EXCEEDING BORDERS

Colliers INTERNATIONAL

CEE-17 RETAIL IN TIMES OF THE PANDEMIC

2020 / 2021

INTRODUCTION

What a year 2020 has been, although most probably one that the majority of us will be more than happy to see behind us. This is particularly true for those involved in the retail sector, as this year has been subjected to disruption on an unprecedented scale. For retailers, retail property owners and investors alike, this year has been characterised by forced store closures, concerns over inventory and supply chains, difficult negotiations over rents and income, the rapid acceleration of e-commerce and omni-channel models, and general uncertainty that has touched all areas of the global population and economy, to name just a few.

In this latest edition of our ExCEEding Borders series of reports, we take a look at the retail real estate market and sector across the CEE-17 countries, with a specific focus on shopping centre and retail park formats. We also look at some of the trends impacting both consumers and the retail sector overall, some of which have been in the making for a few years already, plus we bring insights from a few of the key players who are active in the region.

Although times are very challenging for many, there are some green shoots of optimism, whether they be related to news about vaccines and the impact they will have, or success stories that have risen out of the pandemic, through the need to adapt to the ever changing conditions and restrictions.

We hope you find this an interesting read!

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MAIN ECONOMIC INDICATORS

17 COUNTRIES

172.9 MILLION PEOPLE

167 CITIES OVER 100,000 INHABITANTS

POLAND

1	38
2	4.1
3	3.2
4	2.3

CZECH REPUBLIC

1	6
2	2.3
3	2.8
4	2.9

SLOVAKIA

1	2
2	2.4
3	4.9
4	2.7

SLOVENIA

1	1
2	2.4
3	4.2
4	1.63

CROATIA

1	4
2	2.9
3	6.9
4	0.8

BOSNIA AND HERZEGOVINA

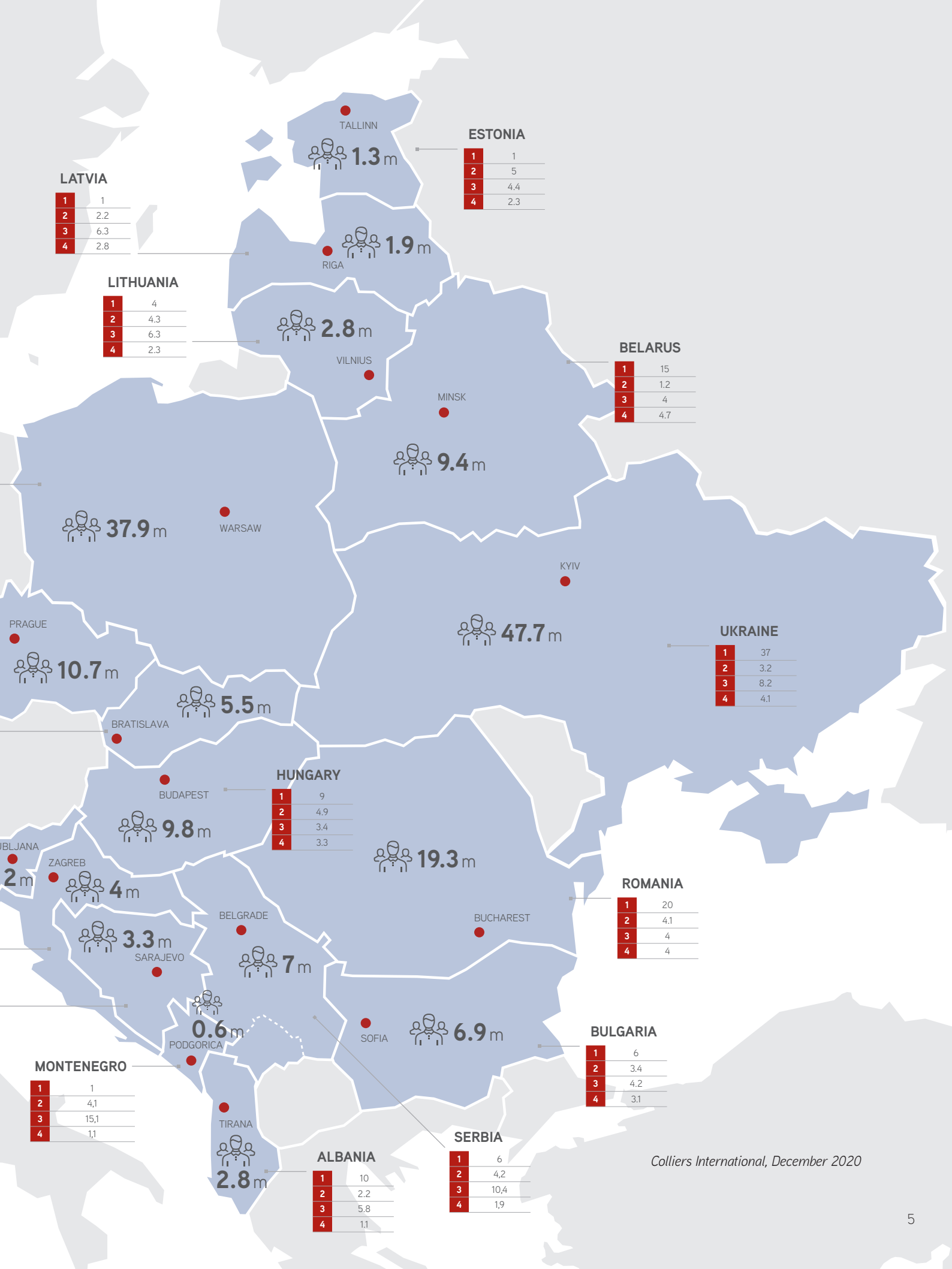
1	6
2	2.7
3	32.6
4	0.68

LEGEND

1	No. of cities over 100,000 inhabitants
2	2019 GDP growth (%)
3	2019 unemployment rate (%)
4	2019 CPI (%)

Capital City

Population



Colliers International, December 2020

CEE-17 ECONOMIES COMING BACK TO LIFE

It has been a trying year for all the participants in the economy, but arguably, one of the sectors which felt this a bit more than others has been retail in general. Not only it was impacted by the recession which led to both lower disposable income and job losses, but the pandemic also likely accelerated the ongoing shift to e-commerce at the expense of the more traditional brick-and-mortar stores.

Trying to disentangle the news and information in this cloudy backdrop can be tricky, but there does seem to be a rosier theme emerging than the gloomy Spring months might suggest. When looking at the macroeconomic data for the CEE-17 economies, which we have included in this report, we can distinguish two key themes:

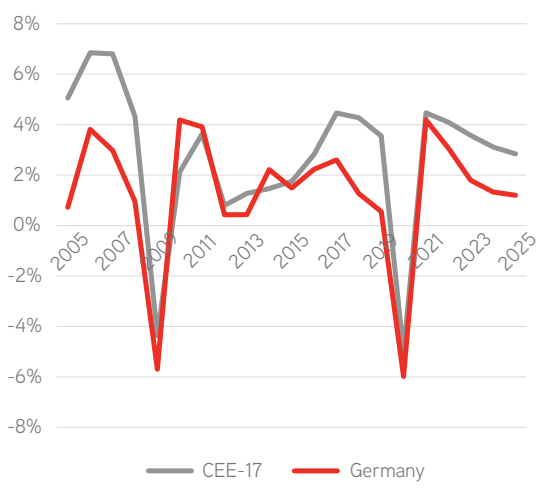
1. In general, the recovery has been taking place faster than it did after the previous recession following the Global Financial Crisis (GFC) of 2008 and the return to growth is forecasted to be a bit more convincing afterwards.

2. Much more relevant to the retail scene in general, labour markets in the CEE region, as well as purchasing power, seem to be in much better shape this time around than a decade ago.

Firstly, looking at the CEE-17's cumulated GDP, despite Poland's strong showing (the country did not see a recession after the 2008 events), it took the region until 2011 to fully recover and surpass the pre-recession (2008) level, with some economies doing this in 2012 or even later. Now, this recovery is forecasted to take place a year earlier as soon as 2021 for the region as a whole, with a few economies getting back on track in 2022, as per IMF forecasts. Furthermore, growth is set to be more convincing in the first part of this new cycle: CEE-17 GDP (weighed with the size of each economy's GDP) is set to average 3.6% in the next 5 years – 2021-2025, almost double the level seen between 2010-2015, when growth averaged 1.9%. And while this is far slower than the sub 6% seen in the run-up to the great financial crisis of '08, it is still a robust enough level compared to more developed countries, keeping economic convergence in place. Also, slower and steadier might not be a bad thing for the CEE if we recall the excesses of the 2005-2008 years.

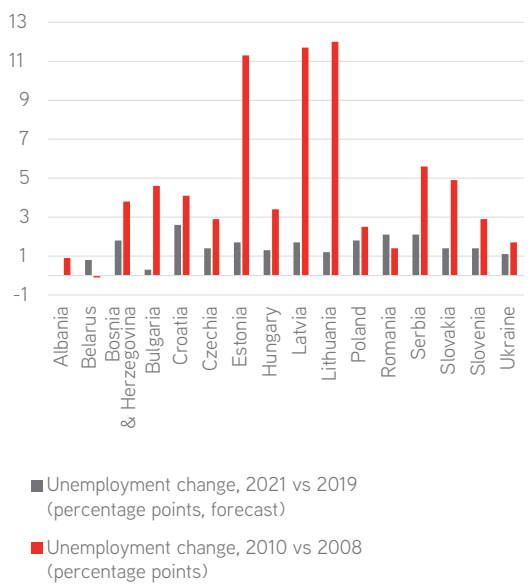
Turning to more retail-oriented macro indicators, there's more good news, in our opinion. We analyzed the IMF's forecasts of unemployment to assess the state of the labour markets.

CEE set to outpace Western European counterparts (GDP growth, %)



Source: IMF, Colliers International

Job market looking much stronger than after the 2008 GFC

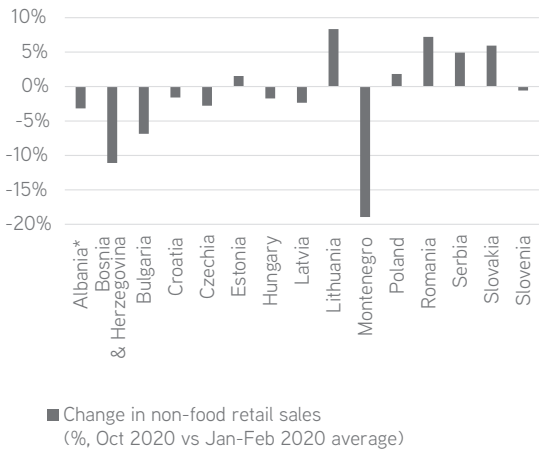


Source: IMF, Colliers International

We looked at 2021 compared to 2019 and 2010 compared to 2008, to skip the recession year, when things might get quite noisy with regards to data, but also to get a clearer grasp on how things might look like in the first year of the recovery. With a couple of exceptions, the jump in unemployment is set to be much lower this time around; the exceptions are Romania and Belarus, though both had tighter labour markets to begin with than compared to 2008.

And given that labour markets have been in decent shape and money flowed in the economy (consumer credit), it is no surprise that retail sales have seen a robust V-shaped recovery in a lot of cases. Compare this to recession following the GFC, when it took retailers quite a lot of years to get things back on track. Since consumption of food is much more inelastic to changes in disposable income, we looked at non-food retail

Non-food retail sales showed robust results as of autumn 2020, strong historic performance so far



Source: Eurostat, Colliers International

sales for 15 out of the 17 countries available in this report to gauge consumer strength (Ukraine and Belarus had no similar methodology available). In 6 out of these countries, October 2020 sales of non-food items excluding fuel was higher than before the crisis; as a side note, these are seasonally adjusted, price deflated indices, so an actual index of the changes in the volume of consumption. Another 5 countries displayed a percentage gap that they needed to recover in the low single digits, in the 1-3% range, quite impressive given the scale of the drop of sales in the spring period. And we haven't even mentioned the historic change in retail sales during this past cycle, which dwarfs any kind of drop seen in 2020, with the notable exception of Montenegro, which has some different circumstances.

