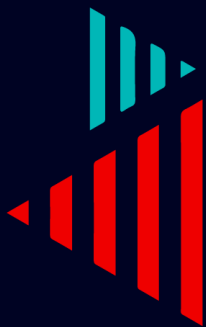




**POLSKA RADA
CENTRÓW HANDLOWYCH**
POLISH COUNCIL
OF SHOPPING CENTRES



RETAIL
RESEARCH
FORUM
CRISIS

COVID-19

REPORT VOL. 32

WHAT NOW?

WHAT NOW?

It has been 4 weeks since the reopening of retail facilities for a wider range of customers. According to the ordinance issued on 2 May 2020, shops that had been closed so far could be reopened in the retail schemes. As of 18 May, foodservice establishments and beauty and hairdressing services have also been allowed to operate. Naturally, provided that they comply with the detailed health and safety guidelines, including disinfection, distance between customers, and the obligation to wear masks or gloves.

The industry had only 2 days to prepare to start operating again. The vast majority of retailers managed to do it in the nick of time. On Monday 4 May, about 60-70% of tenants in shopping centres had opened their shops for customers. The rest of the stores were opened gradually. Some of them did not open at all as a result of unsuccessful lease agreement negotiations. The latter, however, are just a small fraction of the total number.

Everyone was waiting anxiously for the first results showing the footfall level in shopping centres after the reopening. The question was whether we would repeat the experience of other countries, where footfall in the first weeks was 20-40% compared to the time before the epidemic. However, the results of the survey among shopping centre customers allowed us to look a little more optimistic about the future. As early as in mid-April 56% of Poles declared to return to shopping centres for specific purchases. We wrote more about that in the previous edition of our report.

Although the industry will be struggling with the effects of the current crisis for many more months, it was possible to take a little breather after the first week. Footfall turned out to be much higher than expected. Compared to the same period last year, it ranged from 53 to 68%, depending on the day of the week. In the following weeks the situation kept on improving. More detailed data on this subject can be found in this edition of the report.

However, there is one fundamental question. How will these quite high footfall rates recorded in Poland, compared to other countries, translate into tenant turnover? These data are yet to come.

Importantly, further surveys of shoppers have shown a very significant conclusion. The vast majority (81%) of those who decided to go to the stores after reopening them felt safe there. This is an important and necessary finding for us and a proof that the shopping centre industry has fully risen to the challenge of ensuring the safety of customers and employees.



All that allows us to look into the future with perhaps a little bit more optimism in these difficult times. This is something I would like to wish all of us. PRCH plays an important and significant part in this process. We collect data for you, show you good practices, present how the schemes take care of safety today and, as part of the latest #shopsafely campaign, we promote your customers' awareness in this respect.

This time I present to you a report, in which you will find a lot of data, but also an insight into the future of retail and its various aspects. We will continue this mission for you to inspire, inform and support the development of "new normal" retail.

Anna Zachara-Widła

Research & Education Manager
Polish Council of Shopping Centres
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Warsaw, 9th June 2020

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THE GREAT COMEBACK

How clients came back to shopping malls

Anna Zachara-Widła

Research & Education Manager
Polish Council of Shopping Centres



On 4 May 2020, shopping centres were reopened for a wider range of customers. Since the first day of the reopening, PRCH has been collecting data on footfall as one of the most important indicators of the condition of the shopping centre market and the entire economy. We are currently analysing data from almost 90 schemes across Poland, representing 25% of the total Polish market (share in terms of sqm of GLA).

Foreign experience shows that in the Western countries, the footfall index in retail assets was recovering slowly, initially reaching 30-40% of the pre-epidemic levels. The exception was IKEA stores, which immediately after the "defrosting", saw record-breaking numbers of shoppers. However, this is directly related to the type of products sold there.

The data we collected after subsequent weeks when retail schemes had been operating on a wider scale clearly show that the predictions derived from the consumer surveys that we mentioned in the previous edition of the PRCH RRF Crisis Report were largely confirmed. At that time we indicated that 56% of Poles declared that they will return to shopping centres after they reopen. What is important, they have specific shopping plans in mind – consumers listed clothing, underwear and home accessories in the first place.

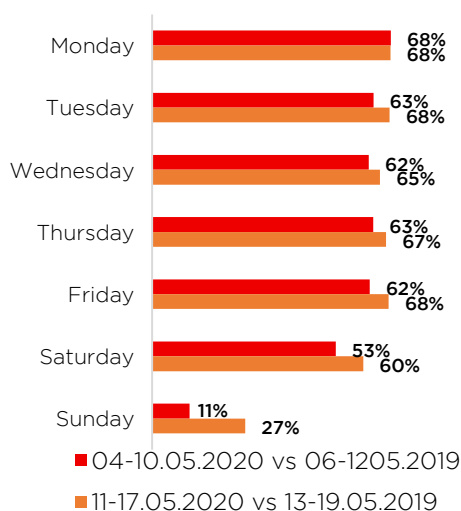
In the first week of the reopening of shopping centres, the visits in the facilities we examined were between 53% and 68%, depending on the day of the week, compared to the corresponding period last year. In the following week we recorded slightly higher rates - from 60% to 68%. The results were slightly better

on working days. In both cases, Saturday recorded lower visits. This may be due to the fact that the entertainment and foodservice function of shopping centres operating in the current conditions is weakening. This can also be seen when we compare footfall in shopping centres of different sizes. In the first two weeks, significantly higher footfall rates were recorded by small and medium-sized centres (up to 40,000 sqm GLA) compared to large centres over 40,000 sqm GLA. In the case of large schemes (most often the latest generation assets), the weakened F&B and entertainment function resulted in lower footfall compared to centres focusing primarily on the shopping function.

