NEPI ROCKCASTLE


# New Europe: The Future for Retail Growth Shifts to CEE

White Paper November 2024

# Excellence. Innovation. Experience.

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# Executive summary

- GDP growth in Central and Eastern Europe (CEE) is outstripping Western Europe. It ranged from an average of 1.8% per year in the Czech Republic to 3.2% in Romania and 3.3% in Poland from 2012-2023, compared with 1.3% for the 27 countries of the European Union as a whole over the same period. That CEE economic outperformance is projected to continue in coming years, with GDP in the markets NEPI Rockcastle operates in forecast to grow at 3.16% in 2025, compared to 1.5% in the euro area.

- CEE is rapidly closing the disposable income gap with Western Europe as wage growth outpaces inflation. With strong real wage growth fuelling private consumption, retail sales in CEE have bounced back strongly post-pandemic and are trending higher.

- Consumers in major Western European markets remain cautious about spending and plan to cut back on most discretionary items. Retail sales in France, Germany and the UK have trended negative for the past two years, while Spain is experiencing tepid growth.

- Strong retail sales growth in CEE is particularly supportive for shopping centres. Foreign direct investment into CEE retail markets over the past 30 years has been buoyed by enormous 'convergence funding' from the EU into the region's economies and flowed predominantly into malls. This 'wall of capital' directed towards the increasingly affluent CEE consumer has turned the region's large, modern shopping centres into the primary retail destinations and urban social hubs in these markets, with their share of total retail trading volume often exceeding 50%.

- Two-thirds of consumers prefer shopping in-person versus online. CEE shopping centres with large, flexible floorplans are well-placed to deliver the rich shopping and 'experience factor' consumers increasingly seek.

- Lower operating costs and structurally higher margins, combined with the local market dominance of prime shopping centres in CEE, make them highly attractive to retailers, F&B operators, and entertainment companies – even in secondary cities and less economically-developed locations not usually considered by international retailers in Western European markets.

- Western Europe's retail landscape, in comparison, is saturated and fragmented. High streets are suffering from years of e-commerce competition, lending retrenchment, rising operating costs, the Covid pandemic and work from home policies that have hit footfall. Secondary shopping centres, less affluent places and approach roads to prime destinations are struggling to remain relevant. Prime high street and shopping centre rents have fallen 14% on average from peak to trough since 2019.

- Retail space development across Western Europe has sunk to historically low levels. Shopping centre retail space growth has stagnated at +0.4% and is starting to decline in countries such as Germany, Spain and Italy. Increased construction costs and environmental legislation are expected to prolong the trend. The reduced development pipeline will intensify competition among retailers for quality space.

- NEPI Rockcastle, as the largest owner, operator and developer of retail real estate in the CEE, sits at the nexus of the region's resilient economic growth and increasing consumer affluence, providing investors and retailers with unapparelled access to the opportunities these markets offer through its landmark shopping centre destinations.


### Resilient growth of CEE countries where the Group operates, outpacing Western European countries

| | CEE* | EU27 |
|---|---|---|
| GDP Growth 2024 forecast | 2.62% | 0.70% |
| GDP Growth 2025 forecast | 3.16% | 1.20% |

# New Europe: the future for retail growth shifts to CEE

The rapidly-growing sales and limited competition seen in Central and Eastern Europe's (CEE) 'blue ocean' retail markets are in marked contrast to the crowded 'red ocean' environment in western europe, where participants are in cut throat competition for limited scraps of growth. Add in the lower operating costs and higher margins on offer in CEE, and the opportunity in the region for retailers and investors in retail real estate is clear.

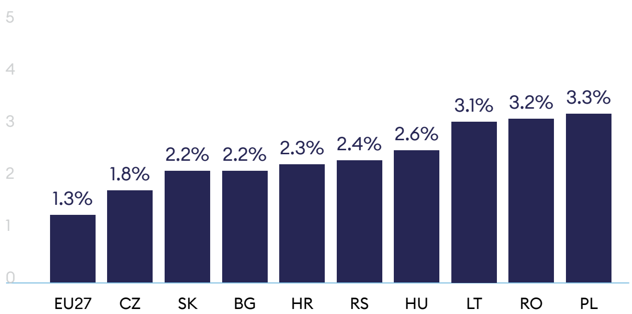
## THE CEE GROWTH STORY

Hard economics underpin the CEE retail story.

**GDP Growth**

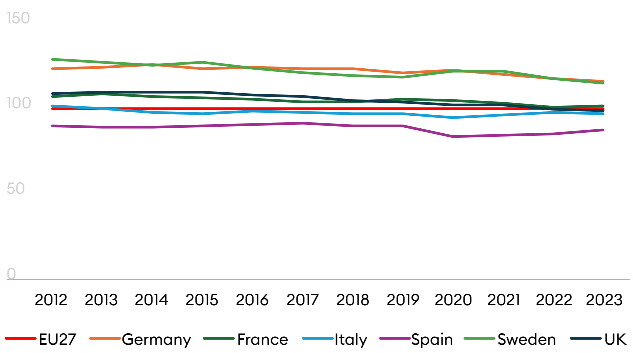
The direction of travel has long been evident. CEE economies had a lower historic GDP base than their Western European neighbours but are catching up fast. ING research shows that GDP growth for the 27 countries of the European Union averaged 1.3% from 2012-23, while in CEE it ranged from 1.8% in the Czech Republic to 3.2% in Romania and 3.3% in Poland[1].