In summary, while keeping a close eye in the rear-view mirror for any unforeseen events that might creep up on us, it looks like that the CEE region is set to remain one of the better performing regions in the world, a ca. 173 million consumer market that should continue to deliver better growth rates and returns than more developed markets in a lot of different sectors, including retail.

Non-food retail sales showed robust results as of autumn 2020, strong historic performance so far

Source: Eurostat, Colliers International

CEE region is set to remain one of the better performing regions in the world.

**Albania data published on a quarterly basis, hence we used the last available month, June 2020*

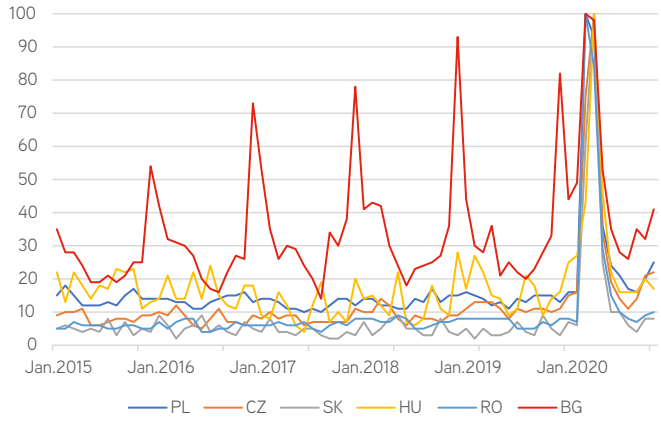
CHANGES IN CONSUMER'S BEHAVIOURS

The pandemic has definitely shaken up the 'normal' order of things in many areas of life and business. And the changes that began years ago, on many levels, have been significantly accelerated, changing both the lifestyle and working models for so many, as well as the forms of communication we use all over the world.
In particular, the temporary closure of shopping centres has forced many consumers to search for new shopping alternatives, as well as for retail chains to look for new ways of selling their products. It is also worth noting that we are currently witnessing a digital transformation on an unprecedented scale. Many new marketplace platforms have been created, many tenants have focused on the development of on-line sales and click&collect solutions, or have established a cooperation with existing, well-known platforms not only to survive on the market but also to meet customer expectations. The process of changes in the context of new technologies or omni- and multi-channel sales would typically take longer under normal conditions, however the pandemic has forced all market players to rapidly adapt to the new situation and accelerate these changes.

We are observing a sharp increase in consumer activity in e-commerce, which may not be a novelty, but has become a fundamental element of the ongoing transformation of the retail sector, related to the development of technology and changes in consumer behaviour. It is also worth noting here that there has also been a significant increase in the percentage of people over the age of 55, who, partly out of necessity, are now shifting from shopping offline to online stores.

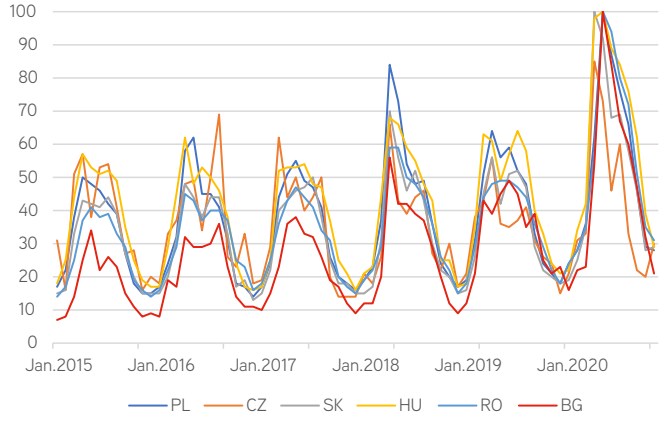
To try and better comprehend these shifts, we looked at a somewhat novel and fairly instantaneous way to observe changing consumer habits. We used the Google Trends tool to analyse what items people have been

National Google search volume indexes for the word "yeast"



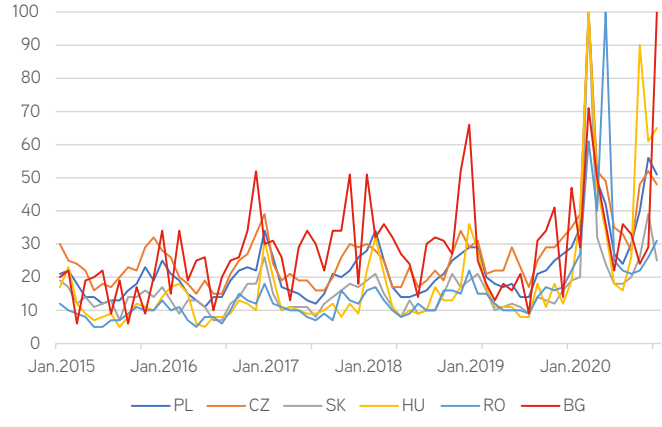
Source: Google Trends, Colliers International

National Google search volume indexes for the word "bicycle"



Source: Google Trends, Colliers International

National Google search volume indexes for the word "thermometer"

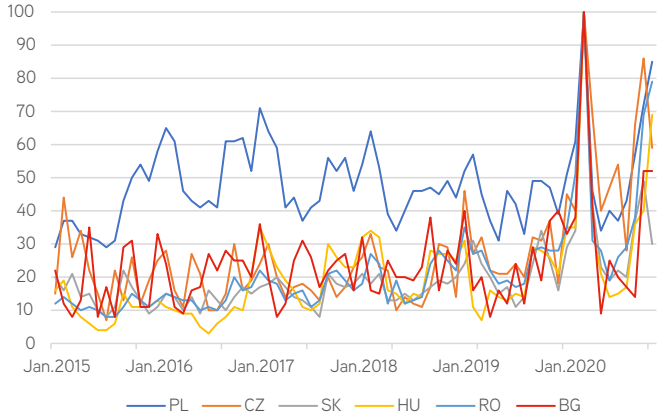


Source: Google Trends, Colliers International

searching for on Google in the CEE-6 (Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria). More precisely, we looked at the search indices for a selection of certain words, which return values from 0 to 100, with 100 serving as the peak search popularity of a certain item in that country. It is important to note that the numbers/popularity of the words are not comparable between countries, but rather offer an historic dynamic within that country. The reference period is 2007-2020. We should also not interpret the popularity jumps at face value or suggest that sales for certain categories of goods jumped twice, three times or more.

Sports is one such category where things seemed to have changed a lot, and besides the highly seasonal nature of some purchase decisions, it is clear that there was a significant uptick in 2020. As people were stuck in the city and their own homes for extended periods of time, they started to value sporting activities and spending more time in nature. Hence, the interest in bicycles and camping equipment hit record highs throughout most of the CEE in the first part of 2020. With regards to many people being stuck at home or indoors, this has also led to consumers buying more indoor sports equipment: for instance, searches for dumbbells hit all-time highs in many countries. This also included items to improve both the quality of life – like desks, which hit all-time highs on search engines in the second half of 2020 as the pandemic was extended. Consumers also looked at various personal items for self-grooming. Still, the jump to record highs is not as clear or actually present in all countries for the latter, as such products tend to be purchased during 'normal' times as well. So, while some habits may well be expected to return more or less back to normal within a couple of years, like eating out, this newfound love and appreciation for nature and wellness may well linger.

National Google search volume indexes for the term "vitamin C"



Source: Google Trends, Colliers International

Due to the numerous limitations impacting the gastronomy sector, we have tended to eat at home more often than before, by preparing our meals or ordering them online from our favourite restaurants or delivery platforms. Interestingly, the demand for box diets is still strong. However, this may only be a temporary trend, directly related to the situation in which we have limited social contacts, where most of us work at home and restaurants in many cases are either closed or operate under some restrictions. Our social nature and the desire to have 'someone else cook' may well give the gastronomic sector some hope, that the situation will one day return to some level of normality.

Another special category which has seen significant increases and probably made up a much bigger part of household budgets is that of health expenditures. The word "thermometer" has popped up in Google searches 5 to 6 times more than a year ago during spring months in most countries. So too have various medicines and vitamins.

After looking at such data, we cannot help but ask ourselves how will the 'new normal' affect the retail sector long term? Will consumer habits change permanently? Who will survive and adapt to the new market conditions? What will shopping centres look like in the future? It is difficult to answer these questions at the moment. However, one thing we can be certain about - it will never be quite the same again. The retail sector has seen big challenges and changes rising in recent years and this year has simply brought them fully to the surface for all to see. The pandemic is partly to blame, but this has far more to do with the ongoing changes in the desires of consumers. Omni-channel and multi-channel sales, the speed and cost of delivery, as well delivering the appropriate level of communication or experience to consumers and really understanding their needs are no longer only a 'key to success', but a 'key to survive'. Everything indicates that, even after the restrictions are lifted completely, many of our new shopping habits, forced by the pandemic, will become a trend in the new reality and remain with us for quite some time to come.

The COVID-19 pandemic, which started in Poland in March 2020, has significantly impacted the shopping centre sector. The operations of retail locations measuring over 2,000 m² of retail space were substantially limited for the first time between 14 March and 3 May and again during the second wave of the pandemic between 7 and 27 November. Analysing turnovers and footfall levels at the end of Q3 2020 we can see that the total cumulative decrease was about 25% compared to 2019 for both indexes. The deepest decreases were obviously recorded in March and April. After the reopening of shopping centres on 4 May, both footfall and turnovers started to increase reaching 70%-80% of previous year's levels. For example, the turnovers analysed in August showed only a 9% decrease compared to August 2019. During the second wave of the pandemic which severely broke out in October, we saw that footfall and turnovers started to fall again. The most affected categories are entertainment (-53% cumulative decrease in turnovers in the January-September period). Also, restaurants and cafes noted a significant cumulative decrease in turnovers by approximately 30% compared to the previous year. Lower declines were observed for products from such categories as household and appliances, and of course food.

During the first wave of the pandemic, the shopping centre industry in Poland recorded a drop in turnovers of over PLN 17.5 billion (ca. EUR 4 billion) in the period between March and May alone. In addition, after the first lockdown, shopping centres did not manage to rebuild the stable footfall results similar to those recorded in the previous year. The footfall rates ranged between 60% and 80% of last year's levels, depending on the area of the shopping centre and the location. A reduced number of customers translated into lower turnovers - on average from May to September this year, turnovers were 20-30% lower each month.

Due to the second wave of the pandemic in Poland, it was decided to limit the operations of shopping centres one again, this time for 3 weeks of November, which, according to our estimates, means lost turnovers of a further ca. PLN 8 billion (ca. EUR 1.8 billion). Cinemas, F&B, fitness clubs, children's playrooms are in the most difficult situation, as their activities were shut down on 7 November and were not restored.

As of 28 November, shopping centres have been reopened and today it is important to keep them operating and avoid further lockdowns. It is also crucial that cinemas, F&B operators and fitness clubs are also allowed to restore operations as soon as possible. The longer the restrictions last, the greater the threat of bankruptcies and redundancies there is. In Poland, the shopping centre industry employs more than 400,000 people in over 570 retail locations.

The Polish Council of Shopping Centres, acting on behalf of the industry, has undertaken a number of communications and educational activities aimed at the Government, opinion leaders and the general public. The primary goal of communications are to present real facts about the safety of shopping centres during the pandemic and prove that retail locations are one of the safest destinations among public spaces. Following the announcement of the closure of numerous shops in November, both the landlords and tenants appealed to the Government to reopen shopping centres as soon as possible. All the safety and sanitary measures were presented in detail, such as monitoring of the number of customers in the shopping centres, permanent and unrestricted access to disinfectants, frequent disinfection of places touched by customers, huge amounts of posters, stickers, pictograms and voice messages reminding customers of applying the DDM principles - distance, disinfection, masks. In addition, shopping centres in Poland are cooperating closely with the police and sanitary authorities to further mobilise customers to follow the regulations and take joint responsibility for safety.