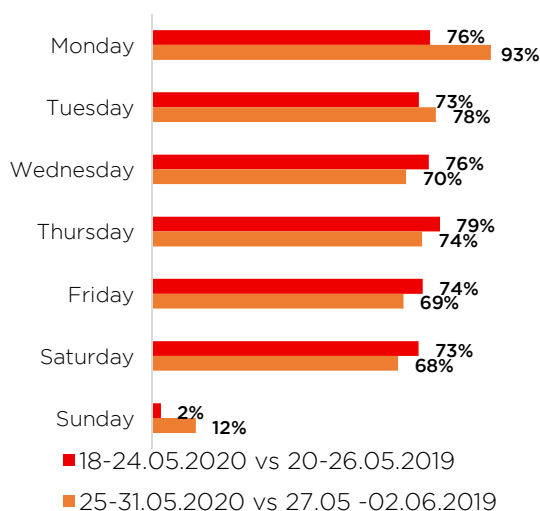
The situation, however, changed on 18 May, and the collected data clearly reflect this. On 18 May, food courts as well as beauty parlours and hairdressing services, which, as it turns out, customers missed the most, returned to shopping centres. A survey conducted by Inquiry among Poles showed that a visit to a hairdresser or a beautician had been most anticipated by consumers - which was admitted by as much as 68% of respondents. Another 38% also missed the foodservice and leisure function.

The opening of these establishments has had a clear impact on the footfall rates. The average footfall in the first week after the reopening reached well over 70% and, depending on the day, ranges between 73% and 79%. This is even several percentage points more than in the previous two weeks. In the last week of May, footfall rate was very similar. With one exception: the day before the Mother's Day, on Monday, 25 May 2020, it reached an average rate of 93% compared to the previous year. The importance of F&B and service areas is even more evident when analysing these data by the shopping centre size. After the opening of these undoubtedly essential components, footfall rates started to definitely increase in large centres, where this offer is a considerable incentive to visit. Still, however, the lowest rates (excluding non-commercial Sundays) are recorded on Saturdays.

Footfall without F&B and services



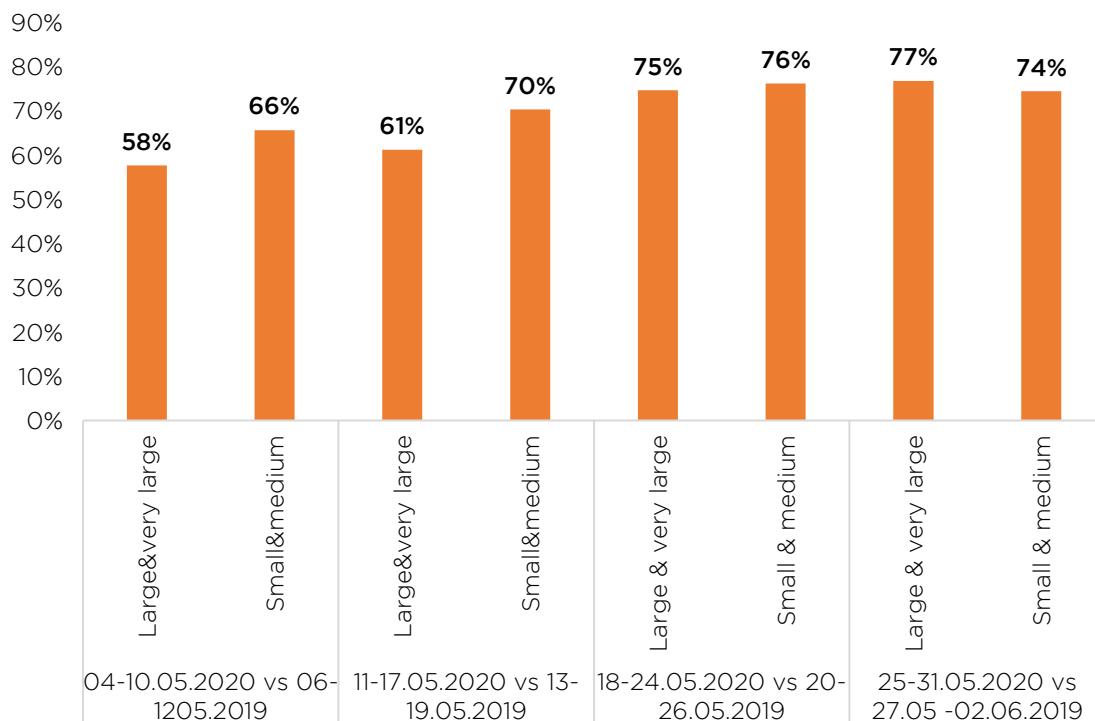
Footfall after the opening of F&B and services



Source: PRCH

These data also vary region-wise. It is clear that there are regions in Poland, where customers are more willing and more mass-minded to go shopping. Particular attention should be paid to the Southern Region (Małopolskie and Śląskie provinces) and the South-Western Region (Dolnośląskie and Opolskie provinces), where the average number of customers was higher each week than in other regions. The lowest ratios were usually recorded in the Eastern Region (Lubelskie, Podkarpackie, Podlaskie and Świętokrzyskie provinces).

Footfall by size of commercial facilities



Source: PRCH

Ahead of us is the next, final stage of "defrosting". On 6 June, leisure establishments - cinemas, playrooms, bowling alleys, etc. - reopened their doors for customers. There were also clearly defined restrictive guidelines for the safety of customers and employees to be followed. We will surely inform you about how this has affected the number of visits to the shopping centres we have examined. This will be particularly important for those shopping centres which, more than any other, are more in line with the most important trend in recent years - transforming retail schemes into places which are not strictly for shopping, but where you can have a good time and experience a variety of attractions beyond shopping.

GREAT EXPECTATIONS AND...?

