Interview to the portal 'projekt inwestor.pl'.

Dorota Suchodolska, Sierra Balmain Director of Property Management Operations

1. Sierra Balmain fund operates in Central and Eastern Europe. What is [in general] the attractiveness of our country?

Many reasons have existed since we started in the region 16 years ago – geographical importance, economic strength, widely diversified industry, attractiveness to international business, diversified population / multiple cities, very educated work force (and a high percentage of women in leadership roles), competitive wage structures, growing infrastructure, a sophisticated investment market and a stable political environment (that has seen some challenge in the last 2 years but it is still strong and stable)

2. What was the profitability of this business in the previous years? [until 2019]

Poland's investment market runs in cycles like any others around the world. When other economies contract, capital allocated to non-domestic markets reduces. In the past Poland saw short term reduced inward investment, but for the solid fundamental reasons I outlined above, this impact is felt only very short-term. The effect of this is that there have been very steady returns (looking at all asset classes) over that period. Our business has steadily grown in tandem over that period to the extent that we attracted global real estate company, Sonae Sierra, to invest into our company at the start of 2019.

3. This year was marked by the Covid 19 pandemic. How has it affected your business?

Our income relies partly on the income of the centres themselves so the economic impact of the pandemic on the shopping centre sector has meant a reduction in our turnover during 2020. There have been some benefits and positive experience despite this. The acceleration and conversion of new ideas and the need for faster delivery of these; the steep learning curve for us all with the need for dynamic, creative, pragmatic and flexible solutions to a whole new raft of challenges; the effective and pragmatic cooperation with our investors, banks and tenants. The utilisation of our long-held relationships with our tenant partners successfully to create ways for us all to survive and move forward – for the most part this has been a great experience of cooperation and understanding; last but not least, the extraordinary resilience and productivity of our team, mostly working from home, many with young families as well as elderly relatives.

4. Traditional retail is going through a particularly difficult period. How are the tenants you work with doing?

We have agreed many hundreds of Tenant Support Agreements across the portfolio, all negotiated individually. We have supported tenants where needed, both big and small. As part of this we have tried to protect the independents which typically have little or no capital backing. A number of tenants have done well, some even in what have been very challenged sectors. Some product sectors have done well overall. Many sectors have suffered significantly (but unsurprisingly) in this trading environment and those tenants have obviously needed more help than most. Most retailers have made good use of digital trade to help offset reductions in store sales. Our goal has been to help protect the future for us all by keeping as many shops open and tenants solvent as possible. The light of a vaccination programme gets ever closer and once we are all through the other side of the COVID-19 gloom, we need as many players as possible still to be standing so that we can all rebuild the future together.

5. Do tenants meet their obligations? How is it in different regions of the country? Dorota to comment on collection rates, I guess. I suggest we avoid the thorny issues of bad tenant behaviour.

We always worked closely with retailers and entered into a dialogue each time they displayed difficulties in following their obligations under lease agreements. With Covid-19 related issues and there weren't many, each case was quickly discussed and in most cases resolved, some took slightly more time than others. We reported a small drop in collection ratios, mostly during the first lockdown and due to delays in payments caused by retailers awaiting announcement of Shield 1.0 legislation.
Our shopping centres are located in different regions of the country but we didn't notice major variances in terms of locations. In general the overall situation was similar to the one before Covid-19, centres and tenants who experienced previous problems with timely payments also required some more reminders during this year. The individual agreements we negotiated with retailers across our portfolio allowed us to focus on all aspects of the cooperation, including the ones which were not addressed by Shield 1.0. We believe that such, individual approach will ensure our tenants will continue to follow the obligations going forward.

6. How are the banks reacting to this situation?

We have very strong relationships with the banks and keep very close and open communication between us and our investors. Quite frankly, the banks have, in the main, been extremely supportive and understanding. The finance ecosystem is important to uphold in times of crisis and we are grateful to both our investment partners and lenders for their pragmatic approach then and going forward.

Poland has not seen any significant distress in the real estate lending market, even during the GFC. We expect to see some further fallout post-pandemic though. We already have a strategy to help lenders focus on these issues.

7. Your slogan is: We are creating the future, not just talk about it. What does it mean in practice?

We are very focused on the future of our commercial spaces. The way that we use our physical spaces has changed. Technology has changed a lot of things but our human wants and needs haven't really. For example, we still want to buy groceries but we have many more choices as to how we do it.
Supply chains are under strain as well as a result of the options available to consumers. We are concentrating on the human interface with our spaces and helping solve the challenges facing our tenant partners, whether retail or other. We have been developing a different management approach in order to be more flexible and responsive to customer needs. We see the future being a well-managed, highly changeable combination of entertainment, leisure, food and beverage, lifestyle, culture, workspace and logistics, all with strong technology integration. We have been working on these for several years now, Creating the Future.
Putting a couple of food trucks in a food court and calling it a Food Hall - that's just talking about it.

8. SB is an interesting fund. It is not only focused on property management but you also offer design, marketing and construction services. Could you elaborate on this?

Sierra Balmain is effectively a services business whether or not we are an investor ourselves or providing our services to third parties (in the majority we provide third party services). Our approach has always been to focus on the quality of the service no matter whether we are client or not. Executing on strategy is vital for our investors. Unlike many service providers, our teams work seamlessly with one another and it became apparent to us that to get the best results, all the value-add aspects should be kept close and within the team. Our collaboration across all our functions creates very exciting outcomes quickly and most efficiently.

9. How do you see the development of the situation in 2021 and in the nearest future?

We will apply our management thinking outlined above to optimise each centre, to continue to ensure long term success and sustainability of them all to fulfil their appropriate role within their catchments. There are numerous opportunities to help drive our centres.
Human behaviour drives the need to meet and explore. There is a passion in Poland for shopping and the need and desire to leave the home will continue and understandably grow in a post-vaccine environment.

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Click and collect has risen significantly which creates shopper visits and add-on spend. Many multi-channel retailers stock a wider selection online than they can in store. This "product differential" together with the rise in click and collect habits fuels the need for fast and effective last mile logistics.

It has been widely researched and reported (pre-pandemic) that multi-channel sales are on average over 100% higher in catchments where there is a physical store presence. We expect this so called "halo effect" to be a continuing dynamic.

Alongside individual strategies for each centre, we will be working to harness the potential of entertainment, leisure, food and beverage, lifestyle, culture, workspace, technology, human desire, click and collect, logistics and the halo effect to ensure a strong future for shopping centres.

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