The Polish Council of Shopping Centres also focuses on the education of society within the social media campaign "Safety - I buy it!" tagged #Ishopsafely, under the patronage of the Ministry of Health and the Ministry of Development, Labour and Technology. Social media and media relations are regularly used for sharing useful tips on carrying out safe shopping with consumers. In November alone, when communication activities were intensified, there were over 7,000 publications from the Polish Council of Shopping Centres reaching over 41 million people. "

Agata Samcik
Head of Communications
Polish Council Of Shopping Centres

MULTI-CHANNEL OMNI-CHANNEL AND E-COMMERCE

2020 may well go down in history as the year of online shopping, but what have been the consequences for the retail market in general, and for the various market players involved? Well, to put it bluntly, it has not exactly been a bed of roses for anyone, unless of course your name is Jeff Bezos. We all know that the pandemic has lit a fire under the retail industry (or fanned the flames of one that was already burning away) and has literally forced all involved to urgently review all aspects of their business models.

As the majority of brick-and-mortar shops, selling non-essential items, have been closed, re-opened and closed according to the waves of the pandemic, this has left an unimaginable number of retailers, retail property owners, goods producers and a whole stream of related business in a very uncomfortable situation. We will try to highlight some of the consequences of this, some of which are positive, and some far less so.

Essentially, you can sell goods through a variety of 'channels' such as brick-and-mortar properties like a shop on the high street, in a shopping centre or retail park. Alternatively, you can sell by phone or mail order via a catalog (perhaps seems a little outdated, but still going strong). Then you have online marketplaces such as Amazon, Ebay and Zalando who sell a wide range of brands and products on behalf of themselves or other retailers. Finally, you have online stores, typically dedicated to one retailer, which has a truly huge and growing level of choice globally. In Poland and the Czech Republic alone, over 5,000 on-line stores have been newly established in the first half of 2020. Now, these can all be operated individually, such as physical retail only, a combination of a shops plus 1 or 2 channels, or maybe all options collectively to provide a full 'multi-channel' offering. Here therefore come the challenges of recent history, and not only thanks to the pandemic.

First of all, if you only operate shops and they can no longer be open, depending on who you are as a company or brand, it does not take too long for your overheads (rents, staff, merchandise and other commitments) to diminish your finances with no revenues coming in. It's not even a case of size matters, as the headlines have revealed, even some of the best-known or household names and brands have been impacted this year and have been forced to scale back, or worse, into administration.

Ok, but surely, they have other channels that they can fall back on in such times? Many retailers do operate other channels, but quite often the brick-and-mortar stores make up the largest part of their revenue and operational network. In addition, many of these channels run somewhat independently of each other and perhaps do not always provide the 'experience' or accessibility that modern consumers demand today. This year, if not already before, has revealed how flawed some models are, or can be. To be fair, this is not exclusive to retail either, the Hotel and Travel industries, among others have also felt their share of pain, but that is of little consolation.

The point here, is that to adapt to more robust models takes serious time, know-how and investment, and if brick-and-mortar retailers were not looking at other channels, particularly 'online', before 2020 then there are unfortunately not many quick fixes available to what could be a large flotilla of sinking ships.

Online market places are already proving to be a saving grace for some brands, and depending on the retail segment there are also specialists that complement the goods on sale, such as Zalando for example, who are one of the global marketplace leaders in fashion and footwear, and related products. Let's not forget Amazon of course as the world's largest online retailer and one of the world's biggest companies, (by marketcap), who sell almost anything you can imagine. And even sell you things you didn't know you wanted until it arrived on your doorstep … wow, how did that happen? Anyway, despite what some may think about the seismic shifts that platforms like these are making and how others might compete or indeed benefit from, it all is pretty astonishing and impressive. Even more reason that retailers need to get on that e-commerce rocket ship before it blasts-off and becomes unreachable. It's not too late, but again, to do it right will take time, know-how and investment and that needs to be prioritized if not already underway.

Although some retailers are pure online players and many are coping well (depending on their retail segment), others are multi-channel players and are experiencing mixed results from the pandemic and consumers. The other model we have not yet mentioned is omni-channel. This model is essentially a seamless 'experience' for the consumer, no matter how they come

in to contact with the brand or products, they understand it, it is comfortable and is why they will most probably keep coming back. At the same time, omni-channel models also provide highly valuable insights to retailers into consumer behaviour and feedback on their products and services. Omni-channel really is a 'model' model, if done properly, and essentially focusses on the consumer, making them feel appreciated or valued for their custom. This goes a long way to making them become brand loyal and provide that highly valuable free social marking that so many, products and brands rely on today. Get it wrong and it could be game over.

Across the CEE region, the share of online sales varies quite considerably from early single digits in some countries, up to >18% in the Czech Republic. This year, the majority of these figures have grown at the fastest ever rates historically, but this still leaves more than 80% of the sales in other channels.

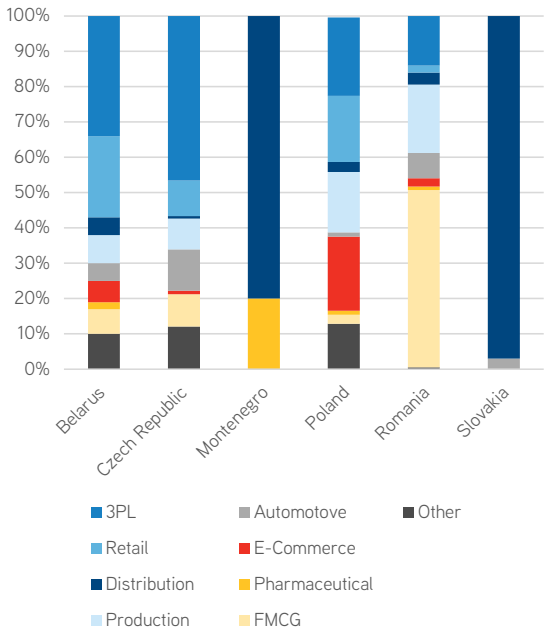
There are also a few other factors at play in the retail sector which have still yet to be resolved to a level that would perhaps create more balance. These are the factors that impact on retail property owners. Maybe over simplified but, many retailers rely on having a network of stores in great locations, near to their target consumers so they can come and purchase all the great things on offer. As a retail property owner, you rely on a variety of factors for success such as having a good property in a good location along with tenants that attract good footfall, make good turnovers and pay the rent on time, happy days. But if shops can't open and retailers start to fail, that all goes out of the window as mentioned before. Ok, so some landlords offer turnover rents as we know, but some also offer for retailers to include a proportion of online sales into that turnover if that is what is agreed. Now this seems fair, for all the reasons that have been discussed in the past and as long as there is sufficient transparency.

Unfortunately, other factors are at play adding to the problem such as the fact that many retailers are not present directly in a market but are instead present through a franchise partner, who may also operate several brands. The issue here is that quite often franchise partners do not have control or the rights to the e-commerce platform of the parent brand, thus limiting their ability to sell online. Franchisees can establish their own

channels but also face some restrictions on using or presenting 'the brand'. Another factor can be geographical, where some platforms cannot sell across certain borders, for example, a consumer might hear of a great deal in the UK which could work out cheaper, including shipping, than if it were purchased online locally … only to discover that when they go to check-out, or in many cases earlier, that they are directed to a local version of the platform where local prices and conditions apply. Sometimes this is enough to drive the consumer away completely. Some retailers may have very well established and great online or omni-channel platforms, only to be let down in some markets by the cost and poor experience consumers have with receiving their goods late for example. On this point, we understand that many retailers would prefer, or are also trying to drive consumers towards the click&collect option where there is more control, and where additional purchases are likely to be made on top.

However you look at retail, either from the shopping formats, to the players involved, there are still many issues that remain unresolved. Retail real estate will remain important to many retailers, but fair and reliable solutions need to be found to make it work for all parties involved.

Demand for modern industrial space by sectors in selected CEE countries (H1 2020)



source: Colliers International

Country Name	E-commerce % Consumer Goods	E-commerce % Consumer Services
Austria	12.50%	5.20%
Belgium	5.77%	8.30%
Bulgaria	3.37%	5.80%
Croatia	2.92%	6.90%
Cyprus	4.00%	4.00%
Czech Republic	14.36%	7.70%
Denmark	16.00%	7.00%
Estonia	3.95%	9.60%
Finland	7.54%	8.40%
France	8.30%	8.20%
Germany	12.23%	5.80%
Greece	5.50%	4.00%
Hungary	5.27%	6.70%
Ireland	13.80%	9.30%
Italy	5.19%	3.50%
Latvia	3.66%	7.20%
Lithuania	4.53%	3.80%
Luxembourg	6.74%	6.00%
Malta	7.16%	5.00%
Netherlands	13.39%	7.60%
Norway	12.90%	3.70%
Poland	6.56%	5.30%
Portugal	5.99%	3.90%
Romania	5.23%	3.50%
Slovakia	3.66%	7.70%
Slovenia	2.21%	7.40%
Spain	8.72%	4.50%
Sweden	14.28%	11.00%
Switzerland	7.20%	5.30%
United Kingdom	19.20%	8.5%

Source: Eurostat, National Statistical Offices, Statista, 2019

Strategically speaking, as CCC, we intend to focus on the CEE region, as we enjoy a market leading position and can rely on most competitive advantages there. The region is where we will continue to invest in the development of retail space, albeit with a selective approach, focusing solely on the most attractive markets, such as Romania. For a considerable time, we have been successively reducing our physical retail presence in Western Europe. However due to binding long-term agreements and guarantees, the process is neither easy nor quick. Currently, we are restructuring the DACH region. For a company such as ours, with over a thousand retail stores, revision is a constant process", explains Szymon Filipczak, Head of Strategy at CCC.

How then can one verify the strategic importance and attractiveness of a given market? The first factor is the geographical location - Polish brands will always find it easier to expand to, for example, Czech Republic than Portugal. The second aspect is cultural factors and knowledge of social behavior. Lastly, one should consider the market's future prospects and saturation. For example, Italy and Spain are attractive from an e-commerce perspective, as their markets are several times bigger than Poland's, while being characterized by relatively low online sales penetration.

On the other hand, the German market is highly mature and competitive, making it very difficult to introduce a new chain with ambitions such as being among the top 5 retailers. Therefore, some companies make their bids for expansion - with mixed results - through players with already established positions on a given market. One should remember, however, to account for social, consumer and cultural differences, adjust their communications, price policy and offer a product in demand. It is a very difficult and complex process.

Marcin Czyczerski
CEO CCC

Both e-commerce itself and attracting clients on foreign markets require client-facing technological innovations, as no other sales channel is as ruthless when it comes to misjudging buyer's expectations. Mobile app, esize.me assistant, chatbots enabling 24/7 customer service, visual search facilitating browsing, livestreaming enabling new shopping experiences, delayed payments - these are all examples of implementations of the CCC Groups central, soon to be introduced to new markets, as successful technological innovations should be used widely.

"The quick tempo in which new online platforms have been introduced to successive markets arose from the fact there were no new implementations - there is only a single main engine. It is simply a matter of localizing the platform to a new language. It makes building a consistent ecosystem much easier. Advanced data analytics and process optimization are also very important. When all these requirements are fulfilled and an attractive product is supported by appropriate marketing, it results in many opportunities to scale business up and gain more market share. One also has to learn the specificity and exact needs of a local market. The drive for operational excellence, focus on clients and new orders, constant improvement of one's deficiencies are important factors in maintaining a well-functioning e-commerce channel", comments Jakub Jasiński, Director of E-commerce/Omni-channel at CCC.

