Park Lake centre in Bucharest

Positive retail fundamentals for Romania

Gary J. Morrell

The Romanian retail market is again attracting developers and retailers with economic growth and a strong rise in consumption recorded for the first half of the year. Cushman & Wakefield research indicates that retail sales rose by 4.2 percent year-on-year for May. This is seen as an incentive for retailers to pursue more ambitious expansion plans in both Bucharest and regional cities such as Timisoara, Craiova and Brasov, which can still support an increase in shopping centre stock.

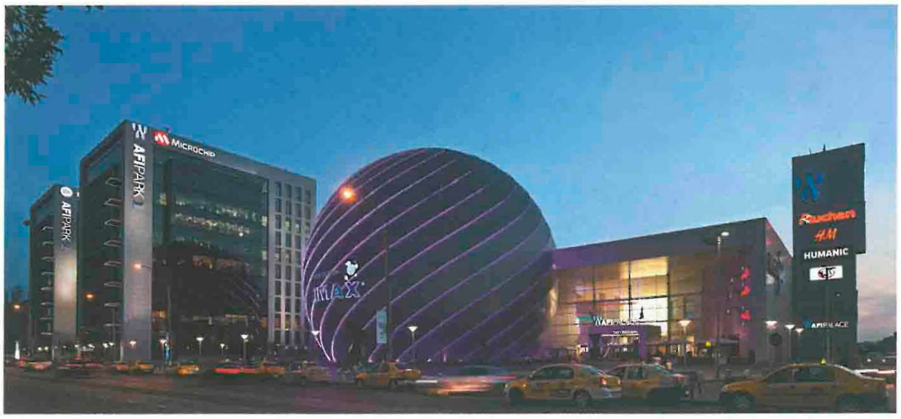
With limited supply shopping centres with proven track records are the main destination for new retail entrants. Romania was previously a major retail destination with its several large cities and limited modern retail provision, however, it was severely hit by the economic downturn. Analysts in general do not see oversupply as a possibility (as occurred in the pre-economic crisis era) as retail centres are now being developed on a more cautious basis.

CBRE put total modern retail stock in Romania at 3 million sqm out of which shopping centre stock is 1.7 million sqm. Bucharest has 670,000 sqm of shopping centre stock that is set to increase by a further 90,000 sqm by the end of 2016. There are also plans for expansions or refurbishments for existing schemes, according to Luiza Moraru, Head of Retail & Asset Services at CBRE Romania.

Retail stock in the greater Bucharest area stands at 444 sqm per 1,000 inhabitants, according to JLL. The latest delivery in Bucharest is the fully let 70,000 sqm Mega Mall by the Austrian developer Real4you group and the South African investor/developer NEPI. This is the biggest development to date by the investor and developer and the company is arguably the biggest investor in the Romania retail sector having invested €165 million in

Bogdan Marcu – Head of Retail, DTZ Echinox

New modern retail schemes delivered in Romania over the past few years have registered an increase in quality of the projects as developers understand the need to deliver better products in order to be able to compete with the existing schemes, as with other projects that may arise, in the coming years. They now put more attention into the design of the project and the layout and accessibility for customers. Irrespective of if we are talking about a small retail park or a large shopping mall, the target customer profile is taken into account and the projects are tailor-made in order to better serve the purpose. Development finance is more widely available, from certain banks but not all of those that have previously financed property. There is a healthy degree of scrutiny by the banks over which projects are financed and which are not. Debt finance of less than €10 million is more accessible, normally with these loans being approved at a country level. There remains some challenges for securing bank finance for large projects. However, the market is improving and we expect to see more confidence in the finance market into 2016.



AFI Palace Cotroceni

Luiza Moraru – Head of Retail & Asset Services, CBRE Romania

At the moment it is unlikely that the market is in danger of becoming overheated as occurred previously. Lessons from the past have been learnt and the under-performance of some schemes has not been forgotten. Still, overheating might occur in cities like Timisoara and Brasov where at least two new schemes have been announced. The pipeline needs to be correlated to the local retail and economic environment in order to avoid failures. Development finance was difficult to access mainly after the boom years when the equity requirement reached over 60 percent. Nowadays international banks are supportive of retail schemes, on the consideration that the schemes are integrated within the catchment area.

