

PROPERTY TIMES

Retail sales growth accelerates

Romania Retail 2014

February 2015

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Author

Mihaela Galatanu
Research Specialist
+40 21 310 3100
mihaela.galatanu@dtz.ro

Contacts

Bogdan Marcu
Head of Retail Department
+40 21 310 3100
bogdan.marcu@dtz.com

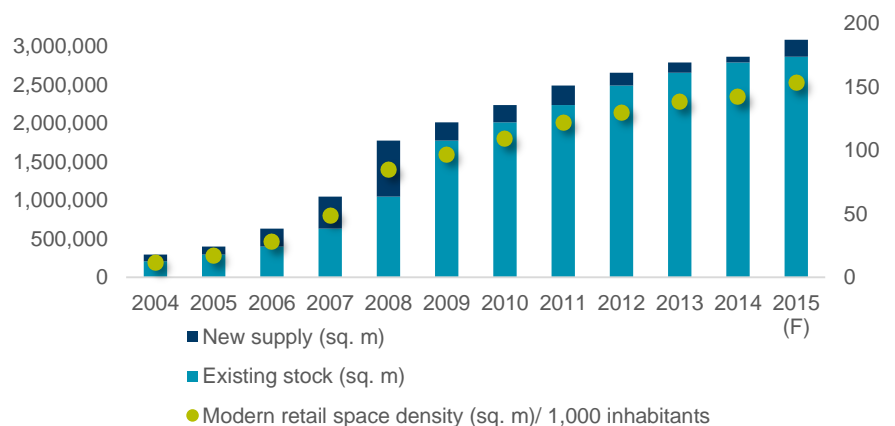
Razvan Sin
Head of Capital Markets
+40 21 310 3100
razvan.sin@dtz.ro

Sebastian Mahu
Head of Property Management
+40 21 310 3100
sebastian.mahu@dtz.ro

- At the end of 2014 Romania's modern retail stock is of 2.86 million sq. m. Bucharest accounts for 32%. With no deliveries recorded in H1 2014, new supply picked up in the second half of the year, when three modern retail schemes have been completed. Compared with 2014, new supply in 2015 is forecasted to be higher with 196%.
- In Romania modern retail space density per 1,000 inhabitants is of 142 sq. m and is forecasted to reach 153 sq. m by the end of 2015.
- Last year retail sales in Romania have increased by 7% y-on-y. This represents the highest increase registered in the last six years. Retail sales performance was boosted by non-food sales, which overall have increased by 10.6% y-o-y.
- Fashion retailers' strategy for expansion was mostly focused towards projects that have recorded positive performances. For new retailers entering the market, Bucharest continues to be considered the most attractive location.
- Occupancy rate for dominant retail projects located in Bucharest and in the most important regional cities exceeds 95%.
- There were no changes regarding the prime rental level. Prime retail rent for best performing retail schemes in Bucharest continues to be of € 60 – 70 / sq. m/ month, while outside Bucharest, in dominant retail projects, prime retail rents range between € 20 – 25 /sq. m/month. In cities such as Cluj Napoca, Timisoara, Iasi or Constanta the prime headline rents are higher with 20% - 30%.

Figure 1

Modern retail stock vs. modern retail space density / 1,000 inhabitants



Source: DTZ Research

Romania Retail 2014

Supply

At the end of 2014, Romania's modern retail stock stands at 2.86 million sq. m. Bucharest accounts for 32%, with 923,000 sq. m of modern retail space. Most of the modern retail stock is represented by shopping centers – 59%, followed by retail parks and commercial galleries, with 25% and 16%.

2014's new retail supply was of 75,000 sq. m, this being the lowest level registered in the last ten years. Approximately 65% was delivered in Bucharest. Overall, three retail projects have been completed last year, one retail park and a commercial gallery in Bucharest and a shopping center in Targu Jiu.

At the end of 2014 Romania's modern retail space density per 1,000 inhabitants is of 142 sq. m. Bucharest, the largest city in Romania in terms of modern retail stock is currently having at 1,000 inhabitants a modern retail space density of 490 sq. m.