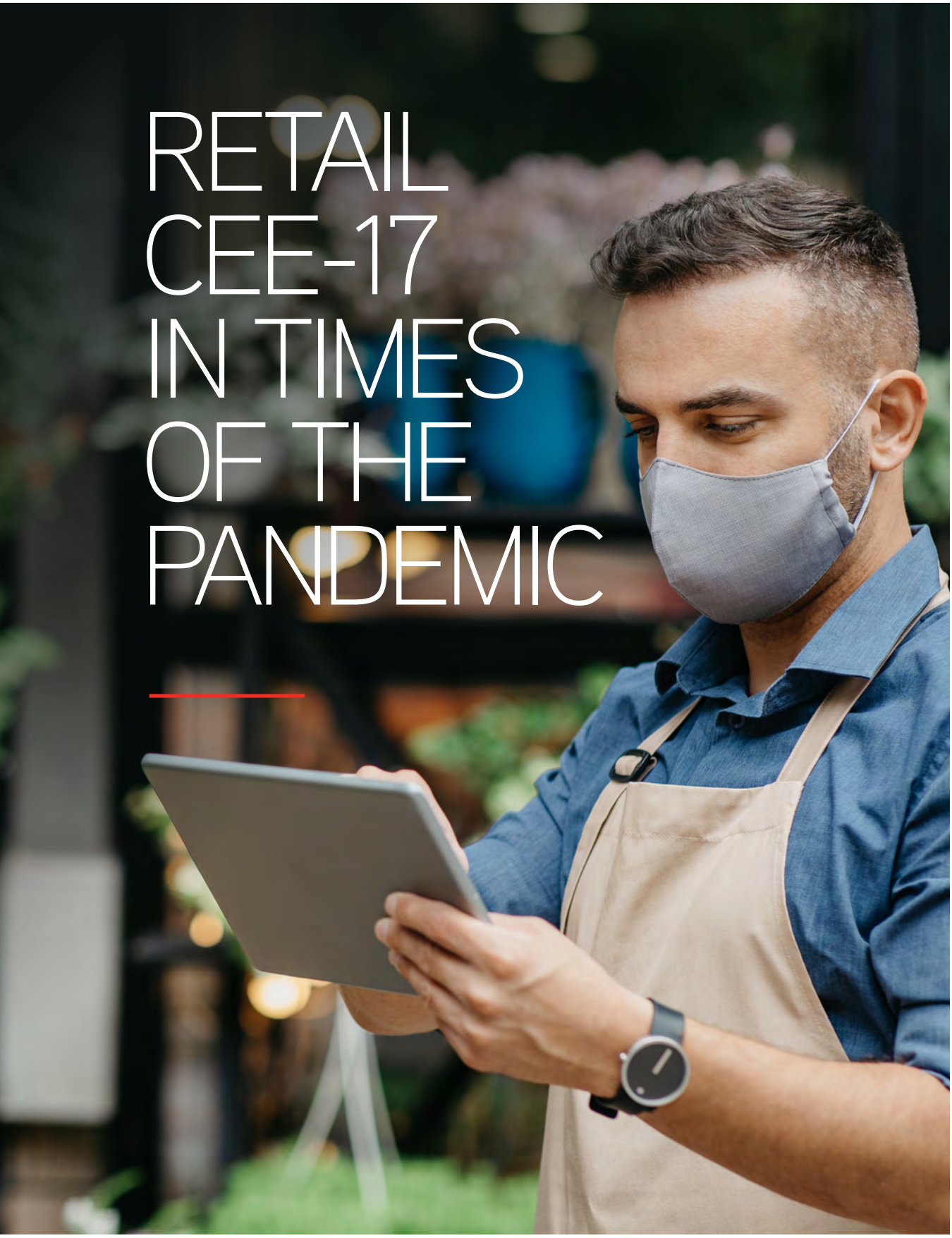
When discussing digitalization, one would be remiss if they didn't highlight the parallel transformation of brick-and-mortar stores - the physical, immediate availability of goods is bolstered by a number of digital consumer experiences. In stores - both in Poland and abroad - clients can enjoy, for example, self-checkout or interactive kiosks enabling online ordering, enabling merging the online and the offline worlds. CCC also owns the esize.me foot scanners and is currently testing 60 minutes store-to-client delivery in Warsaw.

"Omni-channel is a phenomenon transcending the borders of countries and markets. The solutions created and tested on the Polish market are consistently being introduced to foreign markets", Konrad Jezierski, Director of Omni-channel Development at CCC Group at Director of Retail in eobuwie.pl, is known for saying often.

Digital tools are definitely very powerful, but one has to remember that nowadays many players already know how to use them effectively - making it so much easier to lose clients in favor of the competition. It is here that companies focused on the omni-channel model, that is merging online and brick-and-mortar presence, will prove advantageous in the long-term thanks to their ability to remain accessible for clients at any time and in any form they prefer."

Karol Półtorak
VP of Management Board CCC

RETAIL CEE-17 IN TIMES OF THE PANDEMIC



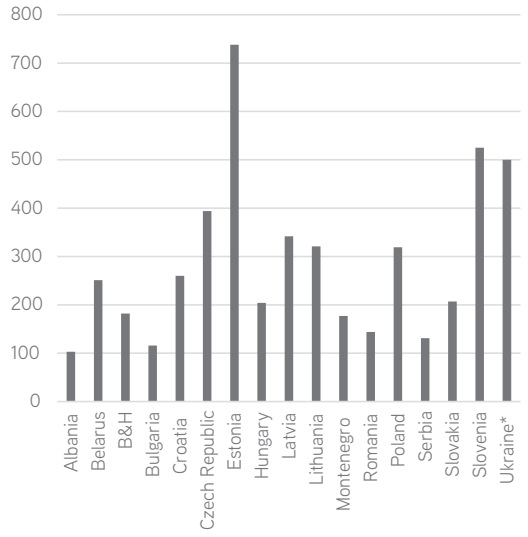
The shopping centre market in the CEE-17 consists of almost 1,680 facilities, with a total of over 34 million m² GLA, serving 173 million consumers. The size of this market is also reflected in the annual purchasing power of the population with a total value of EUR 893 billion. It should however be noted that the purchasing power of Central and Eastern European consumers is very diverse. Among the 17 countries analysed there are those with a purchasing power of EUR 9,500-12,500 per capita per year (Slovenia, Estonia, Czech Republic, Slovakia, Lithuania) but also those with EUR 1,500-3,500 per capita per year (Ukraine, Belarus, Albania, Bosnia and Herzegovina).

The analyzed markets are at also at different stages of development. The highest saturation of space per 1,000 inhabitants is recorded in Estonia (738 m²) and Slovenia (525 m²), with the lowest being in Albania (104 m²) and Serbia (131 m²). The highest volume of retail space is located in Poland (12.1 million m² in 532 facilities) and the Czech Republic (4.2 million m² in 232 facilities) with the smallest being in Montenegro (110,000 m² in 14 centres) and Albania (290,000 m² in 17 centres).

With increasing competition, the diversification of retail formats is noted in most markets, and this has been clearly accelerated by the changes brought about by the COVID-19 pandemic. In particular, there has been an increase in the number of small shopping centre formats and retail parks, considered by both developers and tenants as profitable investments, and by consumers as comfortable and safe places to shop. At present, there are approximately 670 such centres operating in the CEE-17 countries, with a total GLA of 6 million m². The largest number of small schemes operate on the highly competitive shopping centre markets in Poland (1.2 million m² of GLA, in 164 schemes) and the Czech Republic (0.7 million m² of GLA, in 87 schemes), as well as in Belarus (0.85 million m² of GLA, in 146 schemes), where this format has developed alongside full-sized shopping centres. There are many of these schemes under construction and in advanced stages of planning. In the CEE-17, there are several developers investing in this market segment, such as MITISKA REIM, Immofinanz and Trei RE.

The COVID-19 pandemic has disrupted both the operation and development of retail real estate markets worldwide, as well as in the CEE-17 countries. The Government restrictions imposed on the operation of shops, service outlets, gastronomy, entertainment and leisure, have led to a dynamic growth of e-commerce sales and to changes in consumer behaviour. These have also contributed to a 20-45% (depending on the

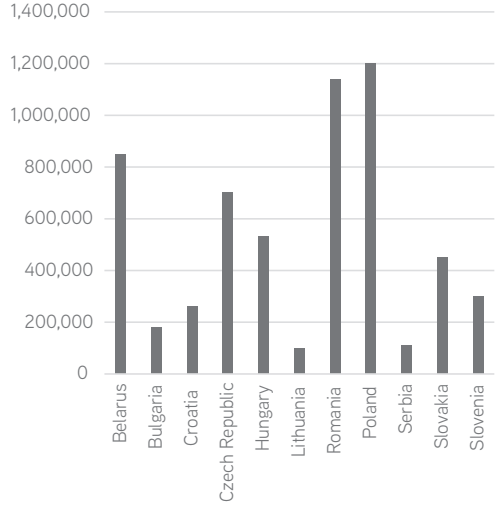
Saturation of shopping centre space in CEE-17 countries (m²/1,000 inhabitants)



**Kyiv, Lviv, Dnipro, Kharkiv, Odessa only*

Source: Colliers International, December 2020

Supply of small covenience centres/retail parks in selected CEE-17 countries (m²)

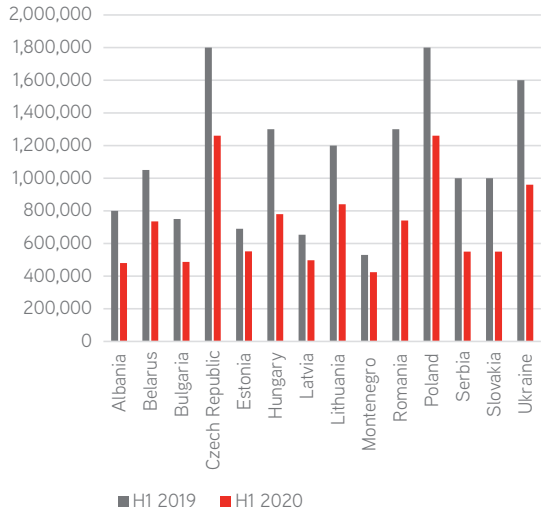


Source: Colliers International, December 2020

country) decline in footfall figures in shopping centres, when we compared data from the middle of 2020, to the corresponding period of 2019. In the second half of the year, shoppers started to visit shopping centres again, but subsequent lockdown periods did not allow for a return to the footfall and turnover levels recorded before the pandemic. For this reason, in the summer of 2020, we observed the ongoing processes of retailers renegotiating rental rates in most countries, but it seems that the possibility of further renegotiations at the turn of 2020/2021 is already low. Depending on the country, a wave of bankruptcies and acquisitions of varying degrees of intensity is expected, particularly in the gastronomy, entertainment and leisure sectors.

Despite unfavourable market conditions for retail chains, 2020 was a very busy year. New sales channels were developed, e-commerce investments were made, lease conditions were renegotiated, brick-and-mortar shop chains were optimised and new business strategies were prepared. The expansion into brick-and-mortar mainly involves chains from the FMCG sector, as well as non-food tenants in the discount segment. Retailer entries to new markets were overall quite limited, but it is worth noting several spectacular debuts such as the first Primark shop in Poland, the first IKEA store in Slovenia and the launch of e-commerce sales in Ukraine, KiK's debut in Bulgaria and Burger King in Estonia. What is interesting, that there were also several up-market brand debuts, including Hugo Boss (Albania), Yves Saint Lauren, Dsquared, Chanel (Czech Republic) and Armani Beauty (Romania). We have also observed the exits of retail chains, however, most of these were the effects of earlier decisions such as the withdrawal of Forever21 from Bulgaria and the Czech Republic, Camaieu from Poland, the Czech Republic, Hungary and Slovakia, and as well as River Island from Estonia and Latvia.

