arrears with the landlord, the deadline set by the landlord for payment of the rent or additional charges due between 13 March 2020 and 31 May 2020 must be at least 90 days.

According to the information provided by the French Council Conseil National des Centres Commerciaux, as of 15 March 2020, only grocery stores, pharmacies/beauty supply stores, tobacco shops, opticians and DIY stores are excluded from the current regulations on the shutdown of retail spaces. 80% of shopping centres in France have decided to stay open only with the above mentioned shops operating.

In order to provide business aid to tenants, the French Government envisaged setting up a special fund to help SMEs. Eligible enterprises (less than 10

employees and annual sales of less than 1 million) are granted a deferral of rent/additional charges, taxes and bank loans. The French authorities have declared that they will not intervene in issues between landlords and tenants. The French Council recommends that rents and fees for the second quarter of 2020, which are invoiced monthly, should be suspended until April 2020.

The Spanish Asociación Española de Centros y Parques reports that on 15 March 2020 the Spanish government also decided to close down shops. Only grocery stores, pharmacies, opticians, orthopaedic shops, laundries, shops with paper products and newspapers, and pet shops offering pet food can continue to operate under the sanitary rules set at that time.

Entrepreneurs who have temporarily suspended their employees from work through a temporary redundancy mechanism called ERTE (Temporary Collective Redundancies) are obliged to take them back to work after the restrictions have been lifted. In addition, the Spanish Government has established a public guarantee scheme to provide liquidity for companies in financial difficulties. This decree guarantees loans to companies that apply for it, or those that already have financial commitments and need to refinance the loan.

The Spanish Council represents the interests of both tenants and owners of retail properties and therefore recommends individual negotiations. The Council has asked the Spanish Government for a number of measures, including financial assistance for both landlords and tenants once they resume operations or even for the duration of the lockdown. The suggested aid would include a tax relief up to 75% for tenants to help them pay their rent and expenses after the reopening of the establishments, and a reduction of all kinds of taxes equivalent to 50% of the value of rent and additional charges in the period when commercial activity was still not fully possible.

The situation presented by the German Council of Shopping Places is similar in all states (Länder) of Germany. On 16 April 2020, a ban on the operation of retail assets was introduced with the exception of: grocery stores, food markets (excluding flowers), pharmacies, beauty supply stores, and DIY stores. Restaurant operations have been limited to take-away sales.

The German government has introduced the so-called "corona law", which allows for the payment of rent to be deferred for a certain period of time. The German Council has developed a code of conduct for tenants, owners of restaurants and commercial assets in order to help the industry to resume operations in the new reality.

NRW - (The Netherlands) retail association, points out that the situation in the Netherlands is similar to that in other European countries. Operating stores with essential goods are obliged to comply with the new sanitary restrictions.

According to the Dentons report, an agreement has been reached, where landlords grant short-term rent suspensions to tenants who experience a turnover drop by at least 25% between April and June 2020. It involves suspending payments for a period of three months, by at least 50%, (if necessary, it may be

75% or even 100%) of the charges. This agreement has been approved by the Dutch Ministry of Economy.

The Austrian Council of Shopping Centres states that the restrictions introduced in Austria applied to shops with an area of more than 400 m² (except for multi-branch shops with essential products and DIY stores), shops in shopping centres (except for groceries) and F&B establishments. All shops are also obliged to comply with the restrictions, i.e. (obligation to cover the nose and mouth, one customer per 20m²).

The Austrian government has declared aid to tenants who have lost 75% of their profits from sales. Shopping centre tenants must pay rents and other charges resulting from their activities. They can also apply for a loan (care package) from their bank.

As of 12 March 2020, restrictions on the operation of retail schemes were also introduced in the Czech Republic. The exceptions, as in other European countries were: grocery stores, pharmacies and beauty supply stores, florists and banks.

The Czech government has proposed to postpone the payment of rents until the end of the year for rent not paid between 12 March and 30 June 2020. According to the Czech Council Czech Committee of Shopping Centre Association, the talks regarding the rent subsidies for three months were attended by the representatives of the government (33-50%), tenants and landlords (30%) of the shopping centres. The Kurzarbait concept is based on covering 80% of the wage costs of employees staying at home. Shopping centre owners may also apply for a loan deferral for 6 months.

As can be seen from the reports of the National Councils, the situation in the retail property market during the pandemic is similar in most European countries. Everyone is trying to work out the best possible solutions, which will not only allow to function in the "covid time", but also to return to business after the imposed restrictions are removed. There is no doubt that the reality that we will face in the coming months is still uncertain, regardless of the geographical location.

SITUATION IN SPAIN

Beatriz Vidal

Director
Spanish Council of Shopping Centres and Retail Parks



The shopping center industry in Spain is still in deep suffering because of the crisis caused by Covid-19. As in most countries, our shopping centers have been forced to close all their shops except hypermarkets, grocery stores, pharmacies and other “essential good” stores designated by the government. It has been two months now and we are still not certain about when will “full opening” take place. The Spanish government has initiated a plan of measures to return to what they call “new normality” and shopping centers and retail parks have been relegated to the final stage of this plan. Uncertainty, along with a fall in consumption and new consumer habits acquired during confinement, are some of the threats that we need to face.

We have prepared our own handbook on hygiene and safety measures for shopping centers and retail parks. We want to prove that we are ready to operate shopping centers at their fullest meeting all safety requirements. Demonstrating that shopping centers are a safe place “to be and to shop” is important for all, government, shopping center employees, service and good providers, and consumers as well. Consumers must feel safe and confident when attending shopping centers because we represent a large part of retail in Spain.