This year's new supply of modern retail spaces is projected to be higher by 196%. 2015's pipeline reveals that the total modern retail space that will be completed is exceeding 220,000 sq. m. Approximately 75% will be delivered by NEPI, which for 2015, apart from delivering Mega Mall and Timisoara Shopping City, is planning a series of extensions for certain projects existing in its portfolio (City Park Mall, Severin Shopping City and Deva Shopping Center).

The most important retail schemes that are due to be delivered this year are Mega Mall in Bucharest, Coresi Shopping City in Brasov and Timisoara Shopping City in Timisoara. At the end of 2015, the modern retail stock in Romania will exceed 3 million sq. m, while the modern retail density per 1,000 inhabitants is forecasted to be of 153 sq. m.

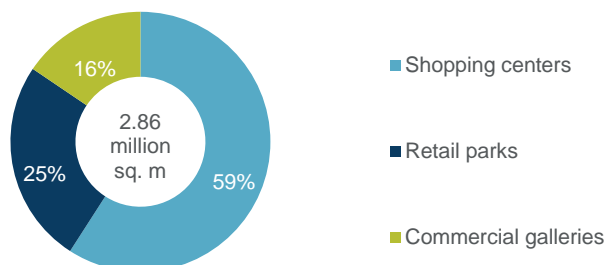
Demand

Retail sales have increased between in 2014 by 7% when compared with 2013. This represents the highest increase registered in the last six years. Retail sales outstanding performance was boosted mainly by non-food sales, which overall have increased by 10.6% y-o-y and by food sales, which have increased y-on-y by 7.5%. Retail sales have started to rise since 2012, but an annual rate exceeding 7% has not been reached since 2008, which was the best year for the Romanian economy.

During 2014, main FMCG retail players opened in total 265 units, 94% being supermarkets and proximity stores, with 48% and 46% share.

Figure 2

Modern retail stock by format



Source: DTZ Research

Table 1

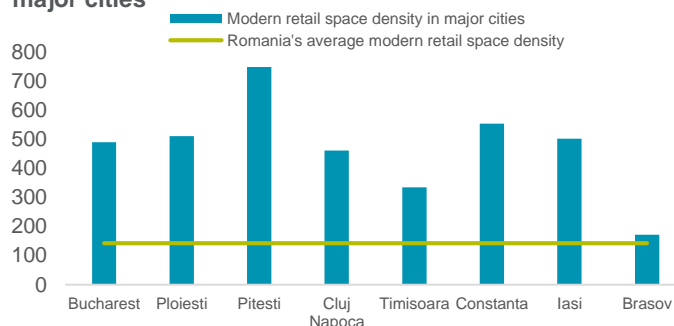
2014 New supply

Project	GLA (sq. m)	Developer	City
Vulcan Value Center	27,000	NEPI	Bucharest
Auchan Tricodava	21,000	Immochan	Bucharest
SC Targu Jiu	27,000	NEPI	Targu Jiu

Source: DTZ Research

Figure 3

Modern retail space density (sq. m) /1,000 inhabitants in major cities



Source: DTZ Research

Table 2

2015 Major retail deliveries

Project	GLA (sq. m)	Developer	City
Mega Mall	72,000	NEPI	Bucharest
Pipera Plaza	10,000	Intercora	Bucharest
Coresi SC	45,000	Immochan	Brasov
SC Timisoara	50,000	NEPI	Timisoara

Source: Source: DTZ Research

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On the hypermarket segment, Kaufland was the most active by opening 13 units, 4 in Bucharest and 9 in other regional cities. Carrefour opened 2 new hypermarkets (Bucharest and Targu Jiu), being followed by Auchan with 1 new unit opened in Bucharest. On Cash & Carry segment, 2014 was the 4th year when no openings were recorded.

Mega Image (owned by Delhaize Group) was the most active FMCG retailer in 2014, with 115 units opened. Retailer's main focus was towards proximity formats, with a total of 83 Shop & Go units opened last year. Profi (owned by Polish Enterprise Fund VI) was the second most active FMCG retailer in 2014, with a total of 71 units opened, out of which 68% were supermarkets.