Estimated monthly footfall in prime mall H1 2019 vs H1 2020 in selected CEE-17 countries (visitors/month)



Source: Colliers International, December 2020


Christmas
SHOPPING

RETAIL MARKET IN CEE-17 - KEY DATA

LEGEND

1	No. of shopping centres
2	Total shopping centres stock (m m² GLA)
3	No. of convenience centres/retail parks
4	The total stock of convenience centres/ retail parks (m m² GLA)
5	Estimated monthly visits in prime shopping centre (m) in 2019
6	Estimated decline in prime shopping centre visits in H1 2020 vs H1 2019
7	2020 Debuts ▶
8	2020 Exits ◀

LATVIA

1	32
2	0.65
3	N/A
4	N/A
5	0.6
6	**-25%**
7	Marymaris ▶
8	River Island, Blend 50style, Multikino Lilimill ◀

LITHUANIA

1	45
2	0.90
3	16
4	0.10
5	1.20
6	**-30%**
7	Yamamay ▶
8	-

POLAND

1	532
2	12.1
3	164
4	1.2
5	1.8
6	**-30%**
7	Primark, Courir, Ulla Popken, Falconeri ▶
8	Camaieu ◀

CZECH REPUBLIC

1	232
2	4.22
3	87
4	0.70
5	1.80
6	**-30%**
7	GAP, TEDi, Yves Saint Lauren, Dsquared, Chanel ▶
8	Camaieu, Tous, Forever21 ◀

SLOVAKIA

1	60
2	1.14
3	43
4	0.45
5	1
6	**N/A**
7	-
8	Tous, Camaieu, Adidas, Retro Jeans, Aldo ◀

SLOVENIA

1	30
2	0.65
3	25
4	0.12
5	0.65
6	**N/A**
7	Ikea ▶
8	-

CROATIA

1	41
2	1.04
3	36
4	0.26
5	1
6	**N/A**
7	Eurospin ▶
8	-

BOSNIA AND HERZEGOVINA

1	26
2	0.52
3	5
4	0.05
5	0.7
6	**N/A**
7	-
8	Interex ◀

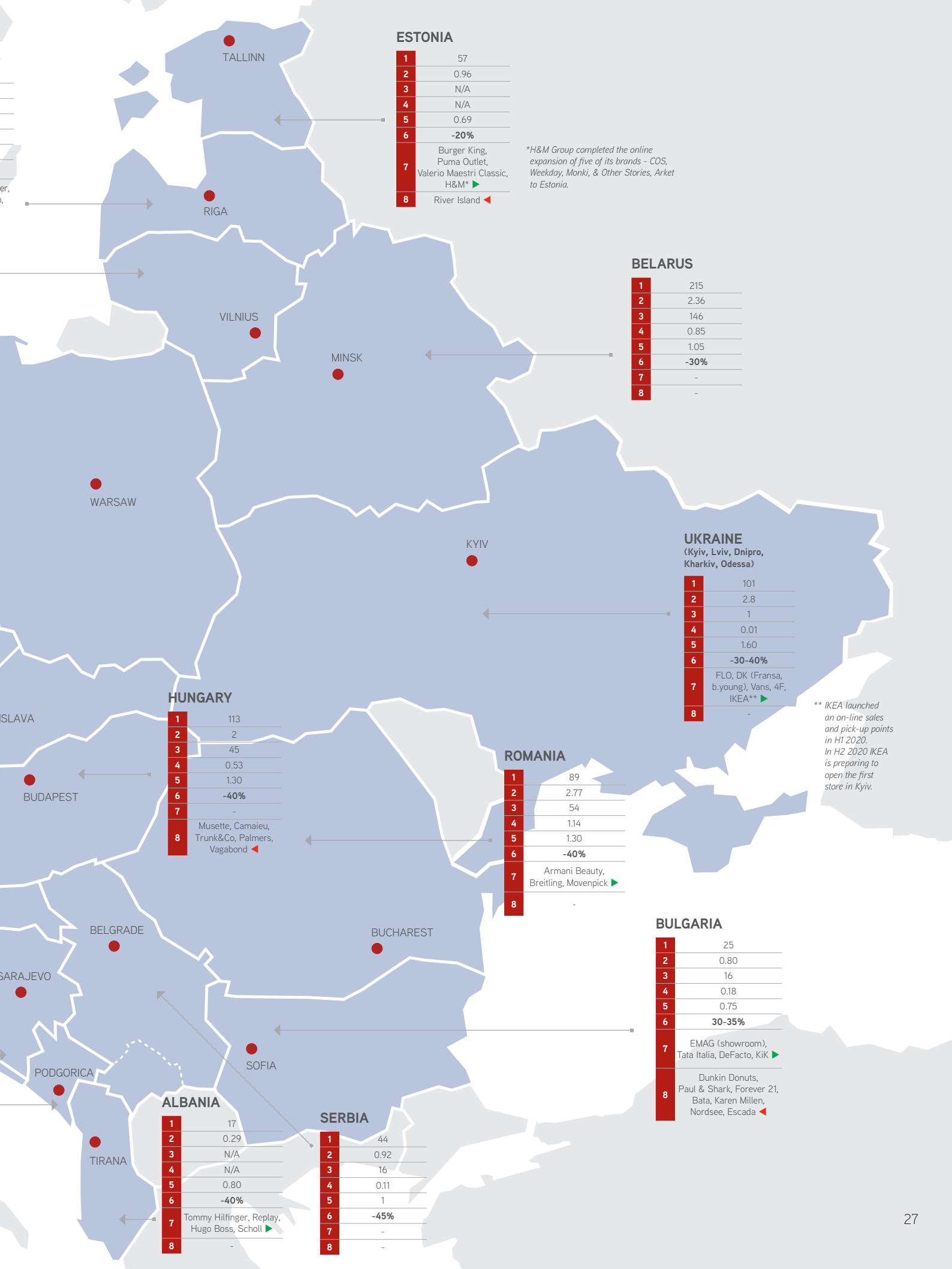
MONTENEGRO

1	14
2	0.11
3	1
4	0.007
5	0.52
6	**-20%**
7	-
8	-

PRAGUE

LJUBLJANA

ZAGREB



ESTONIA

1	57
2	0.96
3	N/A
4	N/A
5	0.69
6	**-20%**
7	Burger King, Puma Outlet, Valerio Maestri Classic, H&M* ▶
8	River Island ◀

**H&M Group completed the online expansion of five of its brands - COS, Weekday, Monki, & Other Stories, Arket to Estonia.*

BELARUS

1	215
2	2.36
3	146
4	0.85
5	1.05
6	**-30%**
7	-
8	-

UKRAINE
(Kyiv, Lviv, Dnipro, Kharkiv, Odessa)

1	101
2	2.8
3	1
4	0.01
5	1.60
6	**-30-40%**
7	FLO, DK (Fransa, b.young), Vans, 4F, IKEA** ▶
8	-

*** IKEA launched an on-line sales and pick-up points in H1 2020. In H2 2020 IKEA is preparing to open the first store in Kyiv.*

HUNGARY

1	113
2	2
3	45
4	0.53
5	1.30
6	**-40%**
7	-
8	Musette, Camaieu, Trunk&Co, Palmers, Vagabond ◀

ROMANIA

1	89
2	2.77
3	54
4	1.14
5	1.30
6	**-40%**
7	Armani Beauty, Breitling, Movenpick ▶
8	-

BULGARIA

1	25
2	0.80
3	16
4	0.18
5	0.75
6	**30-35%**
7	EMAG (showroom), Tata Italia, DeFacto, KiK ▶
8	Dunkin Donuts, Paul & Shark, Forever 21, Bata, Karen Millen, Nordsee, Escada ◀

ALBANIA

1	17
2	0.29
3	N/A
4	N/A
5	0.80
6	**-40%**
7	Tommy Hilfinger, Replay, Hugo Boss, Scholl ▶
8	-

SERBIA

1	44
2	0.92
3	16
4	0.11
5	1
6	**-45%**
7	-
8	-

ALBANIA

NO. OF SHOPPING CENTRES /TOTAL STOCK

17/0.29 M M² GLA

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

N/A

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

0.8 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

40%

Following the first confirmed COVID-19 case in Albania on 8th of March, the country went into lockdown for a period of two months. During the lockdown, most businesses started implementing online platforms and offering delivery services, but citizens had the tendency to purchase only the most essential goods needed. The Government supported small businesses by enabling the postponement of two consecutive rent payments. They also provided financial assistance to self-employed persons and people employed in business entities with an annual income up to Lek 14 million, that have had their economic activity interrupted based on the orders of the Ministry for Health and Social Protection.

After the reopening, the Government applied restrictions to the businesses, such as limited opening hours, the provision of protective equipment for both employees and clients and the oversight of social distancing. The lockdown itself, the restrictions applied later and the fear of the citizens to stay in indoor environments, has caused the closure of some shops on Tirana's high streets.

Regarding rental prices, there have been deferrals of payments or reductions of amounts to be paid during the lockdown months, but there have been no lease agreement amendments and rental prices remain at the same level as those before the pandemic. The latter, has forced many business owners into challenging negotiations with their landlords. There was no change in shopping centre rents recorded, where the average levels are ca. USD 22.5 m²/month, while prime headline rents for small sized retail spaces reach up to USD 52 m²/month. The supply of prime retail stock is expected to increase by approximately 18,200 m² in the short/medium term after the completion of the high quality mixed-use projects in the pipeline, including MET Tirana, Downtown One and Eyes of Tirana, among others which have not stopped their construction works, even during the lockdown.

BELARUS

NO. OF SHOPPING CENTRES /TOTAL STOCK

215/2.36 M M² GLA

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

146/0.85 M M² GLA

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

1.05 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

30%

The first wave of the COVID-19 pandemic in Belarus passed without any restrictions, meaning no lockdown or other protective measures were introduced by the Government, only some recommendations took place. The second wave turned out to be more serious, and from November 12th , the wearing of face masks has become mandatory. At the same time, no restrictions were imposed on the operation of retail facilities. Overall, society turned out to be quite disciplined and self-organized. Many people voluntarily went into isolation, stopped going to cafes, restaurants, bars and cinemas, etc. As a result, the owners of many businesses from these segments either stopped their activities on their own or switched to volunteering (for example, they organized the delivery of food to doctors working in COVID-hospitals).

E-commerce has developed widely. Retailers directly involved in this segment have become more active, as well as large, traditional retail companies that were not previously involved in e-commerce. The promotional activity of retail companies on popular social networks has been especially noticeable.

Following the first wave of the pandemic, visitors returned to the largest, most popular shopping malls, but it would be wrong to say that any specific improvements were made to the shopping environment. In only one shopping centre, disinfection frames were installed for visitors and for a while, free of charge masks were offered to visitors. Retailers are taking some precautions to make visitors feel safe by forcing employees to wear masks and placing disinfectant sprays in stores. It can be noted that in the midst of the second wave and exactly one week after the introduction of the mandatory mask regime, the grand opening of a multiplex took place in one shopping centre. Surprisingly, in the first hours of operation, all tickets for a number of sessions were sold.

BOSNIA AND HERZEGOVINA

NO. OF SHOPPING CENTRES /TOTAL STOCK

26/0.52 M M² GLA

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

5/0.05 M M² GLA

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

0.7 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

N/A

At the beginning of the year, macroeconomic indicators such as GDP growth and another record tourist season have positively affected the retail sector of Bosnia and Herzegovina. However, with the onset of the COVID-19 pandemic, these trends have turned negative and caused a decline in most indicators. The initial restrictions were implemented on March 18th when a ban on all public gatherings was implemented, suspending the operation of all non-essential facilities, while on March 20th, a ban on the movement of people under the age of 18 and over 65 was implemented, as well as a mandatory curfew for all citizens that lasted until April 24th. Due to several entities within the state, some restrictions began sooner and lasted longer, depending on each individual entity's decisions.

Restrictions were mostly lifted over the summer months, but activity did not bounce back to pre-pandemic levels and there are signs of lasting weakness. Tourism, a significant contributor to the economy, remains severely depressed and retail sales have not bounced back to the extent seen in other regional economies. The economy is expected to contract by 5.4% this year, before returning to a growth of 5.7% in 2021.

Although announced relatively early in the crisis, government support for workers and businesses has been weak in comparison to measures seen in developed European countries. Grants and concessional loans totalling over USD 700 million from the EU, IMF and World Bank will help the government to deal with the economic fallout from the crisis, but the limited scale of the measures will contribute to an almost 6% fall in consumer spending this year, according to Oxford Economics.