Mega Mall. NEPI estimate a 10 percent annual yield in the project and predict 50,000 daily visitors to the complex in the east of Bucharest.

Another Bucharest project, the 70,000 sqm ParkLake by Sonae Sierra and Caelum Development, is expected to be delivered in 2016. The €180 million project is already over 85 percent pre-let with the British fashion retailer Debenhams signing a 5,000 sqm pre-lease.

Outside Bucharest NEPI is working on a 20,000 sqm extension to its City Park Mall in the coastal resort city of Constanta. In addition in Timisoara in western Romania NEPI is investing €78 million in a 70,000 sqm shopping centre.

With regard to the quality of new product, Luiza Moraru argues that major schemes opened during the past few years like AFI Palace Ploiesti, Promenada and Mega Mall in Bucharest and the Coresi Shopping Resort in Brasov are of a similar quality to shopping centres across Europe. She describes these as "third generation schemes with a large offer of shopping, entertainment, leisure and food and beverage."

Finance is seen as increasingly available for the right projects. AFI Europe signed a major financing agreement for €220 million with a consortium of banks comprising Deutsche Pfanbriefbank, Erste Group Bank and Raiffeisen Bank for the refinancing of the AFI Palace Cotroceni shopping centre in Bucharest. The project has a leasable area of more than 80,000 sqm and is visited by 52,000 customers per day, according to AFI.

"We appreciate the consortium's trust in AFI Europe and in AFI Palace Cotroceni, for granting such a significant loan. However, as the successful result shows, achieving financing in large sums is possible in Romania if it is for a good project and an experienced developer," commented David Hay, CEO of AFI Europe Romania on the deal.

The developer is also planning the AFI Palace B.Noi, a 36,000 sqm retail centre and 14,000 sqm office building in Bucharest. Outside the capital the developer is planning the 32,000 sqm AFI Palace Arad, and has signed an agreement to purchase a 40,000 sqm plot in the centre of Brasov for the development of a 45,000 sqm shopping mall and 11,000 sqm office project.

As many as 80 retailers have entered Romania since 2013, representing a retail area of over 30,000 sqm, according to CBRE. In total these 80 new brands have opened close to 170 new stores and are planning to open at least 30 new stores in the next 12 months. This record number of new entries is seen as correlated to strong macro-economic indicators such as an average annual GDP real growth in the analysed period of 3.3 percent. In addition to the capital, one in three retailers will also locate to regional cities, the most attractive of which are seen as Constanta, Timisoara, Brasov, Ploiesti, Iasi and Cluj Napoca.

The predominant business model remains the franchisee operation with 65 percent of new brands opting for this strategy and only one in three entering the market directly. Retailers from Italy, the US and France account for half of new brand entries while retailers from Poland, Germany and the UK opened up the highest number of stores, according to CBRE.

"In terms of the type of retailers and type of operation, the existing patterns will mostly continue – fashion brands, franchisees, and European names will lead the expansion model in Romania. We expect regional cities to attract more new brands, as the offer of third generation centres, highly attractive for retailers, will increase with new schemes or refurbishments of successful existing ones," commented Luiza Moraru.

The retail investment market has been dominated by NEPI and Globalworth Real Estate in recent years with, for example, the purchase by NEPI of the 38,000 sqm Promenada Mall from Raiffeisen Evolution (RE) for €148 million. The retail centre was opened in late 2013 and is located in the Floreasca business district of the city. Last year was a record year for the local investment market with a total of over €1.2 billion, with retail properties accounting for around €500 million. During the first three quarters of 2015 retail has accounted for 37 percent of total volume, according to CBRE.

"Big institutional investors are expected to increase their local presence in the second half of the year as improving market fundamentals are lifting their expectations. Prime high street yields ended the end of the first half year at 9 percent, while shopping centre yields were static at 7.75 percent. Prime retail park yields were stable at 8.75 percent," said Cushman & Wakefield. ■