Shopping after the reopening of shopping centres

Agnieszka Górnicka

President
Inquiry

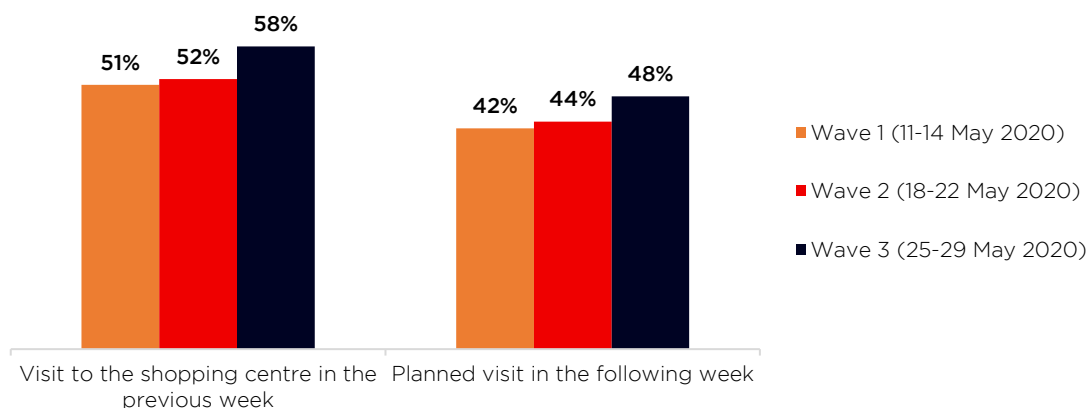


When the first customers came to the shopping centres on 4 May, everyone was looking at the footfall results with anxiety and hope. Based a survey conducted by Inquiry for PRCH, we knew that many people were waiting for the opportunity to do the shopping, but just as many consumers were afraid to visit shopping centres, mainly because of the inevitable crowding and the associated risk. According to PRCH data, the first days saw footfall levels at 60-68% year-on-year, which is a better result than in other countries. Each week we have seen an increase in the number of visitors. As consumer sentiment improves, so does the situation in retail.

According to the COVID-Tracker survey carried out by Inquiry, consumer moods have been improving rapidly since the beginning of May. Whereas in the first days of May the percentage of people who thought that the situation in the country was getting worse still outnumbered those who saw improvement, in the middle of May the optimists outweighed the scales. Currently, more than half (53%) respondents believe that the situation is improving, and the opening of retail has certainly contributed to this. Importantly, the concerns about the level of earnings are also declining – in the first week of May, 66% of respondents declared that they were afraid of a worsening financial situation, while by the end of the month it was 60%. The fear of the upcoming recession is also diminishing, from 77% to 70%, as well as the percentage of people who indicated a decrease in income in the recent period (from 43 to 40%). To some extent, this also translates into a willingness to buy, although far from the pre-pandemic state.

In addition, Inquiry is also carrying out the "Back to Shops" study in cooperation with PRCH. Thanks to the weekly data, we can see that since the opening of the shops, the number of people who visited a shopping centre last week, and of those who plan to visit within the next week has been systematically increasing.

Shopping centre visits



Source: Inquiry, "Back to shopping", Poland-wide sample

It is worth noting that shopping centres are most often visited by residents of medium-sized cities (100,000–500,000 inhabitants), the well-off, living in households with children.

At the moment, the main motivation to visit the mall is planned shopping – at the end of May, 61% of respondents declared such a purpose. However, the proportion of people who go to a shopping centre for other reasons, such as visiting a restaurant or café (6% as of the date of the survey) or using hairdressing or beauty services (10%), is increasing. It is also worth noting that currently, in one case out of six, the purpose of a visit to a shopping centre is to collect purchases made online.

At the same time, the shopping basket has clearly changed. During the first two weeks after the opening, we recorded a great interest in shopping in the category of cosmetics, pet accessories and home furnishings; it was only at the end of May that interest in shopping for adult clothing and footwear increased – for many shopping centres this is the most important category that determines the turnover. The situation here is improving as well, in the latest wave of the survey (conducted on 1-4 June) the percentage of people declaring to buy adult clothing rose to 30%, similarly in the case of shoes.

Customers who have recently visited a shopping centre still encounter various negative phenomena, mainly closed shops (currently 34%, with a downward trend), price increases (36%), offer shortages (17%, with a downward trend) or lack of sales promotion (14%, also with a downward trend). Nevertheless, the vast majority (80%) feel safe in a shopping centre.

Apart from the decreasing number of people who refrain from visiting shopping centres, the tendency to postpone shopping is also decreasing. On the other hand, some people have already met their most urgent needs, so they are not planning to buy again. In addition, a significant proportion of people who do not buy in shopping centres are those who prefer to buy online.

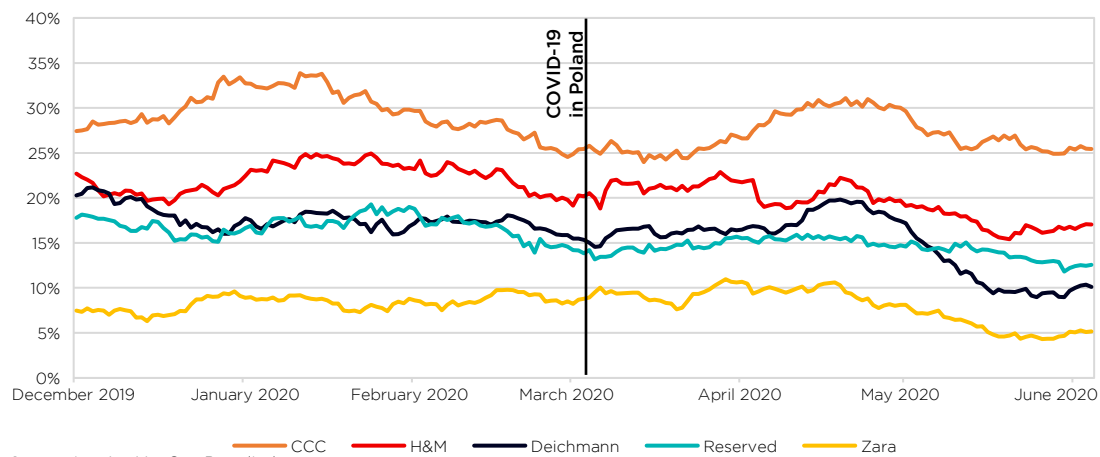
Reasons to resign from a visit in a shopping centre



