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CASE STUDY

Coronavirus Pandemic –
Rise-up and Reinvent retail
real estate operations

Case Study | Executive Summary

CORONAVIRUS PANDEMIC – RISE-UP AND REINVENT RETAIL REAL ESTATE OPERATIONS

Sonae Sierra has devised a blueprint to help its tenants reopen their businesses in the light of the coronavirus pandemic, which prioritises the safety and comfort of visitors, while giving retailers and landlords the chance to restart and recover.



Challenge

The coronavirus pandemic has had unprecedented effects on the retail real estate industry, while accelerating headwinds which were already placing pressure on the sector.

Now, as lockdown restrictions are lifted across multiple markets, amid signs that the outbreak is slowing, retailers, landlords and property managers are working to understand how to kickstart recovery while adapting to the new normal. Reopening stores and shopping centres in a responsible way requires the application of stringent social distancing and hygiene conditions,

but it also essential to reimagine attractive and appetising retail destinations that support the recovery of landlords and retailers.

Solution

Sonae Sierra has created a plan to help shopping centres return to normal operations, while complying with the highest possible standards to prevent and contain the virus.

We have been prioritising the health and wellbeing of our tenants, service suppliers, visitors and employees with key safety, cleaning and hygiene protocols, while initiatives such as

our Drive-In service and Visitor Counter help consumers organise their shopping trips more safely.

Our tenants have benefitted from initiatives such as our Online Shopping Centre concept, which created an additional sales channel. We have also been exploring new approaches to tenant contracts, with bespoke solutions.

In terms of society at large, signing the Recovery Better Statement alongside 155 multinational companies – backed by the Science Based Targets initiative, the United Nations Global Compact and the We Mean Business coalition – has underlined our commitment to integrate climate action in our Covid-19 recovery plans.



Case Study | Executive Summary

CORONAVIRUS PANDEMIC – RISE-UP AND REINVENT RETAIL REAL ESTATE OPERATIONS

Outcome

Responding swiftly and effectively to the coronavirus pandemic with a disciplined strategy has proved crucial in protecting the health of our visitors, while supporting the relaunch of retailers and property owners at this time.

Highlights

- **An integrated Safety, Health and Environment Management System applied in all managed shopping centres that reduces risk of contagion of coronavirus, as favourably audited by Lloyd's Register.**
- **Implementation of a Cleaning & Hygiene Seal validated by SGS.**
- **A set of initiatives to help visitors navigate this 'new normal', such as Drive-In service, Visitor Counter and NAFILA service.**
- **Support to retailers through initiatives such as Online Shopping Centre, Sierra Business Insights and Sierra Update.**
- **Sonae Sierra is one of the 155 companies that have signed the Recovery Better Statement, urging governments all over the world to integrate climate action in their economic recovery plans following Covid-19.**

Abstract

The safety and well-being of our visitors, tenants, service providers and employees has been and will continue to be our top priority in the shopping centres we manage in different countries.

Now, as lockdown restrictions are lifted across multiple markets, amid signs that the coronavirus pandemic is slowing, we have devised a plan to kickstart recovery while adapting to the new normal.

In the earliest stages of the Covid-19 outbreak, we ensured that essential shops and services could continue to operate in the shopping centres we manage.

Now we are driving forward a strategy to return to normal operations, while complying with company standards and adopting specific local and national measures to prevent and contain the virus.

Going forward, Sonae Sierra is prepared to support its tenants with the reopening of their businesses and to offer our visitors safe and comfortable shopping environments.



“ The safety and wellbeing of our visitors, tenants, suppliers and employees has always been our priority. Even before this unprecedented health crisis, we were prepared to respond to situations of a pandemic. ”

Fernando Guedes de Oliveira, CEO of Sonae Sierra

Introduction

The coronavirus pandemic has had drastic effects on the retail real estate industry, with thousands of stores, F&B and leisure operations shuttered during lockdown period. The health crisis has also served to accelerate dynamics which were already present in the retail sector:



E-commerce
Penetration



Consumer
Behaviour



Money / time
spending



Evolution of retail
destinations

A new survey from McKinsey suggests that most retail executives expect store traffic to eventually return to pre-crisis levels, but not for at least several months after stores open. As market now reopen in the short term, retailers and property owners are grappling with hygiene and social distancing requirements to ensure public safety, while anticipating a persistent increase in e-commerce penetration, and structural changes to store operating models and procedures.

Broader, macroeconomic impacts – with recessions expected in multiple markets – may also limit disposable income and discretionary spending.