CEE average GDP growth 2012-2023



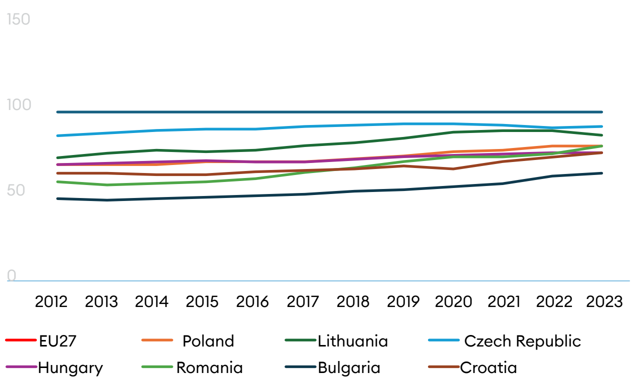

GDP per capita changes in Purchasing Power Standards (PPS) underscore the burgeoning economic strength of consumers in the CEE region. A score above 100 indicates a country's GDP per head is higher than the EU average, and vice versa. Most CEE markets have seen progressive rises in GDP per head, sharply narrowing the gap with many Western European economies, which have either plateaued or endured relative declines over the 2012-23 period[2].

W. Europe GDP per capita in PPS as % of EU average




*Source: Eurostat*

CEE GDP per capita in PPS as % of EU average




*Source: Eurostat*

And these trends look set to continue.

1. *CEE macro update, Valentin Tataru, Chief Economist, ING Romania, June 2024*
2. *GDP per capita in PPS, Eurostat, 8 August 2024, https://ec.europa.eu/eurostat/databrowser/view/tec00114/default/table?lang=en*

In its latest World Economic Outlook Update, the International Monetary Fund (IMF) forecasts the euro area (which is dominated by Western European economies) will see modest real GDP growth of 0.9% for 2024, climbing to 1.5% in 2025[3]. The report warned though that continued weaknesses in manufacturing “suggest a more sluggish recovery in countries such as Germany,” where it predicts growth of just 0.2% in 2024 and 1.3% in 2025. Growth expectations for France and the United Kingdom are similarly anaemic. Looking further out, the Economist Intelligence Unit has euro area GDP expanding 1.4% in 2026 and 2027, and 1.5% in 2028[4].

The IMF report paints a contrasting picture for what it terms Emerging and Developing Europe. After a rise of 3.2% in 2023, the IMF forecasts growth of 3.2% in 2024 and 2.6% in 2025. For Poland, the largest economy in the CEE (ex-Russia), growth is projected to hit 3.5% in 2025, while Romania is set for a 3.0% increase.

| Real GDP growth | 2024 | 2025 | 2026 |
|---|---|---|---|
| Poland | 3.00% | 3.50% | 3.00% |
| Romania | 2.80% | 3.00% | 3.00% |
| Hungary | 2.20% | 3.80% | 4.40% |
| Bulgaria | 2.90% | 3.30% | 3.20% |
| Czech Republic | 1.20% | 2.20% | 2.40% |
| Croatia | 3.30% | 2.70% | 2.40% |
| Serbia | 3.50% | 3.50% | 3.40% |

*Source: ING*

3. *World Economic Outlook Update, July 2024: The Global Economy in a Sticky Spot, International Monetary Fund, 16 July 2024,* https://www.imf.org/en/Publications/WEO/Issues/2024/07/16/world-economic-outlook-update-july-2024
4. *Global economic outlook, Economist Intelligence Unit, September 2024,* https://pages.eiu.com/rs/753-RIQ-438/images/EIU_Sept-2024-Global-economic-outlook.pdf

# New Europe: the future for retail growth shifts to CEE >>continued

**Real Wages and Purchasing Power**

Surging inflation in the aftermath of the coronavirus pandemic and energy crisis sparked by the onset of war in Ukraine has outpaced nominal wage rises across Europe in recent years, producing widespread real wage declines. With inflation coming back under control in many countries, real wage growth is once again turning positive – but to varying degrees.

*Euro area*
Having peaked at 10.6% in October 2022, headline Harmonised Index of Consumer Prices (HICP) inflation in the euro area slowed to an average of 5.4% in 2023 and 2.6% by July 2024[5]. The headline rate is expected to increase somewhat in the last quarter of 2024, before falling back to 2.2% in 2025 and 1.9% in 2026[6].

In parallel, the Indeed Wage Tracker showed wage growth in the euro area gradually easing through 2023 and plateauing in the second quarter of 2024, according to global labour market data and analysis provider Indeed Hiring Lab[7]. The ECB projects year-on-year Compensation per Employee (CPE) growth will average 4.5% for 2024, with real wages expected to return to early 2022 levels in the third quarter of 2024, and to early 2021 levels soon after. It then predicts CPE growth will drop to 3.5% in 2025 and 3.2% in 2026, providing real wage increases of just over 1.0%.