Source: Inquiry, "Back to shopping", persons who have not visited and do not plan to visit a shopping centre

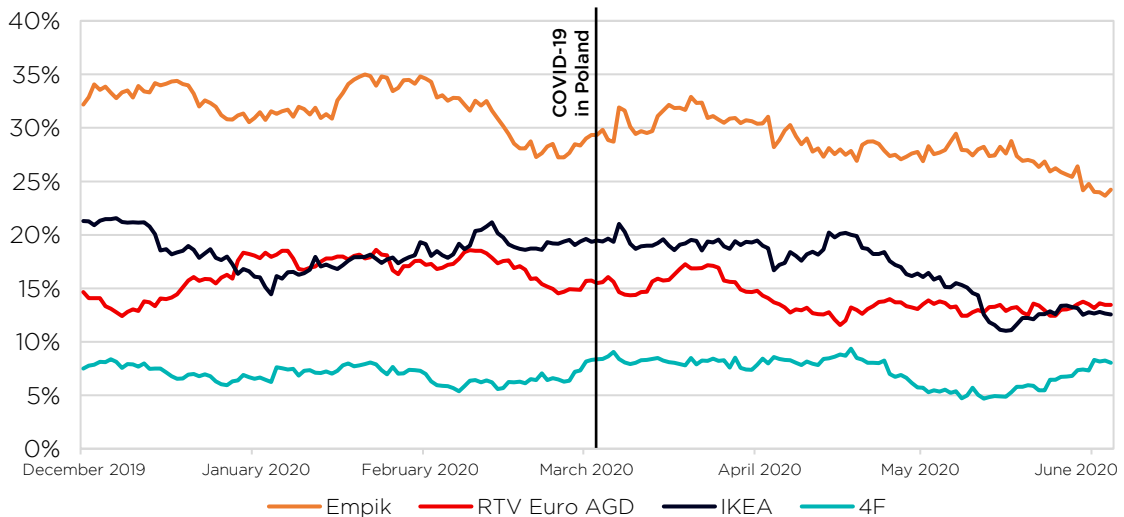
The situation in the retail sector is therefore back to normal, but when many people have to face a reduction in earnings, it may take many months to recover from the pandemic. Even those tenants who had well-developed online sales channel, have recorded an outflow of customers. However, this trend has already stopped for the majority of important brands. This is revealed by data from the YouGov BrandIndex survey, conducted in Poland by Inquiry. This survey continuously measures the indicators related to the condition of retail brands. As a side-note, some brands decided in April to promote themselves intensively on the Internet, which can also be seen in the charts.

W Where have you done the shopping in the past 3 months? (Fashion)



Source: Inquiry, YouGov BrandIndex

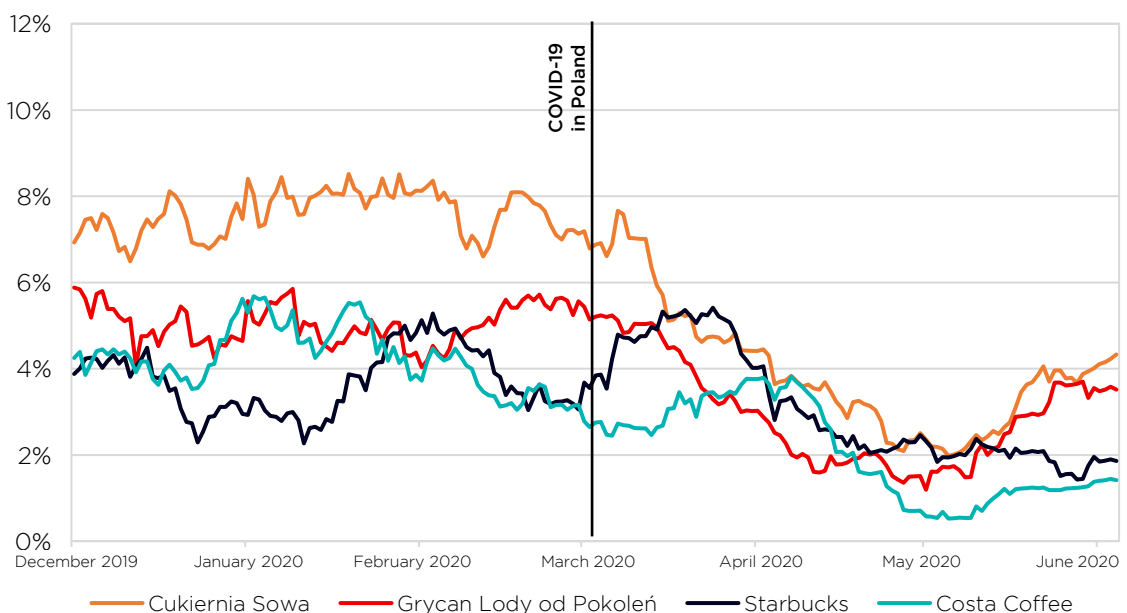
Where have you done the shopping in the past 3 months? (Specialty retailers)



Source: Inquiry, YouGov BrandIndex

The foodservice industry is also recovering. Since the opening of the shopping centres, take-away customers have appeared in the cafés, and since 18 May we can also enjoy on-site consumption. After a dramatic decline during the lockdown period, the F&B industry is also regaining customers.