Fashion retailers continued their expansion plans by keeping the rhythm at a steady pace. Considering the minimum level of new supply, their attention was towards existing schemes that have demonstrated positive performances. H&M continued to be the most active, with 8 new stores opened. The largest fashion retailer in terms of local exposure, the Spanish group Inditex, remained inactive, continuing to have in Romania a network of 98 stores. However, in H1 2015, once Mega Mall and Coresi Shopping City will be delivered, Inditex will reach locally a network of 108 stores.

New brands' interest towards Romanian market has improved in 2014, being driven by the country's solid economic figures (GDP growth, retail sales and private consumption). Most entries were recorded on fashion segment, followed by sport and cosmetics. Bucharest continues to remain the preferred location for the first store in Romania.

Vacancy

The vacancy rate has followed a descendant trend both in Bucharest and regional cities, given the minimum level of deliveries and retailers need for expansion.

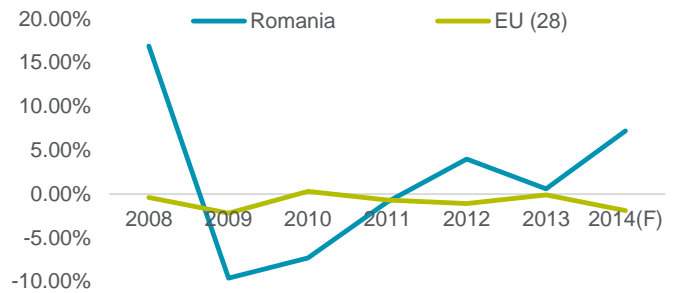
The gap between prime and secondary retail schemes continued to remain significant. Dominant retail projects register a vacancy rate below 4% both in Bucharest and regional cities. For secondary retail schemes, the vacancy rate is situated between 20 – 25%. However, secondary schemes with no major competition have a vacancy rate below 10%.

Rents

During 2014 there were no changes regarding the prime rental level. Headline rents achieved for units of 100 sq. m in prime shopping centers in Bucharest range between € 60 – 70/ sq. m/ month, while for secondary shopping centers the headline rents for units of same size is between € 25 –45/ sq. m/ month.

Figure 4

Retail sales evolution



Source: Eurostat

Table 3

Most active FMCG retailers

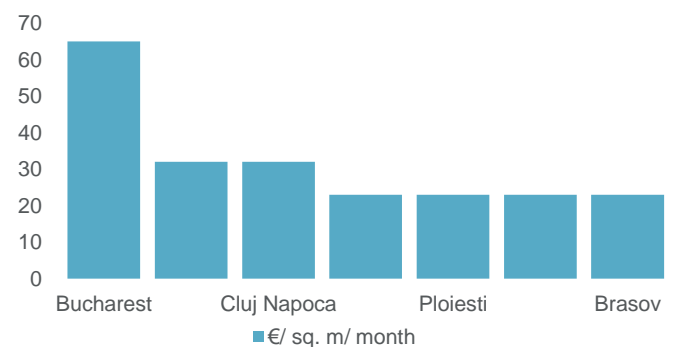
Hypermarket	New units	No. of units end of 2014
Kaufland	13	102
Carrefour	2	27
Auchan	1	32
Supermarket	New units	No. of units end of 2014
Profi	48	236
Mega Image	32*	200
Lidl	16	184
Proximity store	New units	No. of units end of 2014
Shop & Go	83	208
Profi City	23	39
Carrefour Express & Contact	17	53

*Including Angst stores

Source: DTZ Research

Figure 5

Prime headline rents in major cities



Source: DTZ Research

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Headline rents achieved for units of 100 sq. m in dominant shopping centers outside Bucharest range in average between € 20 –25 / sq. m/ month. In cities such Cluj Napoca, Timisoara, Iasi or Constanta the prime headline rents are higher by 20% - 30%. For tertiary cities the prime headline rents are between € 12 –18 / sq. m/ month.