We are also debating on the new scenarios that we will have post Covid and, although there is no certainty, there are some aspects that we consider to be key: flexibility, a must for simply everyone, from property owners, to retailers and service firms who will have to adapt to the new reality and that will require a great dose of resilience; the integration of technology within the shopping center and an omnichannel approach to be developed wholeheartedly and so is creativity when implementing marketing campaigns to try regain sales and inflows. Last, but not least, CSRs strategies will be the unit of measure in which brands and companies will be valued.

SITUATION IN GERMANY

Ingmar Behrens

Managing Director
German Council of Shopping Places



After a total of 26 days of total standstill in the German retail and commercial real estate industry, the reopening of retail trade in shopping centres and cities has been started again very slowly and with strict conditions since mid-April.

The first three weeks are now almost over and an initial balance can be drawn. Overall, it can be said that the retail trade and the shopping centers are very well able to implement and fulfil all measures prescribed by the authorities for the protection of customers and employees. There are two levels of visitor volume control in centers. The first is the maximum number of visitors per shopping center. This depends on the total sales area. Quantity control is carried out, for example, by the frequency counting systems and is then implemented at the entrances by security personnel. At present, between 10 sqm and 20 sqm per person apply in Germany. For the individual shops, the same requirement of persons per square meter applies. A control is carried out by a limited number of shopping baskets, security personnel or even just by the employees. However, the previous frequencies have not led to queues in front of shopping centres nationwide, as in the first weeks approx. 30-40% of the normal frequencies were only reached. Now after three weeks we have seen a stabilisation of approx. 50-60% per week and depending on the location up to 75% on Saturdays.

Since the gastronomy is only allowed to sell out-of-home, there is currently still a very important incentive to stay in a center longer. Cinemas and fitness centres are also still closed, which also affects the frequencies. Electrical goods such as TV, loudspeakers and household appliances seem to be in particularly high demand. The number of cooking utensils is also noticeably high. Textiles and shoes, on the other hand, have a much harder start. This may be related to the home office situation, as people dress comfortably at home and do not go to the office in fashion. The fear of a severe recession is also likely to make people very

careful with their money. It is also clear that it is not much fun to go shopping for a long time with a mask on your face. So only very targeted purchases are made. Here, shopping centers seem to meet a new "one-stop-shop" need, as customers can find a lot of things in a safe, clean and service-oriented location, centrally located and easily accessible.

The situation of the tenants is weak to varying degrees due to the severe sales losses. In the next 2 months it will be shown which concepts can exist under which conditions, how far the growing online trade could generate turnover and what customers are willing to buy in the COVID-19 crisis.

Due to the worldwide travel restrictions that are still to be expected, we currently assume that many Germans do not take a holiday abroad. The prices for holiday homes in Germany have already increased by more than 50% in some regions. Therefore, there may be a certain special boom in retail, as people are spending their money on local consumption instead of booking an expensive cruise. But a reliable forecast is not yet possible today, as the economic effects of the global corona crisis will only become apparent in the coming months. However, experts predict a decline in retail sales of up to 30%. In Germany, we are therefore calling for all Sundays to be released for shopping in the stationary retail sector in the fourth quarter in order to take advantage of the traditionally high-revenue pre-Christmas period for a successful final spurt.

SITUATION IN AUSTRIA

Dr. Roman Schwarzenecker

Secretary-General
Austrian Council of Shopping Centers



In Austria, food stores, pharmacies and drug stores stayed open during the Corona-induced shutdown, after the gradual start-up phase where small stores (with less than 400 m² sales area) and DIY stores were allowed to go into operation again, all stores with the exception of F&B and leisure offer went into operation on May 2, 2020. F&B will open in the middle of May, hotels, cultural and leisure services will open at the beginning of June. The impact of the Corona shutdown on the Austrian retail scene in all shopping places (shopping centers, retail parks as well as high streets) was considerable as shopping goods sales ground to a stand still there. The pandemic will have a long lasting effect on retail in general in our estimate: due to the general economic consequences people will have less to spend in the mid-term futures.

To put it bluntly: The shutdown was expensive! Belonging to the consultant company Standort + Markt per shutdown day, the stationary retail trade in Austria alone has lost an average of around € 110 million gross turnover to date, not counting F&B and service providers. The 242 Austrian shopping centers are missing around € 30 million net in the cash register per shutdown day. Each month they have to get about 80 millions for rents, in the pandemic time they are more than questionable. The fault lines with regards to shop space are now becoming clearer than ever, the "Corona fire accelerator" will have extensive consequences for the shopping center landscape in Austria. Due to the loss of sales and the ensuing liquidity bottlenecks, weaknesses in the retail landscape will become apparent much more quickly than would have been the case with normal business activity. Even if the e-commerce sales figures were not exhilarating during the shutdown phase, we expect long-term effects at the expense of stationary trade.

Corona-shutdown-trends in our estimate are:

- The fluctuation rate (how often does a shop change its use?) in Austrian shopping centers is currently 13.6% based on a 2-year observation cycle. The fluctuation rate is very likely to be between 15 and 20% in the next 2 years, and vacancies will also increase as a result: The vacancy rate (number of vacant shops in relation to the total number of shops) was already at 7.8% before "Corona", and we expect it to rise to well over 10%. In addition to the ongoing erosion of sales through e-commerce and the already strong competition for space, some locations will fall well below the profitability threshold.
- The consequences may prove to be a real problem for center operators: the tenant mix is under scrutiny and will have to be adapted. Customer loyalty can no longer be achieved with "more often the same", the mix has to be "entertaining" in large centres and "convenient" in small (nearby) centres.
- In the wake of the mobility restrictions imposed by various regulations, the catchment areas of popular, larger shopping destinations in particular are likely to virtually implode. Former customers from distant areas are currently staying away, the regulations having most probably a longer lasting effect than planned. It is questionable whether the old customer relationships can be restored. In any case, it will take time!
- One thing is certain from our perspective: the shutdown will bring about serious changes both in the shop landscape and on the consumer side, which means that Austrian shopping centers will have to cope on "two fronts" (in addition to liquidity concerns and the threat of revenue losses): who will rent space in the future and how can one win back former customers? And one more thing is certain: another shutdown would be lethal for many market participants.