*CEE*
Real wages bounced back across much of CEE through 2023 and into 2024 thanks to fast disinflation and strong ongoing increases in nominal wages, research from Erste Group, one of the largest financial services providers in the region, concluded[8]. Real wage growth in Q2 2024 remained in double digits in Croatia, Hungary, Romania and Serbia[9]. In Poland, real wage growth was 6.0% year-on-year in July, having been close to 9.0% in Q1. Growth in Czechia in the second quarter was 3.9%, having risen 5.0% in Q1.

While the inhabitants of all European countries have more financial resources available today on average than five years ago, RegioData Research's annual purchasing power analysis reveals significant differences in how wealth levels are developing across the continent[10]. Wealthy Western European countries recorded the largest absolute increases in purchasing power during the observation period, led by Switzerland, Luxembourg and the Netherlands, according to the RegioData analysis. "However, when comparing the increases relative to the total available purchasing power, most Balkan countries (ex-Yugoslavia, Romania, Bulgaria) performed the best, followed by the Czech Republic and Poland."

"Based on currently available data, Germany, Italy, and France are expected to see only modest increases in the coming years," it added. "In contrast, particularly dynamic developments are anticipated in Malta, Ireland, Poland, Hungary, and Romania."

High purchasing power growth rates in the Balkan peninsula and above-EU average rates in Eastern European countries such as Croatia and Hungary, combined with below-average growth in all Western European countries except Belgium mean the distribution of purchasing power was almost 9% more homogeneous in 2023 than in the pre-pandemic years, leading consumer intelligence organisation NielsenIQ found[11].

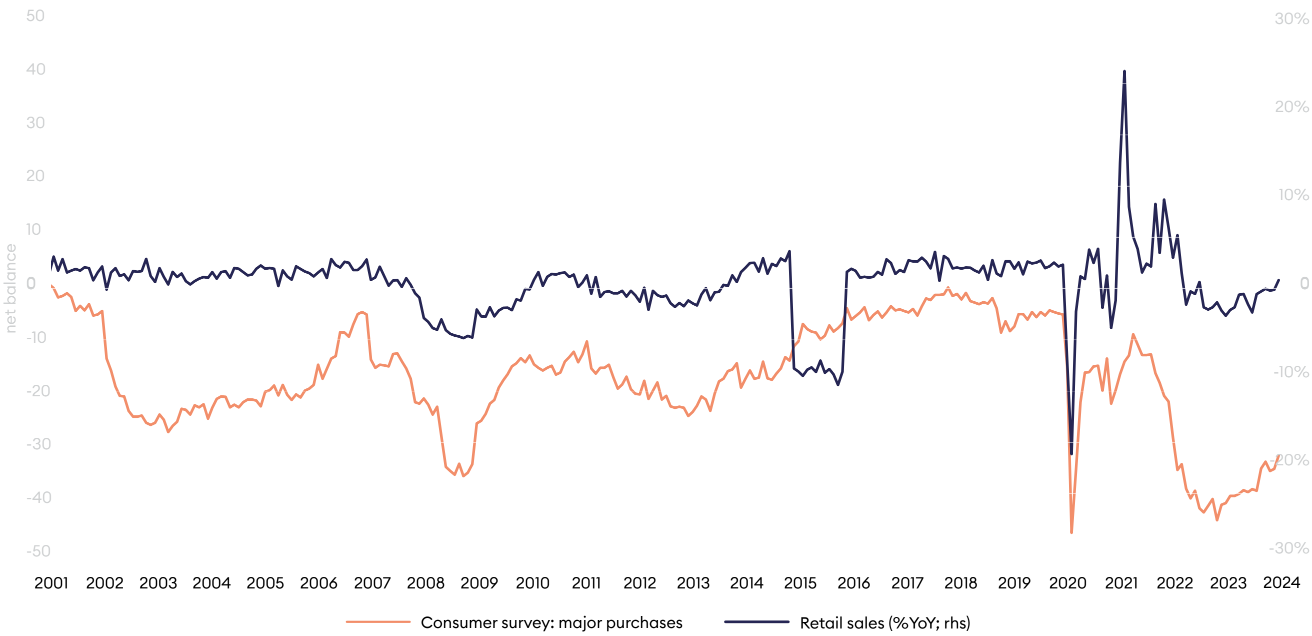
*5. Inflation in the euro area, Eurostat, 30 August 2024, https://ec.europa.eu/eurostat/statistics-explained/index.php*
*6. ECB staff macroeconomic projections for the euro area, European Central Bank, 12 September 2024, https://www.ecb.europa.eu/press/projections/html/ecb.projections202409_ecbstaff-9c88364c57.en.html#toc6*
*7. Wage Growth Has Slowed But Remains High in Much of Europe – And Looks Poised To Stay That Way in the Near Term, Indeed Hiring Lab, 10 July 2024, https://www.hiringlab.org/uk/blog/2024/07/10/wage-growth-in-europe-remains-high/*
*8. Fast real wage growth in most of CEE, Erste Group, 29 May 2024, https://www.erstegroup.com/en/research/report/en/SR390995*
*9. Real wages keep growing, but the pace starts to slow down, Erste Group, 4 September 2024, https://www.erstegroup.com/en/research/report/en/SR405695*
*10. Europe: Increase in Purchasing Power, RegioData, 4 September 2024, https://www.regiodata.eu/en/europe-increase-in-purchasing-power-in-europe/*
*11. European retail in 2023 and 2024, NielsenIQ/GfK, https://www.gfk.com/european-retail-study*

## CONSUMER STRENGTH

CEE households' rising purchasing power thanks to solid real wage increases should continue to support private consumption, Erste's research noted: "We expect private consumption to be a key growth driver across the region, supported by strong labour market factors. In particular, the positive correlation between private consumption and real wage growth is crystal clear. Further, consumer confidence has strengthened, and loan growth has picked up[12]."