Sonae Sierra has successfully chartered a growth path through other challenging times, such as the global financial crisis. Today, in partnership with retailers, clients, and other stakeholders, we are devising ways to rise-up and reinvent retail real estate operations for a swift and sustainable recovery.



Background

As the coronavirus outbreak shuttered millions of stores and retail destinations around the world in the first half of 2020, the global retail industry witnessed a record drop in sales, coupled with uncertainty about when government-led lockdowns would end.

As job losses across the retail industry accelerated, some governments were able to stem the flood of unemployment with furlough programmes. But many more retail businesses signalled that they had reached the end of the road, shedding staff as they went into liquidation. Furthermore, interrupted incomes and job losses translated into lower consumer spending.

While the fate of shopping centre operations has varied widely, due almost wholly to their tenant mix, even those that stayed open saw lockdown habits drastically change footfall patterns.

Meanwhile, **retail landlords faced steep challenges in collecting rents, especially where governments backed legislation to block evictions or defer rental payments.** As property owners negotiated terms one on one with occupiers, income flows were severely disrupted across the board, while listed players were forced to reassess dividend payments and call on shareholders for support.



Challenge

Extended closures, and the ongoing, unique circumstances generated by the pandemic have created a set of unprecedented challenges for the industry. As governments seek to restart their economies, by greenlighting commerce and leisure, stringent social distancing and hygiene conditions have been attached to nearly all aspects of operations.

Property owners and retailers are also charged with overcoming months of depressed earnings in an evolving world where consumer objectives and disposable income are still in flux.

Many landlords have faced an unparalleled second quarter, with closures which commenced in March persisting into April, May and June. Rental collections have been severely impacted, with a number of retailers unable to meet their obligations, and others signalling that they would not reopen. **Landlords emerge from lockdown with the challenge of having to reassess their portfolios and existing tenants, as well as looking for new occupiers.**

The fortunes of retailers themselves vary widely, but all those who have survived are likely **to re-examine their relationship with e-commerce and their future physical store requirements.**

While apparel retailers have lost a season, they reopen to a world with lower discretionary income and in some cases, reduced demand for fashion, where lockdowns persist and prospects of vacation travel dwindle. Essential retailers have in some cases seen trade flourish during the pandemic, but the days of the stockpiling boom have passed, and supply chain issues are today frequently passing on greater costs.

However, consumers today are caught between the desire to return to 'normality', and the fear of loss of income, alongside health concerns about mingling with other members of the public.

Against this backdrop, **property managers are charged with re-examining past and future tenant relationships, and addressing a host of occupancy challenges, including tenant line-ups, space requirements and contract terms.** They must also work with retailers in reimagining physical layouts to defend public safety, while making retail destinations appetising places for consumers to return to.



Solution

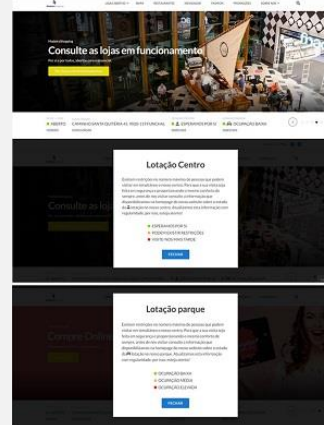
Sonae Sierra has set out a plan to support the resumption of trade across its portfolio and the retail destinations it manages. Time is of the essence in kickstarting the industry, with the right solutions combining a rapid market application with a multi-layered approach.

The safety and well-being of our visitors, tenants, service providers and employees has been and will continue to be our top priority. In that context, Sonae Sierra continues to develop tools to support tenants, and create alternative shopping experiences for visitors.

1. VISITORS

Our latest visitor initiatives include:

A virtual queue system called NaFila allows visitors to withdraw a ticket in a selected store and safely await their turn without needing to queue outside the storefront. The initiative is designed by #tech4Covid19, a technological community tackling the pandemic with user-friendly solutions.



A free Drive-In service at the managed shopping centres, offering visitors the convenience of collecting purchases without leaving their cars, after placing their orders online or by phone.



1. VISITORS

We have also created a suite for specific safety, cleaning and hygiene protocols:

- The **installation of disinfecting gel dispensers** at the entrance to centres and in areas with the highest traffic, such as toilets and lifts.
- An **automatic handrail disinfection equipment** on the centre's escalators, powered by UV rays. The installation of partitions in cashier areas helps protect visitors and retail workers alike.
- The **reinforcement of cleaning and maintenance teams** to ensure the correct hygiene and disinfection of all the areas, particularly in high traffic zones.
- Equally, cleaning procedures for **ventilation and air conditioning** systems have been reinforced, to renew the air inside centres every 10 minutes.
- Permanent **surveillance teams** at each shopping centre entrance help control the number of visitors entering and ensure compliance with the obligatory use of a face mask, inviting for hands' disinfection and informing them of centre rules of conduct.
- Placement of **signs and broadcasting messages** through centre PA systems regarding good conduct practices.