The reopenings are promising but not exuberant –it will take time to reach pre-Corona sales and footfall levels.

GLOBAL ROUND UP IN THE COVID-19 WORLD OF RETAIL AND RETAIL REAL ESTATE

Chris Igwe

President
Chris Igwe International



If there is one thing the whole industry agrees on, it is that these are unique, unprecedented and very challenging times. There are many things that unite us in the industry, but there are even more that separate us more than ever, as the COVID-19 pandemic has so clearly demonstrated. From one continent to another; from one country to another; and even, as witnessed in the United States of America or even in Germany, there are divergent views from one state within those countries to another state on how to address and implement closing or indeed reopening measures and strategies when it comes to retail. It is no surprise therefore that everything appears chaotic. Various groups and individuals are crying out for stronger and clearer leadership from governments, national and international trade associations, and from the players themselves – landlords, tenants, and service providers. No group is immune to the criticism.

What is clear is that a path forward that will contribute to saving jobs and livelihoods, to save businesses and even towns, cities and communities, must be the priority. It is of course not possible in a short article to cover all the issues, so instead we have sought to share what is currently going on around the world and for you to judge for yourselves what light there is at the end of the tunnel and how brightly this will be shining on retail.

Personally, watching what is happening abroad and gathering insights directly from colleagues and friends in those regions, inevitably we have to start with China, to reflect on some of their outcomes.

Shanghai Disney reopens on May 11th and tickets were sold out online within minutes of the website opening, demonstrating the appetite to rediscover life outside lockdown! What is called “Revenge shopping” was experienced for the reopening of the Hermes store in Guangzhou, China, with reportedly the best single day sales of any of their stores in reported to be in excess of \$2.7M.

However, this frantic behaviour does not paint the complete picture. Traditional retail is slowly increasing sales having started out at about 10 – 20% of previous year’s sales for the first month after reopening, and now, 3 months after reopening, the ranges are from 40 – 50% of sales, with a hope of reaching 80 – 90% of sales by the end of 2020/early 2021. Footfall itself in shopping centres is running at 40 – 50% and growing slowly. While restaurants have reopened, they are understood to be struggling not only due to reduced traffic, but also the social distancing requirements, making it exceedingly difficult to generate satisfactory sales. The view is that, as with the SARS epidemic in 2003/2004, this sector will take at least 12 – 18 months to recover, but that this time there will be even more casualties.

In contrast, in Europe and the US, we are starting to see examples of huge queues of people outside the McDonald’s, KFC or Chick Fil A restaurants and other fast food chains courtesy of the Drive Thru’s. This is another example of the desire to rediscover our old habits and compensate for those missed pleasures during these months, especially as in many countries across Europe it is still the only possibility for “eating out”. Food delivery services have skyrocketed from consumer demand. During this pandemic, we have learnt that not all retail is born equal! We have discovered that there is now a new form of retail called “Essential Retail” that has been able to remain open during the pandemic across most countries. This type of retail covers supermarkets, food outlets generally, markets, pharmacies, DIY stores and garden centres (both only offering a select range), flower shops selling plants, banks and the like, which are allowed to remain open and service the public with strict social distancing and sanitary guidelines.

Many retailers have had to work harder to provide the customer with the online facility not only to service them, but also to now support the physical store as it ramps up slowly after reopening. This is particularly the case in China, as many retailers implement highly targeted strategies, including providing e-vouchers to entice the consumer to return to the stores or shopping centres.

In virtually all countries, cinemas and leisure/entertainment outlets were closed and, in many cases, they still remain closed even after reopening.

France comes out of lockdown on May 11th with all retail allowed to reopen, but restaurants, bars, cafés, cinemas, and leisure outlets remain closed. For these sectors still closed, the situation will be reviewed towards the end of the month. In addition, shopping centres larger than 40,000m² will remain closed, unless approved for opening by the local Municipality, due to concerns over managing large crowds likely to visit the centre.

Various countries including Austria, Germany, Poland, Italy, Spain and so on have been coming out of lockdown over the past few weeks, while a few countries like

Sweden never closed down, which in turn put financial and operational pressure on shopping centre owners who had to keep their centres open, but with footfall dramatically reduced. Retailers have had mixed results there, some indicating that store performance was “catastrophic”, while others questioned the validity of operating stores at all under those conditions.

In the Middle East, with the recent arrival of Ramadan, a particularly important time for the retail sector, countries have started reopening their centres, including Saudi Arabia, and the UAE, clearly with the strict requirements of social distancing and sanitary guidelines.

The main issue of course still remains the landlord – tenant relationship and how it is going to move forward in such an acrimonious environment. We have witnessed some understanding and tolerance from landlords in certain countries. Some, across the globe, have decided on their own to waive rents for the duration of the lockdown, while others have agreed to defer rent, to be collected over a defined period; while others have categorically refused any form of rent concessions. Retailers have had to make the choice between not paying rent at all in the hope of surviving, so as to at least pay staff and keeping the business operational as best they can and for as long as possible. Other retailers have sought to obtain credit lines and loans. Some have secured several hundreds of millions, while for others it is in the billions.