Where have you done the shopping in the past 3 months? (Specialty retailers)



Source: Inquiry, YouGov BrandIndex



The coming days will bring the opening of the gyms and cinemas. Now that we can do the shopping and go to the hairdresser's again, it is entertainment that is the most awaited part of the shopping centre offer. As much as 45% of respondents, especially in younger age groups (18-24 and 25-34), are looking forward to the opening of cinemas and the remaining entertainment offer. Although the reopening of cinemas is challenging, it is worth making sure that they are ready to operate under the new conditions as soon as possible, as this will provide an additional boost to footfall in commercial facilities and an important step on the road to the (new) normal.

FUTURE CONSUMER. FUTURE RETAILER. NEW TECHNOLOGIES

What now? What's next?

Mary Wallace

Retail & Consumer Behaviour SME
IBM



The UK is slowly emerging from the lockdown phase which started on 23 March, with each regional government (in Scotland, Wales and Northern Ireland) setting its own rules on what is and is not allowed. The new timetable from the English government has set out a phased plan for re-opening:

- Outdoor markets to re-open from 1 June
- Non-essential retailers (including shopping centres) - 15 June
- Pubs, cafes, restaurants, hairdressers, hotels - 4 July
- Other places where social distancing may be difficult e.g. beauty salons - “significantly later”

How does a retailer or shopping centre in the UK plan for this mixed picture and adapt to the changes in consumer behaviour and the competitive landscape?

Impact on Shopping Centres

I spoke to some UK shoppers - all under 30 and regular visitors to shopping centres such as Westfield, Bluewater and the Trafford Centre - about how they're feeling as we move out of lockdown:

- *I don't really care when the shops open - I just want to see my friends"*
- *Why would I go to a shopping centre in a mask when I can get it delivered?*
- *I'd rather have my friends over for dinner and get it all delivered and have a lovely evening at home, rather than going to a restaurant or the cinema*
- *just want Primark to open!*

This doesn't sound like a 're-open and they will come' landscape. What's changed and is changing with how consumers are thinking and feeling, and how have brands been responding to the COVID retail landscape?

The consumer now

1. *'Experience' has shifted down my priority list. I'm more concerned about how the shopping centre is cleaned, how the spaces are managed and how safe the stores are, than the latest brand launch. I want to check before I visit - when are the quiet times? How long will I have to wait? Will they have my product in stock when I get there? Can I pre-order? Is it easier to get it delivered?*

Shoppers are looking for quieter times to shop - 50% of consumers are trying to limit their time in-store. ¹

37% of over-65s have increased the amount of online shopping they're doing since start of outbreak.

The consumer shift to online during the UK lockdown has exposed gaps in the customer experience of many retailers- 48% of marketers say their companies have shifted messaging to emphasise digital products and services since the onset of Covid-19. ²

2. *I have a lot more choice now - why do I need to go to a big store when I can order it direct from the manufacturer and have it safely delivered to my home?*

Direct to Consumer (DTC) companies are seeing huge uplifts in sales as the shopper a) makes the leap to online, and b) discovers that buying direct, rather than from a retailer, can have big benefits.

Brands with strong digital purchase journeys will extend this capability post-COVID - the ability to use only stores to drive traffic will weaken.

3. *I can make it/repair it myself*

Consumers are thinking of ways round using physical stores and not to depend on them for everything.

Expect to see continued demand for 'self-sufficient' behaviour. People want to feel more connected to and in control of the products and services they use.

The consumer next

1. *I don't want to go back to normal - I want a better way to live.*

I don't want to go back to normal - I want a better way to live.

Only 1 in 10 (10%) consumers say they would return to normality when the lockdown eases.¹

Priorities have changed - the 'selfie generation' and 'me economy' make way for community and family. 750,000 people signed up to be COVID-19 volunteers in the first 2 weeks of lockdown.

2. *I'm less trusting, more self-reliant, more prepared to challenge brands.*

Consumer spend has changed. A greater % of weekly spend will be allocated to materials for consumers to 'do it myself', rather than finished products. They have just spent 3 months watching Instagram and YouTube videos on how to do yoga, make sourdough bread, cut their own hair, grow vegetables, teach the kids at home.

Brands who succeeded at helping people learn have created a demand, so now people want service & education rather than commodity. Shoppers are prepared to pay more or wait longer for delivery, transparency and reliability.

3. *What is my new social status?*

Am I someone who could afford to indulge in making sourdough bread and practising yoga, or am I dependent on my non-COVID status to keep working?

What are companies learning about me as I my COVID status determines what I can and can't do? How will they use that data to help me and give me services that are useful to me?

Retailers now

1. Demand

We need a much better view of the 'new normal' and we need to be able to confidently reassure customers that everything is OK. The stakes are higher now.

2. Supply

We're now competing with 'new retailers' to a) get goods in the system; b) win back suppliers we might have lost (who realise they don't need us anymore).

3. Operations

Our workforce has changed and 'the rules' are continually changing. We have had to change or close our physical stores; we are now more of an 'omnichannel' business than ever.

Retailers nest

1. Demand

Consumers now want us to provide services as much as they want to buy products from us. We have to be an educator, utility and entertainer as much as we are retailers. What does the new path to purchase look like and how do we make money from it?

2. Supply

We have to change the supply chain - it's not enough for us just to get a product on shelf. How do I allocate enough stock to vulnerable customers & keyworkers; how do I continue to give my loyalty customers the 'extra' products & service they pay for?

Distribution requirements are more fragmented, with continual disruption. I need a more intelligent way to plan, supply and serve.

3. Operations

We have a different operational model now, as we have to close and open stores according to lockdown 'waves'. I need to continually train my workforce and increase staff/management tasks.

The path to acceleration has increased. The 'next' phase of omnichannel is now, with increased capacity capability, new revenue streams & value propositions. This is an opportunity!