Solution

Sonae Sierra has continued to support its tenants during the crisis with a series of initiatives.

2. TENANTS



The development and deployment of the **Online Shopping Centre**, digital platform to put its shopping centres under management in Portugal online.

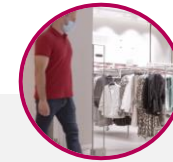
This successfully created an additional sales channel, critical for minimising the impact on revenue, without activation or transactional costs for tenants throughout the pandemic.

The platform has allowed consumers to access a wide range of products and services.



The launch of **Sierra Business Insights**, available [here](#), aggregates a set of inspiring initiatives implemented by companies and entities across various geographies and sectors of activity, that can help to reduce the impact of Covid-19 for occupiers.

The **Sierra Update**, an internal newsletter to tenants, had a edition dedicated to pandemic preparedness, which includes articles with some tips on how to protect business.



A customized solution for **tenant contracts** for each geography and portfolio was implemented with rental incentives - combining some relief and deferral. In some cases it was also combined with some flexibility in relation to the operating schedule of the shops, as was also implemented at the outset of the crisis. Above all, our objective is to preserve a sustainable long-term partnership between landlord and tenants and to maintain high occupancy rates in the shopping centres.



In an effort to mitigate the negative impacts of the crisis, it was reviewed in great detail the operations of all properties in terms of **asset and investment management**. In particular, with a revision of the service charges in each centre, and proper adjustment. In parallel, it was also revised the terms, timing and conditions of various asset management initiatives. In some cases, this will imply a postponement of delivery of some initiatives, or even a more complete overhaul of such plans.

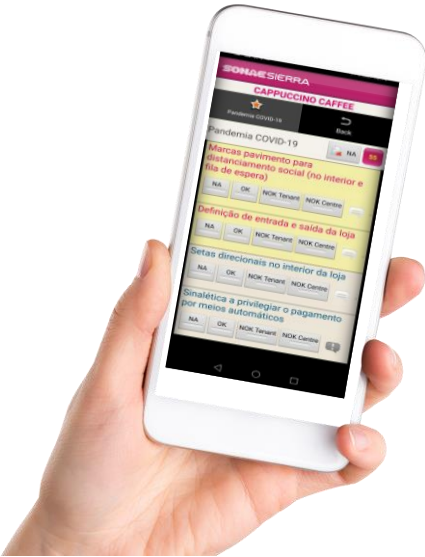


Solution

3. MULTIPLE SHOPPING CENTRE’S STAKEHOLDERS

Store inspection app to evaluate the implementation of Covid-19 safety and health measures.

Development of an APP for shopping centre teams to support non-specialized inspections to shops, with a section dedicated to check the implementation of control and mitigation measures to reduce risk of contagion.



The application of safety, cleaning and hygiene measures has been favourably audited by Lloyd’s Register, which concluded that the structure and planning of Sonae Sierra’s integrated Safety, Health and Environment Management System, which is applied in all the managed centres, complies with the specific requirements of the OHSAS 18001:2007 safety and health certification in conjunction with legal and regulatory standards to contain the Covid-19 pandemic.