Once again, this adversarial position of landlord – tenant is not new but has become very acute, resulting in entrenched positions and huge mistrust. The example of the French government appointing a mediator to find a solution between the major landlords and the tenants could be a watershed moment for the industry as a whole and to be watched closely. While in Germany the Code of Conduct document from the German Council of Shopping Places signed by various landlords and retailers, was a sign that progress can be made if there is a will to do so.

The recent announcement by North American Shopping Centre owner, Brookfield Asset Management, putting together a fund \$5BN to assist struggling retailers is an interesting approach. Even with the criteria they defined of which types of retailers could be eligible, it is still a creative way to keep retailers trading.

On the flip side, one major brokerage firm in the US has indicated that as many as 15,000 stores could close in the US, compared to some 9,000 stores in 2019. That said, no one has a crystal ball, so who knows where this will end up. The reality is that it will be devastating, as many of us expect.

Other initiative worthy of note is that of curb side delivery/pick up for shopping centres. This is becoming a real strategy, as witnessed by the example of US landlord, Kimco Realty who are promoting this in all their centres going forward.

The other fascinating area of much discussion is that of Consumer Behaviour. Increasingly there are two camps in this debate – those who believe that human beings fundamentally will not change (accepting that there will be some initial adjustments due to social distancing and sanitation guidelines), and others who

believe that we can expect definite behavioural changes. In some ways, time will tell, but as human beings we are sufficiently resilient to adapt our habits, even if we do not change fundamentally our behaviour. There is not enough room to explore the different thoughts and opinions, but this will be debated for quite some time to come, and rightly so as it will affect the ways in which retailers and shopping centres operate their businesses. What it does suggest is that the consumer is expecting more attention, more sensitivity to their needs, and more reassurance on health and safety. We believe that Innovation and Technology which combine to create strong human connections with the retailer or shopping centre will be the fuel to re-ignite the success engine for Retail.

In conclusion, we should bear in mind that many of the troubles of retail started well before COVID-19 – excess number of stores, cannibalisation, poor sales, e-commerce, challenged retail models (such as department stores) and segments (such as fast fashion), underperforming retail parks and shopping centres, increasing vacancy rates, shopping centres lacking a clear positioning for their catchment, poor customer service, and so on. The pandemic merely accelerated the unfortunate demise of many retailers. It is clear that retailers will be looking for more flexibility in leases and will be more vigilant on these clauses, especially as they relate to “Force Majeur” or business interruption.

So, there will be less of everything in the retail landscape. The week of May 4th saw in the US well-known brands such as J.Crew (fashion), Neiman Marcus (high end department store) file for bankruptcy; Canadian shoe retailer filed for bankruptcy in the US and Canada. Up to now, the UK has seen its own round of well-known names falling into Administration well before the pandemic, however it is accelerating across all sectors from small formats to department stores. The same is expected in continental Europe in the coming months. It is going to be a long, slow road ahead.

SWEDISH VIEW OF PANDEMIC

Anna Bergstrom

Consultant



Trade in Sweden is similar to trade in the rest of the world, it's tough, many companies have already gone bankrupt and more bankruptcies are waiting...

The traditional trade has struggled hard, long before the Corona pandemic, we've seen small private stores, big brands and global chains closing. Pre Corona the threat was spelled digitization and sustainability, today the threat to the world's trade is called Covid-19.

When the virus started to spread in China and factories closed, production went down and deliveries were lost or were seriously delayed, the first recommendations came to mostly be about alternative transport routes. The risk was then defined as missing goods and products in stores and empty warehouses. 5.5% of Sweden's total imports of goods come from China, of course Swedish companies were worried about these missed deliveries, but never could anyone imagined the consequences that were expected.

February 12th 2020

There is a small Swedish-owned hotel in Javea who arrange hikes and guided tours around the area, hikes up into the mountains and kayaking. My daughter was thrilled! She had been chosen for one of the two internships and was planning for the four weeks visit!

I was excited about my new business; I had just quit my job as a mall manager for Retuna recycling mall to start my own business as a sustainability consultant. I had just come home from London after an event where I was one of the speakers and a few days later I went to Gáva in Spain, for another one. I was about to make business agreements with two different partners and had a couple of speeches in my calendar for the spring. Everything was going our way!

We received daily reports of life taken by Corona in China and how the virus was spread in Asia. We heard voices about how we should start thinking about our own protection, but we were told that it was like a common cold, but that the virus spread in an aggressive way. On social media, pictures and videos spread about what the situation really looked like in China and soon many began to doubt "the common cold".

March 13th 2020

During winter all Swedes who can, goes for a skiing holiday. To flatten the curve of the number of holidaying Swedes in the mountains, we have divided the school off-periods based on the geography. Not all Swedes goes to the Swedish mountains, some goes to the Alps. In my hometown we have a small airport that goes back and forth to Bergamo twice a day. We quickly realized that a great many people are going to the Alps. All of a sudden, the virus had reach us.

We had heard about the virus was taking lives. But never did we see it coming in our way. I got a call from my daughter's school; they had cancelled the trip. I got a call from the organizer of my speaking services; I had been cancelled. Not postponed. Cancelled.

Sweden is an open and transparent country, we got all the available information daily through the media, newspapers and radio, combined with testimonials on social media. Individuals, medical staff, doctors and sufferers from the risk areas, posted videos, stories and their own experiences. Stories we hardly thought could be true.