Consumers and retailers are telling us that there is no 'New Normal'. We are on an accelerated journey of continually developing new capabilities to meet these new demands. Here's just 2 examples of what those new capabilities could look like:

1. CRM Reimagined

CRM is no longer just a marketing machine; it can help us identify and serve customers safely. But we need new categories in CRM such as:

- Health workers & other essential workers who need to be provided with preferential service, discounts, freebies.
- Citizens shopping on behalf of other people who are unable to get to the store.
- People with designated 'Shielding' status who have health conditions which make them vulnerable.

What should retailers do to integrate these requirements into CRM and retail services? What data is being collected and how should retailers use it, to learn more and provide value-added services? Are new partnerships and data sharing facilities required to ensure that the store has accurate, appropriate and authorised information about the customer?

2. Local Independent Stores = The New Shopping Centre

'Localism' – the increased desire for consumption of goods and services produced locally – will be one of the big new consumer behaviour shifts. What was previously seen as 'nice to have' has now become more significant in the eyes, hearts and wallets of the shopper:

- There are many more new, robust, low-cost commerce platforms – such as ShopAppy (who now have a partnership with Visa, sponsor of the Great British High Street awards) – available for small businesses to showcase, sell and deliver products & services online. This is almost a new type of shopping centre – powered via partnerships with local shops, markets & transport companies – but the shopping centre is my local, digitally-enabled high street.
- Small stores can now compete with Big Retail and the shopping centres, especially as we see that many established physical stores may not re-open as retailers 'right-size' to reshape their physical estate.
- 'Scale' now doesn't mean what size of business you are and that you need to be a big company to succeed. It means the ability to move fast and use tools that are already there – platforms, partnerships, campaigns.

How Technology Can Help

In a world that continues to change in unexpected ways, businesses can succeed not by increasing the amount of technology they use, but by using fewer, more powerful, connected tools to support staff capabilities and give the customer more control of products and services.

The need to have a more intelligent view of the shopper is dependent on not just collecting data but understanding it and using it in the right way. Here's some illustrations which have emerged from the UK's COVID story:

- Product shortage stories in UK stores were not as simple as ‘People stockpiled toilet paper and flour’. Data only tells us so much: We must also understand the nuances of context and the human aspect of the story. This takes more effort but gives retailers more potential opportunity. You don’t just need the technology and the data – you need the right people to make sense of it and enable you to apply that intelligence in the right way for your business.
- How will a commercial business use sensitive data such as a shopper’s health status? This new intelligence carries more responsibility – do you need to improve your technology security, training for your staff? – but potentially allows you to develop a better relationship with your customers and provide value-added services.
- In the UK, there is an emerging new public/private relationship, based on data. The Government gave retailers permission to share data with their competitors to maintain stock levels, enable cooperation to keep shops open and share distribution depots, delivery vans and staff with one another – all to help meet the unprecedented demand from shoppers.

This is a new model for data utilisation across the state, commercial retailers and their technology providers. What does a new, blended model of private & public look like and what would it take to run this for the benefit of everyone? Is Blockchain the answer, where everyone can see what is happening across the relationship?

Is automation also part of the answer – as we are being discouraged to touch the things and people around us? Let’s listen to the shopper again, who tell us that they value shop staff even more now, in our new world. Many of the COVID reports on consumer behaviour which are landing on my (virtual) desk say the same thing:

- Shoppers would consider not shopping at a retailer if human staff were all replaced with technology; (in some reports the figure is around 83% among shoppers aged over 55).
- Around half of the shoppers in each report said that they return to favourite stores because of good customer service from employees.

Our focus on the road ahead – both for our shoppers and in how we run our retail businesses and shopping centres – should be on augmenting humans with technology, not replacing humans. Make better use of trained, talented people across our retail real estate and find ways to free their time so they can spend it with customers. Invest in your staff as well as new technology, to make sure that those retail workers – many of whom risked their own safety to keep serving us – can keep delivering exceptional customer service and the human touch, which, as we have learned, is really what we all want.

¹ <https://www.kantar.com/inspiration/fmcg/grocery-growth-slows-and-habits-change-as-uk-adapts-to-lockdown>

² <https://www.mintel.com/press-centre/retail-press-centre/mintel-forecasts-online-grocery-sales-will-grow-an-estimated-33-during-2020>

E-COMMERCE AND SHOPPING CENTRES

Post-coronavirus era

Przemysław Dwojak

Senior Director
GfK



There are 3 phases of the epidemic: panic, adaptation and new normal. We are currently in the adaptation phase, in which we, as consumers, are discovering and getting used to the new way of things. It is difficult to assess to what extent the changes we are currently experiencing will be permanent and how our business and private lives will actually change. It is tempting to make some scenarios and hypotheses, based on careful analysis of data and ensuring that short-term trends do not give a misleading impression of what the market may look like in a few months or so.

The analysis of sales data from each week since the beginning of the epidemic confirms that the panic phase was characterised by urgent purchases to meet basic needs for staying at home and the lockdown of schools. Consumers also froze their other activities, including shopping, which was not only due to the closure of most retailers in shopping centres, but primarily because consumers were concerned for their own health and economic safety. The panic phase resulted in a rapid interest in online grocery shopping. The increase in sales of some food categories was recorded at an unprecedented level.

When the panic phase ended, the Poles, taking care of their safety, comfort and convenience, continued their adventure with online shopping in FMGG categories. Based on data from the GfK Household Panel, between January and April 2020:

- Number of households doing online FMCG purchases increased by 1.5 million
- The proportion of households that did e-grocery shopping increased by 3.2 p.p.
- The proportion of households that did the cosmetics and HOME CARE purchases increased by 10.3 p.p.
- The value of FMCG e-commerce increased from 1.1% to 1.4% of the value of all FMCG purchases.

It seems that the online FMCG category is one of the winners of the current situation - it has gained a large number of new customers who had not done their shopping online in this category before.