In Poland, LSEG Datastream figures show the spending mood as of May 2024 was ebullient at +12.8, up 14.6 on the long-term average, ING Romania's Chief Economist Tataru, noted. For the eurozone as a whole it stood at -17.1. Eurozone year-on-year retail sales have more or less flatlined over the period since 2001.

### Consumer survey & retail sales eurozone

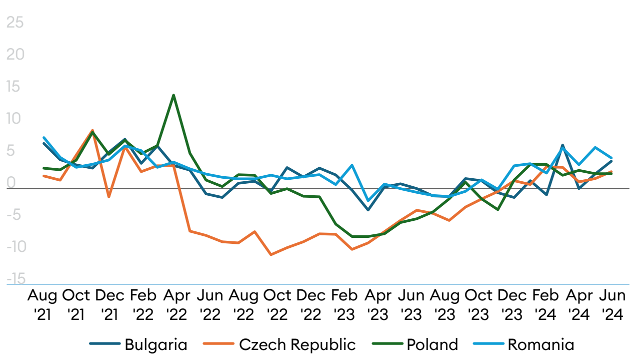



*Source: LSEG Datastream*

McKinsey reported that in the five European nations (France, Germany, Spain, Italy and UK) surveyed for its latest ConsumerWise research, consumers remain cautious about spending amid widespread wariness about the economy, and plan to cut back on most discretionary items[13]. Nearly a third of consumers said they have started tracking their expenses more carefully.

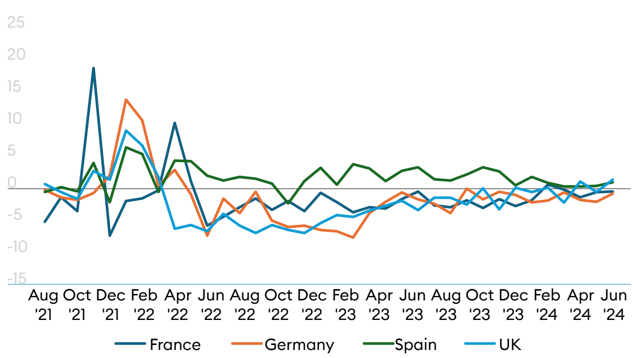
Cautious spending and economic woes in Western Europe contrast with the picture in the CEE, where retail sales bounced back strongly post-pandemic. NielsenIQ research noted the retail sector saw notable growth in CEE countries such as Bulgaria (+18%), Romania (+14%), Croatia (+14%) and Poland (13%) in 2023. That pattern has continued through 2024. In comparison, sales in the key markets of France, Germany and the UK have trended negative for the past two years, with Spain experiencing only tepid growth.

### CEE retail sales growth (% YoY)




*Source: Trading Economics*

### Western Europe retail sales growth (% YoY)




*Source: Trading Economics*

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*12. Strong real wage growth confirms consumption rebound, Erste Group, 29 August 2024, https://research.erste-group.com/ERSTE/external/download*
*13. An update on European consumer sentiment: Steady spending over the summer, McKinsey, 9 September 2024, https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/an-update-on-european-consumer-sentiment*


# A tale of two regions

The rise in disposable incomes, consumption and retail sales across the CEE region are creating dynamic opportunities for retailers and investors.

CEE consumers are becoming more quality and brand conscious. They are willing to spend on premium and luxury products, encouraging international fashion and luxury retailers to increase their footprint in the region. Experience-oriented retail is coming to the fore.

Food and grocery retail is another strong growth area. Supermarket chains are expanding rapidly. Consumer focus on convenience and sustainability is translating into increasing demand for fresh, organic and specialty foods. At the same time, price sensitive consumers are looking for affordable but quality goods. Private labels and discount retailers are performing well.

But it is not just a demand story.

## WESTERN EUROPE'S RETAIL MARKET IS SATURATED AND FRAGMENTED

The retail landscape in Western Europe is fragmented between high streets, shopping centres, retail parks, outlets and e-commerce. High streets were long the primary retail destination. But they have endured years of disruption from online competition, post-financial crisis austerity and lending retrenchment, rising operating costs and, more recently, the impact of the Covid pandemic and lingering work from home policies, with their hit to footfall.

Transforming the urban centres of major Western European cities into the mixed-use 'experiential' environments that consumers, particular Gen Z, increasingly demand would take enormous capital investment. Yet as JLL noted in its 2024 Retail Market Outlook, retail space development has fallen to historically low levels across Europe[14]. Increased construction costs and environmental legislation will likely prolong the trend.

### E-commerce penetration

- **E-commerce's share of total retail sales in developed Europe stands at 15%.**
- **Western European markets accounted for 67% of all European online sales; Eastern Europe totalled 2%.**

**Shopping centres**

The limited investment in new modern shopping centres in Western Europe amid stalling incomes, consumption and retail sales has been particularly marked. RegioData Research reveals shopping centre retail space growth across the region has practically stagnated at +0.4%[15]. "In some countries like Germany, Spain, and Italy, the area of shopping centres is even starting to decrease again, as large hypermarkets and small, largely outdated centres are being abandoned or repurposed," it said.