"There is no direct danger to us in Sweden, just make sure to wash your hands to protect the older". The pandemic took off, people doubted how Sweden handled the situation. Sweden's model is being questioned when countries around took greater action, but the Public Health Institute were determined: "we can expect that many will get sick, we have to make sure to flatten the curve so the health care system can take care of everyone. Stay at home if you feel ill, everyone else continues. The way forward to get through and defeat the virus is to create popular immunity. About 70% of the population must be infected, but not at the same time".

I don't think we understood the messages at first, many wanted to close schools, childcare and communities. But the Public Health Institute argued that important community functions must be kept up and running, if we were to closedown, staffing for all key functions and society would also stop working. We needed staffing, we needed the people, they were the supply, but also the greatest danger of infection. We were advised to act as usual, live as usual but with recommended physical distance and we would refrain from non-essential travel. And wash our hands!

High schools, colleges and universities closed in March, the slightly older students could pass their studies on their own. But other schools and education slated to be open as usual. The debate around the inconsistency of the messages about how to continue our lives raged on social media and the country split a bit between those who understood public health institutes vs. those who wanted to

shut down. People had started to get scared, more and more people knew of someone affected and more and more companies raised their voices about crisis. The grocery stores were under a lot of pressure, people had started to stock up on food, rice, pasta, toilet paper, diapers, hand sanitizers, hygiene items and gruel. Empty shelves in all stores! While all other stores stood empty on customers. No one dared to go out, except the young and old. The old ones that we were supposed to protect.

The support packages presented by the government were not enough, it was too complicated regulations and above all it took too long! Many small business owners had to close down their businesses, companies built up over generations went bankrupt. Shops and businesses demanded reduced rents of commercial premises and all fought against the economic collapse. First and worst hit was the tourist industry. The hotels were empty, conferences were cancelled and lectures, concerts, performances, and other public events – everything was cancelled.

Quickly discussions and calls took place, to not cancel but to adjust instead. Messages as "Support your local restaurant, support your local store, help during the crisis!" Quickly, many people came to work digitally, broadcast lectures via web and meetings and conferences were conducted online. But the vast majority of companies fought for their own survival. Many tried, some changed their production and now produced protective equipment to supply material to hospitals, the hotels offered beds to relieve hospitals and restaurants sent lunch boxes to medical staff.

Until the 9th of May 2020, 2703 businesses has went bankrupt in Sweden, comparing to 2627 bankrupt businesses for the same period last year.

Large companies and well-known brands have suddenly started talking about a greener future model, circular economy, that we cannot continue as before. That we have to take the time now to change. After all, we have all seen a significant reduction in emissions during the pandemic, when we stopped travelling, slowed down production, reduced transport and are trading less. The previous threats that were spelled digitization and sustainability has suddenly taken on real significance.

May 9th 2020

We're still struggling, we're still affected, but we slowly accept. And adjust.

Insights:

- 1. As a human being we need to meet other people. The digital world will be a complement to the human living world.**
- 2. The world will come out as a better place after the crisis: we will create a more sustainable way to live to protect our place to live, ourselves and our children. And of course, the older.**
- 3. Physical distance works with a complement of increased social presence. To be present socially without being physical present takes more time, more effort and is a more complicated way to figure out how people are. We will find the way back to be able to hang out. So hang in there! <3**

COVID-19 MEANS CONSUMER UNCERTAINTY

Which is much higher in Poland than in Western Europe

Przemysław Dwojak

Senior Director / Head of Sales Effectiveness
& Head of Consumer Insights
GfK



The situation that all consumers are currently experiencing is linked to the uncertainty of tomorrow, which translates directly into fears of a worsening of the financial situation due to, e.g. the threat of losing a job - a real one, especially for those working in services, transport, tourism, catering, entertainment and trade. This is the case in Poland, but not necessarily in other European countries.

By the end of March, about half of Poles feared the deterioration of their financial situation, compared to 16% who feared it in the period before the pandemic. With the development of the epidemic and prolonged lockdown, the percentage of consumers who were afraid of declines in their incomes in mid-April rose to 63%, to stabilize at 55% by the end of April. The decline in consumer sentiment is the highest in the history of GfK's measurements, and its fluctuations express the uncertainty that Poles are facing. This has had a significant impact on a household budget management strategies. 68% of respondents believe that in the event of a worsening financial situation of their household, they are ready to reduce their current regular purchases and expenses. This is a naturally unfavourable trend for retail. It could be seen already in the first week after the opening of shopping centres on 4 May 2020. The sanitary regime affecting the quality of time spent on shopping and turning a visit to a shopping centre to an unprecedented experience, combined with the uncertainty of tomorrow, which is cooling down the enthusiasm for spending money, have been reflected in the first published statistics. The footfall is between 40% and 70% of visitors compared to the