It is assumed that the rise of new cases in B&H will hinder the already reduced expectations of private consumption in Q4 2020. The decline of private consumption is exacerbated by the negative trends in the neighbouring countries and Europe as a whole, as well as significant migrations of the population and unstable social systems that lack significant socio-economic reforms.

The Sarajevo shopping centre market has seen large scale development of modern stock in the last decade. New schemes have improved the retail offering, along with the arrival of international brands. Bingo remains the biggest retailer on the market and continued to develop shopping centres in which they are the anchor tenant, occupying the majority of the surface.

The modern shopping centre stock is located in the larger cities of Bosnia and Herzegovina, with most of the stock being located in Sarajevo. Contemporary shopping mall stock amounts to ca. 117,700 m² which translates into 390 m² per 1,000 inhabitants, less than shopping centre stock per capita in neighbouring countries, like Croatia. The overall retail stock totals approx. 197,500 m². The average vacancy rate in modern shopping malls is approximately 5%, while in other it is much higher.

E-commerce is not well developed in Bosnia and Herzegovina. Citizens and business people generally do not shop or conduct business over the internet. Many companies maintain websites, but ordering online through use of a credit card is very rare. According to a research study carried out by students at the Burch University in Sarajevo, the reason e-commerce has not taken off in Bosnia and Herzegovina is not infrastructural, nor technological, but cultural. They point out that the technologies needed for the implementation and development of e-commerce in the country are available, and online shops do exist in Bosnia and Herzegovina, but the population is simply not yet accustomed to shopping online.

Nonetheless, e-commerce recorded a solid growth rate in 2019, driven by several reasons. Firstly, growth is coming from a low base, but more importantly, there is a growing increase in internet activity in Bosnia and Herzegovina, boosting overall sales for the channel. Consumer electronics were the biggest part of the overall e-commerce trade in Bosnia and Herzegovina in 2019, followed by media products. These product types are most frequently sold through e-commerce as they offer a wider array of goods, and competitive pricing compared to retail outlets. There were 2.37 million internet users in Bosnia and Herzegovina in January 2020, while internet penetration in Bosnia and Herzegovina stood at 72% in the same period. The number of internet users in Bosnia and Herzegovina increased by 220 thousand (+10%) between 2019 and 2020.

BULGARIA

NO. OF SHOPPING CENTRES /TOTAL STOCK

25/0.80 M M² GLA

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

16/0.18 M M² GLA

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

0.75 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

30-35%

The COVID-19 pandemic has certainly taken the retail sector out of its comfort zone and inevitably the crisis and its effects are posing major challenges to the industry in Bulgaria. However, the imposed lockdowns and numerous restrictions have functioned as a trend accelerator for certain key approaches and fields of action that will become even more important in the future.

E-commerce has rapidly evolved, forcing retailers to urgently initiate or speed up the implementation of their online platforms and interconnected activities. Pure physical retail chains such as supermarkets and drug stores swiftly elaborated their own digital platforms or joined marketplaces (eMAG, OLX, to name a few), while the multi-retailers' online platforms adapted their approach to the changing reality. For example, the specialist fast-food delivery platform like Foodpanda added order options for its customers from Kaufland, DM and Office 1 Superstore. Consumer spending behavior has tended to be more and more price sensitive, which has further accelerated the expansion of discounters, fast fashion retailers, FCMG chains and other essential goods retailers. Hybrid stores - click&collect and shopping fulfilment hubs are expected to develop significantly over the next few years. Recent examples on the market are the first physical eMAG showrooms in the country and Miniso project for a shopping fulfillment centre in Sofia shopping mall, while the Polish CCC Group just announced their new project HalfPrice (premium and fast fashion brands permanently discounted by at least 50%).

As consumers are being vigilant towards the spread of the virus, they have significantly reduced visits or cut down their dwell time in large shopping centres. Due to the open air parking, convenient access and layout which allows customers to enter a shop directly from outside, retail parks and stand-alone stores have weathered the storm better and are continuously gaining momentum on the Bulgarian retail market. By the end of 2020, three new retail parks are expected to open, with a healthy pipeline over the next 2 years including more than 10 schemes!

CROATIA

NO. OF SHOPPING CENTRES /TOTAL STOCK

41/1.04 M M² GLA

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

36/0.26 M M² GLA

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

1 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

N/A

After a steady growth of retail trade turnovers in recent years, in H1 2020, the working-day adjusted retail trade turnover decreased in real terms by 6.6% compared to the same period of the previous year, according to the Croatian Bureau of Statistics. The decrease in retail sales is mainly due to the regulatory measures implemented to stop the spread of the COVID-19 pandemic, as most non-essential goods stores were closed for business from March 19th, 2020 to April 27th, 2020 (and shopping malls until May 11th, 2020). Despite food retail turnovers strong growth at the beginning of the pandemic, fuelled by panic buying and stocking of supplies before the full lockdown was initiated, many of the other retailer segments suffered heavy downturns in sales during the months of the lockdowns. Due to the regulatory measures to stop the spread of the virus, most shops selling non-essential goods were closed for business. After the relaxation of the protective measures governing the amount of people allowed in retail centres and a return to normal working hours, sales picked-up, but not to pre-COVID-19 levels.

Due to travel restrictions and ongoing measures of controlled border crossings, tourist arrivals, one of the key drivers of sales during the summer months, experienced a significant downturn as well.

Zagreb was also hit with the most powerful earthquake in its recent history, with a magnitude of 5.5 on the Richter scale. Historic buildings in the city centre comprised a large number of high street retail properties on their ground floors, which, due to their excellent location, served many prominent tenants. The short-term consequences were immediately visible, with tenants being unable to operate their properties due to structural damages to their respective buildings. The lower availability of quality high street retail premises was apparent even before the onset of the earthquake; however, it exacerbated the impending lack of quality retail premises. Due to the complex nature of renovation or in some cases rebuilding of historic city centre buildings, many tenants will be forced to either close or relocate their retail premises. However, due to location being the most important feature of high street retail premises, it is almost certain that there will be demand for those premises once the buildings are put back into use.

The performance of retail properties is heavily dependent on the economic situation. It will be influenced by the speed of economic recovery. Although food retailers are considered as essential goods providers, their performance is also dependent on the tourist season due to a large influx of tourists during the summer months.

E-commerce is not as widespread in Croatia as in the rest of the EU, but its activity is rapidly expanding. Brick-and-mortar retail schemes are expected to continue operating successfully in the mid-term and will mitigate this trend through repositioning accordingly in the long-term. In Croatia, approximately one-third of the population shopped online at least once a month, while approximately one-fifth shopped several times per week. The most commonly sold products included clothing and shoes, household items and electronics, while a sizeable portion related to services (events and tourist travel arrangements). If the pandemic is not sufficiently controlled and new restrictions need to be put in place, the important Q4 seasonal sale period will be affected, which would further increase the full-year financial impact on the retail sector's performance. Tenants who were hit the hardest have been negotiating rent reductions from their landlords. In order to preserve good client relationships, most landlords agreed to some version of rent relief during April and May.

CZECH REPUBLIC

NO. OF SHOPPING CENTRES /TOTAL STOCK

232/4.22 M M² GLA

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

87/0.70 M M² GLA

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

1.8 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

30%

Shock and uncertainty are two words that could describe the situation across much of the retail sector during 2020 in the Czech Republic. This year will surely be remembered by retailers, yet the memories would preferably have been happier ones. After the Czech Republic as a whole came through the first wave of COVID-19 with flying colours, retailers were looking forward to catching-up in the autumn and Christmas seasons. However, as the second wave hit hard in October, the government reinstated the state of emergency and adopted the strategy of minimizing social contact. Therefore, only the most essential stores were permitted to be open for a limited number of days per week and must ensure a certain person per square meter ratio, on top of the now common hygienic measures.

Non-essential retail was largely shut down but allowed to operate click&collect services. Due to the fact that a fairly large number of retailers are franchisers, their options for their own e-commerce operations could be limited. The Czech Republic has the most e-shops per capita in whole of Europe with 45,000 e-shops estimated to be in operation by the end of 2020. From various sources, it is estimated that e-commerce turnover will increase in 2020 by almost 20% Y-o-Y. Big e-shops like Alza.cz or Mall.cz are now trying to expand the range of goods offered to consumers, or are teaming up with other retailers to offer a wider range of products and services. With the possible prolongation of the state of emergency into 2021, we are sure that next year's retail performance will also be affected. From early December, all retail stores, restaurants and bars etc, will be allowed to open to the public, in time to capture some of the important Christmas shopping trade, but certain restrictions still apply to limit the contact between people and closures may well come into force again depending on the level of cases.

ESTONIA

NO. OF SHOPPING CENTRES /TOTAL STOCK

57/0.96 M M² GLA

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

N/A

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

0.69 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

20%

The Estonian retail market is trying to recover from the severe shock caused by the COVID-19 pandemic. The annual increase of retail sales of 5% in Q1 2020 was replaced by a sharp decline of 15% in April as shopping centres were closed between March 27th and May 11th (except for groceries, pharmacies, bank branches, telecommunication service providers), with turnovers decreasing the most (ca. 72%) in stores selling textiles, clothing and footwear. All stores and service points that remained open, had to calculate how many shoppers can fit inside their premises and follow the 2+2 movement restriction rule (no more than two people may move/shop together and a distance of at least two metres must be kept with others). Stores had to provide disinfectants for shoppers to use.

Shopping centres reopened in May, however, sales and discounts were only permitted in on-line versions of stores, and not in brick-and-mortar stores inside malls. This was probably done following a discount drive issued by Sportland, a sporting goods store seen in many malls in Estonia, on the eve of the mall closures. The promotion led to large numbers of consumers descending upon Sportland stores, making the 2+2 requirement virtually impossible to enforce.

By the beginning of 2020, the share of tenants providing leisure activities (catering, fitness, cinema etc) in shopping centres across Estonia and precisely in Tallinn had increased considerably and was expected to grow exponentially in the upcoming years. As of March 2020, the 'experience economy' has been left reeling, with the hotel, hospitality as well as retail (especially entertainment and catering, followed by the fashion segment) sectors being hit the hardest, witnessing disruptions in terms of plunging demand.

Although people returned to the shops from May, footfall in Tallinn's shopping centres remained 15-30% lower than a year earlier, although recovered in June-August, especially centres located next to residential areas. Shopping centres and stores located in Old Town and City Centre locations continued to suffer from considerably lower numbers of tourists in Tallinn.

In June 2020, retail sales resumed growth, increasing by 7% at constant prices and continued to grow by 3-4% during summer months. May and June 2020 saw some revival in the leasing market with several new openings in Tallinn shopping centres. Surprisingly many deals were signed in the F&B category, driven by the entrance of Burger King to the market, the expansion of MySushi and KFC, as well as the rotation of catering providers in shopping centres.

Due to the pandemic, tenants have started to ask for rent-free periods & rent reductions. In May 2020, landlords typically offered 30-70% rental discounts for retailers with some retailers negotiating longer rental discount periods of 3-6 months. New lease

deals closed in Q2-Q3 2020 often included some incentives offered by landlords, such as a 20-30% rental discount during the first year of tenancy. Turnover rents and more flexible leasing arrangements became increasingly common. Overall, market uncertainty has led to a situation where international companies looking at the Baltic market have started to suspend their entry plans. In addition, River Island closed its stores and pulled out of Estonia and there is limited choice of new prospective tenants, especially in the fashion segment. At the same time, despite the cautious mood among retailers, several notable international brands (PEPCO, Deichmann, Peek & Cloppenburg, C&A, Van Graaf, H&M, IKEA) remain interested in entering or further expanding in 2021-2023. In 2020, the H&M Group completed its online expansion of five of its brands - COS, Weekday, Monki, & Other Stories and Arket to Estonia. Grocery retailers continued to seek possibilities for further expansion, especially in Tallinn and its suburbs, preparing for the planned entry of Lidl to the Estonian market after 2020.