A flight to quality is evident. According to JLL, the footfall recovery witnessed in 2023 lagged in secondary shopping centres, less affluent places and various approach roads to prime destinations. And as Savills pointed out, "secondary shopping centres across Europe show signs of struggling to remain relevant, accelerating the polarisation between strong and weak assets"[16].

Given the reduced development pipeline in Western Europe, competition among retailers for quality space is set to intensify.

*14. European Retail Market Outlook 2024, JLL, November 2023, https://www.jll.co.uk/content/dam/jll-com/documents/pdf/research/emea/jll-european-retail-market-outlook-2024.pdf*
*15. Shopping Centers in Europe: Only Eastern Europe remains dynamic, RegioData Research, 13 June 2024, https://www.regiodata.eu/en/europe-shopping-centers-in-europe-only-eastern-europe-remains-dynamic/*
*16. European Retail Market 2023, Savills, 7 December 2023, https://pdf.euro.savills.co.uk/european/savills-european-retail-market-report-2023.pdf*


## Retail growth prospects centre on CEE

A 2024 Fitch Ratings report highlighted the long-term fundamental drivers benefitting the CEE retail segment, which are encouraging retailers to expand their regional footprints and spurring longer-term property market growth[17].

"We expect that lower inflation in 2024 and tight labour markets will increase real wages, which will translate into continued growth in private consumption, benefiting sales in physical stores, despite an increasing share of online sales," Fitch noted. "Rising retail tenants' sales aided rent affordability for retailers despite CPI rental uplifts. This was reflected in occupancy cost ratios, which have remained at satisfactory levels of 10%-13%, and near-100% rent collections."

E-commerce penetration across the CEE is growing but remains far lower than in Western Europe. Online customer acquisition costs – which soared as much as 60% in the five years to 2022 and will be compounded by the demise of third-party cookies and increased consumer privacy legislation[18] – may further limit e-commerce penetration rates and reinforce the importance of a physical presence.

**Shopping centres dominate**

The increase in CEE retail sales is particularly supportive for shopping centres, the Fitch report observed.

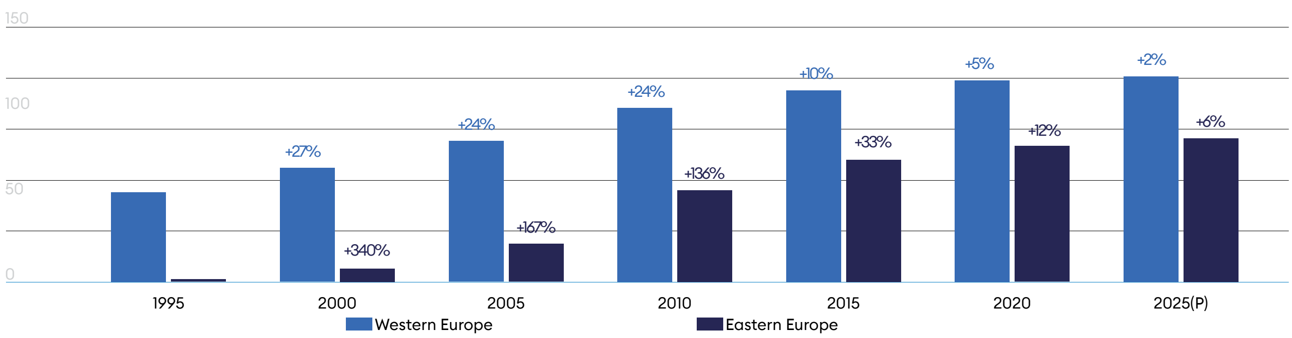
Due to a lack of development in the post-war socialist era, high streets historically played a more limited role in the CEE retail mix than in Western Europe. Today, high streets are occupied primarily by smaller businesses, niche brands and food & beverage (F&B) outlets.

The lion's share of investment over the past 30 years has flowed instead into shopping centres. Driven by economic system changes and increasing purchasing power in many CEE and Southeast European (SEE) countries, subsequent EU accession and the wave of capital that followed, shopping centres boomed from 1995 on. According to RegioData Research, the total shopping centre area in Eastern Europe in 1995 was just under 2 million square metres (m²). By 2020, it had reached 80 million m².

Shopping centres have now become the primary retail destination, and increasingly urban social hub, in CEE markets. RegioData Research noted that in many CEE/SEE cities, shopping centres' share of total retail trading volume can easily exceed 50%, compared to a maximum of 25% in Western Europe.

That trend continues. Eastern Europe's shopping centre market still shows greater dynamism, with the sales area expanding 1.2% per year through to 2025, against Western Europe's +0.4%.