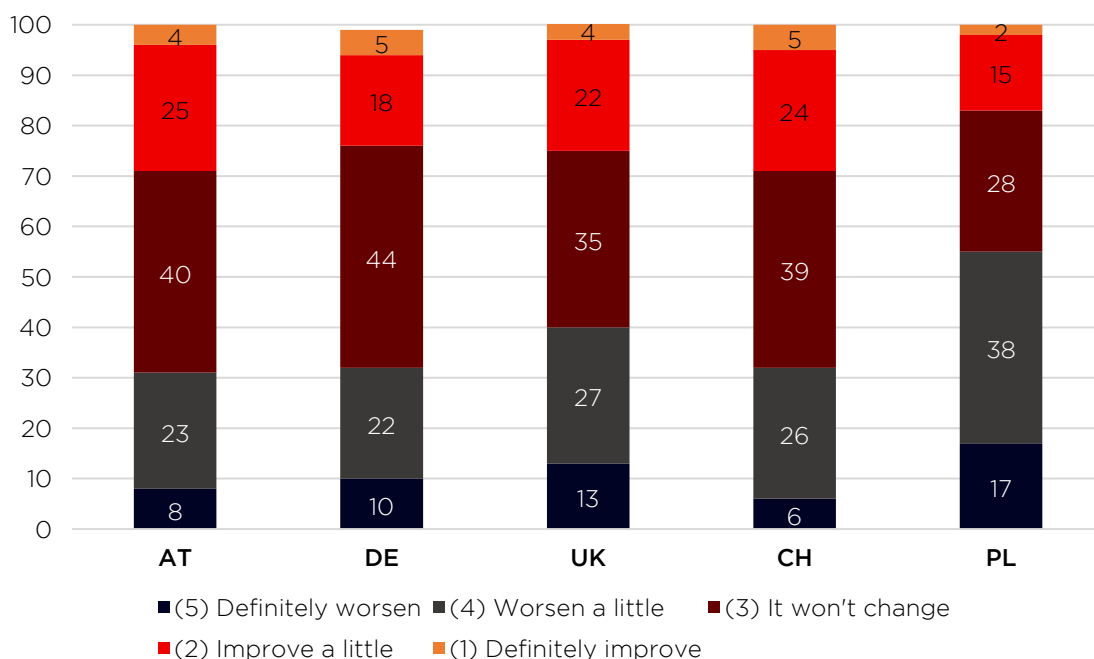
corresponding period in 2019. This directly translates into turnover. Some retail chains report between 30% and 50% of last year's results.

European data from the second half of April show that consumers from more affluent countries endure the state of uncertainty and danger caused by the epidemic much better than Poles.

The ranking of uncertainty about one's economic future, based on the statements that the economic situation of one's household will definitively worsen or worsen a little, is as shown below. In Poland as many as 55% consumers fear that their own situation will deteriorate, whereas it is "only" 40% in the UK and 32% in Switzerland, 32% in Germany and 31% in Austria.

While 17% of Poles fear that the economic situation of their household will definitely worsen in the coming 12 months, only 6% of Swiss and 10% of Germans think the same.

N02. How - in your opinion - will the financial situation of your household change in the coming 12 months?



Source: GfK Corona Mood

The purchasing power of an average Polish consumer is at the level of 50.6% of the European average and such figures translate not only into retail spending but also into the share of online spending. One can say that the richer the consumer, the less he or she worries about the future and the more he or she spends on the Internet.

RETAIL LANDSCAPE AFTER THE EPIDEMIC

Agnieszka Górnicka

President
Inquiry



After a period of almost complete lockdown of trade in connection with the coronavirus epidemic, as of 4 May shops in shopping centres in Poland may operate once more. How will retail change after the reopening? And how will consumers change?

Brick and mortar retail has been governed by established rules and relationships for years. Now the time will come to redefine the whole system - the reopening of shops is the moment when the business model and the mission of the brand must be fundamental from the beginning. Many companies will have to redefine them.

So far, there has been no definitive answer to the most important questions. Will consumers continue to use e-commerce en masse after the lockdown? Will they become more frugal? What role will the ecology play? How to reestablish a system of complex relations between suppliers, retailers and landlords, as well as institutions financing retail? Nevertheless, we can already outline the most important trends at the moment.

From China to Austria, and now Poland, the retail market is gradually emerging from hibernation. The news is not very optimistic - 60% of Chinese landlords recorded a significant drop in turnover in Q1 2020, and forecasts for the Q2 do not expect any improvement (source: China Chain Store & Franchise Association). In luxury shopping centres, some stores have not yet reopened, while the spokesman for LVMH Group admitted that traffic in Chinese stores remained very low. Moreover, the turnover from the F&B sector is far from normal.

In Western Europe, after the reopening of shopping centres, the vacancy rate may increase by 20% due to bankruptcies. A strong consolidation of the retail sector is expected to reduce costs. Even in Sweden, where shopping centres have remained open, footfall is around 35% lower.

E-commerce, social media and omnichannel

In China, customers continue to avoid shopping in traditional stores and places with lots of people. They visit the shop as quickly as possible, buy what they need and leave. The developed facial recognition-based mobile payment system enables contactless transactions, and the epidemic has prompted many people, including the elderly, to use new technologies. Social networks have become sales platforms where millions of influencers act as intermediaries between retailers and their supporters - for example Adidas has used this format to promote its new Superstar sneakers in a limited edition. Customers ordered new shoes in real time via their mobile phones - with 2.23 million viewers, Adidas earned over \$29 million in just 10 hours! Also in Europe, many companies quickly implemented applications supporting e-commerce and hybrid solutions, enabling online shopping with delivery often provided by unusual partners - in Poland e.g. Mango TV, Glovo or Uber. Even if not all such ventures survive the test of time, they will give an impulse to think about stationary trade and e-commerce in an unusual way. The time of the epidemics tapped huge deposits of creativity and showed that one can act even under very unfavourable conditions.