The late panic phase and the adaptation phase were characterised by consumers' focus on the experience of being at home, which translated into shopping that enabled them to work and learn remotely and increased the "in-home experience". Based on data from the GfK panel monitoring sales of technological goods, compared to a similar period in 2019, sales of categories such as game consoles, headphones, laptops, printers and cartridges increased significantly between January and April 2020. The sales value of some of these categories increased even over 20%.

The reopening of shopping centres shows that the ongoing adaptation phase is characterised by limited shopping, especially in categories such as fashion or F&B.

This is undoubtedly related to consumers' concerns for their health safety, but also to their constant concern about the worsening of their economic situation, which is one of the reasons for lowering consumer moods.

- 66% of Poles declare that they will buy less and look for savings when buying more costly products and services
- 72% will refrain from buying things they don't need
- 48% will be more attentive to sales and promotions than before
- 39% will switch to cheaper brands

Such declarations indicate that saving is a natural strategy for surviving uncertain times. With these sentiments, consumers will enter the 'new normal' phase.

It will be characterised by shoppers getting used to living in the shadow of the epidemic and taking care of their own safety, smaller household budgets caused by the economic slowdown, and a slow return of demand.

Our 4 scenarios of reduced consumer spending in retail forecast a decline in the value of retail to 14% in the most optimistic scenario, up to 24% in the most pessimistic variant.

We base these conclusions on the analysis of 12 product categories, their potential online growth rate, assuming at least 2 months of lockdown, a several-month return to pre-epidemic sales levels and a 50% collapse in sales for most categories in the first month after the lockdown. This means that no matter what the future

customer flows between online and offline channels will be like, the decline in retail turnover will affect both channels, although with very different dynamics from one product category to another.

The value of retail in Poland in 2019 amounted to about PLN 437 billion, of which the turnover generated by shopping centres is about 29% and e-commerce is 9% of this value.

The analysis of various data sources indicates that due to the fragmented structure of the Polish e-commerce market, and assuming that the demand for the lifestyle involving shopping in malls will return, a 20% increase in the value of e-commerce due to the acceleration of digitization will increase its share in the total retail trade from about 9% at present to 11.3%, as long as the value of retail expenditure falls by 10%.

Therefore, we can expect a potentially high dynamics of e-tail development, but we should not forget that the base point is set relatively low. Therefore, even though the digital revolution (in e-commerce) in Poland will accelerate, it will not completely change the image of shopping we are used to.

The general conclusions from our analyses are as follows. The number of consumers using the online channel will certainly increase due to COVID19, probably from 11 to 13 million. However, it is still uncertain whether they will continue to use the channel permanently. It is likely that new e-commerce customers will behave like their predecessors in the pre-coronavirus era - they will be omnichannel consumers, selecting their shopping channel according to their needs and mood. It is also highly probable that the tendency to use modern shopping channels will remain the highest among the youngest customers, relatively wealthy people, inhabitants of the largest cities. The development of e-commerce in Poland is determined by the digital transformation started a few years ago, the large offline reach, which is characteristic for large retail chains. The obstacle to a massive, scalable online development is the multitude of players with low budgets - e-commerce, as well as the entire retail business in Poland is still very fragmented. At the same time, this poses a certain challenge for shopping centres. E-tail is dangerous for retail schemes, not because tenants will e.g. reduce space. Because of the multitude of players and the assortment not available in shopping centres, e-commerce may be more attractive to consumers than the overfamiliar offer of shopping centres.

IT'S TIME TO ACT. WE KNOW HOW

Interview

Radosław Knap

General Director
Polish Council of Shopping Centres



What are the most important challenges for the commercial real estate industry in your view?

For 3 years now, every year we have conducted analyses among the members of our Association concerning the condition of the market and the most important challenges it faces. Invariably since the start of these studies (i.e. since 2017 - Ed.), one of the most frequently and most strongly emphasised concerns has been the legislative instability. Every year, the industry clearly shows that the risks to its condition are increasing due to changes in legislation, such as additional taxes or trade restrictions. Due to the multitude of these proposals and the changes actually introduced, the past 4-5 years of PRCH's activity focused very strongly on intensified advocacy and lobbying activities for the sector. We took an active part in many consultations concerning, among other things, the Sunday trading ban, shopping centre tax, VAT tax for real estate transactions or changes in access for telecommunication companies (the so-called 'Mega-Act'). Due to the increased regulatory activity directly affecting the commercial real estate sector, by the end of last year we prepared a strategic document on the actions we believe are necessary for the industry. This document was sent to all ministries and top politicians. Our goal was to show how important the shopping centre industry is for the economy, tax revenues, or the labour market.

How does the current situation affect these issues?

The introduction of a number of restrictions on the functioning of the economy, which resulted directly from the exacerbations caused by the announcement of

the Covid-19 pandemic, further increased the need for action in this area and accelerated certain lawmaking and consultation processes. Let me remind you that as of February, as part of PRCH activities, we started a dialogue with the Ministry of the Development on the landscape planning law and with the Ministry of Climate on the issues related to municipal waste management.

Has the impact of the imposed restrictions halted these activities?

Yes, Covid has definitely changed priorities in this respect, within the ministerial framework as well. The issues which PRCH has been interested in for a long time on the governmental and local level and on which we were cooperating e.g. with the just being established Investor Council of the Capital City of Warsaw or landscape laws, have been postponed. The priorities have changed significantly in recent times, with some works temporarily halted, such as those on the Landscape Act or Franchise Act and others which could have bring potential issues for the industry. The past 3 months have been definitely focused on the situation of the industry in the face of Covid-19.

Have there been any significant successes so far?

Of course. During the last 3 months, we held a number of meetings and consultations directly with Prime Minister Mateusz Morawiecki, Deputy Prime Minister Jadwiga Emilewicz, or Minister of Health Łukasz Szumowski. Having the opportunity to talk to the Government representatives, we were consulting the key issues with PRCH members on an ongoing basis. For instance the ones concerning specific solutions in the Anti-Crisis Shield or stages of 'defrosting' of the retail sector. As a result of the joint work of PRCH, industry representatives and the Ministry of Development, detailed and, most importantly, realistic guidelines for reopening retail schemes for a wider range of customers have been developed.