### Development of Shopping Centre Areas in Western and Eastern Europe (million m²)




*Source: RegioData Research GmbH, "Shopping Center Collection" May 2024*

*17. CEE Property Company Performance Varies; Long-Term Drivers Are Supportive, Fitch Ratings, 19 Feb 2024, https://www.fitchratings.com/research/corporate-finance/cee-property-company-performance-varies-long-term-drivers-are-supportive-19-02-2024*
*18. Brands Losing a Record $29 for Each New Customer Acquired, SimplicityDX, 19 July 2022, https://www.simplicitydx.com/blogs/press-release-brands-losing-a-record-29-for-each-new-customer-acquired*

# A tale of two regions >>continued

**Experiences rule**

CEE shopping centres with large, flexible floorplans able to deliver the rich shopping and 'experience factor' consumers increasingly seek have a further advantage.

JLL's 2024 Global Consumer Experience survey found the desire for rich personal experiences means two-thirds of consumers prefer shopping in-person versus online, despite the plethora of online retail, entertainment and leisure options available[19]. Moreover, 65% of respondents are happy to pay a premium for high quality experiences, rising to 80% of millennials.

"This suggests that experience can play a key differentiating role in successful real estate developments and the creation of 'destination' places and spaces, but should be carefully tailored to the local context and expected consumer base," it said. The end-user experience, done well, will be central to driving ROI in terms of footfall, consumer satisfaction and spend.

Along with a rich shopping mix, demand is focused on:

- Up-to-date food concepts, with a focus on healthy eating and spending time with loved ones.
- Entertainment – for example, nearly 60% of Polish consumers opt for shopping centres on account of their entertainment offer, such as a good cinema or well-thought-out F&B options[20].
- Activities – such as kids' playrooms, climbing walls, indoor carting, escape rooms, spaces for social media influencers, immersive art spaces.
- Events – for example, e-gaming competitions, music concerts, community sports activities, lectures, art exhibitions.

JLL pointed to community events, local vendor market days, music or food festivals, and 'pop-up' and 'meanwhile' functions as prospective options to "continually refresh the experience offering and provide personal choice within shared experiences."


19. *Experience Matters: What's driving consumer choice and experience across places and spaces?, JLL, 17 September 2024, https://www.jll.co.uk/en/trends-and-insights/research/experience-matters-consumer-choice-drivers-in-urban-places-and-spaces*
20. *How Do We Use Different Retail Formats in Poland, Cushman & Wakefield, 3 April 2024, https://www.cushmanwakefield.com/en/poland/insights/how-do-we-use-different-retail-formats-in-Poland*

## THE GEN Z FACTOR

The Gen Z cohort (born between 1997 and 2012) will likely be the largest generation ever and represents the biggest group of future consumers[21]. Gen Z spend more per capita than any other generation at the same age, with per capita spend forecast to grow at a compound annual growth rate (CAGR) of 4.0% over the next decade – twice the rate of previous generations. Spending power is expected to rise from $9.8 trillion today to $12 trillion by 2030, accounting for 18.7% of the total global spend.

While Gen Z consumers typically begin their shopping journey online and are heavily influenced by social media, their in-store mass merchandise and grocery purchases make up almost 50% of their share of spending, a higher share than every other generation before them. Brick-and-mortar shopping that appeals to their sensibilities will be central to capturing their purchasing power.

Experiences feature large in Gen Z consumption patterns. Recent earnings from American Express showed Gen Z and millennials (born 1981 to 1996) – which together accounted for over 60% of new American Express accounts globally in Q1 2024 – transact twice as much on categories such as dining out than older customers[22]. Entertainment-related spending is another focus.

Cost, space constraints and use restrictions associated with high street retail make keeping current with evolving Gen Z consumption preferences tricky. By contrast, shopping centres, with their flexible floorplans and lower rental costs, are better placed to deliver the rich shopping and experience factor Gen Z consumers seek.

### Attracting Gen Z through new marketing initiatives

Half of NEPI Rockcastle's 20 shopping centres in Romania are designated as 'playground malls,' where entertainment is central to their market positioning. These retail/entertainment centres play a communal role in the cities and towns where they are located, acting as gathering places for Gen Z. But intense competition for attention and wallet share makes innovative approaches to attracting Gen Z consumers vital.

Consumer brands are struggling to reach Gen Z with their messages because they do not use or engage with traditional and social media marketing channels to the extent, or in the same way, previous generations did. So new approaches are needed.

For example, over five weekends in the summer of 2023, NEPI Rockcastle drew thousands of gamers to its shopping centres to watch leading Gen Z gaming influencers compete in the 'Esports Kings' tournament. The size of the crowds, and marketing impact for the sponsoring consumer brands and partner retailers of the gaming tournament, provided an ideal opportunity for brands to engage with their target audience in non-intrusive ways. Following the success of the tournament, NEPI Rockcastle repeated it in 2024 and extended the concept to its Polish 'playground' designated malls.