The e-commerce sector of the food industry is the big winner of this crisis. While e-commerce in almost all categories of durable goods is already a standard, food trade has encountered barriers that have been difficult to overcome. This is what has changed: in the United States, for example, the number of households ordering food online has doubled between August 2019 and March 2020 to 40 million (source: Brick Meets Click). In Poland, we have recorded an equally dynamic growth, limited only by logistical possibilities on the part of operators. Some online shops, due to overload, did not offer shopping opportunities at all, while others offered delivery dates reaching 2 months (!). At the moment, even companies selling groceries online in 100% do not have sufficient infrastructure to cope with the gigantic demand. This phenomenon occurred not only in Poland: even the Ocado company in the United Kingdom, which is regarded as a model of organizational perfection, has had to block its services for a few days. It also turns out that even though large automated warehouses are very efficient, it is difficult to increase their capacity quickly. Expanding the fleet of vans is also a complex process as they need cooling equipment for fresh produce.

Hiring more employees is also not easy at the time of social distancing. Productivity in warehouses decreases when employees have to stand 2 meters apart and apply the necessary safety procedures. It is more difficult to find temporary workers, and after schools have closed, warehouses have experienced more absenteeism due to childcare problems.

Interestingly, the additional demand generated by online orders is often shifted to stationary shops. It is easier to quickly increase capacity in brick-and-mortar stores, as compared to warehouses, because employees are more flexible than

robots or computer systems. Tesco, which in the UK has reduced its order volume to 80 items, employs up to 20,000 temporary staff to cope with peak demand and expected increases in sick leaves. In the United States, Kroger has closed a customer store in Cincinnati, Ohio, so the establishment can handle only click & collect orders.

Meanwhile, the primary problem in the fashion industry is to limit orders and reduce the losses due to unsold spring-summer collections. By the end of March 2020, Marks & Spencer, Primark and Hennes & Mauritz have suspended future orders for clothing in factories in Asia, Turkey or North Africa. The current situation only reinforces a trend that has been evident for some time in the strategies of retail chains such as Inditex (Zara) and Fashion3 (Mulliez Group), which are reducing their stocks through shorter supply chains. Some companies are trying to move part of this year's collection to the next seasons. Their suppliers, who are still handling orders from a few months ago, will find themselves struggling with the crisis situation.

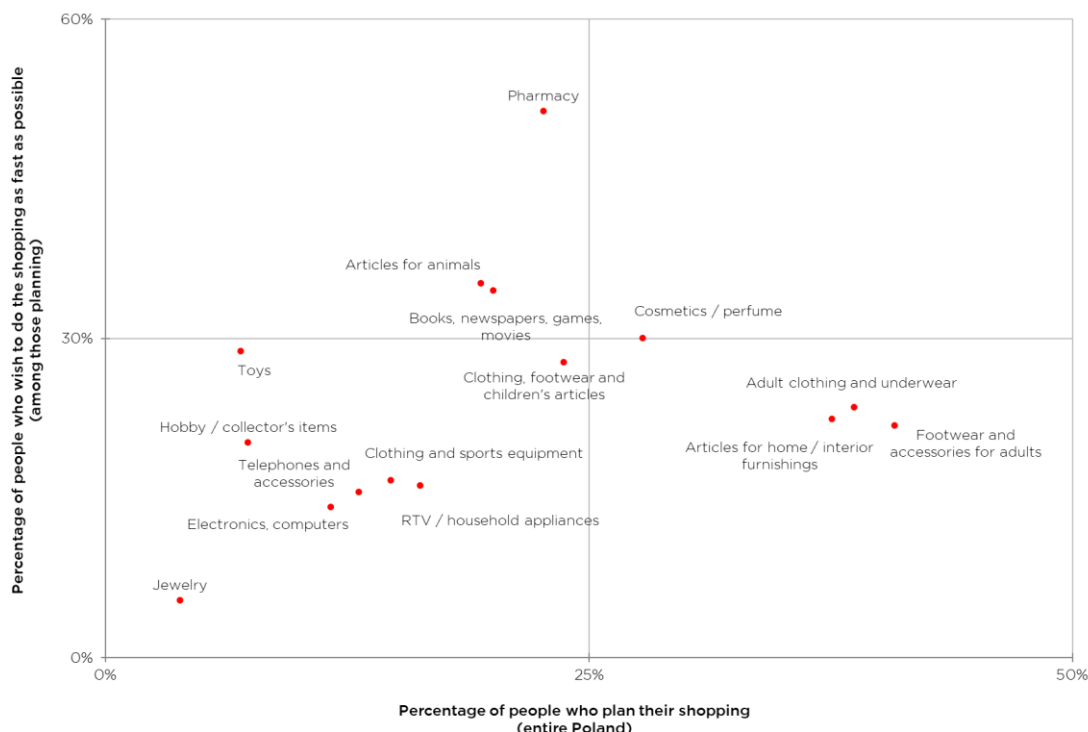
Restoring customer confidence will be a just as difficult process. How to deal with products that have been closed in the shops for some time? Should retailers publish store health procedures or develop and promote a new certification process? Will customers want to try on clothes in changing rooms? How can retailers offer a safe in-store customer path, including fitting rooms and interactions with staff, and protect their employees and working environment?

Omnichannel projects may be the answer. The time has come to activate them fully. This is especially true for shipping from the shops, as it protects the markup level. When a customer orders a product online, R.F.I.D. tags inform the seller about the stock location. The company can deliver goods from the store immediately and at full price. Instead of waiting for a sale to sell the product 50% cheaper, it sells at a regular price on the Internet.

What's next?

In Poland, consumers have been waiting impatiently for the reopening of stores. It is difficult to postpone some shopping - the time of year has changed, children have new needs, and the time of isolation at home has changed consumption patterns. We are also eager to return to normal in our interpersonal relationships.