Outlook

In 2015 the modern retail stock in Romania will exceed 3 million sq. m, while the modern retail stock in Bucharest will go beyond 1 million sq. m. On the hypermarket chain segment, Kaufland will continue to be the most active retailer, with 9 openings announced. Carrefour will reach a network of 29 hypermarkets, while Auchan will open its 33rd hypermarket by the end of H1 2015.

Last year Romania had the second largest increase in retail sales in the European Union and for this year retail sales are projected to continue on the same positive trend. Private consumption is forecasted to remain strong, as growing wages, improving labour market conditions, low inflation and falling interest rates are aspects that will boost the purchasing power of households.

International retailers with a strong presence in countries such as Poland, Czech Republic, Hungary and Turkey are analysing the conditions and characteristics of the local market and are expected to enter Romania by the end of H1 2015. Overall, the number of new entries is forecasted to increase compared with 2014.

The vacancy rate in prime retail properties will continue to decrease, however at a slower pace, considering that this year three major shopping centers are expected to be completed. Regarding the prime rental levels, for this year no major changes are forecasted.

Table 4

Retail indicators in major cities

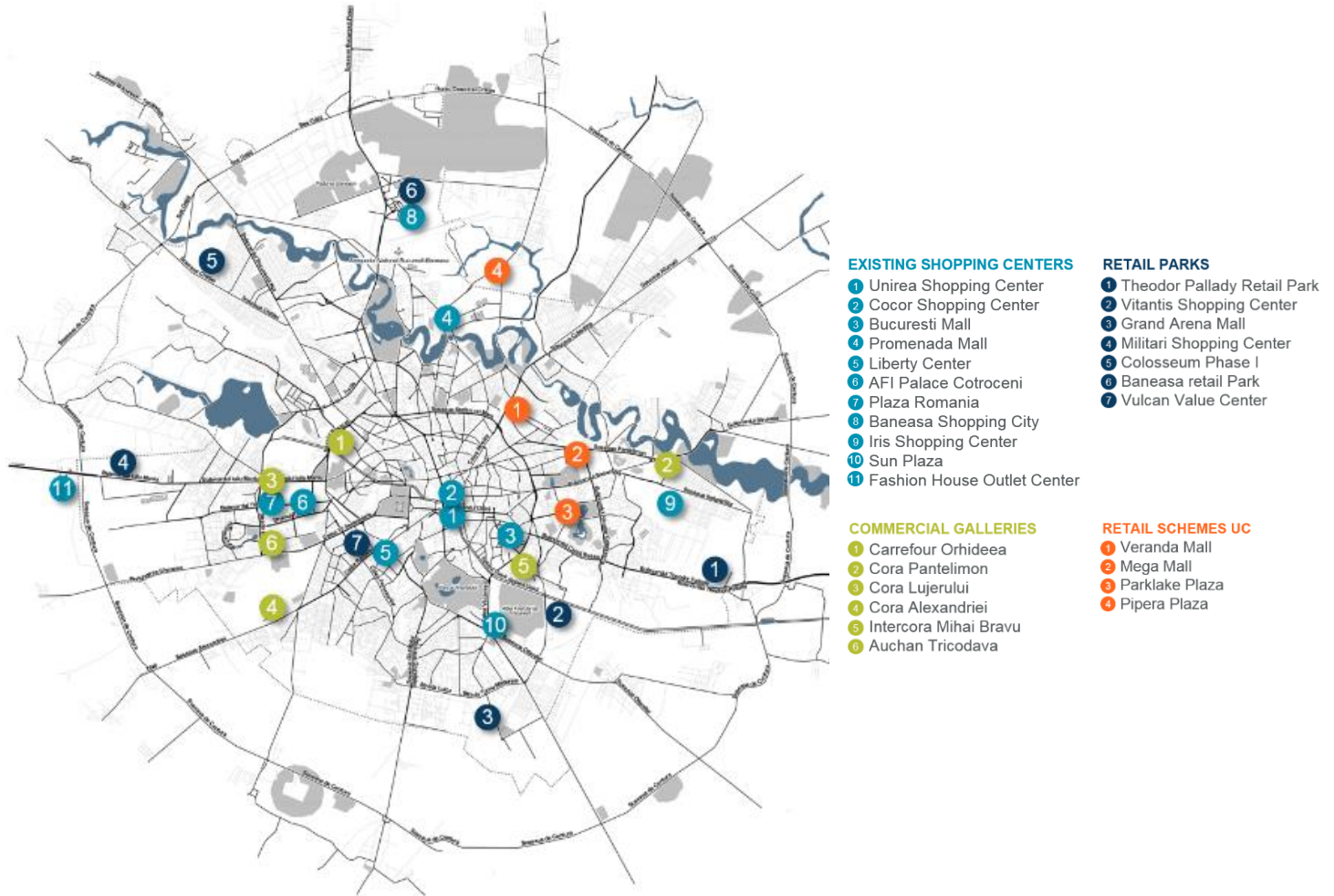
City	Population	Modern retail stock (sq. m)	Retail stock density (sq. m) / 1,000 inhabitants	2015 New supply (sq. m)	2015 Retail stock density (sq. m) / 1,000 inhabitants
Bucharest	1,883,425	923,000	490	82,000	534
Cluj Napoca	324,576	149,500	461	0	461
Timisoara	319,279	106,500	334	50,000	490
Iasi	290,422	146,000	502	0	502
Constanta	283,872	157,000	553	20,000	624
Brasov	253,200	43,500	172	45,000	350
Ploiesti	209,945	107,000	511	0	511
Pitesti	155,383	116,000	748	0	748