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*21. Spend Z: Gen Z changes everything, NielsenIQ and World Data Lab, 18 June 2024,* https://nielseniq.com/wp-content/uploads/sites/4/2024/06/NIQ_SpendZ-Report-_LINKS.pdf
*22. Amex Earnings: Gen Z, Millennials Drive Credit Card Volume Growth, Pymnts, 19 July 2024,* https://www.pymnts.com/earnings/2024/amex-earnings-gen-z-millennials-drive-credit-card-volume-growth/

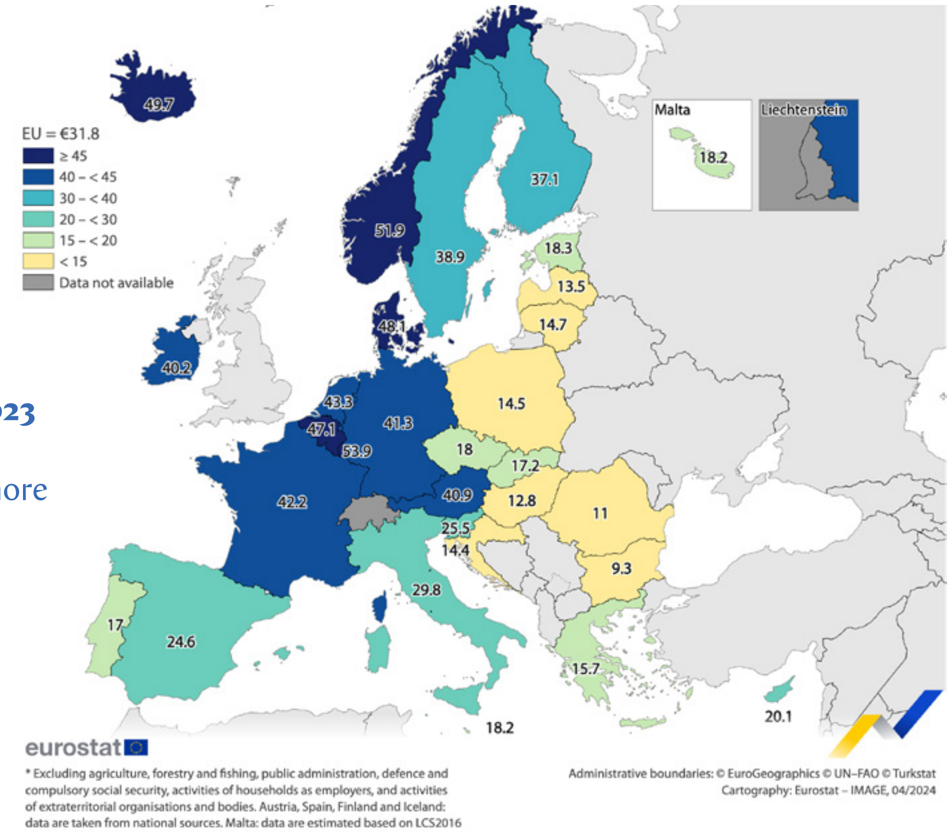
# A tale of two regions
>>continued

## THE INTERNATIONAL OPPORTUNITY

CEE's retail growth story, combined with the local market dominance of prime shopping centres, make these assets highly attractive to retailers, F&B operators, and entertainment companies – even in secondary cities and less economically-developed locations not usually considered by top international retailers in Western European markets.

Operating cost advantages add to the CEE region's appeal. Lower relative labour and rental costs contribute to structurally higher margins in many markets, creating an attractive environment for foreign investment.

**Hourly labour costs, 2023**
in €, whole economy*
(enterprises with 10 or more employees)




The less diverse chain store landscape that has emerged in CEE markets is also ripe for international retailers, with significant pent-up consumer demand presenting attractive growth opportunities. Several international retail brands have already expanded or plan to expand into the CEE region. Among them, Rituals has successfully opened 40 stores across CEE since January 2020, with more planned. Lefties, Wittchen, Jimmy Key, Kiko and Happy Group were among those to open their first stores in Romania in 2023.


MAGNOLIA
PARK
PRIMARK
ZARA HOME
OYSHO

# NEPI Rockcastle - at the heart of the CEE retail opportunity

NEPI Rockcastle sits at the nexus of growth in the retail markets of 'New Europe.' Robust operational fundamentals have transformed the CEE retail sector into one of the highest-yielding real estate asset classes. NEPI Rockcastle, as the largest owner, operator and developer of shopping centres in Central and Eastern Europe with a €7.4 billion portfolio and third-largest listed retail player in Europe, is ideally placed to take advantage of these megatrends – bringing opportunities for both retailers and investors.

After record financial results in 2023, NEPI Rockcastle's strong performance continued producing 12.3% growth in net operating income to €411 million in the first nine months ("9M") of 2024 versus the same period of 2023. Tenant sales across all retail categories increased 9.0% and average basket size was 8.3% higher compared to H1 2023, underlining the resilience of the CEE consumer and attractiveness of NEPI Rockcastle's locations to retailers. In Q3 2024, the Group signed 345 new leases and lease renewals, for more than 71,200m2, of which 34% by GLA are new leases (1% of total GLA). International tenants accounted for 61% of newly leased GLA. This translated into an occupancy rate across the portfolio of 97.7%.

Base rents and turnover rents continued to rise, while property operating expenses fell 3.3% between H1 2023 and H1 2024, driven by lower energy costs and operational efficiencies.

The Group's growth strategy is threefold.