Inquiry forecasted footfall in the first weeks after the opening of stores to reach 50-60% of the regular level, which was generally confirmed by data from the first days of operation of shopping centres. The chart shows which categories are particularly important for turnover (based on the percentage of people planning their shopping), and on the other hand, which are urgent (in other words, customers want to make such purchases as quickly as possible). Important categories undoubtedly include fashion and home goods, but given the risk that customers will not immediately find corresponding offer in the shops, it may turn out that a significant proportion of purchases will be postponed. However, there is an acute need for shopping for pharmacy articles, animal products, books, toys, which are less important categories in terms of turnover.



Source: Inquiry

The biggest problem that may hinder recovery from the crisis is the fall in salaries, rising unemployment and the resulting loss of purchasing power. It is worth noting that the issue of safety while shopping has recently come to the fore - it is the safety issues, not the promotions, that determine which store the shoppers will choose. In the case of the products that cannot be bought on the Internet, we try to buy them as close to our place of residence as possible. That is why both shops and malls should continue to put safety first, while waiting for sales.

We expect that the quickest return to the (new) normality will probably take place in the area of basic goods and services, such as groceries, foodservice, and some durable goods, including clothing, footwear and interior design. In retail, however, we expect a lasting change in behavioural patterns, which poses additional challenges for the entire industry.

To conclude, it is worth noting that in the second half of April and the first days of May, when the warm, sunny days came, the moods of Poles improved a lot: fewer people declared that they were stressed, sad or desperate, and the percentage of Poles, who think the situation is improving, grew from 12% to 25% within 2 weeks (according to the COVID-Tracker survey conducted by Inquiry on 16-20 April and 1-4 May). The optimistic mood is certainly conducive to the revival of retail. Together with PRCH we will monitor consumer moods to provide assistance in this process.

COVID-19: DATA FLASH

Anna Zachara-Widła

Research & Education Manager
Polish Council of Shopping Centres



A few facts from abroad

In the entire Europe the process of "defrosting" the economy is starting. It means a slow lifting of restrictions imposed in connection with the epidemics of Covid-19. Everywhere this process is taking place gradually. At the beginning the freedom of movement in public spaces (parks, forests, etc.) has been restored. Then countries opened smaller and larger shops. At the very end everywhere, there is the F&B and entertainment sector, which generates the highest risk of large gatherings of people.

Poland opened its retail schemes on 4 May. It is still too early for the first conclusions. What we know is that 70-90% of the shops has opened in shopping centres on average. Depending on the retail category, the turnover of newly opened shops is very different. Our observations show that DIY stores, as well as those with home and interior design articles, were certainly the most popular. Regardless of the location and the type of stores opened, the shopping centres have recorded only a small percentage of footfall and turnover compared to pre-epidemic times. However, we will continue to monitor the situation and provide you with reliable data in this respect.

Countries where retail assets have been reopened

Austria	Germany
Czech Republic	Poland
France	the Netherlands

Ingka Centres: after the reopening of the assets in Germany, the Footfall Index is **63%** compared to pre-epidemic levels. In China it is **70-80%**.

According to the data of the tenant association PROCOS: the drop in turnover in April was **-94%**; the cumulative change for January-April was **-37%**.

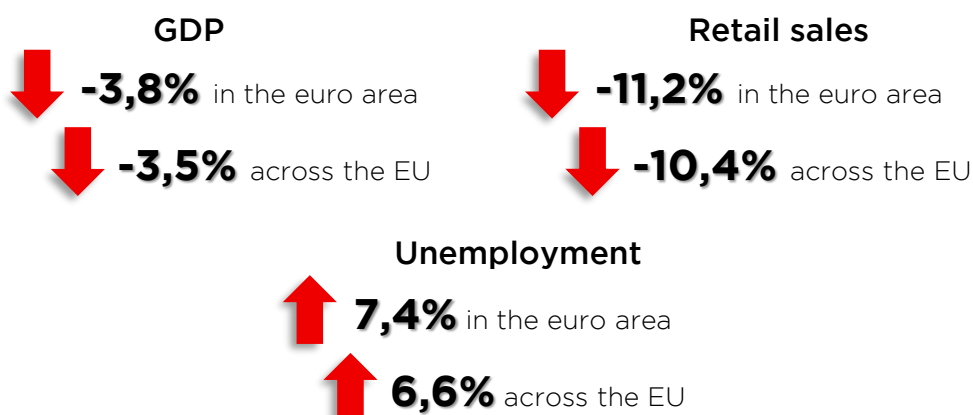
Netherlands: Footfall in the high streets

20 March	• 20-25% of traffic compared to the pre-epidemic state
3 April	• 30-35% of traffic compared to the pre-epidemic state
24 April	• 35-40% of traffic compared to the pre-epidemic state

Source: www.locatus.com

US: February-March 2020 retail sales down by **-8,7%** year-on-year. **29%** increase in sales in grocery stores and over **50%** decrease in sales in the clothing category.

Source: Marcus & Millichap



Source: Eurostat, March 2020



**POLSKA RADA
CENTRÓW HANDLOWYCH**
POLISH COUNCIL
OF SHOPPING CENTRES

ABOUT INITIATIVE PRCH CRISIS RRF

The PRCH RRF Crisis initiative was established by the Polish Council of Shopping Centres in March this year as a result of the crisis related to the COVID-19 epidemic. We invited the best experts, researchers and market analysts from real estate agencies, research and consulting companies to cooperate with us. Our main goal is to jointly collect data, gather knowledge and exchange experience in the group of the largest industry experts in Poland and abroad. We will be providing you with the results of our work on a regular basis to support the industry in recovering from the crisis as soon as possible and most effectively.



We invite you to work together for a better tomorrow.

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