Source: DTZ Research

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Map 1

Bucharest's modern retail schemes



Definitions:

Modern retail stock	Total completed space of modern shopping premises (shopping center, retail park, commercial gallery) completed since 1999.
New supply	Completed newly built modern retail schemes that obtained a use permit in the given period.
Commercial gallery	Modern retail scheme with minimum 5,000 sq. m of GLA, anchored by a hypermarket with a rentable area that exceeds the total rentable area of the retail scheme.
Shopping center	Modern retail scheme with a commercial gallery of minimum 5,000 sq. m GLA that has a rentable area exceeding the hypermarket / supermarket's rentable area
Retail park	Modern retail scheme with over 5,000 sq. m of GLA representing other than shopping center or commercial gallery retail formats
Vacancy rate	Ratio of empty/vacant space in existing or newly completed projects on the total stock
Prime headline rent	Headline rent level achieved in the most attractive shopping centres for units of approximately 100 sq. m leased to a fashion operator

Research

Hans Vrensen

Global Head of Research
+44 (0)20 3296 2159
hans.vrensenl@dtz.com

Magali Marton

Head of EMEA Research
+33 149 64 49 54
magali.marton@dtz.com

Mihaela Galatanu

Research Specialist
+40 21 310 3100
mihaela.galatanu@dtz.ro

Business Contacts

Mihnea Serbanescu

General Manager
+40 21 310 3100
mihnea.serbanescu@dtz.ro

Oana Iliescu

Managing Director
+40 21 310 3100
oana.iliescu@dtz.ro

Bogdan Marcu

Head of Retail Department
+40 21 310 3100
bogdan.marcu@dtz.ro

Razvan Sin

Head of Capital Markets
+40 21 310 3100
razvan.sin@dtz.ro

Bogdan Sergentu

Head of Valuation
+40 21 310 3100
bogdan.sergentu@dtz.ro

Sebastian Mahu

Head of Property Management
+40 21 310 3100
sebastian.mahu@dtz.ro

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Global Headquarters
77 West Wacker Drive
18th Floor
Chicago, IL 60601 USA
phone +1 312 424 8000
fax +1 312 424 8080
email info@dtz.com

DTZ Echinox
40 – 44 Banu Antonache
3rd Floor
Bucharest, 011665
phone +40 21 310 3100
fax +40 21 313 9010
email info@dtz.ro

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