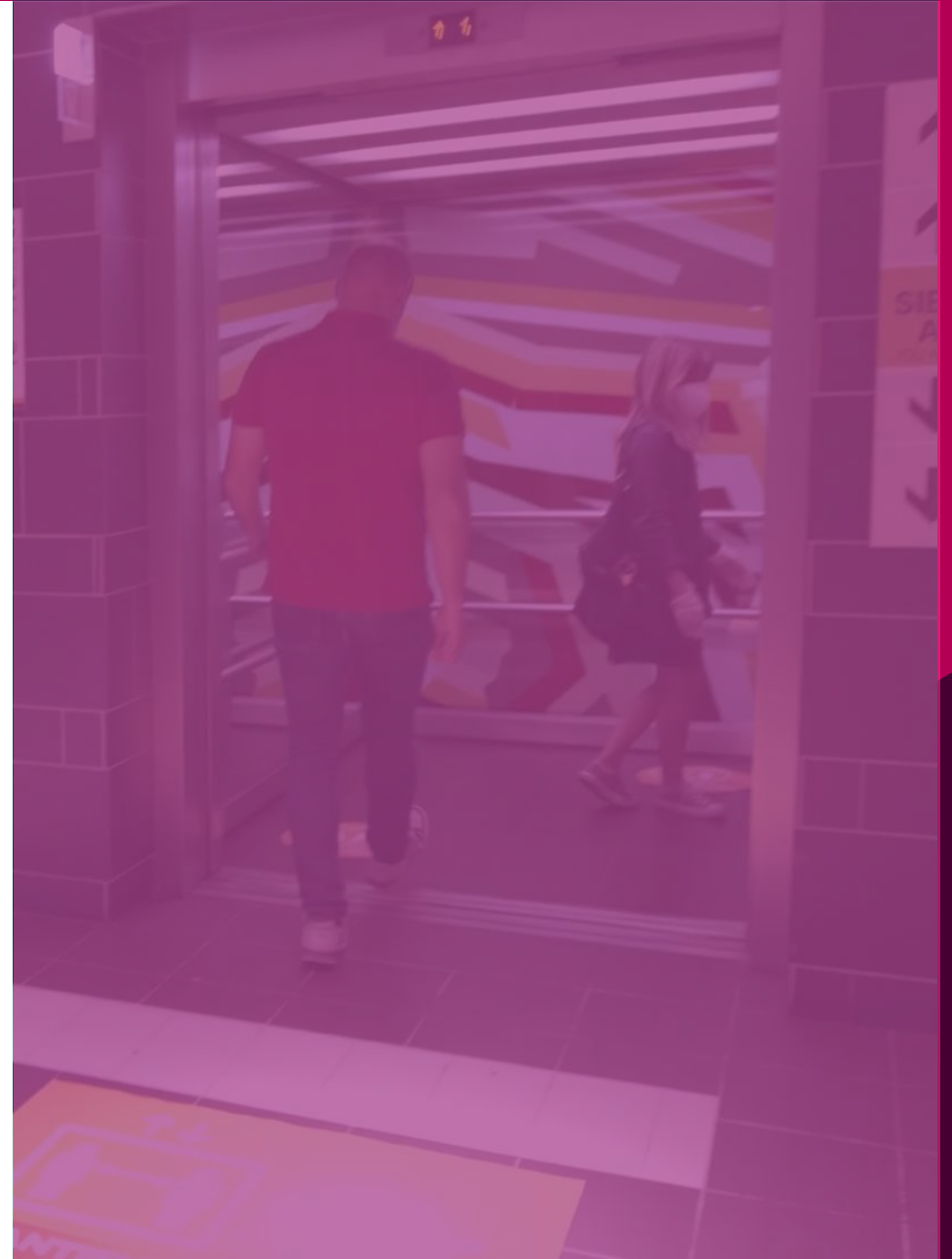
Sonae Sierra has partnered with SGS, the world’s leading testing and certification company to verify the hygiene and cleaning standards being used at Sonae Sierra’s managed shopping centres and awarded the Hygiene Monitored and Disinfection Assessment Mark. By undergoing this rigorous process, the control of current hygiene and cleaning protocols is enhanced, providing increased assurance to visitors, tenants, suppliers and employees worldwide.

Solution

4. INDUSTRY AND SOCIETY AT LARGE

Sonae Sierra has been sharing its findings and experience in handling the coronavirus pandemic with the wider industry, by participating in key webinars and E-summits. These digital conferences have also proved an opportunity to envisage the future of retail with our peers, exploring practical solutions and positive outcomes.

In terms of defending society at large, **Sonae Sierra is one of the 155 companies that have signed a statement, convened by the Science Based Targets initiative, the United Nations Global Compact and the We Mean Business coalition**, urging governments all over the world to integrate climate action in their economic recovery plans following Covid-19.



Conclusion

Responding swiftly and effectively to the coronavirus pandemic has proved crucial in protecting the health of our visitors, service suppliers, employees and supporting the relaunch of retailers and property owners at this time.

The recent crisis has also shown that pandemic readiness is vital for building a more resilient business in the long term. Even if the Covid-19 outbreak proved unpredictable and rapid in its effects, its advent was not a complete surprise, with leading scientists and health experts indicating that global health challenges remain a risk to our society, and preparedness is a key tool moving forward.

While the economic impacts of the pandemic over the entire value chain are not yet fully apparent, Sonae Sierra believes that a **disciplined and professional approach as property managers has served to significantly mitigate the negative aspects of this crisis**. Going forward, flexibility, prudence and expertise will all be essential to hasten recovery, reimagine and reinvent property management for the future.



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