1. Expand and renew its core portfolio and deliver a €788 million development pipeline.

Among the development projects underway:

- The 5,900m$^2$ extension of Ploiesti Shopping City opened on 25 September 2024, with an occupancy of 97% (and lease terms agreed for 100%). Construction started in November 2023.
- The extension of Promenada Bucharest, where lease terms are already agreed for 66% of the additional GLA, is expected to open in Q4 2026.
- Refurbishment of Arena Mall Budapest started in April 2024 and will be completed in Q2 2028. Lease terms have been agreed for 90% of the refurbished GLA.
- The building permit for Promenada Mall Plovdiv – a 60,500m$^2$ GLA greenfield development in Bulgaria's second largest city – is expected to be obtained in Q1 2025.
- The permitting process started for the development of Galati Retail Park, a mixed-use scheme in Galati, Romania, which includes 40,900m$^2$ of retail and 21,500m$^2$ of residential units. The expected date for obtaining the building permit is in Q3 2025, and the anticipated opening date is in Q4 2026

2. Making earnings-accretive acquisitions

NEPI Rockcastle's investment strategy is to increase the concentration of its portfolio in countries with an investment grade rating and focus on core dominant properties in its local markets.

Most recently, in September 2024, it acquired Magnolia Park, a 100,000m$^2$ shopping centre in Wroclaw, Poland's third largest city, where average spending power exceeds the national average by more than a third. The acquisition represents the biggest single asset shopping centre transaction by value in CEE since at least 2022.

Magnolia – which boasts a BREEAM Excellent (Asset Performance) certification – has an occupancy rate of more than 99%, with anchor tenants including Carrefour, Decathlon, H&M, Media Markt, Primark, TK Maxx and Zara. The acquisition will significantly strengthen the Group's portfolio and is accretive to distributable earnings.

A recent €500 million bond issue and €300 million equity raise leave NEPI Rockcastle well-positioned to continue its growth strategy and take advantage of the buoyant CEE retail market.

3. Grow new sources of income

NEPI Rockcastle's new income diversification objective is being successfully implemented through an embryonic green energy programme, which generated earnings of €7.9 million in 9M 2024 on a €34 million investment (see the Sustainability grows box-out). The programme is now being expanded across the Group's core markets.

*23. Reviewed Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2024, NEPI Rockcastle, 20 August 2024, https://nepirockcastle.com/wp-content/uploads/2024/08/Interim-Condensed-Consolidated-Financial-Statements-H1-2024.pdf*

## SUSTAINABILITY GROWS

Sustainability is an ever more important consideration for consumers and investors, one retail property owners and operators cannot afford to ignore.

Faced with stricter energy regulations and looming commitments to net zero emissions targets, more than half of the European commercial real estate asset managers and owners surveyed recently by ESG data intelligence firm Deepki said over 30% of their assets are currently 'stranded' (buildings that have lost their value due to poor energy performance), while a further 20%-40% of their portfolios are at risk of becoming stranded in the next three years[24]. The retail sector was found to have the greatest risk of stranded assets. Almost all respondents (94%) said they are at high financial risk from reduced asset values or increased vacancies caused by properties with sub-standard ESG credentials.

As Savills noted in its 2023 European Retail Market report, investors (often driven by fund criteria) are increasingly seeking green assets. It added that while shopping centres across Europe are implementing various efficiency measures, overall the changes are not sufficiently rapid to meet carbon targets. The UK, for instance, has some of the highest shopping centre provision in Europe, but only a handful of BREEAM building certificates, Savills observed. Shopping centres that fail to install adequate measures are likely to suffer declining investment interest and risk becoming obsolete.

"There is a close synergy between optimising space through repurposing underutilised retail space and undertaking sustainability measures simultaneously," the report said. "Refurbishing buildings provides an opportunity to implement greener infrastructure while bringing in more meaningful uses, extends the life of the buildings and can reduce embodied carbon."

### Greening CEE

Sustainability is a key focus for NEPI Rockcastle, with an ambitious energy project central to the Group's efforts to green its portfolio. The first phase, a €34 million installation of photovoltaic panels in 27 retail locations in Romania, is now complete and produced revenues of €7.9 million in 9M 2024.

The second stage of this project, involving a roll out of the programme in the Group's shopping centres outside Romania, is well underway. The concept design was completed for 24 locations identified as suitable for development, adding up to a total installed capacity of 15 MW. The 24 locations are in various stages of permitting or construction.

Under the third phase of the green energy project, consisting of investments in greenfield, ready-to-build photovoltaic projects in Romania, a location has already been secured for the development of a 50 MW project in the west of the country. Construction is expected to start in Q1 2025. A second location has been identified with a capacity potential of more than 100 MW and is currently under due diligence. The Company has earmarked almost €100 million for these projects.

*24. European Commercial Real Estate Faces Stranded Asset Time Bomb, According to New Research by Deepki, Deepki, 19 June 2024,* https://content.deepki.com/hubfs/4.INTERNATIONAL/CP/EUROPEAN%20COMMERCIAL%20REAL%20ESTATE%20FACES%20STRANDED%20ASSET%20TIME%20BOMB%2C%20ACCORDING%20TO%20NEW%20RESEARCH%20BY%20DEEPKI.docx%20(1).pdf

# Conclusion

After years of dour prognostications, the outlook for bricks-and-mortar retail has brightened considerably. E-commerce growth has slowed as shoppers – emerging from the cost-of-living crisis – return in force to physical stores in search of 'experiential' retail. The most compelling opportunities for retailers and investors have shifted in tandem: from over-saturated Western European markets to the faster-growing countries of Central and Eastern Europe.

Here shopping centres dominate. Their size and potential as experience destinations has made malls the primary retail and, increasingly, urban social hubs in the CEE region. For international retailers and investors, they are now the place to be.

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