According to Statistics Estonia, the share of e-commerce (retail sales via mail order houses or via internet) is just about 3-4% of total retail sales in the country, while most of the market players in Estonia admit that the share of e-commerce in reality is somewhat higher (around 10%). According to a new data available from Bank of Estonia, the turnover of payments linked to e-commerce in Estonia surged over 20% in 2019 compared with the previous year and continued to grow by 2-3% in 2020. According to the Bank of Estonia, the share of purchases made from Estonia amounts to ca. 46-50% from the total turnover of payments linked to e-commerce, although growing to 60% in Q2 2020 due to the pandemic.

Starting from March, consumer demand for the home delivery of grocery goods simply skyrocketed. Barbora (Maxima grocery chain) expanded its drive-in network, the Rimi chain launched its online retail platform. Along with home deliveries, click&collect became an increasingly popular service, and the Prisma grocery chain opened its drive-in service.

In April, cruise & ferry company and travel retailer Tallink Grupp launched its new Tallink Ekspress webshop, with a collection centre in Tallinn city centre and home delivery options in Estonia. Overall, e-commerce solutions remain vital for all retailers, especially during the stay-at-home economy. Shopping centres in Estonia are now looking for new possibilities and services with landlords in Estonia starting to consider adding multifunctionality to their shopping centre, to try and transform them from retail properties with already increased dining, leisure and entertainment offerings, into multifunctional social and business spaces for public and health-care services, schools, offices, hotels and apartments.

HUNGARY

NO. OF SHOPPING CENTRES /TOTAL STOCK

113/2 M M² GLA

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

45/0.53 M M² GLA

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

1.3 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

40%

Due to the spread of the coronavirus and the following restrictions on opening hours, the number of visitors in shopping centres fell significantly in March, resulting in struggling retailers and increasing vacancy levels inside shopping centres. This negative impact has also put a downward pressure on rents. It should be noted that the number of visitors decreased less significantly in regional towns and cities, compared to Budapest.

Overall, retail parks performed much better during the crisis, compared with traditional shopping centres, because tenants benefited from the cost-effective retail concepts and people rather visited open-air shopping parks instead of closed malls. Social distancing rules were enforced in retail concepts through wearing masks in the common areas and also in the shops. Due to the impact of the pandemic, people are more likely to buy larger quantities in one visit, rather than visiting the shops several times.

Meanwhile, the retail sector has to face the long-term challenge of the gradually increasing share of e-commerce. In Hungary however, the majority of people are still quite reluctant to do their shopping via the online platforms, despite the spread of the pandemic. Currently in Hungary, the share of e-commerce from total retail sales ranges between 7-8%, which is lower than the European average.

LATVIA

NO. OF SHOPPING CENTRES /TOTAL STOCK

32/0.65 M M² GLA

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

N/A

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

0.61 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

25%

The retail market in Latvia suffered greatly during the spring lockdown when many places were temporarily closed, and shopping centres were not allowed to operate on weekends due to government restrictions. For some shopping centres, footfall and turnover figures have decreased by up to 70% during these months. During the summer, gyms, entertainment centres and restaurants reopened and for several shopping centres turnover figures almost went back to levels seen in the previous year, while footfall remained lower, meaning there were more intended purchases. During the first lockdown, the extension of Origo Shopping Centre opened (developed by Linstow), while the opening of the first planned outlet village, Via Jurmala, was postponed to August.

Currently, there is a second lockdown period, where entertainment centres, bars and restaurants are not allowed to operate. During weekend it is possible to buy only groceries, fuel and medicine, also restaurant take-outs and e-shop pick-up points can operate, all other retail units should be closed. SC Saga has opened during the second lockdown period, a non-fashion shopping centre with a focus on home, sports and convenience offer. Even though there is an increase in e-commerce trade, the summer proved that people still prefer in-store shopping.

Overall, the strongest brands during this year have been those that have a great omni-channel strategy and provide both convenient in store and online shopping, as well as fast delivery or click&collect options.

LITHUANIA

NO. OF SHOPPING CENTRES /TOTAL STOCK

45/0.90 M M² GLA

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

16/0.10 M M² GLA

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

1.2 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

30%

The sudden COVID-19 outbreak had a significant impact on a range of economic sectors, with retail being one of those hit the strongest. The pandemic has directly impacted footfall and in-store turnover indicators, as a result of both government restrictions and consumers own health concerns. Unlike the first wave, physical stores have remained open in Lithuania during the second wave. Requirements are applied for retail space per consumer to ensure safety, in addition to a general obligation to wear a mask in public. All catering establishments however are closed, except for takeaway food.

In the face of the pandemic, e-commerce has become a preferred option for consumers. In this period, more consumers than ever before have had a chance to try online shopping. Since the outbreak, e-commerce turnover each month has grown between 30%-68% y-o-y, with a peak registered in April when all non-essential stores were closed. Thus, e-commerce has become crucial for retail business continuity and a stronger competitive standing across retail categories. This year, online retail platforms were launched by well-known market players, including the grocery chain Rimi and the pharmacy chain Benu among others, while a German fashion platform About You entered the Lithuanian market. In addition, marketplaces, such as offered by Pigu.lt and Varle.lt, have demonstrated considerable growth, being a particularly attractive solution for smaller retailers.

Retailers have also been investing heavily into last mile logistics: home delivery, own parcel terminals, pick up-points, and drive-in stops. Overall, online shopping is likely to become an established habit that will transfer to the post-COVID-19 environment.

MONTENEGRO

NO. OF SHOPPING CENTRES /TOTAL STOCK

14/0.11 M M² GLA

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

1/0.007 M M² GLA

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

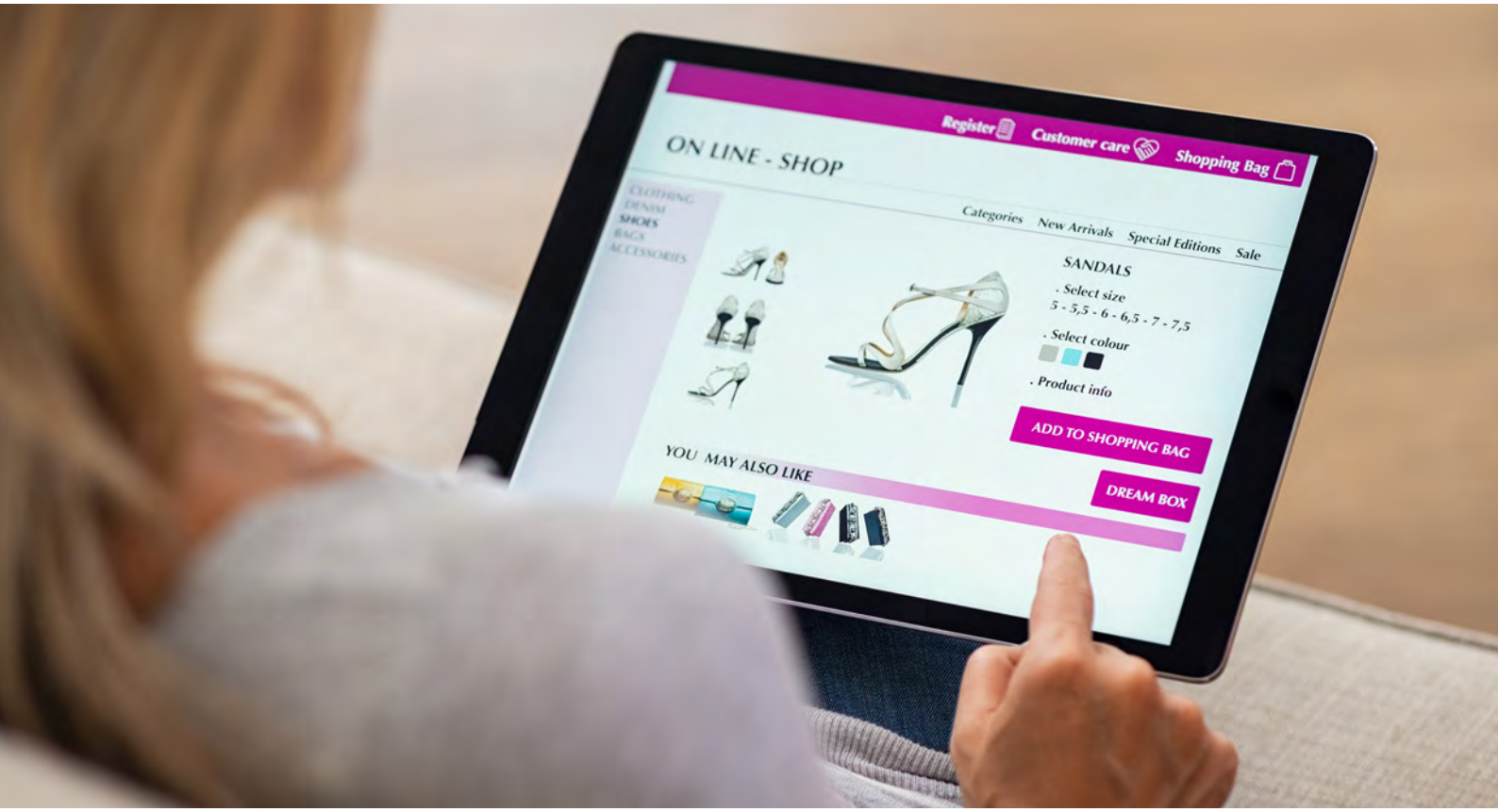
0.52 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

20%

Since the COVID-19 pandemic began spreading across Europe in early 2020, the Montenegrin Government introduced a number of measures in its attempt to contain the spread of the virus, including closing its borders, schools and non-essential businesses. These measures had a strong impact on the economy, which had been growing steadily in the previous year. Tourism accounts for a large portion of the economy, and measures introduced before the summer quickly started to show their impact on spending, especially in retail.

The government tried to salvage what was possible of the season by reopening retail stores and its borders to countries with relatively low infection rates in June, only to reintroduce new containment measures again in August. While new measures allow retail stores to remain open with shorter working hours, data shows that retailers have seen a sharp decline in revenues compared to 2019, with footfall dropping by at least 20% in prime shopping malls.



POLAND

NO. OF SHOPPING CENTRES /TOTAL STOCK

532/12.1 M M² GLA

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

164/1.2 M M² GLA

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

1.8 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

30%

The Polish retail market has been confronting the effects of the COVID-19 pandemic since spring 2020. The evolution of distribution channels towards the omni-channel model, which has been on-going for several years, has turned into a revolution. In the first half of the year, approximately 2,000 new online stores started their activity. It is estimated that the share of online sales in the total turnover of retail companies increased by 50-100% compared to the corresponding period of the previous year. The activity of retail chains has also increased both on marketplace platforms and in various forms of delivery.

Due to the spring restrictions on the operation of stores, service outlets and restaurants, the footfall and turnover in shopping centres dropped significantly, which resulted in a wave of renegotiations of lease terms. After a short period of easing restrictions over the summer, this autumn brought about a second wave and another lockdown, which has had a particularly severe impact on the results of the gastronomy sector (only take-away sales are possible) and the entertainment and recreation sector (closure of cinemas, entertainment centres and fitness clubs, among others).

Most of the new retail investments have been halted or delayed. The most active formats remain to be small shopping centres and retail parks with a day-to-day shopping profile. No retail scheme with an area of over 25,000 m² GLA opened in Poland in 2020, with small (5,000-10,000 m²) schemes such as Vendo Park, Saller Park or Stop Shop dominating the sector.

Due to differences in expectations regarding lease costs, the demand is currently coming mainly from discount chains, which are traditionally typical tenants of retail parks. This year's major event on the Polish market was the opening of the first Primark store in Warsaw's Galeria Młociny.