I assume that you are satisfied with the direct actions taken on behalf of the industry?

I am glad that these actions had a direct positive effect on the sector, although not all of our demands were taken into account, as is usually the case. However, it was possible to achieve provisions eliminating the obligation to install thermal imaging cameras in buildings. We estimate that this is a saving of up to half a billion PLN. As an organization representing the sector, we helped to clarify a number of provisions first associated with the rules regarding the closure of facilities in facilities over 2000m² (mid-March), then those related to the Anti-Crisis Shield and ending with the re-opening rules on 4th of May, we are still consulting members and providing comments to changes in regulations and guidelines for galleries, cinemas, gastronomy or services.

It is a pity, however, that the government did not take into account our demands for subsidizing rents or introducing the VAT cash method for the sector. I think that such a solution with rents, like in the Czech Republic, would not lead to so many tensions on the landlord-tenant line and would be more proportionate. I think that many politicians also understood that the records of the famous 15ze were controversial and lacked support for landlords. However, we are constantly striving for this support to take place at least in concessions in property tax or perpetual usufruct. We also urge you to restore trading opportunities on Sundays.

What is the industry most concerned about today?

First and foremost about the far-reaching effects of the epidemic and the lack of support to combat its negative effects. It is difficult to determine how long it will take to recover from the crisis, how customers will behave, how the investors will react. That is why the government support for landlords is so important; in order to be able to implement procedures to slow down the effects of the crisis and to start building what is already massively described as the 'new normal'. I was alarmed to learn of a document published a few days ago by the European Commission, which describes the rules for granting aid to companies in Poland. It indicated that entities operating in the commercial property sector might be excluded from the aid.

How can these concerns be eliminated from the PRCH point of view?

We integrate the sector, we try to monitor all planned legislative changes and develop recommendations for actions, as well as to straighten many false media news based on the substantive reports and expert knowledge of our members. Only within a period of 3 months, we issued 6 reports, conducted dozens of consultation meetings and internal industry surveys, and quotes from PRCH opinions had coverage of over 50 million people. The whole PRCH team is actively working to ensure that specific beneficial solutions are introduced to more efficiently and quickly offset the effects of the current crisis. To emphasize the voice of the industry even more clearly, in May we issued a joint position signed by 22 entities from the sector in which the most important areas for further operation of shopping centers were indicated.

Have you received an answer?

I am pleased to admit that the Ministry of Development has responded to our letter emphasizing that the regulations must be proportionate and must not be introduced at the expense of one party. There are chances for support in reducing real estate fees, which would reduce costs. In addition, I hope that the government will take into consideration our substantive and substantive arguments regarding the need to restore trade on Sunday to save the traditional trade sector, which after all generates employment much more than foreign online platforms, especially those from China that do not pay any taxes with us or customs or postage fees. Especially now - both in terms of security in stores and, of course, increasing the chance for a faster return to previously generated turnover, there is a great need to increase the number of trading days on Sundays in order to maintain jobs in trade and services related to shopping centers such as technology, marketing companies or cleaning and other facility management. We are pleased that these appeals have also been made by a number of other employer organizations.

What else in your opinion should be done to help the industry in this difficult time?

First of all, we must be the substantive voice of the sector and keep track and analyze the situation in many ways. When providing reliable data and showing opportunities, it is important to analyze the image situation of the industry on an ongoing basis in terms of consumers and investors. We have experience in all these areas. As the only one in Poland we exchange information with our counterparts in other countries, we cooperate with international organizations

such as the European Property Federation and the European Council of Shopping Places (former ICSC). We know how and where to refute industry-related myths, emphasizing its contribution to the economy, labor market, urban development and entrepreneurship. On the other hand, it is important to conduct extensive communication that builds a true picture of shopping centers in the eyes of consumers. We conduct analyzes on an ongoing basis, collect necessary data. This is the most important tool in arguments to the government and to the media in assistance or legislative matters. I am glad that the analyzes and indexes that we have de facto kept continuously for over a dozen years now have acquired a special meaning.

As early as in April, we noticed that one of the main obstacles to returning to "normality" could be customers' fears of returning to shopping centers. Therefore, even during the closure of branches, an important social campaign initiative was launched under the slogan Security - I buy it! We can already see the effect of these activities - according to the latest Inquiry research, 80% of customers feel safe in shopping centers. It is also the result of extensive social communication showing the preparation of shopping centers for the safe reception of customers and their employees.

I believe and am convinced that we can be fully heard only with a unanimous position and one voice. This year is a challenge, but also a new chapter for the Polish Council of Shopping Centers as the substantive voice of the commercial real estate sector and integrator of activities, and I am glad that many companies have started to appreciate this role, which will help in the changes we have to undergo together.

Thank you for the conversation.

Interviewed by: Anna Zachara-Widła



COVID-19: DATA FLASH

Poland

Retail sales in Poland

-12,3% March 2020

-22,9% April 2020

Retail sales at fixed prices compared to the corresponding month of 2019.

Source: GUS

Current consumer confidence index (CCI)

+6,3 p.p. change vs. April 2020

The current Consumer Confidence Index (CCI) is the average assessments of changes in the household's financial condition, changes in the country's general economic situation and the current important purchases

Source: GUS

GDP

+2% YoY

preliminary estimate, Q1 2020

Źródło: GUS

Europe

Retail sales in Eurozone in April

-16,9% YoY

-11,7% compared to March 2020

Source: Eurostat

Unemployment rate in the EU

7,1% March 2020

7,3% April 2020

6,6% March 2019

Source: Eurostat

GDP

-3,8% in Eurozone

-3,3% in the EU

Q1 2020

Source: Eurostat



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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