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LOOKING BACK AND INTO THE FUTURE: SHOPPING CENTRES IN CEE

Location and concept are substantial for the performance of a shopping centre.

Since the fall of the Iron Curtain in 1989 in the Central and Eastern European countries nearly no other economic sector has as considerably changed by quantity and quality as the retail sector. Especially the shopping centre segment developed literally from zero.

Some 20 year ago in the major countries of Western Europe the retail area per capita was at 1.2–1.5 square metres. At the same time in the CEE/SEE countries like the Baltic states, Poland, Czech Republic, Slovakia, Slovenia, Croatia, Hungary, Romania and Bulgaria retail area per capita was mostly less than 0.3 square metres, and regarding shopping centre space these countries started more or less from zero. The reason for this undersupply was not at least the underdeveloped retail segment and the more than insufficient provision of consumer goods in the former socialistic countries.

Meanwhile in most of the above-mentioned countries sales area per capita has increased substantially and figures are sometimes higher than in Western European countries. The same is true for shopping centre area. The catching-up process of the Eastern European countries can be demonstrated by figures collected by Cushman & Wakefield for the "Marketbeat: Shopping Centre Development Report Europe" in September 2011:

- Estonia is at the top of the list of Eastern European countries. Here there are nearly 370 square metres of shopping centre area per 1,000 inhabitants available. Thus Estonia has slightly less shopping centre area per capita than Sweden, but more than Ireland, The Netherlands and Luxembourg.
- Today Slovenia has about 320 square metres of shopping centre area per 1,000 inhabitants—that is a bit more than in Austria.
- Lithuania and Latvia are just below the mark of 300 square metres. That means for 1,000 inhabitants there is nearly the same shopping centre area available as in Denmark and Portugal, but more than in France and UK.
- Croatia, Czech Republic, Slovakia and Poland each have around 200 square metres shopping centre area per 1,000 inhabitants. In the same range there are Italy and Switzerland.
- In Hungary there are about 125 square metres per 1,000 inhabitants available, in Romania it is a bit more than 100 square metres, in Bulgaria it is 70 square metres.
- In the EU-27 countries the average shopping centre area per 1,000 inhabitants is about 230 square metres—in Germany it is only just under 170 square metres.

The first shopping centres in Germany, Austria and Switzerland have opened at the end of the 60s and at the beginning of the 70s. A development that in Western Europe has lasted more than 40 years took place in less than half of the time in the CEE/SEE countries where generally the purchase power is considerably weaker.

Drivers of this rapid development in the shopping centre sector are mainly foreigners. Especially developers and investors from Scandinavia, Germany, France, The Netherlands, Italy and Austria were aware of the opportunities the CEE/SEE markets were offering. Supported by their domestic banks with financing facilities they have contributed a great part to the enlargement of shopping centre areas. During the last 20 years to a large extent the foreign direct investments in the Baltic countries, in Czech Republic, Slovakia, Slovenia, Croatia, Hungary, Romania and Bulgaria originated from Western investors. Different western and especially many Austrian banks are still the most active financing institutions for the CEE/SEE economies (and in the shopping centre sector as well). For sure, without these activities the economic development in the CEE/SEE countries would have been different and noticeably slower. Saying that there shall not be reduced the merits of Eastern European developers (like e.g. Sandor Demjan in Hungary and his TriGranit Development Corporation).

In the emerging market economies governments and local authorities supported private investments. Corresponding to this, there was a rather slack and not really restrictive spatial planning policy. These favourable conditions coincided with fears of private developers and investors to miss the right time and the given opportunities. These are the main reasons why since the middle of the 90s there were developed and opened many shopping centres in particular in the capital cities of the CEE/SEE countries.

During the last ten years the speed and amount of shopping centre developments can be described only insufficiently by the term "boom". In front of this background the battle for consumer's purchase power and thereby for tenants has intensified and reached new dimensions. Today, in nearly all countries and especially in the respective capitals (Warsaw, Prague, Bratislava, Budapest, Zagreb, Bucharest, Sofia) there is to observe a (partly large) oversupply of shopping centre space. The same is to state for some major cities in these countries (e.g. Lodz in Poland or Brno in Czech Republic).

Meanwhile in CEE/SEE three categories of shopping centres are to be distinguished:

- The "high flyers", i.e. shopping centres in prime locations, of adequate size and therefore with an attractive mix of tenants. They attract consumers also from far away, were highly frequented and generate high turnovers and high rents as well (e.g. Arkady Pankrac in Prague, Westend and Mammut in Budapest).
- "Middle-ranking" shopping centres, i.e. those in often secondary locations and with suboptimal operating concepts. They mainly serve regular customers of a limited catchment area and are strictly spoken enlarged convenience shopping centres. With great activities by the centre management and by the owner these "middle-ranking" shopping centres can provide a stable cash flow, but they will never climb up to the top class.
- "Precarious" shopping centres that had already a poor start because of their location and size and that are struggling with vacancies from the beginning. They never really "took off" (like the meanwhile closed-down Center Mandi in Zagreb).

The economic and financing crises in 2008/2009 and 2011 contributed to the fact that for some tenants the business has become very difficult. Everybody who in boom times had agreed to high rents in a shopping centre that did not perform as expected and whose customers have to think twice before they spend some money has increasing difficulties to generate sufficient turnover to pay the rent—mostly denominated in euro—and to get a business loan from the bank to finance the order of new goods.

Despite the actually not anywhere and always bright situation shopping centre development in all of the mentioned CEE and SEE countries will continue. Still there are interesting and attractive locations to occupy or to expand shopping centres in good locations, still there is demand for space in well-managed shopping centres by new and interesting international retailers, and still prominent shopping centres are attracting mainly young consumers with sufficient purchase power. The situation in Poland during the last two years demonstrated this very clearly.

However, the general conditions for future shopping centre developments will be more difficult:

- The increase of operating costs have to be stopped at least, better: these costs should be reduced as far as possible. Therefore it will be more and more important to develop "green" and functionally well-planned shopping centres.
- To get debt financing will be more difficult, but in fact more intensive professional pre-examination of a project can only result in better quality of a shopping centre.
- Online shopping will gain increasing importance. Also rather attractive shopping centres can only counteract this by creating more quality of stay and being a sought-after meeting point.
- Consequently the life cycles of shopping centres will become shorter: A shopping centre that during more than ten years was not fundamentally refurbished, is no longer up-to-date. In the reverse conclusion it means that already after some years customers are expecting a comprehensive redesign of the shopping centre, otherwise the centre will experience a speedy downswing.

An example for an "high flyer" among the shopping centres is Arcady Pancraz in the Czech capital of Prague.

More than so far the future development of the segment shopping centres will force the industry players to become more professional. Times when one could earn a lot of money in the shopping centre segment by little input are presumably gone. But to say the truth: That is good news. |

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