ROMANIA

NO. OF SHOPPING CENTRES /TOTAL STOCK

89/2.77 M M² GLA

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

54/1.14 M M² GLA

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

1.3 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

40%

The Romanian retail scene has entered its most difficult period after the 2009-2010 recession, with shopping centres closed for approximately two months during the spring of 2020. Recent data however suggests that it is on the mend, with the labour market in quite decent shape (modest rise in unemployment, wage growth remains positive, albeit slower than before the crisis), overall retail sales for non-food items has returned to above pre-COVID-19 levels, though the overall impact remains uneven.

Online sales expanded by ca. 30% in the first 9 months of 2020, with non-food retail sales in general up by only 4%. Retailers that already had online shops in place were strong winners, others scrambled to follow suit. Spending migrated a bit from some categories, like clothing, to others, such as a variety of household items and sporting items. In shopping centres, footfall is significantly below last year's levels, though information suggests that the average spending ticket has increased for those who do enter malls.

SERBIA

NO. OF SHOPPING CENTRES /TOTAL STOCK

44/0.92 M M² GLA

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

16/0.11 M M² GLA

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

1 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

45%

From the end of June 2020, the retail market in Serbia began to recover and has recorded a positive trend. Sectors that have suffered the most due to COVID-19 restrictive measures are restaurants, coffee shops and the hospitality sector in general.

In terms of rental levels, the average rents in prime shopping centres in Belgrade remained stable, but the full pandemic influence on rents remains to be seen. Most of the landlords are providing savings for their tenants through lease extensions as opposed to direct rent relief.

E-commerce sector in Serbia is growing rapidly compared to the pre-pandemic period. The growth of online retailing is also expected to continue in future due to the change of consumers habits affected by the coronavirus. Retailers have adapted their business models by activating and strengthening their online stores and own delivery services due to the increase of online sales.

Although the habits of consumers have been affected by the pandemic, the supply of retail space in Belgrade increased by 130,000 m² with the opening of two shopping centres: BEO shopping centre and Galerija Mall. There are two shopping centres under construction in Belgrade and Niš (West 65 Mall and Delta Planet), plus several retail parks in the pipeline in Belgrade and secondary cities (Ava Shopping Park, Capitol Park Surčin, Nest Obrenovac, Nest Vranje, Shopping Park Gornji Milanovac).

SLOVAKIA

NO. OF SHOPPING CENTRES /TOTAL STOCK

60/1.14 M M² GLA

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

43/0.45 M M² GLA

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

1 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

45%

With the partial lifting of Government restrictions, the retail market in Slovakia began its slow recovery from the initial impacts of the COVID-19. Increases in turnover are expected during the last quarter of the year, which is traditionally considered crucial for sales. The entertainment sector was hit the hardest, remaining particularly vulnerable to further developments in the pandemic. Restrictions on movement for most people has led to an acceleration in e-commerce with many traditional brick-and-mortar stores starting online sales to adapt to the changing environment.

Another growing segment involves retail parks, which have risen in popularity amongst both shoppers and investors. Even though a rent compensation scheme was announced by the Slovak Government during the second quarter of the year, only a few players used it due to the bureaucratic hurdles involved. Some international brands (including Tous, Camaieu, Adidas, Retro Jeans, Aldo) filed for bankruptcy and left the Slovak market altogether. The pandemic has also caused delays in the delivery of some retail projects across the country. For example, Bratislava's major 70,000 m² shopping centre scheme, NIVY mall, postponed its planned opening until Q3 2021.

SLOVENIA

NO. OF SHOPPING CENTRES /TOTAL STOCK

30/0.65 M M² GLA

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

25/0.12 M M² GLA

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

0.65 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

N/A

Retail sales in Slovenia declined by 9.6% year-on-year in the first half of 2020, according to the Statistical Office of Slovenia. Most shops selling non-essential goods were closed for business from March 16th to May 18th 2020, although some shops opened earlier during April (construction materials, technical goods and furniture stores).

Due to a renewed spread of the virus since October 2020, Slovenia entered a new period of increased restrictions on October 25th that lasted for two weeks and encompassed restrictions on local travel, i.e. travel beyond the municipal level with the exception of urgent cases, restrictions on business working hours and public gatherings. On November 12th, due to limited improvements by the initial measures, additional stricter measures were implemented which included a cease of public transportation, restrictions of gatherings among people that are not part of the same household and the closure of all non-essential retail stores. These latest set of measures were initially set to be in place until at least November 26th.

The steepest annual decline in retail sales was registered in April (-22.7%) and March (-14.6%) due to the pandemic. The volume turnover of retail trade in June was 3.0% higher than in May 2020, but down 5.0% from June 2019. The decline in retail sales due to the renewed restrictions is yet to be announced, however it is considered to be less impactful than during the initial lockdown period in March.

Grocery store turnovers recorded a strong increase during the lockdown as people stocked up due to coronavirus uncertainties. Consumer behaviour has been changing rapidly and online sales are expected to increase in the future, which might further hurt the brick and mortar store performances.

Due to travel restrictions and ongoing measures of controlled border crossings, tourist arrivals also experienced a significant downturn.

Although tourism is not the most significant driver of consumption, the imposed restrictions might influence the retail turnover in the winter months due to Slovenia being a popular winter sports destination.

The performance of retail properties in Slovenia will be influenced by the speed of economic recovery, however due to food retailers being considered as essential goods providers, their performance should not be impacted as much as other retail segments. High-street and enclosed shopping centres are the most exposed to a downturn in discretionary consumer spending. Grocery stores and the more convenient, cost-conscious car-based retail park models proved to be more defensive, particularly those offering click&collect services. Due to the lockdown and the imposed restrictions from the government, some of the tenants asked for full or partial rent relief from their landlords for the time period their stores were closed.

E-commerce sector already had a significant penetration rate in Slovenia, comparable to the rest of the European Union countries. According to recent statistics, more than 48% of Slovenian Internet users make monthly web purchases while the average amount per purchase has doubled. E-commerce growth has been most pronounced in the food & beverage, automotive, and pet food and product markets. 76% of websites in Slovenia have developed online versions of their webpages optimized for mobile devices. Despite global competition, almost half of Slovenian online buyers (49%) shop only at domestic online stores. While e-commerce activity is still expanding, owing partly due to the influence of the pandemic, brick and mortar retail schemes are expected to continue operating successfully in the mid-term and will mitigate this trend through repositioning accordingly in the long-term.

New online platforms are opening in the midst of the pandemic, most recently a platform called Shoppster launched on November 16th, owned by the telecomm and media provider United Group. The platform launched in Serbia in September and its Slovenian business is built around the recently acquired online retailer ideo.si. The website launches with categories including electronics, home appliances, tools, toys, gardening, sport, health and automotive. However, if the spread of the epidemic does not slow down, the important Q4 seasonal sale period will be significantly affected, further increasing the full-year financial impact.

UKRAINE

NO. OF SHOPPING CENTRES /TOTAL STOCK

101/2.8 M M² GLA*

NO. OF CONVENIENCE CENTRES & RETAIL PARKS/TOTAL STOCK

1/0.01 M M² GLA

AVERAGE MONTHLY VISITS IN PRIME SHOPPING CENTRES IN 2019

1.6 M

ESTIMATED % OF DECLINE IN MONTHLY VISITS IN PRIME SHOPPING CENTRES (H1 2020 VS H1 2019)

40%

**Kyiv, Lviv, Dnipro, Kharkiv, Odessa*

Through hard experiences from previous crises, the Ukrainian retail market has avoided a dramatic hit from COVID-19, at least certainly better than it could have been. Both tenants and landlords are aiming towards reaching win-win agreements.

The discount and format of reliefs for tenants are determined individually depending on their performance. As a result, we've seen not so many stores that closed as it could be. As of September 2020 the vacancy rate in Kyiv ~10% (11% at the end of 2019). Nevertheless, the vacancy rate in the most popular malls operating on the market for several years has remained at nearly 0%.
The vacancy rate in malls in the biggest cities (excl Kyiv) was at 1-5% (as of Sep 2020). There is no doubt that the vacancy level will show some increasing.

There is uncertainty within retailers and malls regarding how pandemic and lockdowns will hit their businesses again in 2021.

Fashion and drugstore operators are still cautious regarding their development plans, but supermarkets that have worked during the lockdown, as well as retailers of domestic appliances, electronics, and sporting goods, are more confident in discussing brand development in new projects.

According to Euromonitor International, the share of e-commerce in Ukraine will be 8% of annual retail sales in 2020 (+45% YoY). Due to the Colliers retail survey (May 2020), more than 49% of retailers surveyed admitted that they plan to develop online sales channels in the nearest future. E-tailers on the other hand are accelerating their expansion into brick-and-mortar formats.

The biggest one, Rozetka in November has already opened five flagman stores (in av. store ~1,500-3,000 m²) and more than 70 pick-up points. Rozetka has received applications from more than 300 Ukrainian businesses to operate as pick-up points across the country. Rozetka plans to open 1,000 pick-up points under franchise. Moreover, Rozetka established its pick-up stores as a franchise business and going to expanse in the nearest future.

Now, fashion in Ukraine mostly sells in a multi-channel format (without click&collect), while other retailers are launching an omni-channel offering.

In-store entertainment has slown down its development and focuses on business optimization.


ONLINE GROCERY

The COVID-19 pandemic has created short-term disruption due to lockdown restrictions, but we believe it will create longer-term opportunities for retail parks specifically and convenience real estate in general, precisely the segment of retail where Mitiska REIM has a longstanding track record and a specialist investment strategy. Our experience across our portfolio, which is supported by industry research, is that retail parks have been the best performing and most resilient retail format prior to and throughout the COVID-19 pandemic, which has in some markets resulted in a slight compression in yields since the beginning of the year and in most other market stable yields.

Following the first phase of national lockdowns, we have found that retail parks have experienced a faster and more substantial recovery in footfall compared to shopping centres and high streets, especially for those retail parks anchored by a supermarket.

In terms of shopper behaviour, the evidence supports that consumers are now looking for 'safe shopping', and the ability to arrive by car to an outdoor parking area with direct store access and then shop in large retail units with low consumer density is strongly favouring the retail park format.

In general, the COVID-19 pandemic has reminded market participants of the key characteristics of retail parks based around convenience, essential shopping and value-for-money, leading to a strong value proposition to both retailers and shoppers as well as investors. This drives the long-term prospects and ongoing investment case for retail parks.

Even though there is positive news now regarding vaccines and a potential end to the pandemic in 2021, we believe the underlying trends in retail that have favoured retail parks and convenience real estate will continue to grow in the coming years.

Mitiska REIM currently invests across 4 countries in CEE - Romania, Poland, Czech Republic and Slovakia. Our market positions in both Romania and Poland are particularly strong with 152,000 m^2 and 140,000 m^2 respectively of retail surface standing or under development. Mitiska REIM's investment model is partnership-driven, positioning itself as an active, value-adding investor, in collaboration with experienced local co-investment partners in respective geographies. Our approach is to unlock opportunities and drive superior value creation through the execution of development projects and value-add acquisitions with subsequent active asset management.

Across our CEE markets, we remain an active investor and also are now divesting properties in which we have completed our value-add approach. We have 13 development and extension projects underway in Poland (7), Romania (4), Czech Republic (1) and Slovakia (1) which are scheduled to open in 2021/2022. Furthermore, we are actively exploring additional opportunities.

We believe the CEE markets still offer excellent potential for us as an investor as many of these markets still remain underserved in terms of retail space per capita while consumer spending is growing faster than in their Western European counterparts. Our countries of interest will remain Romania, Poland, Czech Republic and Slovakia as we have established and successful partnerships in these markets, but we constantly explore investment opportunities in other markets as well.

We look for urban infill locations that are easily accessible and are conveniently located close to residential areas, where we can unlock development opportunities and add value through refurbishment, redevelopment, extension and active asset management. Typically, we focus on cities of at least 25,000 inhabitants, aiming for land plots starting at 15,000 m^2 with an interest for larger land plots to integrate mixed-use into the development."

Bart Rabaey
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MITISKA REIM

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EXCEEDING BORDERS

CEE-17 RETAIL IN TIMES OF THE PANDEMIC

2020 / 2021